Beats' Get the Brush-Off

Despite Rise In Topped Forecasts, Stocks Hold Firm

By ALEXANDRA SCAGGS

More companies are beating Wall Street profit expectations. But their shares are hardly budging.

So far, "beats" on first-quarter earnings have prompted share prices to rise by an average of 0.5%, or half the size of the usual jumps over the past three years.

The high number of beats and the muted reaction to them comes after companies and analysts lowered forecasts heading into the first quarter, worried about instability in Europe and the sustainability of the U.S. recovery. At the same time, the abundance of better-than-expected results is prompting investors to look beyond the beats.

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Shares of Google fell even after the company topped earnings estimates.

That has left investors underwhelmed by overall results, a sentiment reflected in the broader market. Since the unofficial start to first-quarter earnings season in early April, the Standard & Poor's 500-stock index is up about 0.6%. That's a slowdown from the first quarter, when the index surged 12%.

The S&P 500 on Monday shed 11.59 points, or 0.84%, to 1366.94.

"The proof is in the pudding, in terms of the response this time around," said Eric Lascelles, chief economist with Royal Bank of Canada RY +0.76%. He added that with earnings beats so commonplace, "investors are certainly becoming more skeptical and discerning" on what is in the reports.

While companies have been massaging investor expectations for decades, the pace at which they are registering earnings beats is unusual.

Of the companies in the S&P 500 index that have announced results by the market's opening Monday morning, 79% have posted earnings-per-share results that beat analyst estimates, according to Thomson Reuters data. That's on par with the record rate set for earnings for the third quarter of 2009. In a typical quarter, from 1994 to present, 62% of companies surpassed expectations.

As of Monday's market opening, 101 companies had reported earnings beats for the first quarter of calendar-year 2012. Those companies saw their shares rise an average of 0.5% from two days before the report until two days after it, according to FactSet. FactSet uses that period of time so it can measure the effect of reports on companies that report results during market hours.

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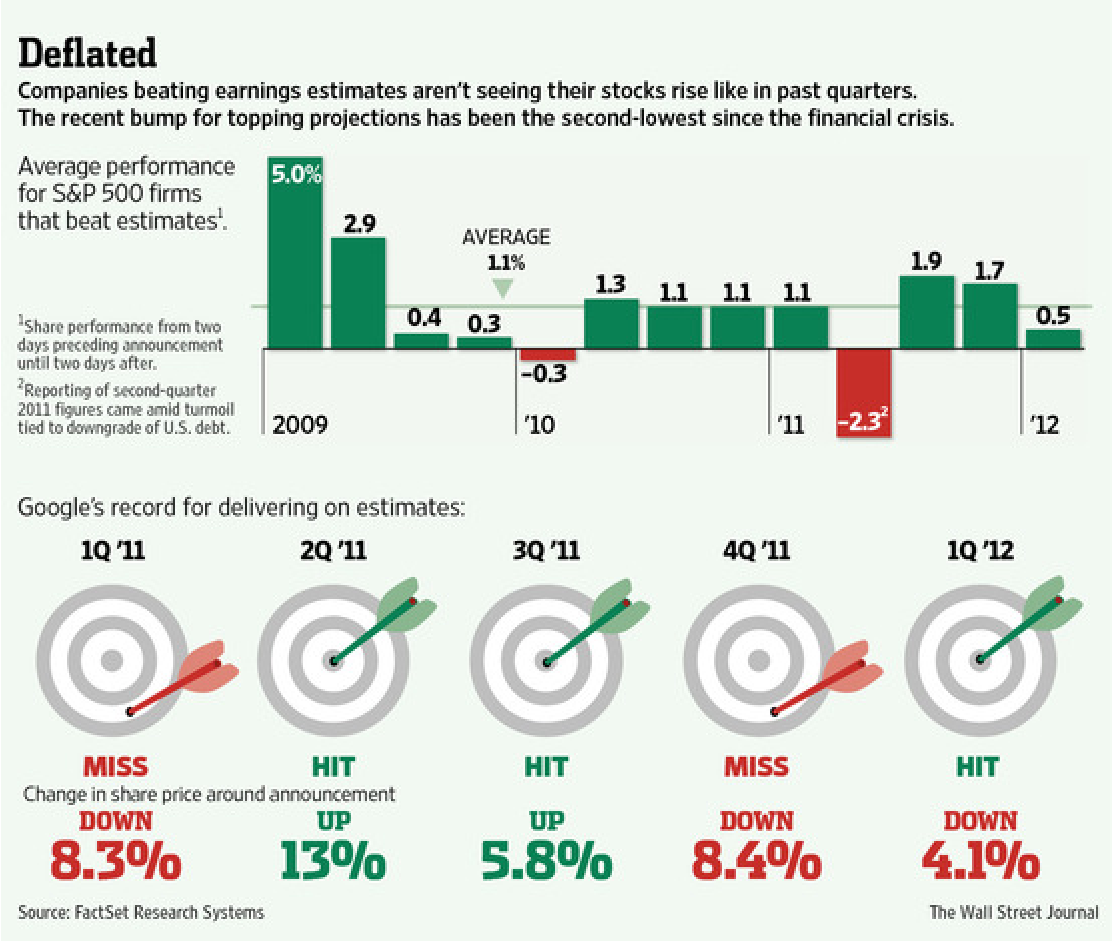

To be sure, earnings season is still young. Through Friday only a little more than 20% of the S&P 500 has reported. These numbers could change over the next few weeks as a slew of reports are expected to be released.These numbers could change over the next few weeks as a slew of reports are expected to be released.

Michelle Clayman, chief investment officer at New Amsterdam Partners, which has $2.7 billion under management, said her firm looks at companies' guidance issued two months before quarter-end, and weighs that against analyst estimates and updated projections from the company.

"Over the last couple of years, people have realized you can't just look at the earnings beat," Ms. Clayman said.

Investors are watching to see how shares of Apple Inc. AAPL -1.33%fare after the company releases results after the close of markets on Tuesday.

The company has missed estimates only once since 2007, as far back as FactSet has tracked that data. Apple posted an earnings blowout for the fourth quarter of 2011, sending its market capitalization briefly above $600 billion.leading a broader stock market rally in the first three months of the year. Since then, though, shares have slid.

This year's relative weakness was led by a handful of high-profile firms. Google, GOOG +0.44%Wells Fargo, WFC +0.81%J.P. Morgan JPM +0.30%and Intel INTC +0.42%are among the companies that posted profits above Street expectations, only to see their stock prices drop.

Until this month, Google hadn't seen its shares fall after an earnings beat for over a year. When the company topped earnings estimates in its January 2011 report, it also announced it would move Eric Schmidt from his role as chief executive. In the four days surrounding that report, the company saw shares fall 2.4%. This year, the company beat estimates solidly but the stock still fell more than 4%.

Companies in the S&P 500-stock index were cutting guidance in the first quarter at nearly twice the rate that they were increasing it, for the first time since the first quarter of 2009, according to Thomson Reuters data.

"There's been a tendency for everyone to be very conservative over the past couple of years," said Gregory Harrison, an analyst with Thomson Reuters.

But, as RBC's Mr. Lascelles warns, investors may not pay as much attention to whether a company beats estimates if the projections are seen as low-ball numbers.

"If you mislead too many times, you lose your credibility," he said.