

SHIFT FROM NON-GAAP NORMS COULD BE GOOD FOR STOCKS

WALL STREET WEEKAHEAD

SAN FRANCISCO: Investors worried about lofty stock-market valuations may take comfort in signs that companies in the benchmark S&P 500 index are padding their bottomlines less than they have in previous years. Recent changes to accounting standards and a crackdown last year by the Securities Exchange Commission are encouraging many companies to be more cautious about reporting metrics that do not adhere to Generally Accepted Accounting Principles (GAAP).

The difference between S&P 500 companies' GAAP net incomes and the adjusted versions of net income that they play up to Wall Street is expected to

significantly shrink in 2017 for a second year, after hitting a high in 2015, according to a Thomson Reuters analysis. Such a decline may be good news for investors worried that stock prices have risen too far.

"The closer reported earnings are to GAAP, the more confident I'd be that investors are getting a fair characterization," said Jack Ablin, chief investment officer at BMO Private Bank in Chicago. On their income statements, companies often exclude "extraordinary" items, like charges associated with layoffs that they believe give investors an unclear picture of their performance. Those adjustments tend to make their profits appear stronger. After an

8-percent rise in 2017, the S&P 500 is trading at 17.8 times expected earnings, a level many investors consider expensive and increases the risk of a market selloff. But the expected earnings in that valuation are adjusted, not GAAP. To the extent that companies use non-GAAP accounting less this year than in recent years, investors may feel more comfortable paying higher valuations for their stocks.

"You're getting more conservative in your earnings approach rather than more aggressive," said Phil Bianco, head of Ladenburg Thalmann Asset Management in New York. "That's exactly why I don't think current PEs are very expensive."

New standards

Following new accounting standards covering the taxation of stock-based compensation, Google parent company Alphabet Inc. stopped excluding stock-based compensation from its costs in the first quarter. Facebook Inc. said it would no longer emphasize non-GAAP expenses, income, tax rate or earnings per share. Responding to a new standard on revenue recognition, Microsoft Corp. recently said it will switch to GAAP revenue reporting. Analysts expect S&P 500 corporations in 2017 to report a total of about \$1.06 trillion in GAAP net income, according to Thomson Reuters data. But allowing for non-GAAP adjustments made by many companies and analysts, total net income is expected to reach around \$1.17 trillion.

Still, that 10-percent difference between GAAP net income and the net income companies and many investors focus on is much smaller than in 2015, when the difference was 33 percent, the largest gap since at least 2009. Last year, the difference shrank to 22 percent.

Thomson Reuters analyzed 494 S&P 500 companies and adjusted some of their fiscal years to reflect calendar years. In cases where companies and analysts focused on GAAP, that number was counted as adjusted net income. Adding to pressure on US chief financial officers, the SEC last year sent comment letters to corporations questioning their accounting methods. It warned companies not to produce misleading quarterly reports using larger fonts and bolded type to emphasize non-GAAP metrics.

"The SEC was upset about how non-GAAP was being used, and I think people have tried to listen to that. Nobody wants a SEC comment letter," said Takis Makridis, chief executive

of Equity Methods, which advises companies on equity compensation. Silicon Valley's technology giants have additional reasons to start emphasizing GAAP results. "The biggest companies who, earlier in their evolution needed to show numbers that put them in a more favorable light, no longer need that advantage," said Pivotal Research analyst Brian Wieser. — Reuters

THE WEEK ON WALL ST.

Net market gains and losses for week ending Aug. 18:

Dow Jones Industrials 21,674.51	-183.81
Nasdaq 6,216.53	-40.03
S&P 500 2,425.55	-15.77
NYSE 11,699.83	-63.38
NYSE American 2,494.01	-12.71

Daily Kuwait Stock Exchange Report				Global			
Sunday 20 August 2017							
Index	Change	Closing	Last Closing	Volume	Value (KWD)	Number of Trades	
Price Index	▲ 14.74	8,900.58	8,885.84	104,379,177	13,255,781		
Weighted Index	▲ 0.39	425.22	424.83				
KSX 15	▼ -2.46	965.30	967.76				

