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Companies with Poor Earnings Quality Underperformed S&P

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Companies with the poorest earnings quality and corporate governance underperformed the S&P 500 index by 11% in 2005, according to a study by RateFinancials Inc in New York.

RateFinancials is an independent risk research firm that evaluates the financial reporting of publicly held companies for hedge funds that are considering investing in those companies. The firm said it has identified more than 50 companies whose financial statements should raise questions from investors. These range in size from automakers General Motors and Ford to smaller outfits such as Jupiter Media and Helen of Troy. The firm's ratings are heavily based on quality and transparency of earnings disclosures and corporate governance.

"We continue to establish a strong correlation between poor stock performance and companies with questionable earnings quality," Victor Germack, founder and president of RateFinancials, said in a statement.

He pointed out that an estimated 1,200 companies restated their earnings last year, nearly double the level of 2004, and that restatements usually lead to lower stock prices.