

# CIO Perspective

## Earnings Beat, Stock Falls: Why the Estimate Game is Rigged

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Every earnings season, the same ritual plays out. Company beats estimates. Headlines celebrate. Stock falls anyway. Your client calls, confused: "They beat by 3 cents—why is it down 8%?"

Here's the answer: They just witnessed Wall Street's most elaborate theater production. And like most theater, it tells you nothing about reality.

### The 75% "Success" Rate That Proves the Game is Rigged

The estimate game is rigged. Everyone knows it.

Analysts systematically lower estimates in the weeks before earnings. Not because companies suddenly got worse, but because beating estimates became more important than actual performance. The result? A company beating by 2 cents didn't perform well. They performed slightly better than a number designed to be beaten.

The S&P 500 beat rate runs 70-75% every quarter. Three-quarters of public companies consistently "beat expectations." When 75% of students get an A, either the test is too easy or the grading is rigged. Wall Street chose the easy test.

The estimates aren't measuring performance. They're measuring the game.

### The Real Question Nobody Asks

Here's the question the estimate game misses: Can this company deliver the growth indicated by its stock price?

Analysts estimate next quarter's EPS. Stock prices reflect years of expected growth. These measure completely different things.

You can beat this quarter's estimate and still be unlikely to deliver what your valuation demands i.e. what your stock price implies. It's like celebrating a B+ when you need an A average to pass. The celebration is premature.

The growth rate indicated by the stock price is the grade you actually need. Analyst estimates are the grade you told everyone to expect.

## Why "Great" Earnings Trigger Selloffs

When stocks fall after beating estimates, the market is being mathematical, not irrational. The beat wasn't enough to justify the price.

This is where most analysis fails. Everyone asks whether the company beat the estimate. Nobody asks what is the probability the company will fail to deliver the growth its stock price indicates.

We call this probability the h-factor—the likelihood a company fails to deliver growth its current price demands. High h-factor companies can beat estimates every quarter and still disappoint investors. The estimates were never the real bar. The price was.

## Math Beats Theater Every Time

A company at 40 times earnings needs vastly different growth than one at 15 times earnings. No estimate beat changes that math. The company priced for perfection must deliver perfection—not beat a sandbagged number.

That's why we don't celebrate earnings beats. We measure probability of failing to deliver priced-in growth. It's avoiding the losers versus picking the winners. When 75% of companies beat estimates but far fewer justify their valuations, avoiding the losers is where alpha lives.

## The Better Question for Next Earnings Season

Skip the beat-miss headlines. When clients see stocks fall after "great" earnings, you have the answer: The earnings weren't the problem. The expectations were.

The company you want isn't the estimate-beater. It's the one with low h-factor risk—most likely to deliver growth its price implies. Known information only. No forecasts, no analyst games, no theater.

Just math.

The estimate game is subject to vague and ambiguous information that humans interpret incorrectly. The h-factor measures probability based on what we know: stock price plus current financials. That's the difference between playing Wall Street's game and winning your own.

Your clients don't need another explanation of rigged estimates. They need a better measure of what matters: Can this company deliver the growth its price demands?

How much h-factor risk is hiding in your portfolio? To see how much, go to [avoidthelossers.com](http://avoidthelossers.com) to request free access to the h-factor platform.

For important disclosure information please [click here](#).

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