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Analyst Forecasting Errors and Their Implications for Security Analysis

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Abstract

A comparison of 66,100 consensus estimates of Wall Street analysts with reported earnings for a large sample of NYSE, Amex, and OTC companies demonstrates that their forecasts differ significantly from actual reported earnings. A minority of estimates fall within a range around reported earnings considered acceptable to many professional investors. The error rates are not meaningfully affected by the business cycle or industry groupings. The average error also appears to be increasing over time. These findings question the use of finely calibrated earnings forecasts that are integral to the most common valuation models and indirectly question the valuation methods themselves.

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