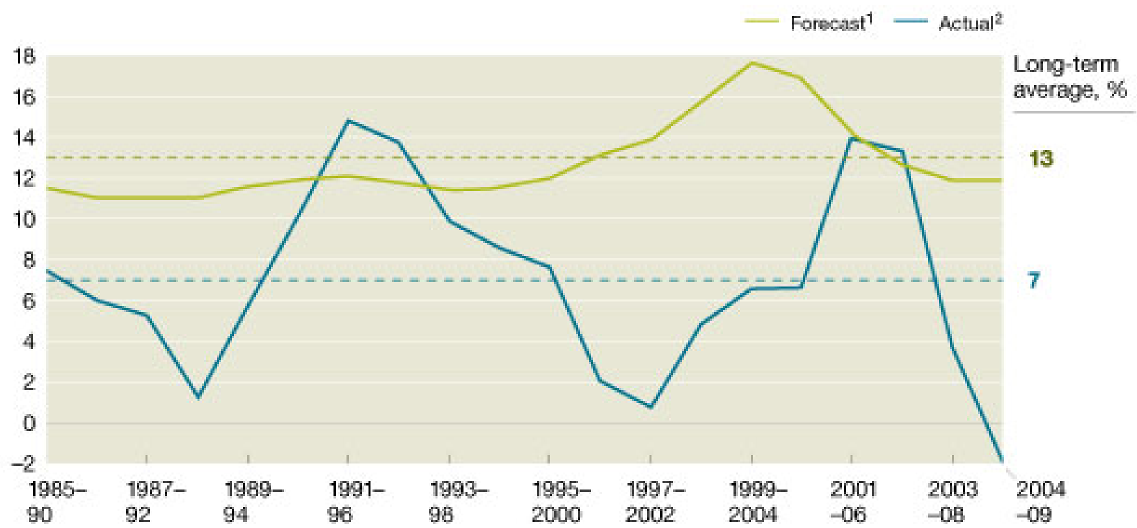
A generation of overoptimistic equity analysts

McKinsey research shows that equity analysts have been overoptimistic for the past quarter century: on average, their earnings-growth estimates—ranging from 10 to 12 percent annually, compared with actual growth of 6 percent—were almost 100 percent too high. Only in years of strong growth, such as 2003 to 2006, when actual earnings caught up with earlier predictions, do these forecasts hit the mark.

Earnings growth for S&P 500 companies, 5-year rolling average, %



[1]Analysts' 5-year forecasts for long-term consensus earnings-per-share (EPS) growth rate. Our conclusions are same for growth based on year-over-year earnings estimates for 3 years.

[2]Actual compound annual growth rate (CAGR) of EPS; 2009 data are not yet available, figures represent consensus estimate as of Nov 2009.

Source: Thomson Reuters I/B/E/S Global Aggregates; McKinsey analysis