Q. Reference: PUB-NP-056

Mr. Coyne argues that analyst bias has been reduced, based primarily on the results of a 2010 study in the Financial Analysts Journal. The total returns on the S&P 500 Index in the U.S. for the study's sample period are given below:

S&P Total Return (%)

1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
22.96	**33.36**	**28.58**	**21.04**	**-9.10**	**-11.89**	**-22.10**	**28.58**	**10.88**	**4.91**	**13.79**

Would Mr. Coyne agree that optimistic earnings projections are more likely to be closer to actual earnings achieved when market conditions are favorable, and that such optimistic projections are less likely to be achieved under more adverse market conditions?

A. Mr. Coyne does not agree with the underlying premise of the question, which is that earnings projections are optimistic. Notwithstanding that disagreement, Mr. Coyne is aware that previous studies have found that forecasting is more difficult when companies report a loss or decline in earnings. However, the study on which Mr. Coyne relies has controlled for economic conditions. Specifically, the study states on page 103: "We used both the real GDP growth rate and the unexpected change in the real GDP growth rate to capture analysts' inability to forecast earnings accurately if the state of the economy changes substantially."

In addition, Mr. Coyne observes that since everyone agrees that regulated utilities are low risk investments, it seems reasonable that earnings forecasts for these companies are likely to be more accurate because there is less that can go wrong and less variability in earnings.