Security	High	Low	Volume	Value (KWD)	Trades	Last	Change
IPG	0.0	0.0	0	0	0	390	▲ 0.0
NAPESCO	855	850	10,872	9,096	5	850	▼ -2.0
ENERGYH	35.5	35.1	39,500	1,387	3	35.1	▼ -0.1
GPI	38.4	38.2	1,190,463	45,590	46	38.3	▲ 0.3
ABAR	90	75	42,409	3,523	21	86	▲ 11.0
Oil & Gas			1,283,044	59,557	75	1031.48	▲ 2.20
KFOUC	298	292	35,000	10,282	8	298	▲ 1.8
BPCC	0.0	0.0	0	0	0	589	▲ 0.0
ALKOUT	0.0	0.0	0	0	0	600	▲ 0.0
ALQURAIN	330	336	49,566	16,658	14	336	▲ 0.0
Basic Materials			84,566	26,940	22	1258.44	▲ 0.90
KCEM	0.0	0.0	0	0	0	420	▲ 0.0
CABLE	514	505	75,505	38,442	24	508	▲ 1.8
SHIP	214	212	24,010	5,110	5	214	▲ 0.0
PCEM	0.0	0.0	0	0	0	980	▲ 0.0
PAPER	0.0	0.0	0	0	0	280	▲ 0.0
MRC	0.0	0.0	0	0	0	94	▲ 0.0
ACICO	0.0	0.0	0	0	0	267	▲ 0.0
HCC	0.0	0.0	0	0	0	208	▲ 0.0
NCBIM	190	180	270,010	50,857	8	190	▲ 3.0
EQUIPMENT	48.9	48.2	400,050	18,772	14	48.9	▲ 1.0
NCCI	0.0	0.0	0	0	0	90	▲ 0.0
GYPBUM	0.0	0.0	0	0	0	95	▲ 0.0
SALBOOKH	81	80	526,724	31,888	19	81	▲ 1.4
AGLY	847	844	432,504	365,542	80	847	▲ 0.0
EDU	349	340	55,701	19,220	12	349	▲ 0.0
CLEANING	49.5	47.4	46,010	2,249	6	49.3	▲ 2.3
KSL	59	55	185,010	10,544	6	59	▼ -1.5
KDPC	0.0	0.0	0	0	0	141	▲ 0.0
HUMANSOFT	4,300	4,300	90	387	1	4,300	▼ -50.0
NAFAS	220	220	232	51	1	220	▲ 25.0
GFC	0.0	0.0	0	0	0	76	▲ 0.0
SHOOTING	27.4	26.8	2,122,196	56,814	45	27.2	▼ -0.3
CGC	907	905	133,000	75,301	2	905	▲ 5.0
MTCC	0.0	0.0	0	0	0	56	▲ 0.0
UPAC	0.0	0.0	0	0	0	715	▲ 0.0
ALAFCO	374	371	270,877	100,700	46	374	▲ 4.0
MUBARRAD	72	71	539,000	38,343	22	71	▼ -0.2
LOGISTICS	53	52	796,095	39,847	44	53	▲ 1.1
SCEM	79	79	1,000	79	1	79	▲ 2.5
GCHEM	79	78	23,010	1,789	5	78	▼ -2.0
QIC	0.0	0.0	0	0	0	81	▲ 0.0
FCHEM	78	77	25,127	1,925	4	78	▲ 1.4
KWIC	83	80	156,095	12,505	12	80	▼ -3.0
SPEC	97	94	687,515	64,931	28	95	▼ -2.0
Industrials			6,728,961	934,354	365	1969.74	▲ 2.40
PAPCO	0.0	0.0	0	0	0	90	▲ 0.0
CATL	268	248	203,406	52,513	14	268	▲ 18.0
DANAH	73	71	349,435	25,240	15	72	▲ 1.0
FOOH	1,820	1,820	1	1	1	1,820	▼ -170.0
Consumer Goods			552,842	77,754	30	1060.89	▼ -7.70
MHC	0.0	0.0	0	0	0	480	▲ 0.0
ATC	0.0	0.0	0	0	0	1,190	▲ 0.0
YIACO	0.0	0.0	0	0	0	175	▲ 0.0
Health Care			0	0	0	1683.91	▲ 0.00
KCN	0.0	0.0	0	0	0	1,200	▲ 0.0
KHOT	0.0	0.0	0	0	0	250	▲ 0.0
SULTAN	0.0	0.0	0	0	0	87	▲ 0.0
CABLETV	0.0	0.0	0	0	0	34.9	▲ 0.0
EYAS	870	850	8,858	7,361	4	870	▲ 20.0
IFAHR	0.0	0.0	0	0	0	275	▲ 0.0
OLUFUEL	126	125	10,419	1,310	12	126	▲ 0.0
MUNTAZAHAT	79	76	323,402	25,113	18	79	▼ 0.0
JAZERA	0.0	0.0	0	0	0	574	▲ 0.0
BOOR	127	124	18,548	2,316	11	128	▲ 0.0
FUTUREKID	0.0	0.0	0	0	0	123	▲ 0.0
ALRAJ	125	125	230,817	29,052	9	126	▼ -1.0
Jiyad	52	52	80,000	3,120	3	52	▼ -1.0
Meezan	803	785	773,261	616,561	85	785	▼ -18.0
Consumer Services			1,425,106	684,833	142	1062.78	▲ 5.30
ZAIN	512	507	2,878,693	1,485,861	236	509	▲ 1.0
COOREDOO	1,180	1,180	467	342	1	1,180	▼ -25.0
AAN	39.9	39.0	318,000	12,439	14	39.6	▼ 0.0
VIVA	805	800	36,122	31,411	35	803	▲ 2.0
Telecommunications			3,234,282	1,516,252	286	614.72	▼ -2.00
NBK	732	729	457,679	334,450	79	731	▼ -1.0
CBK	245	244	194,900	47,605	15	244	▼ -1.0
CBK	306	300	158,511	57,739	16	305	▲ 5.0
ABK	314	314	1,500	471	1	314	▼ -2.0
ALMUTAHED	415	413	126,698	52,545	10	415	▼ -3.0
KIB	245	242	118,000	28,633	11	244	▲ 0.0
BURG	371	366	107,990	39,913	9	371	▲ 1.0
KFIN	574	568	2,493,236	1,425,439	188	574	▲ 7.0
BOUBYAN	430	427	403,186	172,520	36	430	▲ 1.0
AUB	221	217	11,090,953	2,428,211	171	219	▲ 4.0
ITHMR	41.0	38.9	3,592,697	141,572	107	40.9	▲ 2.0
WARBANK	266	264	398,773	105,713	113	266	▲ 1.0
Banks			19,134,183	4,834,811	756	960.34	▲ 8.60
KNS	260	260	35,000	9,100	3	260	▲ 5.0
GINS	0.0	0.0	0	0	0	790	▲ 0.0
AINS	0.0	0.0	0	0	0	448	▲ 0.0
WINS	0.0	0.0	0	0	0	96	▲ 0.0
KUWAITRE	0.0	0.0	0	0	0	187	▲ 0.0
FTI	58	58	32,725	1,898	2	58	▼ -2.0
WETHAQ	0.0	0.0	0	0	0	51	▲ 0.0
BKIQT	0.0	0.0	0	0	0	355	▲ 0.0
Insurance			67,725	18,998	5	1122.57	▼ -2.10

