
President Trump said he wants the Securities and Exchange Commission (SEC) to study the impact of companies switching from quarterly to semiannual earnings reports, but there are important considerations for investors.

Jaclyn McClellan, CFA  (jnmcclellan)
Sep 13, 2018 at 5:16PM

Four times per fiscal year, publicly traded companies must report their quarterly earnings results. That's the way it's been since the passage of the Securities Exchange Act of 1934.

However, President Trump recently said that he has asked the Securities and Exchange Commission (SEC) to consider dropping its “four earnings reports per year” requirement down to two, meaning companies would report results semiannually instead of quarterly. If this should happen, it would have big consequences for investors.
Why are earnings reports so important?
A "10-Q" is a comprehensive quarterly report that publicly traded companies are required to submit to the SEC. The 10-Q includes important information about a company's financial position and outlook. Inside the 10-Q you'll find financial statements, management discussion of the company's performance, disclosures regarding market risk, legal proceedings, information on bond issuance, and more.

Investors and analysts use information found in the 10-Q to evaluate the company's prospects, competitive position, and more. The data is often used for projecting the company's current and future value.

In the long run, corporate earnings are a significant driver of stock returns. Stocks with growing and consistent earnings tend to outperform over the long term and reward their shareholders.

What proponents of the change say
Trump implied that changing to semiannual earnings reports would help companies focus on long-term goals and reduce the costs of complying with regulations.

The argument is that because companies are forced to report quarterly results, investors focus on these short-term results as opposed to the longer-term outlook of the company. Companies are aware that investors and analysts will be reviewing their 10-Qs with a fine-toothed comb. Because of this, critics say, management is more likely to use accounting tricks to artificially juice
their quarterly earnings, as well as to pursue quarterly gains instead of developing sustainable strategies for success.

A Wall Street Journal article referenced a survey of 43 senior pension-fund officers conducted by Duke University finance professor Campbell Harvey. The survey found that most pension fund managers favored semiannual or annual reporting over quarterly reporting, saying that less frequent reporting would lead to less pressure on corporate executives to meet quarterly earnings results -- and thus less accounting gimmickry.

What opponents of the change say
The fact is that there's no proof that managers and corporate executives would actually cut fewer corners if they didn't have to report results as often. And even though companies would report earnings fewer times per year, there would still be analyst estimates and expectations to "beat"; investors would just have less information between reporting dates.

To this point, Wall Street Journal columnist Jason Zweig wrote: "There isn't much macroeconomic evidence to support the notion that reporting of short-term financial results pressures companies into compromising their long-term goals. Companies are spending more on research and development than ever before."

Investors look to quarterly earnings reports to glean important information from the companies whose shares they own, and investors can better determine what a stock is "worth" if they have more current information about the company and its prospects. It's also unlikely that investors would stop overreacting to short-term results, whether they're released quarterly or semiannually.

Quarterly earnings reporting isn't the real issue. The bigger issue is whether companies beat or miss what analysts expect them to earn. Removing earnings estimates may do more to resolve the issue than moving earnings results to a semiannual schedule.
Something big just happened

I don't know about you, but I always pay attention when one of the best growth investors in the world gives me a stock tip. Motley Fool co-founder David Gardner and his brother, Motley Fool CEO Tom Gardner, just revealed two brand new stock recommendations. Together, they've tripled the stock market's return over the last 13 years.* And while timing isn't everything, the history of Tom and David's stock picks shows that it pays to get in early on their ideas.

Click here to be among the first people to hear about David and Tom's newest stock recommendations.

*Stock Advisor returns as of June 4, 2018

The Motley Fool has a disclosure policy.

---

This Stock Could Be Like Buying Amazon in 1997

Imagine if you had bought Amazon in 1997... a $10,000 investment then would be worth more than $2.3 million today.

You can't go back and buy Amazon 20 years ago... but we've uncovered what our analysts think could be the next-best thing: A special stock with mind-boggling growth potential.

With hundreds of thousands of business customers already signed up, this stock has been described as "strikingly similar to an early Amazon.com."

Learn more

---

Two Savings Accounts That Pay 10x What Your Bank Pays

myFINANCE

---

ARTICLE INFO

Sep 13, 2018 at 5:16PM
Investment Planning

READ MORE

Why Stitch Fix, Inc. Stock Popped Thursday

Here's My Top Dividend Stock to Buy in September

Why Kroger, Inc. Stock Took a Dive Today

What Happened in the Stock Market Today

Why Kroger, Pivotal Software, and WageWorks Slumped Today
Two Savings Accounts That Pay 10x What Your Bank Pays

myFINANCE

COMPARE BROKERS