The Earnings Growth Triangle: The Most Mispriced Force in Markets

FLEXTION It's about *time.*

For decades, investors have debated whether value beats growth, small caps beat large caps, or international markets beat the US. But beneath those shifting narratives lies something far more reliable—a dynamic that explains more about future returns than any factor or style box.

At Flextion, we call it the **Earnings Growth Triangle**, and it's one of the most consistently mispriced forces in markets.

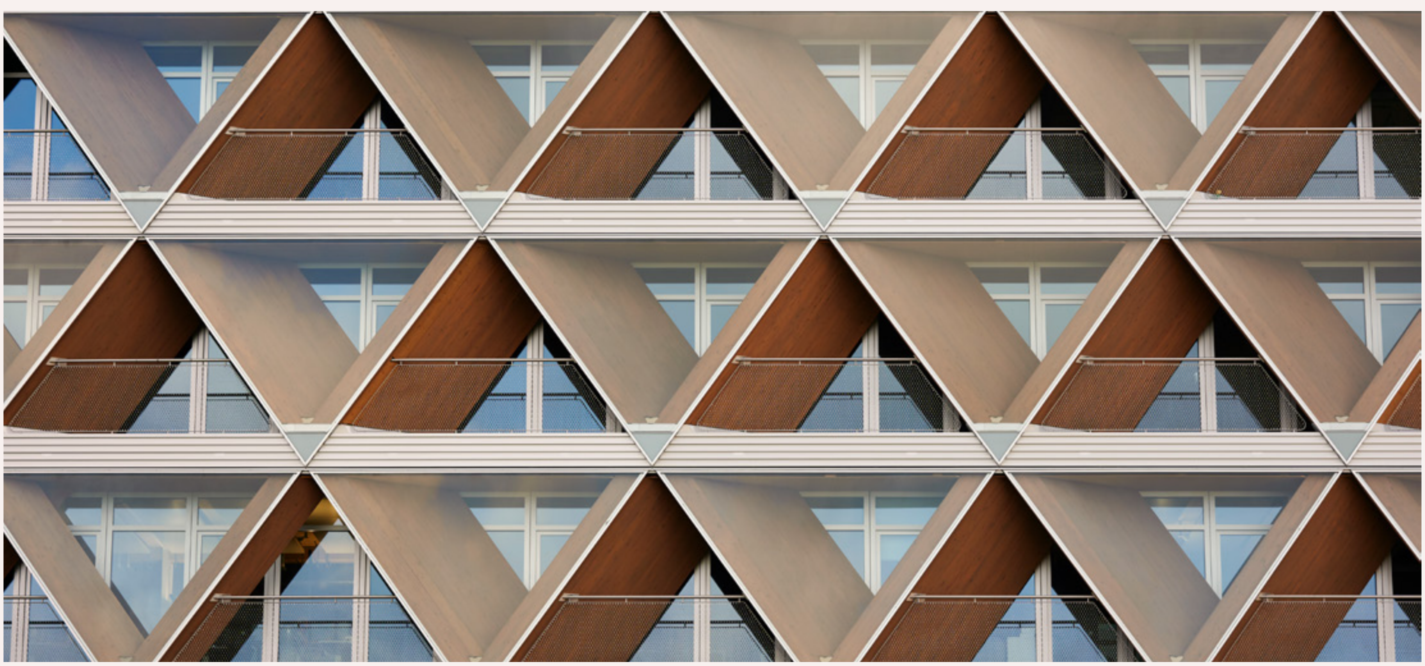
The Triangle: Implied, Expected, Actual

Every stock carries three distinct growth rates:

- **Implied Growth:** what the market has already priced in based on valuation.
- **Expected Growth:** what analysts forecast—often slowly and reactively.
- **Actual Growth:** what the company truly delivers.

A stock outperforms when:

Actual growth beats expectations, and expectations rise above what's implied in the price.
When actual **>** expected, analysts raise estimates.
When expected **>** implied, the stock rerates higher.
When implied **>** expected, investors fall into the Growth Trap—paying for perfection that never arrives.



Why Expectations Matter More Than Labels

Coca-Cola in the late 1990s is the perfect example. Earnings grew steadily for years, yet the stock stagnated for more than a decade. The problem wasn't the business—it was the expectations embedded in the price.

This dynamic repeats across sectors and cycles. Underperformance is rarely about bad companies; it's about overestimated growth. And outperformance happens when expectations are too low.

