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New Highs... for Deception?

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NEW YORK, May 6 /PRNewswire/ -- Despite headline-grabbing revelations about unsavory research practices, a \$1.4 billion legal settlement, and a host of relatively new rules designed to curb abuses, stock market analysts can't seem to shake off some of their old bad habits.

As of yesterday, with over 85% of S&P 500 companies having reported results for the latest quarter, the spread between positive and negative earnings "surprises" has risen to a 12-year high of 61.9%. That is on target to meet or beat the previous peak of 59.3% seen in the first quarter of 2000.

These surprises, which represent the difference between analysts' estimates and companies' reported results, often trigger a flurry of buying and selling activity by traders and investors looking to reward winners and punish losers.

According to Michael J. Panzner, author of "The New Laws of the Stock Market Jungle: An Insider's Guide to Successful Investing in a Changing World," the number of companies that manage to beat expectations each quarter has been trending higher over the past decade.

"It's a bit like the grade inflation that is so prevalent in American schools," says Panzner, a 20-year veteran of the financial markets. "Analysts are consistently low-balling estimates and companies are only too happy to oblige by producing 'better-than-expected' results."

Some might argue that Regulation FD is the reason. This SEC rule, which attempts to level the playing field for investors by prohibiting companies from "selectively" disclosing material facts to analysts and money managers before everyone else, has likely left analysts with less information to work with than in the past.

"Nonetheless," says Panzner, "logic suggests the 'misses' should be taking place on both the upside and the downside. Right now, it is obvious that most researchers are shading their numbers lower, clearly benefiting the companies they cover when the 'positive' results are eventually released."

Indeed, analysts may not be totally to blame. As he notes in the book, due out in July from Financial Times Prentice Hall, the development appears to be a cooperative effort. For their part, says Panzner, many companies appear to be engaging in a "two-step process of managing expectations ahead of reporting season that analysts often cannot help but be drawn in to."

That said, it seems that in spite of recent efforts to improve the odds for small investors, at least one of the old rules still stands: caveat emptor.

For more information about "The New Laws of the Stock Market Jungle" or its author, please visit <http://www.stockmarketjungle.com>.

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