

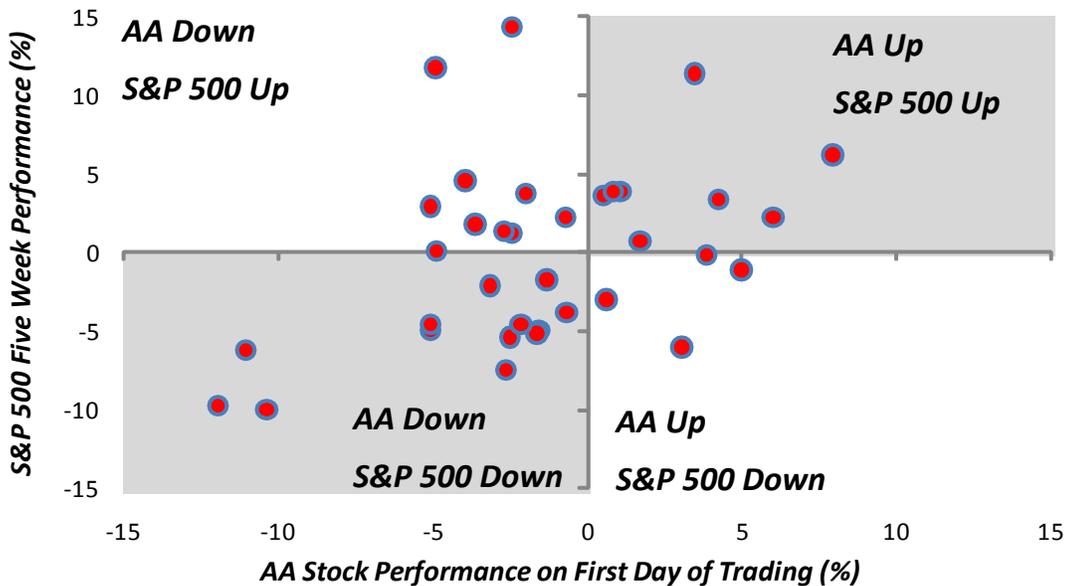
As Goes Alcoa (AA), So Goes the Market?

With Alcoa (AA) being the first major (if you can even call it that anymore) company to report earnings each quarter, it is often tempting to extrapolate the company's performance to the rest of earnings season. So, if AA reacts poorly to its earnings report, investors will often fret that it could mean a rocky earnings season, while a positive reaction like we're seeing today, will often be interpreted as a sign of good things to come. The big question is, does AA really have any bearing on the future direction of the equity market?

To answer this question, using our *Earnings Report Database*, we went back and looked at AA's performance on the first trading day following each of its earnings reports since October 2001 and then compared it to the performance of the S&P 500 over the following five weeks. We then calculated how often the stock's performance on the first day of trading was the same direction as the S&P 500 over the following five weeks (the typical length of earnings season).

In the chart below, each dot represents the one day performance of AA on earnings compared to the S&P 500's performance over the next five weeks. Dots in the areas of gray shading represent reports where AA's one day performance was the same as the S&P 500 over the next five weeks, while dots in the areas of no shading represent reports where AA's performance diverged from the market. Based on our calculations, AA's one day return has accurately predicted the direction of the S&P 500 in 21 out of 35 quarters, or 60% of the time. Of the 12 quarterly reports where the stock has traded higher on the day of its earnings report, the S&P went higher over the next five weeks two-thirds of the time (8). So the stock has a better record when its stock rises, but it's still hardly a lock. *Continued on page two.*

Alcoa (AA) One Day Return vs S&P 500 Five Week Return



If AA's performance on its report day isn't the best predictor of the market, what stocks are? In the table below, we have highlighted the stocks in the S&P 500 that have accurately predicted the direction of the S&P 500 more than 70% of the time. For example, ARO's stock performance on the first full day of trading following its quarterly earnings reports has accurately predicted the direction of the S&P 500 over the next five weeks 78.1% of the time. Unfortunately for investors, though, ARO isn't expected to report earnings until early September, so we'll have to wait on that one. One notable name on the list that is scheduled to report earnings in the coming days is IBM. Since 2001, the stock's one-day return on earnings has been an accurate predictor of the S&P 500 over the next five weeks 77.1% of the time. So if IBM trades higher on earnings next week, it could be a good Summer for the bulls. If not, bulls may want to go on vacation for the rest of the Summer.

Best S&P 500 'Predictor' Stocks

Ticker	Name	Percent of Time Stock Accurately Predicts the Market Direction	Expected Report Date
ARO	Aeropostale	78.1	9/3
NEWP	Newport Corp	77.1	8/5
IBM	International Business Machines	77.1	7/19
HAR	Harman International Industries	75.0	8/19
KSS	Kohl's	71.4	8/12
OSK	Oshkosh	71.4	8/2
WBSN	WebSense	71.4	7/27
ISIL	Intersil	71.4	7/21
MANH	Manhattan Associates	71.4	7/20

While the names above have historically done a good job predicting the direction of the market, the names below have been notable for moving in the opposite direction as the market. Given its defensive characteristics, it is not too surprising that a positive reaction to earnings from WMT would be bad for the future direction of the overall market. However, it is somewhat surprising to see that AMZN's direction is the same direction as the S&P 500 only 28.6% of the time.

Worst S&P 500 'Predictor' Stocks

Ticker	Name	Percent of Time Stock Accurately Predicts the Market Direction	Expected Report Date
CNP	CenterPoint Energy	22.6	8/4
JCOM	j2 Global	24.1	8/5
WMT	Wal-Mart	28.6	8/17
OCR	Omnicare	28.6	8/5
AKAM	Akamai Technologies	28.6	7/28
HIW	Highwoods Properties	28.6	7/28
ODFL	Old Dominion Freight Line	28.6	7/28
AMZN	Amazon.com	28.6	7/22