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The Most Important Number This Earnings Season Isn't Earnings

Earnings season is almost here.

Over the next several weeks, investors will hear companies talk about earnings per share, revenue growth, adjusted earnings, and whether they beat Wall Street's expectations by a penny or two.

Most investors will focus on those numbers.

I won't.

I'll be looking somewhere else.

Cash flow.

One of the most important lessons I learned early in my career came from legendary forensic accountant Howard Schilit, author of *Financial Shenanigans*. Howard had a simple philosophy: sooner or later, cash tells the truth.

Accounting earnings are important. They provide valuable information about a business. But earnings are also built on estimates, assumptions, and accounting rules. Cash is much harder to manipulate over long periods of time.

You can't spend earnings.

You can only spend cash.

I also worked for James O'Shaughnessy, whose groundbreaking research in *What Works on Wall Street* demonstrated that companies generating strong cash flow consistently outperformed over long periods. Different discipline. Same conclusion.

That's a lesson I've carried with me throughout my career as a forensic accountant, portfolio manager, and author.

It's also one of the reasons I wrote the best-seller *What's Behind the Numbers?*

Every earnings season, I look beyond the income statement and ask a simple question:

Does the cash flow support the story management is telling?

This earnings season, that question may be more important than usual.

Over the past several years, companies have committed enormous amounts of capital to artificial intelligence. Some of those investments may prove transformative. Others may not. The point isn't to debate whether AI will change the world.

It probably will.

The question investors should be asking is whether those investments are producing cash returns that justify the spending.

Eventually, every investment has to earn its keep.

Cash flow is where we'll begin to see the answer.

Another area I'll be watching closely is something many investors overlook: companies investing in their own customers. Sometimes that's perfectly legitimate. Other times, it raises questions. If a company has to finance its customers or make strategic investments simply to support reported revenue growth, investors should ask whether demand is as strong as it appears.

Strong earnings accompanied by weak cash flow deserve a closer look.

That doesn't automatically mean something is wrong.

But it does mean I start asking more questions.

One of the biggest mistakes investors make during earnings season is assuming that better earnings automatically mean a better business. Sometimes they do.

Sometimes they don't.

The quality of those earnings matters just as much as the quantity.

Markets have a funny way of rewarding companies that consistently generate real cash while eventually exposing businesses whose reported earnings are stronger than their underlying economics.

That's why I spend less time reacting to headlines and more time reading financial statements.

The headlines tell me what management wants me to hear.

The cash flow statement often tells me what the business is actually doing.

As another earnings season begins, remember that Wall Street will spend countless hours debating earnings estimates, analyst upgrades, and quarterly guidance.

I'll be asking a simpler question.

Where's the cash?

Because after more than thirty years studying financial statements, I've learned that earnings can tell a compelling story.

Cash flow tells the truth.