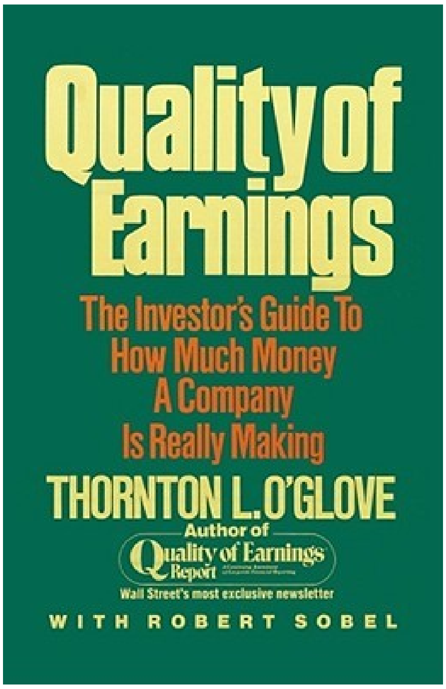

Quality of Earnings

Thornton L. O'glove

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Quality of Earnings Thornton L. O'glove
An indispensable guide to determining how much money a company is really making and for buying and selling stocks without making costly blunders.

Quality of Earnings Details

Date	:	Published October 1st 1998 by Free Press (first published April 27th 1987)
ISBN	:	9780684863757
Author	:	Thornton L. O'glove
Format	:	Paperback 224 pages
Genre	:	Economics, Finance, Business, Accounting, Nonfiction

From Reader Review Quality of Earnings for online ebook

Tirath says

A very old book that delves into understanding some aspects of quarterly and annual reports/ filings. The chapters on inventory, tax and accounting changes are particularly well written. Again, all American businesses, but it is a fair, quick read.

This book seemed directed towards quarterly earnings followers.

Get it, because it is easy to read through and can help one become more skeptical about accounting.

Gabriel Pinkus says

Very informative analysis of short-term balance sheet trends and other financial statement analysis... Thorton spent his time figuring out when quarterly earnings would miss or exceed targets... Short-term thinking, but he was good at it. Pare it with long-term analysis of the intrinsic value of a business and you have become a better security analyst.

Zain Khan says

GOOD BOOK

Jwack says

Excellent book! Every chapter focuses on a single topic and gives several examples to explain the concept presented. I learnt a lot about what to focus on while reading an annual report. Investing is a negative art as much as it is an art, hence it is very valuable to know hot to avoid potential losers. This book gives you that.

I would like to read it again after a while to refresh my memory about various ideas presented herein.

Joel Gray says

THERE ARE NUMEROUS EXAMPLES OF HOW CONSIDERABLE INCREASES IN INVENTORY AND/OR ACCOUNTS RECEIVABLE CAN FORECAST DOWNWARD EARNINGS AND SURPRISES. THIS IS ESPECIALLY TRUE IN THOSE INDUSTRIES SUBJECT TO RAPID CHANGES IN PRODUCTS AND TASTE.

Problems should be dissected, not hidden or ignored. A frank discussion of problems, along with thoughts of proper solutions, is the mark of a management which can be trusted.

Accounts receivable can indicate the granting of more liberal credit terms and/or difficulty in obtaining payment from customers.

A company may be merely shifting inventory from the corporate level to its customers because of a hard sell sales campaign or costly incentives. This type of sales may constitute borrowing from the future.

An excess of inventory is a good indicator of future slowdown in production.

An increase is raw materials usually means business is speeding up.

When a company becomes locked into the ritual of annual dividend increases the result could be detrimental to the company's operating performance.

Clement Ting says

The language used in this book is very layman but the idea is great! I like the way the author brings its reader through baby steps in explaining something difficult in an easy to understand manner. With all the financial engineering in making the figures look pretty, this book has shown me several techniques in unmasking these figures to draw out the (close to) true earnings of a given company.

I would definitely recommend this to anyone that is keen to drill a company's profit earnings and also give it a 5 star but the book is rather old and some of the ideas here are just no longer applicable (not in my country at least). It goes without saying but the book is more catered towards the US market so unless you have a time machine that can send you back to the 80s, and you are in a market with very similar accounting and tax standards as the US, you will not be able to utilise 100% of this book. Then again, it is a very simple book so it probably would not take up too much of your time should you choose to read it.

Vipin Pandey says

A must read. The will book will change your outlook on the earnings reported by co.s. You will be able to translate earnings into stock value and also avoid co.s that dress-up their Financial Statements.

Timothy Chklovski says

As you would expect, pretty dry.
Still, lots of valuable ideas to pay attention to in each chapter.

