

FINANCIAL FOCUS



A Pegasus Newsletter[©]

April 2024

Dear friends,

The first quarter of the year brought some positive equity returns with the S&P 500 gaining 10.72%, the best first quarter return since 2019. The Dow advanced 5.6% and the Nasdaq ended with a 9.1% gain. Yield on the U.S. 2 Year Treasury rose .378% to 4.628% while the U.S. 10 Year Treasury rose .34% to 4.206%. Gold continues to break record highs, finishing the quarter with an 8.04% gain to \$2,238.40 per ounce. Crude oil ended the quarter at \$83 a barrel, a 16.07% gain, on continued OPEC+ production cuts and expectations for increased demand.

By, Jaysen Bohrod, CFA

What Is EPS And How Can It Be Manipulated?

Earnings per share, also known as EPS, is a financial ratio that measures a company's profitability on a per share basis. It is calculated by taking the net income a company earns and dividing it by the number of outstanding shares. While EPS is a valuable ratio used in financial analysis, it is open to manipulation and the underlying variables that are included in the calculation should be analyzed thoroughly.

There are many ways EPS can be affected. The most basic way is seen just by looking at how the ratio is calculated: $\text{Net Income} / \text{Total Shares Outstanding}$. Companies buy back shares from the open market constantly, some more than others. As they continue to buy shares, the total number of shares outstanding will decrease. This will make the denominator of the ratio smaller, increasing the total earnings per share, even if Net income doesn't rise. This is a particular concern because many executives are compensated through earnings based programs, so they can directly drive profitability ratios without actually increasing the company's profitability.

Another way the denominator can be affected is through the process of share based compensation.

Companies often issue stock options as a form of compensation to employees. These options allow the employee to purchase a set amount of shares at a specific price, resulting in the issuance of new shares. The creation of new shares then increases the denominator of the ratio and decreases the EPS.

Revenue recognition techniques can be used to inflate revenues to make the company appear more profitable than it actually is. One method is called "Channel Stuffing". This involves incentivizing distributors to purchase more inventory near the end of a reporting period to create an illusion of strong demand and higher revenue growth in the short term. The goal with this method is to increase the company's net income, which will increase the earnings per share. The issue is this can lead to higher rates of returns or cancellations of orders in the future, which will result in lower revenue and profits. Along the same lines as "Channel Stuffing", companies can use a technique called "Bill and Hold Arrangements". These arrangements allow the company to bill customers for goods without delivering them immediately so they can recognize revenue earlier than they normally would, resulting in inflated earnings.



NUMBERS TALK

- Number of initial public offerings in the US in 2024.....45
- Credit card balances at end of 2023.....\$1.13T
- US national Debt.....\$34.6T
- US Population on Jan 1, 2024.....335,893,238
- Average rate on a 30-year mortgage.....6.91%

Taxes & Retirement Accounts

Please make tax payment requests by the first week in April 2024 to guarantee the payment is made on time. Charles Schwab cannot send tax payment checks via UPS to a P.O. Box.

- All 2023 retirement account contributions should be made by the first week in April 2024. Make checks payable to your account name and number and write the contribution year in the memo line. Use the Schwab Mobile App to electronically deposit your contribution check immediately. For electronic transfers, be sure to code the contribution for the correct year.

- Annual IRA & ROTH IRA combined contributions for

2023: \$6,500 per year if under age 50;
\$7,500 if 50 years old or older.

2024: \$7,000 per year if under age 50;
\$8,000 if 50 years old or older.

The total can't be more than your taxable compensation for the year.

- Tax Forms 1099 & 1099-R are issued by Charles Schwab. For a copy of your tax forms visit:

www.schwaballiance.com

Click the 'Accounts' tab

Click the 'Statements' tab

Click the '1099 Dashboard'

Beneficiaries

Annually review and update your account beneficiaries to confirm accuracy, especially after major life events such as marriage, divorce, death, or having a baby. The new SECURE Act rules can affect Trusts as beneficiaries. Be sure to review your Trust with your Estate attorney.

To update your beneficiaries online, go to:

www.schwaballiance.com

Click the 'Profile' tab at top right

Click 'Beneficiaries' in drop down menu

Review & Update all accounts

Stock Market Holidays

Monday, May 27-Memorial Day

Wednesday, June 19-Juneteenth

Thursday, July 4-Independence Day

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