

Truism?

- “Short term earnings growth drives stocks?”

Fact

- Generally no correlation between Y on Y changes in earnings and the S&P

(John P Hussman)

- Note: in 2007 earnings looked fantastic and the market subsequently fell 60% over the next 18 months. Then in February 2009, earnings were dreadful, and expected to remain dreadful, yet the market rallied over 50% over the next year
- Since 1932, the Dow has risen over 70% of the time corporate profits have had down years
- Earnings and interest rates drive stocks
 - In 1991 a Goldman’s analyst, Barrie Wigmore, found that only 35% of stock price growth in the 1980s can be attributed to earnings and interest rates