

## Earnings surprises are good for investors

Companies that exceed earnings estimates are always worth watching, as positive surprises can be a predictor of outperformance. Earnings surprises have been effective at selecting winning stocks over the long haul, and especially effective for large-company stocks over the last two years.

Companies in the S&P 500 Index that ranked in the top 20% as measured by quarterly earnings surprises outperformed the average stock in 14 of the 16 rolling 12-month periods since February 2004, averaging returns 5% higher than the average S&P 500 stock.