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# Wall Street firms headed for rough waters

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Even though many Wall Street firms surprised investors last week by reporting better earnings than people had anticipated, a growing number of brokerage-industry analysts see rougher times ahead and are cutting profit estimates for 2008.

In the past few weeks, consensus estimates have fallen for every major Wall Street brokerage house. For example, Morgan Stanley is now expected to earn $8.08 a share next year, down from $8.30 a share two weeks ago and as high as $8.85 a share in July. Lehman Brothers is now projected to next year earn $7.66 a share, or 12 cents less than two weeks ago and 8% below its peak 2008 forecast of $8.37 a share in July.

Even Goldman Sachs, which turned heads last week with a surprisingly strong earnings report, is feeling some pain. Analysts expect the firm to earn $21.87 a share next year, which is two cents higher than projected two weeks ago but 3% less than forecast in July.

Alan Brochstein, principal at research firm AB Analytical Services who provided the data, says further estimate reductions are likely as brokerage analysts get a better sense on where their industry is headed.

“Analysts tend not to cut estimates as far as they need to all at once,” he says. “A lot of people are still trying to figure out just what happened to Wall Street this summer with the credit crisis.”

Even with the estimate reductions, analysts still expect Morgan, Lehman, and Merrill Lynch to post higher earnings next year than this one, which will also beat 2006.

Goldman Sachs, however, is now forecast to post a 7% drop in earnings next year, according to data compiled by Reuters. Bear Stearns, which has been hardest hit by the credit turmoil is expected to see profits slide by 22% this year, though analysts expect they will recover somewhat in 2008.

But clearly some investors deem those projections optimistic. Mr. Brochstein observed that shares in Bear, Morgan, and Merrill fared worse than the S&P 500 last week, even though those firms would figure to be among the ones to benefit most from the Federal Reserve’s decision to sharply cut interest rates.