A few examples:

- big spending on advertising time-shifts revenue to the future
- gap between accounting and tax reporting as a red flag (eg type of depreciation used)
- examples of buildup of inventories leading to trouble
- examples of "aggressive" accounting within GAAP

The specific examples leave me wondering if they were cherry-picked. I also was not sure what aspects of tax law have evolved since the writing.
Still, useful.

Vikas Kukreja says

It's a hidden treasure, written long back. Few people might have read it, but the information or knowledge it provides to avoid pitfalls are priceless. This book is content rich and any fundamental investor will benefit tremendously from it.

Max Lapin says

Truly amazing classical book on accounting gimmicks. You won’t believe but it is thrilling and flows as a good detective book. Thumbs up.

Nick says

Very dry, but practical and eye opening

Bùi Hà says

Behind numbers has stories and this book provides us an important framework to discover those stories. Though some ideas in the book has become obsolete now, the overall way of thinkings are still relevant and crucial.

Daniel Holland says

This is just another tool in the toolbox for any interested investor. This doesn't give you an algorithm or secret formula but does offer things to pay attention to when assessing a company. Good commentary on tax footnote, inventory, and big bath accounting.

Alessandro Orlandi says

Interesting insights on what to look to. Nothing major. A little bit difficult to read though.

InvestingByTheBooks.com says

Recently, there was an article about Chinese IPOs in a Shanghai newspaper. The writer spoke to Yan Ding, head of Ceibs Research Center in Shanghai about the merits of investing in the avalanche of IPOs coming the market's way this year. “If somebody asks me whether to invest in an IPO, my answer is ‘Yes’! If they should read the prospectus? ‘No’! If they should borrow money? ‘Yes’!” Feeling somewhat dizzy and rudderless, now seemed like a particularly good point in time to re-read Thornton O'glove's classic Quality of Earnings, built on his ground- breaking monthly report with the same name first published in 1971. The report was conceived during the author's early days working as a stock- broker in the 1960s, during which time an “issue craze” swept through the market, rendering prospectus-reading irrelevant. Considering today's +40 percent opening-day rigged China IPOs, this reviewer for one hears alarm-bells ringing. Hence, entrée of the seminal work on how diligent reading of corporate accounting does matter over time.

Quality of Earnings first and foremost deals with market inefficiencies via secrets hidden in (almost) plain sight. Accounting is said to be the language of business and some companies tell more lies than others. But who is the chicken and where is the egg? The companies? Investors? Auditors? Clients of investors? Society? Chapter 7, dealing with the differences between shareholder reporting and tax reporting is a case in point. But then of course it all circles back to the meta-debate of whether any of this matters, i.e. will it impact stock prices during the fund manager's tenure? Hence, the derogatory naming of these matters as “academic”. Wouldn't the more appropriate designation be as part of the time-arbitrage playbook?

One of the most important questions upon re- reading the book is the issue of aging. Quality of Earnings is likely a cornerstone in most investors' bookshelves, albeit somewhat dusty. But this 1987- book can certainly be read with your 2014 glasses on. But obviously, some aspects of breaking new ground are lost 27 years later. Howard Schilit's Financial Shenanigans and Financial Fine Print by Michelle Leder are more contemporary examples of successor books. The common denominator is the passion of teaching the reader the importance of forensic study of the accounting. As they say, offense wins games but defense wins championships. Doing tedious, time-consuming, mostly dead-end forensic accounting work is tough. And it won't make you the next-play hero. But over time plain ol' number crunching is a requirement to avoid permanent losses of capital. And the reasoning and case studies in this book will help you on that path.

The book is organized alongside order-of- complexity, common-sensical first. I found the early chapters “Don ?t Trust Your Analyst” and “Don't Trust Your Auditor” slightly clichéd and over- simplified. Despite the overflow of events in this direction since the book's publishing, has anything really changed? Do portfolio managers read more 10Ks and proxy statements now, skipping sell-side reports? Not likely. As the book progresses through the common snake pits in the P&L – non- recurring income, tax-reporting, working capital, debt, accounting changes etc. - complexity is turned-up a notch. The main drawback is the lack of actuality aspect in the case studies. They are certainly instructive still, but it does require a more dedicated reader. Overall, the book certainly fits in the mold of literature whose modus operandi centers on the “give a man a fish and you feed him for a day, teach him how to fish and he'll feed himself for life”. The irony of course is that the Quality of Earnings® report, Footnoted® et al, live off of unwilling fishers.

“Because the documents were lengthy, very few [people] would take time out to read them. Accordingly, I concluded that one could obtain some edge on the market by diligently reading a prospectus from cover to cover”. I believe this to be true today as well, even though Mr. Ding and his friend Mr. Market might burst out laughing.