When it comes to questioning quarterly reporting, Donald Trump has a point

The frequency of reporting requires a fine balance between companies looking to create long-term value and shareholders wanting transparency.

In June, two heavyweights in the financial world, Warren Buffett and Jamie Dimon, wrote a piece in the Wall Street Journal entitled, Short-Termism Is Harming the Economy. Their main point: financial markets have become too near-sighted.

“Quarterly earning-per-share guidance is a major driver of this trend and contributes to a shift away from long-term investments,” they wrote. “Companies frequently hold back on technology spending,
altogether.

“Short-term-oriented capital markets have discouraged companies with a longer-term view from going public at all,” they noted.

Just a few months later, in mid-August, U.S. President Donald Trump went a step further, asking the U.S. Securities and Exchange Commission to contemplate reducing how often public companies must report earnings to investors from every three months to every six, basically for the reasons Buffett and Dimon listed.

Buffett and Dimon’s concerns are backed up in real world academic research.

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“CFOs believe that hitting earnings benchmarks is very important because such actions build credibility with the market and help to maintain or increase their firm’s stock price in the short-run,” they stated. But, the authors found, that credibility came at a cost.

“A surprising 78 per cent of the surveyed executives would destroy economic value in exchange for smooth earnings,” they wrote. “CFOs argue that the system (that is, financial market pressures and overreactions) encourages decisions that at times destroy long-term value to meet earnings targets.”

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There are two sides to keep in mind in any debate over the frequency of reporting by public companies.

One, company management and their obligation to create long-term value; and, two, company shareholders on the outside who need
go about their daily management responsibilities.

Generally, private companies don’t have to meet short-term goals as they don’t have the obligation to report to a group of shareholders. In most instances, they only must meet their own objectives.

Quarterly reporting is a cumbersome requirement and management must be careful about what they can and cannot disclose. Most management teams now also hold quarterly conference calls where further disclosures are carefully made so as not to cross lines.

From the shareholders’ side, they want and need a continuous flow of information on the company’s activities and initiatives in order to evaluate the condition and future trajectory of the business. Quarterly filings give them a “running tab” on how the company is doing. Even for long-term investors, they can provide a perspective on whether a company is “on track” for longer-term objectives and performance targets.

Accordingly, every three months, long-term shareholders get a chance to learn a bit more about the business and how it works, the people, and, most importantly, the finances. It gives them an opportunity to ask management questions to gain insights into how they think. Their concern is less about the immediate or subsequent movement in the stock price.

The fact is that learning a business takes time. A quarterly review gives a true shareholder the opportunity to add to their knowledge base. Hearing from other public competitors can fill in the picture even further.

If you are a short-term speculator or trader looking for a quick profit, seeing whether the company met, fell short of, or “beat” the Street’s expectations for a three-month period and whether those trends have changed is the main focus. Stock prices react quickly after these reports are made public and can change during the conference call as management lays out the results of the quarter and adjusts future forecasts and expectations. Disappointments are usually met with significant selling of the stock, driving the price down, sometimes substantially.

So what to make of the two competing obligations?

Weighing both sides of the argument, as I see it, the principal duty of the management of a public company is to create value for shareholders. By eliminating quarterly reporting, executives would
domiciled companies, and America’s economy as a whole, a
competitive advantage against other public markets that choose to
retain the quarterly requirements that incentivize the destruction of
value.

Of President Trump’s efforts to boost the U.S. economy, waging a
war on short-termism may prove to be one of the most fruitful.

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