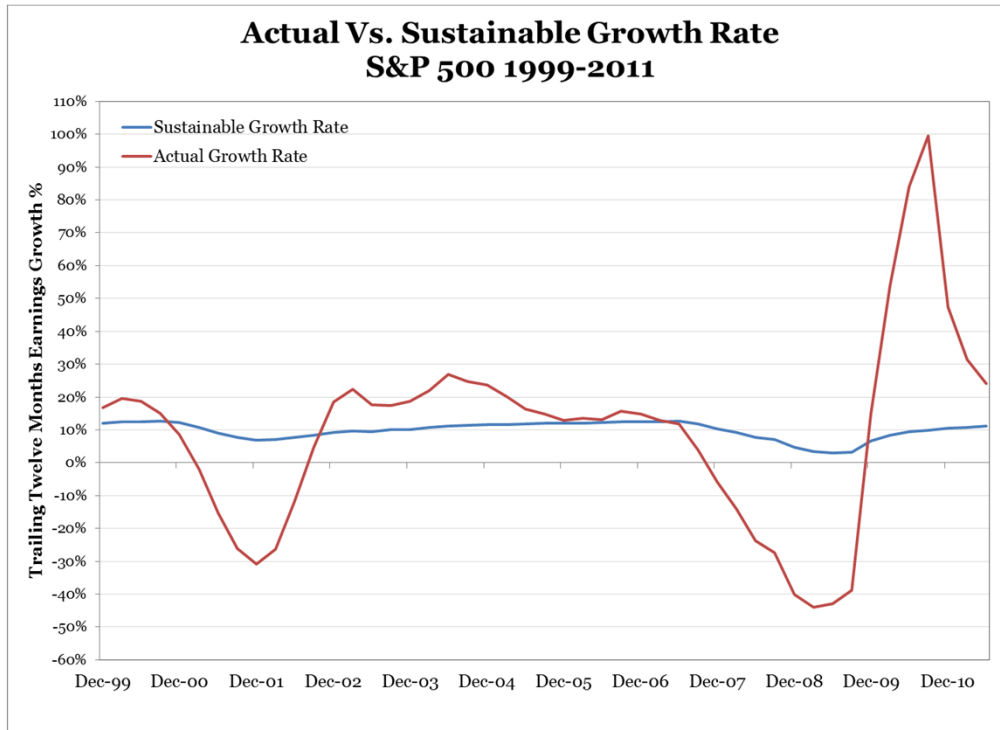


# Volatility in Earnings Growth Masks The Soundness of Fundamentals



Sustainable growth rate measures the growth a company can achieve without destroying value, based on the company's internal rate of return, and the amount of profit that it reinvests rather than pays out.



Earnings Growth fluctuates widely (see chart to left), but has historically settled around the level at which companies can grow without destroying value (see chart above). A comparison of sustainable and actual growth rates shows that while earnings growth has been above average since early 2009, long-term earnings growth is in-line with value-creating levels.



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