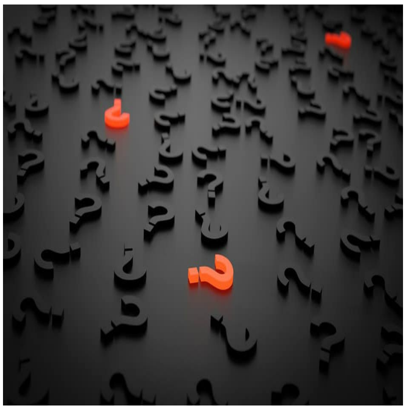

Could We See an End to Quarterly Earnings Reports?

Description

Publicly traded companies face lots of pressure from investors to meet expectations and put forth strong forecasts as well. Whether a stock price goes up or down is often impacted by both, as it's just not enough for a company to have a good and profitable quarter for investors to buy it. The problem with this is that it encourages short-term thinking and shifts attention from long-term objectives, which is something investing legend Warren Buffett raised concerns about.

U.S. President Donald Trump has been listening to companies and their concerns about quarterly earnings reports, and has asked the U.S. Securities and Exchange Commission to look into the possibility of moving reporting periods to six months rather than three to see what the impact would be and if it could work. If the U.S. markets were to go ahead with the change, it's possible we'd see that happen on the TSX as well.

What that ultimately means is that we'd see only two reporting periods a year rather than four, which would put less stress on companies that today have to worry about renewing forecasts and trying to manage earnings every three months in order to keep analysts and shareholders happy.

Why this is a great idea for both companies and investors

Anytime you have the focus shift from the short term to the long term, it's going to lead to better decisions by companies and mean better long-term results. Taking time every quarter to have to scrutinize results and re-forecast for the remainder of the year is not what I'd consider time well spent, and could be better used on more value-added decisions. Companies spend too much time on forecasts and expectations as it is, and by moving away from these three-month intervals, that could change all of that.

For investors, it also means a bit less volatility in the markets. Each reporting period there is the potential to see a huge bump or drop as a result of good or bad results. And when you're looking at a three-month period, it's easy to have many factors skew the results.

A few months ago, we saw **Dollarama Inc.** (TSX:DOL) produce a soft quarter for which the company blamed the weather and a late start to the season. It may seem like a silly reason, but the company isn't the only one to have used the excuse, and Dollarama stocks many seasonal items.

In contrast, **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS) produced a very good quarter back in June, likely in part for the same reason — colder than normal weather. The company's results have been very seasonal and can be very easily impacted by weather.

Bottom line

While cutting out two earnings seasons out of the year may leave many analysts without much to do, it would be welcome news for many companies and will help executives focus on decisions that are good for the long-term health of the company, not how best to achieve the upcoming quarter's forecast.

The markets are too obsessed with reporting adjusted earnings numbers and updating forecasts, and any move away from that will be beneficial.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:DOL (Dollarama Inc.)
3. TSX:GOOS (Canada Goose)

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1. Investing

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