This "sweet spot"—where implied growth is low, expectations are rising, and actual results keep surprising to the upside—is the heart of the triangle. It's where:

- **Multiyear winners emerge**
- **Compounding accelerates**
- **Patient investors get rewarded**

It can appear in any style: small caps, international value, cyclicals, quality compounders, or emerging markets.

A Rare Setup for Today's Market

Right now, the spread between implied and expected growth is as wide as we've seen in years.

- In pockets of US mega-cap tech, implied growth far exceeds reality—a classic setup for disappointment.
- In contrast, areas such as global small caps, international value, energy, industrials, and emerging markets show:
  - low implied growth
  - rising expectations
  - improving actual results

These are the conditions that typically precede shifts in market leadership.

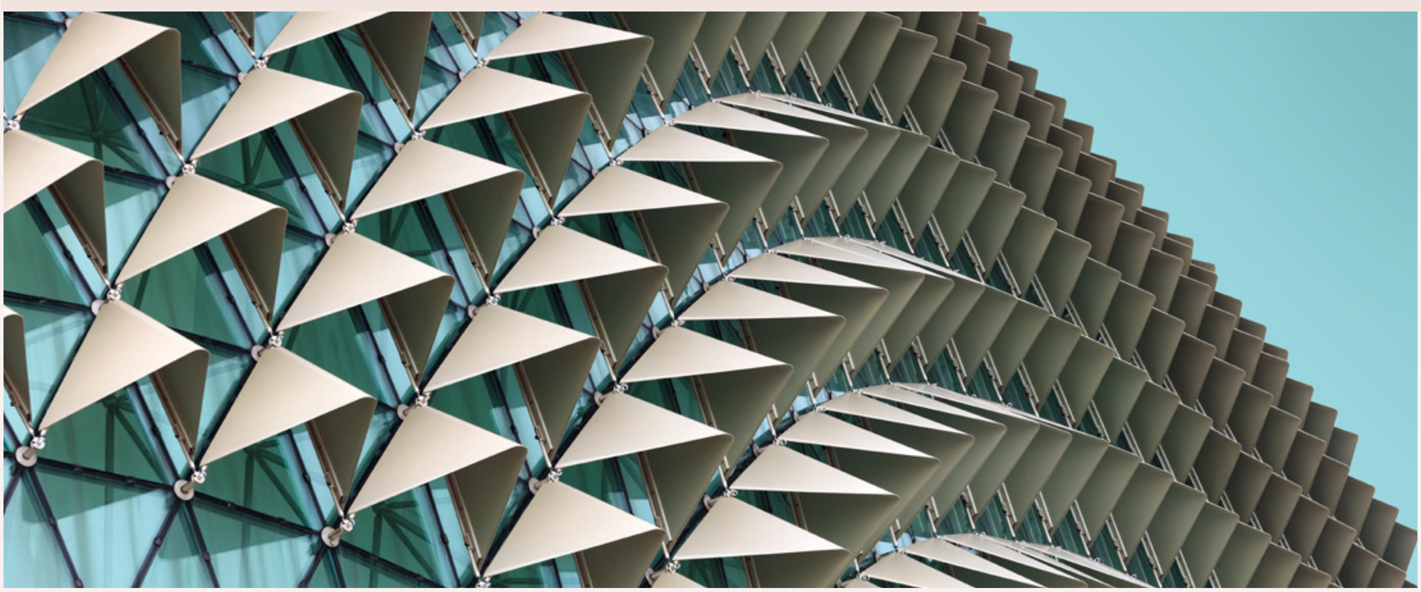
What This Means for Investors

The triangle isn't about choosing between value or growth. It's about buying growth you don't have to pay for.

And today, those opportunities are concentrated in the corners of the market investors have overlooked.

At Flextion, the **Earnings Growth Triangle** is central to how we identify strategies poised for leadership—where expectations are mispriced, fundamentals are improving, and the probability of outperformance is rising.

We like growth. We just don't like to pay for it.



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About the Author

Paul Ehrlichman, Flextion's CEO and CIO, has over four decades of experience in portfolio management, leveraging fundamental and quantitative research to develop investment processes and strategies that enhance client returns and manage risks in volatile markets. He has led equity teams focused on global and international value strategies, serving a diverse client base that includes individuals, pension funds, and endowments at several leading global asset managers.

Flextion is a breakthrough platform for evaluating fund strategy returns, helping investors identify managers at a pivotal turning point—those poised to outperform after a period of underperformance. Designed by seasoned portfolio managers, Flextion bridges the gap between "clock time" and "market time," empowering investors to unlock long-term value and uncover hidden performance potential.

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