

Information Timing and Release: The Gaming of Guidance!

Quarterly Earnings and Fed Guidance



ASWATH DAMODARAN

JUL 29, 2026

I am a lapsed academic, insofar as I have not submitted a paper for publication in more than two decades, but to acquire academic status, I did have to earn a PhD in the distant past. My doctoral dissertation, which like most doctoral theses is little noted and long forgotten, was completed in 1984 and focused on how the frequency of and delays in the release of information plays out in stock price volatility, skew and jumps. I don't plan to rehash that paper, but there have been two long running news stories that reminded me of it. The first is a proposal being floated by the Securities Exchange Commission (SEC) to replace quarterly reporting of financial statements by companies with semi-annual reporting. The second is the opinion voiced by Kevin Warsh, the new Fed Chair, that the Fed should provide less guidance to financial markets on future decisions.

The two stories may seem unconnected, but they have two common features. First, both actions (removing quarterly reporting requirements and reducing/eliminating Fed guidance), if carried through, will remove "news" that markets have become used to receiving and using to calibrate prices. Second, the arguments for and against each of these proposals have parallels. The advocates for removing quarterly reports argue that they *feed into market myopia and increase short-termism in markets*, and the supporters of less Fed guidance believe that this *guidance creates gaming among traders and investors, increasing focus on the FOMC actions at the expense of fundamentals*. The pushback against both proposals comes from those who believe that withholding quarterly

reports and Fed guidance *removes information that markets use to set prices, making these prices more volatile and less informative*. As is almost always the case with these debates, there is both truth and hyperbole on both sides, and I will try to thread the needle.

Earnings Reports

Most investors and traders in equity markets, and especially so in the United States, have spent their investing lifetimes in an environment where companies not only release full financial statements every quarter, but do so with fan fare. As we will note in this section, that has not always been the case, even in the US, and has more recent origins, with setbacks, in many foreign markets.

The History of Earnings Reporting Periodicity

The Securities Exchange Act of 1934, which created the SEC, set up foundational annual reporting requirements (10-Ks) for publicly traded companies, modified in 1955 to require semi-annual reporting and in 1970, quarterly reports, within 45 days from the end of each quarter. That said, there have been forces that have induced firms to report earnings on a more frequent basis to investors well before these regulatory requirements were put in place. The first were the *stock exchanges* that imposed their own constraints, with the *NYSE requiring most firms to report on a quarterly basis as early as 1939*. The second was the recognition by firms that financial transparency (in the form of more frequent and more detailed financial reports) could make them more attractive to investors. As a consequence, it is estimated that in 1931, prior to either the SEC or NYSE mandating disclosure, more than 60% of publicly traded companies were already disclosing information on a quarterly basis.

The shift to more frequent reporting was slower in the rest of the world and has seen more reversals. Europe, for much of the last century, has a patchwork of rules, with some countries adopting stricter disclosure

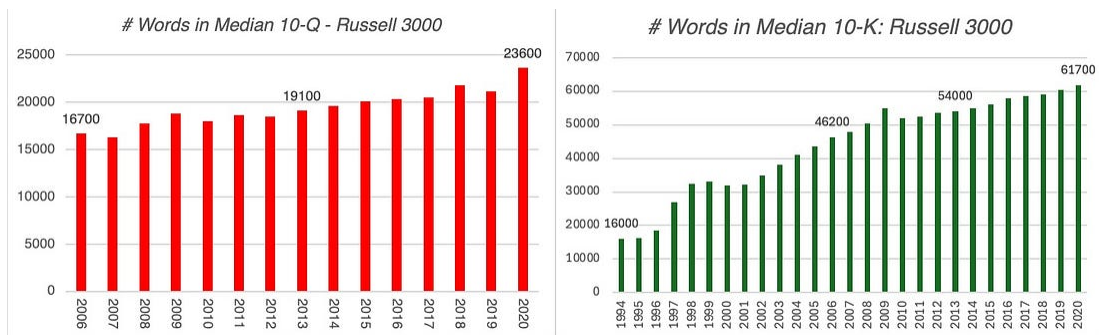
laws than others. The UK imposed mandatory quarterly earnings reporting in 2007, but allowed a shift back to semi-annual reporting in 2014, and the EU also followed a similar timeline, introducing quarterly reports in 2007 and withdrawing that requirement in 2013. In 2003, Singapore started requiring quarterly reporting for firms with market capitalization exceeding S\$20 million, but in 2020, shifted away to requiring it only for a subset of firms with financial and regulatory concerns. Japan started its quarterly reporting requirements in 2003 as well, but it too reversed that requirement in 2024. In emerging markets, there are large variations across countries. In India, publicly traded companies are required to report their financials on a quarterly basis, and the same is true for many Brazilian and Chinese companies. In Africa, Nigeria requires quarterly reporting but South Africa has a semi-annual reporting mandate, though many companies voluntarily release quarterly financials; much of the rest of Africa has semi-annual reporting requirements.

