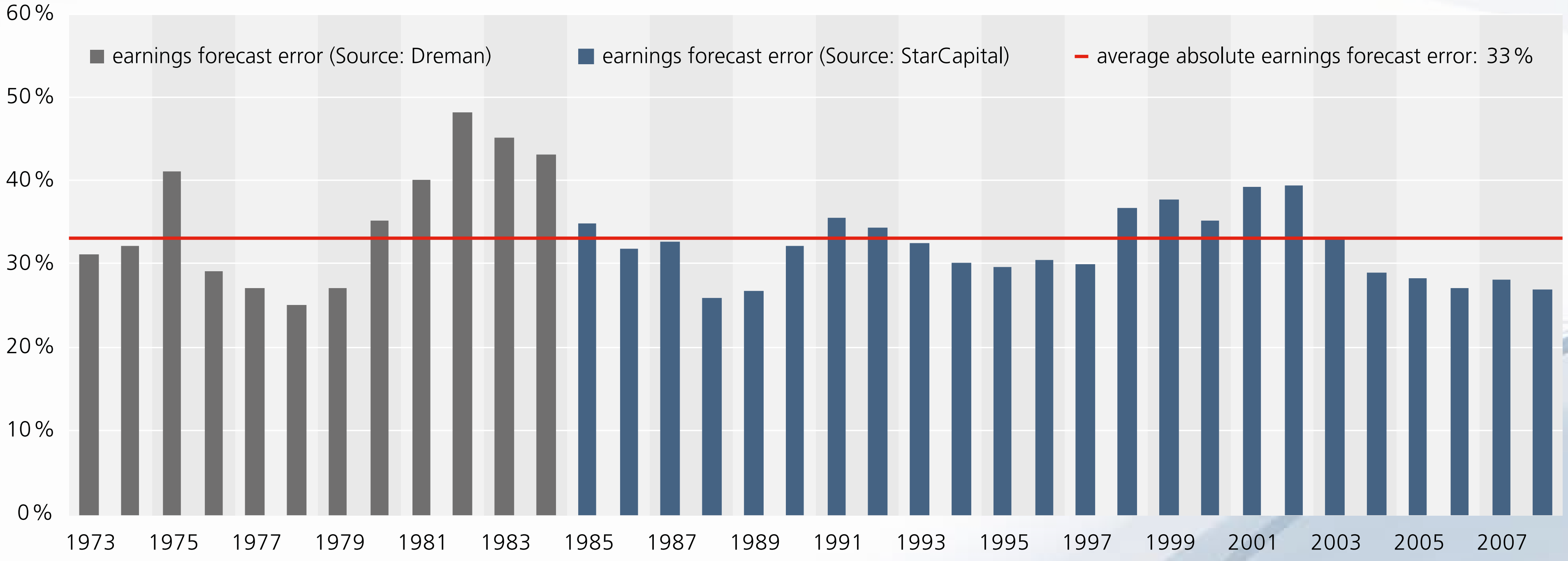
Don‘t trust analysts‘ EPS estimations when evaluating companies

Analysts can‘t predict future earnings on a single company level



Dreman investigated 500,000 analyst earnings forecasts made three months before the company‘s report date. The data for more than 1,500 public U.S. companies revealed an average forecast error of 44 %! In this context, it is interesting to note that –contrary to what one might expect– the forecast error has not been reduced by technological advancements. In 2008, StarCapital extended and confirmed Dreman‘s research. The investigation of 1.7 million consensus estimates over a time frame of more than 33 years showed that the absolute earnings forecast error 12 months before the report date was more than 30 %.

Sources: Dreman (1998): Contrarian Investment Strategies. New York, Simon & Schuster. Based on 500.000 analyst forecasts made between 1973 and 1996 (data from A-N Research Group and I/B/E/S, we present the results until 1984). StarCapital (2008): using 1.7 million consensus estimates (consisting of roughly 10.5 million individual estimates) made between 1985 and 2008 on the basis of I/B/E/S and Worldscope.

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