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Manipulating Earnings

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JMDinvestments

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To cover recent losses associated with CDS trading (see earlier post), JP Morgan sold securities in which they had an unrecognized gain. While this move will make their earnings look less negative, the trades will actually hurt firm value as they will trigger taxable gains and reduce future earning power. Thus, for long-term investors, metrics such as cash flow may be better measures than earnings, which tend to be more short-term in nature, as well as more easy to manipulate. ([See article here, Reuters.](#))

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