In sum, the belief at the start of the twenty first century that the rest of the world would follow the US model of mandated quarterly reporting for publicly traded companies has not come to fruition, as many parts of the world have experimented with mandatory quarterly reporting, before abandoning it in favor of semi-annual reporting, for a variety of reasons. That said, it is worth noting that a significant percentage of firms voluntarily report their financial results on a quarterly basis, even when not mandated, albeit with different degrees of depth.

The Content of Earnings Reports

The debate about how frequently companies should report their financials misses a key detail related to what their financial reports include as content. Focusing on the US, for instance, the magnitude of quarterly earnings reports has increased over time, expanding from bare bones financial statements in the 1970s to much larger documents that go well beyond financial statements today. In 1980, for instance, a typical quarterly earnings report contained 2000-5000 words, but by

the turn of this century, those reports had tripled or quadrupled in size, and the trends continue. The graph below, for instance, looks at the growth in word count for the median quarterly and annual reports in the Russell 3000 companies between 2006 and 2020 (for quarterly) and 1994 to 2020 (for annual):



As you can see the number of words in both quarterly and annual reports has increased over time, and the bulking up of earnings reports can be explained by multiple factors:

- Accounting rule changes: Accounting rule writers have been busy adding more items to the list of required disclosures for public companies in the last few decades. Some of this increased disclosure (stock-based compensation, for example) reflects a changing business world and is merited, some is in reaction to a corporate scandal and is often knee-jerk and some, in my cynical view, reflects accounting trying to be relevant to markets again.
- Macro events: In years of market crises, economic or political, you will see disclosures increase. In the graphs above, notice the spikes in 2008/2009 and 2020, the first in response to the 2008 banking crisis and the latter to COVID. Superimposing the effects of globalization, where a company finds itself exposed to problems in every corner of the world, it has added to the disclosure bloat.
- Legal Protection: One of the culprits responsible for disclosures bulk is the risk exposure section, where companies are required lay

out an exhaustive (and exhausting) list of things that can go wrong in their business models. I have never found a risk disclosure useful in a valuation, as it seems to be written by lawyers with the objective of providing legal cover.

- Guidance: In the 1980s, quarterly earnings reports were focused on reporting on operations during the quarter in question and management was not expected to, and did not provide, guidance about future quarters. That started to change in the 1990s, especially with the passage of the 1995 Safe Harbor Law and Reg FD (which prevented companies from selectively leaking information to analysts), and surged through the second half of the decade, peaking in 2003, when more than 50% of all companies providing earnings guidance. Thankfully, the process has receded, with only a fifth of all firms now providing guidance with earnings reports, but it is undeniable that there is much more forward-looking components to earnings reports than used to be the case.

The bulking up of earnings reports is part of a phenomena that I term “disclosure diarrhea” and argue has undercut the usefulness of these reports, with more disclosure perversely making for less information.

The Earnings Game

To make sense of the arguments for and against quarterly earnings reporting, you have to get a measure of what happens leading into and out of these reports, in the “earnings game”. The process starts with analysts and investors making forecasts of what the earnings report will contain, almost always including estimates of the earnings per share, but often also containing estimates of expected revenues and even operating metrics (like margins) for high profile companies. The analyst forecasts, at least from sell side analysts, become quasi public information and are often aggregated and reported as **consensus estimates** by financial news services. Zacks, for instance, is one of the services that has been doing this for decades, but that information is now widely accessible on Google and Yahoo! Finance (with the

estimates for Apple on July 27, 2026, for the September 2026 earnings report, shown below):

Revenue Estimate

Currency in USD	Current Qtr. (Jun 2026)	Next Qtr. (Sep 2026)	Current Year (2026)	Next Year (2027)
No. of Analysts	27	27	39	42
Avg. Estimate	108.89B	114.8B	478.7B	523.07B
Low Estimate	107.5B	106.18B	469.82B	483.57B
High Estimate	112.17B	125.96B	488.42B	594.86B
Year Ago Sales	94.04B	102.47B	416.16B	478.7B
Sales Growth (year/est)	15.80%	12.04%	15.03%	9.27%

