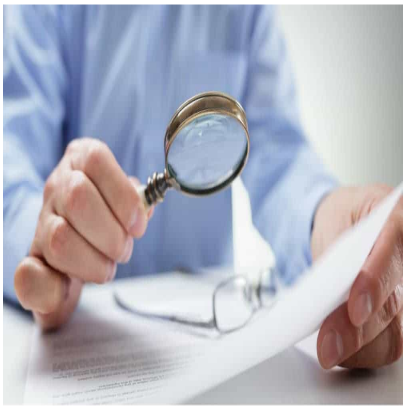

Investors: Stop Looking at Year-Over-Year Earnings!

Description

There's a major problem happening with earnings reports these days. On the one hand, investors looking earnings reports are seeing a lot of positivity! The world is finally starting to rebound from the pandemic. This is great news! We are starting to get back to normal.

But what exactly is normal? Because, to me, all of these incredibly high year-over-year earnings are not the true story.

What's really happening

If you're looking at year-over-year earnings, it can seem like companies are doing exceptionally well. After all, many were down during the pandemic and are finally ramping up production, seeing workers return to work, having shoppers visit stores again.

But I'll remind investors to remember that year-over-year earnings mean we are comparing this year, 2021, to last year, 2020. This is where the problem starts.

In 2020, production was down. Shopping was down. Practically every industry in the entire world was down! So, when we compare earnings to this year, it looks incredibly positive! Let's look at **Air Canada** (TSX:AC) as an example. Air Canada stock recently reported operating revenue earnings of $837 million. That's an increase of $310 million from the second quarter in 2020 — a 59% year-over-year increase! Wow, right?

But let's look back at 2019. The operating revenue during second quarter of that year came in at a whopping *$4.757 billion*. That's a *decrease* of 82% from 2019 levels! So, while there is some upward momentum, it's still incredibly far down compared to 2019.

2019: the key to successful investing

So, if Motley Fool investors are going to start looking at earnings reports for guidance, they need to look back at 2019 levels instead of 2020 ones. This will give you a true picture of what normal revenue looked like and whether companies are going to reach it.

Need a good example to start? Let's look at another airline stock, **Cargojet** (TSX:CJT). Whereas Air Canada stock had to rely on passenger travel, Cargojet stock relied on — you guessed it — cargo. With e-commerce exploding during the pandemic, Cargojet stock saw revenue soar higher and higher. And that remains the case.

So, if you look at the most recent quarterly earnings, Cargojet stock reported $160.3 million in revenue for the quarter. That's a year-over-year increase of 30% in revenue compared to 2020 levels, reporting $123 million last year. If we get into 2019 numbers, it's *still* impressive. In 2019, the company announced revenue of $110 million. So, 2019 compared to 2021 means an increase in revenue of 46%!

Foolish takeaway

So, we can see that compared to Air Canada stock, if we're looking at regular, sustained growth, Cargojet stock is the better buy today. But this is just one example. If Motley Fool investors are looking for stocks to invest in and at upcoming earnings for a boost, look back at 2019 earnings. By doing so, you can compare the company to how other companies in the area are performing year after year. And you're more likely to see sustained growth in revenue and returns for years to come.

CATEGORY

1. Coronavirus
2. Investing
3. Personal Finance

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:CJT (Cargojet Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Personal Finance

Date
2025/08/22

Date Created
2021/07/26
Author
alegatewolfe