Guidance, and the expectations game

> **GUIDANCE**
>
> Management's published expectations for its own coming quarters: the number the market usually reprices on, because results are history and guidance is the future's first draft. It is also a managed communication in a repeated game - companies guide low to beat, walk expectations carefully, and confess early when they must - and reading it means reading the game, not just the number.

Module 2 established that the print only moves what it surprises. This lesson is about where equity surprises actually live: mostly not in the quarter reported, but in the sentence about the next one.

Why guidance outweighs results

The reported quarter is over - the price has carried estimates of it for months, and module 1's efficient machinery has priced most of the range. Guidance moves prices because it re-anchors every model's forward numbers at once: a company beating the quarter but guiding down has told the market its future shrank, and the gap trades the future. The working-depth read of lesson 2 ends at guidance for exactly this reason - it is the release's only genuinely new number.

The game around the number

The lowball ritual: guiding conservatively to beat reliably is standard practice - which the market knows, so a 'beat' against lowered guidance is often no surprise at all: the expectations game prices the game, not just the number.The walk-down: expectations get managed between quarters through conferences and pre-announcements - by results day, the whisper number can sit well away from printed consensus, and gaps trade against the whisper.The confession: bad news that cannot wait for results day arrives as a profit warning - module 2's unscheduled tape event - and its timing is itself information: management judged it too material to sit on.

Reading it honestly

The habits: read guidance against the consensus it re-anchors, not against the old guidance; track a company's own guiding style across quarters - chronic lowballers and straight-talkers exist, and the journal shows which is which; and treat withdrawn guidance as the loudest guidance of all. None of this predicts the print. It calibrates the surprise - which, four tracks in, is the only part the price ever paid attention to.

Check your understanding

1. A company beats its quarter by 5% and guides the next one down 10%. What does the price trade on?

a. The beat - results outrank forecasts

b. The guidance: the quarter is priced history, and the guide-down re-anchors every forward estimate at once

c. Neither - the effects cancel

Answer: b. The market holds months of estimates about the reported quarter and reprices on the genuinely new number - the future's first draft. Beats with guide-downs gap down routinely.

2. Why can a company 'beat expectations' without surprising anyone?

a. Analysts always underestimate growth

b. The beat was engineered against lowered guidance, and the market prices the ritual - the whisper number, not printed consensus, was the real bar

c. Beats are announced in advance

Answer: b. The expectations game is a repeated game, and the crowd learns the players. A beat against a lowball is the ritual completing - which is why some beats gap down.