Earnings Estimate

GAAP Normalized

Currency in USD	Current Qtr. (Jun 2026)	Next Qtr. (Sep 2026)	Current Year (2026)	Next Year (2027)
No. of Analysts	31	29	41	43
Avg. Estimate	1.89	2.02	8.77	9.71
Low Estimate	1.83	1.88	8.29	8.81
High Estimate	1.99	2.13	9.04	10.96
Year Ago EPS	1.57	1.85	7.46	8.77

Yahoo! Finance for Apple earnings forecasts

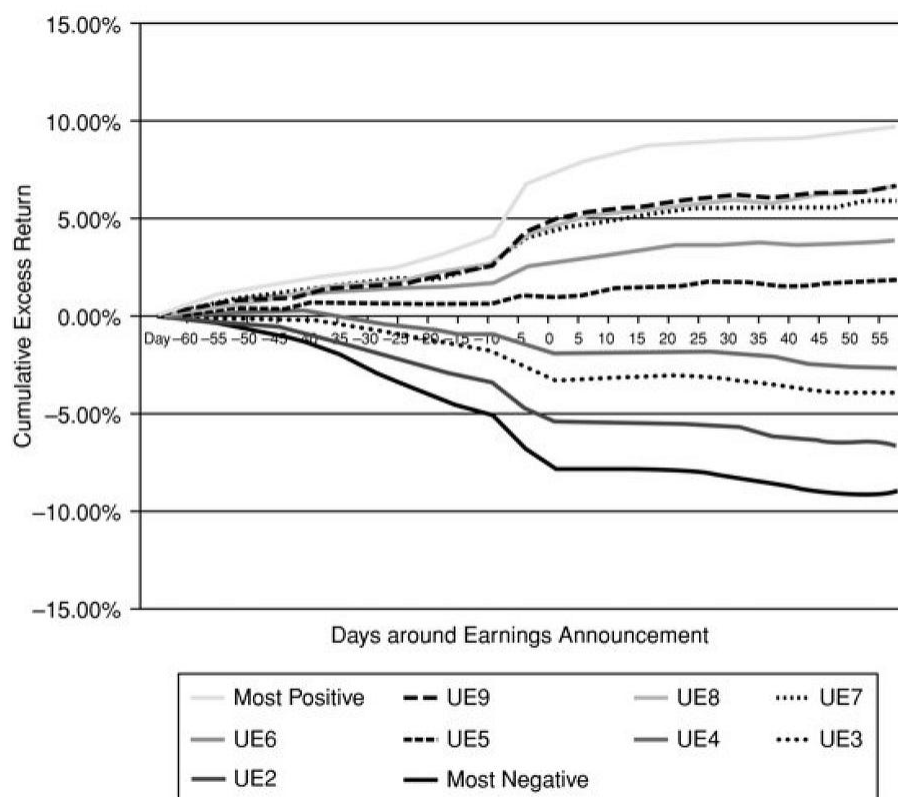
These analyst forecasts, once made, are revisited, partly in response to company-specific news stories and partly to macroeconomic developments, and **revised forecasts** are provided, with services again tracking these revisions for trends (as you can see below for Apple, from Zack's):

Price, Consensus and EPS Surprise



Zack's Apple earnings revisions

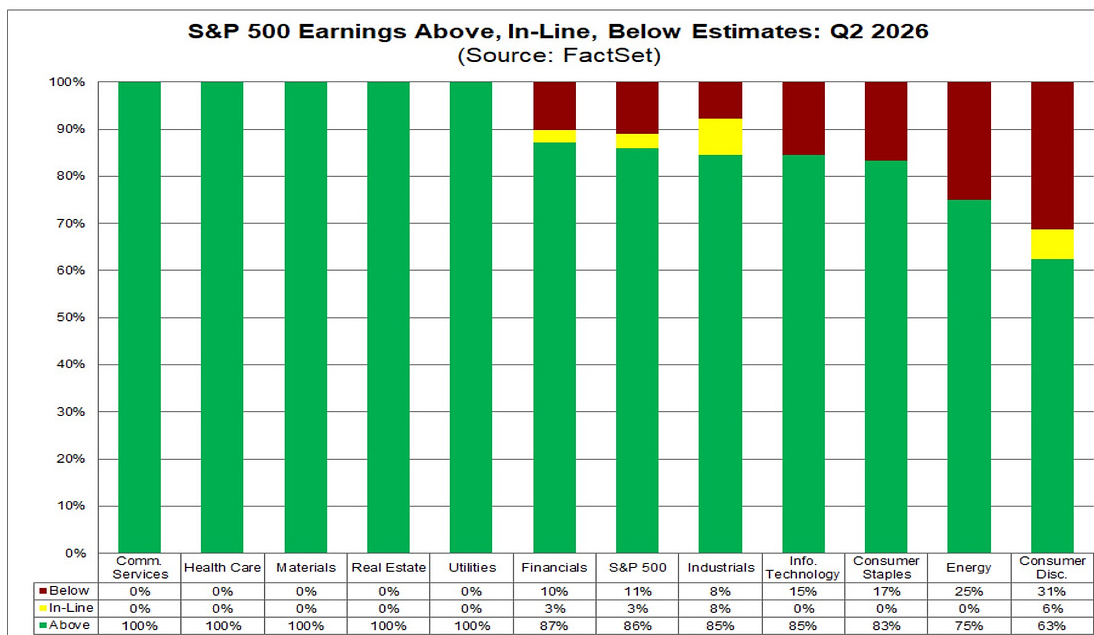
As the earnings release date approaches, analysts continue to revise their estimates, and on the date of the announcement, the actual earnings per share is compared to the expected number, with higher (lower) than expected earnings labeled as positive (negative) surprises. The market price response is often consistent, with positive (negative) earnings surprises translating into increases (decreases) in stock price. The graph below, while dated, looks at stock price responses to earnings surprised classified into ten deciles (from most positive to most negative):



