



WEEKEND EDITION

High hopes in Wall Street's fall classic Who will be big winners, losers in third-quarter earnings?

By [Carolyn Pritchard](#) & [Chris Kraeuter](#)
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SAN FRANCISCO (CBS.MW) -- Hopes are high for the upcoming third-quarter earnings season. And unlike some of the seasons past, this time the optimists have some solid evidence in hand.

For one thing, fewer companies have warned investors to lower their expectations. Moreover, business is also picking up.

"There's little doubt that the third quarter is going to be positive on the earnings front," said Nick Raich, director of research for Chicago-based Zacks Investment Research. Cost cutting, he noted, will continue to play a role in pumping up results at a time when revenue growth is slowly improving as well.

On the bright side, technology, oil and financial companies are poised to lead the winners, while the telecom and consumer staples sectors are looking gloomy.

Corporate earnings of Standard & Poor's 500 companies will be up 15 percent in the aggregate while revenues will rise about 6 percent, according to Zacks forecasts.

Another positive sign: The ratio of companies in recent weeks lowering their estimates vs. those raising them is running about 1.5 to 1, much better than the average of 3 to 1 in the past three years, and 2 to 1 during the past decade.

By most accounts, the star of this quarter's earnings parade will be technology, driven by increased consumer and business spending, as well as favorable year-over-year comparisons. "It's been at least three years since technology has been upgraded," said Sam Stovall, chief investment strategist at Standard & Poor's. "From a mere replacement-demand standpoint, we've been seeing a recovery take place."

Positive data and expectations throughout the technology supply chain have lifted stocks to one-year highs recently. While semiconductor industry has benefited from increased factory utilization, PC manufacturers have enjoyed rapid sales of notebook computers. Even online ad spending has turned higher to help boost Internet stocks.

Financia Capital, a San Francisco-based hedge fund, shifted to an overweighted position in technology stocks a year ago and it's happy to stay that way, despite the Nasdaq's recent gains. "I look in the other direction and see [the Nasdaq] still down 65 percent from its peak," said Ian Fraley, managing principal. "Perspective changes pretty quickly."

Elsewhere, oil companies are expected to report upbeat results. "Record-high oil prices on a year-over-year basis will translate into higher earnings [in the energy sector]," said Carter Braxton Worth, chief investment strategist at New York-based investment boutique Ehrenkrantz King Nussbaum.

And historically low interest rates will drive the financial sector. Lending companies have benefited from consumers who have either bought new homes or refinanced their existing mortgages, while the run-up in the equity markets has brought buyers back to the table, boosting the results of investment banks.

On the flip side, the telecom sector is expected to show the worst year-over-year performance, according to Stovall, largely because of competitive pressures and higher costs for the Baby Bells. A slightly better performance in the wireless category will not be enough to show earnings growth from the year before. "Don't look for a turnaround until this time next year," said Stovall.

Consumer staples are also seen underperforming, largely because the group -- filled with multinationals - won't get as much as a boost from a weaker dollar as in recent periods. "Currency translations added 2 percent growth to earnings in the second quarter," said Raich, the Zacks researcher. "This quarter we're only anticipating 1 percent."

Electric utilities are slotted to be another poor performer in the third quarter. "Colder winters and warmer summers don't automatically translate into higher utilities profits," said Stovall. And a summer of natural disasters has hurt sales and hiked costs.

One thing most strategists agree on is that an economic recovery is under way. However, with stocks already up significantly during previous months -- the Dow ([\\$DJ: news, chart, profile](#)), S&P 500 ([\\$SPX: news, chart, profile](#)) and Nasdaq ([\\$COMPQ: news, chart, profile](#)) are all near one-year highs -- investors want to see continued progress in third-quarter numbers and fourth-quarter projections to carry stocks even further.

Carolyn Pritchard is a reporter for CBS.MarketWatch.com in San Francisco.
Chris Kraeuter is a reporter for CBS.MarketWatch.com in San Francisco.

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