Security	High	Low	Volume	Value (KWD)	Trades	Last	Change
SOKOUK	50	49.1	169,908	83,123	47	49.8	▲ 0.1
KRE	64	64	1,414,811	90,456	47	64	▲ 0.1
URC	86	86	30	3	1	86	▲ 0.0
NRE	122	121	149,114	18,048	8	122	▲ 0.0
SRE	367	367	300	110	1	367	▲ 0.0
TAM	410	390	4,750	1,873	2	410	▲ 15.0
AREEC	153	153	1,500	230	2	153	▲ 0.0
MASSALEH	0.0	0.0	0	0	0	44.8	▲ 0.0
ARABREC	36.0	34.6	1,740,316	61,881	65	36.0	▲ 1.4
ERESCO	40.6	40.0	712,471	28,784	16	40.4	▲ 0.0
MABANEE	790	782	123,047	96,563	16	785	▲ 3.0
INJAZZAT	0.0	0.0	0	0	0	88	▲ 0.0
INVESTORS	24.2	23.9	1,713,746	41,194	49	24.1	▲ 0.2
IRC	32.5	31.4	51,200	1,609	4	31.4	▼ -1.5
ALTIJARIA	93	92	2,960,212	273,817	89	92	▲ 1.9
SANAM	0.0	0.0	0	0	0	42.0	▲ 0.0
AAYANRE	83	81	121,717	9,984	6	81	▼ -2.3
AGAR	0.0	0.0	0	0	0	72	▲ 0.0
ALADARIA	41.0	40.0	405,894	16,343	17	41.0	▲ 1.0
MAZAYA	115	114	756,900	86,592	22	114	▲ 0.0
THEMAR	0.0	0.0	0	0	0	70	▲ 0.0
TIJARA	0.0	0.0	0	0	0	55	▲ 0.0
TAAMEER	34.9	34.1					