There is some evidence that the market responses to earnings reports have become more muted over time, perhaps because of public access to analyst forecasts and revisions. The link between earnings surprises and stock price changes has become the reason why analysts spend as much time as they do, forecasting earnings per share in the next quarterly report, and why traders focusing on the same metric. There is another aspect of the market reaction to earnings surprises that becomes grist for the trading mill, and it comes from the price drifts in the days after earnings are released, with positive (negative) surprises followed by upward (downward) drifts. While the price drift is small, it may still be large enough to make a difference in active trading, where winning by inches is still winning.

As with almost everything else that is market-related, there are no easy wins in this game, and as more and more people play the earnings

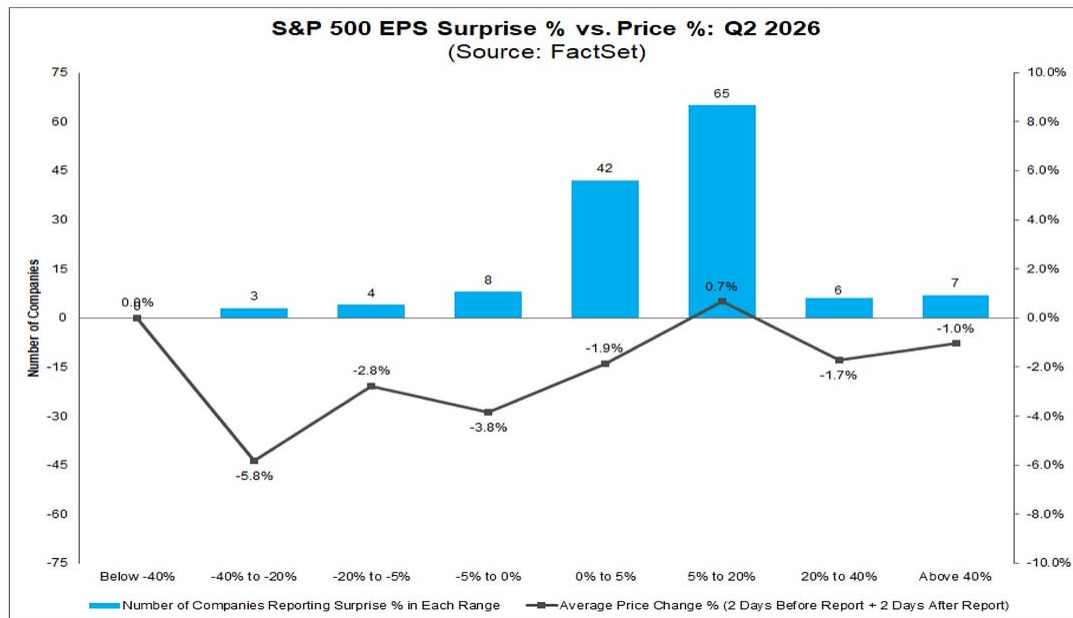
forecasting game, new wrinkles have emerged. First, companies have learned to use the flexibility embedded in accounting rules to find ways to beat analyst estimates, with tech companies, in particular, standing out. That earnings gaming plays out as a disproportionately large number of positive earnings surprises (at least among the S&P 500 companies, broken down by sector), as is clear from earnings surprises at the S&P 500 companies in the second quarter of 2026:



Source: Factset

Second, as companies routinely beat analyst estimates, markets readjust, creating the phenomenon of *whispered earnings*, where investors build in the expectation that a company that has historically delivered earnings that are 5% or 10% above estimates will continue to do so, and a lesser number is a negative surprise. In the graph below, I look at the market price reaction to earnings surprises in the second quarter of 2026:

Q2 2026: Surprise



Source: Factset

As you can see, the linkage between earnings surprises and price reaction is weak, with a significant subset of positive surprises resulting in price drops.

The Bottom Line

Much of the debate about whether the US should shift away from quarterly to semi-annual reports can be boiled down to what you think about the time and energy investors and companies spend playing the earnings game, and where that time and energy will be spent in the absence of quarterly reports. Those who are advocates for less frequent reporting are of the view that the earnings game, focused as it is on next quarter's earnings estimates and whether the company can beat them, contributes to short-termism and distracts from fundamentals. Those who are pushing for preserving the status quo (of quarterly reporting) believe that removing quarterly reports will just shift the game, perhaps more intensively, into the semi-annual reports

and that there is value to long term investors from having quarterly reports, gaming notwithstanding.

There is another issue that comes up in the context of quarterly reporting, and what would happen if these reports did not exist. Legal strictures notwithstanding, insiders (from within and outside the firm) trade and make money on material information that they have access to, but the public does not. Removing quarterly reporting will create more of an opening for insiders to make money at the expense of public market investors, and while inside trading may contribute to making prices more informative, it also adds to the sense that financial markets are an unfair game.

I am an investor, and I think that there is a compromise solution that draws on both sides of this argument. I like quarterly reporting for two reasons.

1. There is information in those reports that allows me to update my company valuations, though for many companies, the marginal impact of a quarterly report on value is small.
2. While I have no interest in playing the earnings game, the price corrections that happen around earnings reports serve two purposes. *For companies that I have a position in*, they can operate as catalysts, bringing down (up) the stock price of over valued (under valued) companies. At the same time, almost all of the information that I find useful in an earnings reports is in the financial statements and footnotes, not in the lengthy discussions of risk exposure or in the management guidance, and I would welcome an elimination of these sections and a slimming down of these reports.

Note that none of my arguments for preserving quarterly reporting are about short-termism, and that is intentional. First, I am not sure what short-termism even means, since the cynical answer seems to be that any market movement away from your preferred price direction is short

term, and any movement in your favor is indicative of market wisdom. Second, I believe that most market participants, and this is true across time and markets, trade to make money in the near term, and that there is nothing that regulators or rule writers can do to alter this dynamic. In fact, the magic of markets is that millions of trades motivated by opportunism and the short term can still yield a price that is long term and rational. Finally, it remains true that if we were all long-term investors who traded only when the fundamentals drove us to do so, markets would be less liquid and transactions costs would increase; short term traders provide a market service and supply liquidity that we all (including long term investors) benefit from.

I hope that the SEC preserves the current quarterly reporting requirement, while scaling back the volume of disclosure, but if it decides otherwise, it will not materially change much of what I do. I will miss the quarterly updates more with younger, higher-growth firms, where the operating metrics (revenues, margins etc.) can change quickly over short periods, but it is my guess that many of these firms will voluntarily continue the quarterly reporting tradition.

Fed Guidance on Rates

For most investors who started investing after 2008, the Fed, in particular, and central banks, in general, have loomed large in the investing process. Many investors attribute the low interest rates after 2008 almost entirely to Fed actions, and by extension, blame the Fed for the higher rates since 2022. I have long argued that not only is this perception incorrect, but that it is unhealthy for investors to view the Fed as either savior or villain.

A Short (and Personal) History of the Fed

I started in equity markets in the 1980s, when Paul Volcker as the chair of the Fed played a central role in getting inflation back into check. I might have been ignorant, but I did not know the names of any of the

members of the Federal Open Market Committee and had no idea when they met. Changes in the fed funds rate, the only rate effectively controlled by the FOMC, would percolate their way into markets, but I don't remember them being central to equity market movements.

Volcker was followed by Alan Greenspan, and while he acquired rockstar status (at least among investors) in the late 1990s, his views on rates were superseded by his views on equity investors (and their irrational exuberance). The FOMC met eight times per year during that period, and you can access the meeting minutes and actions on the Fed website [here](#), but it stayed away from explicit guidance about future rate changes, choosing to send subtle hints instead.

The sea change in Fed behavior and centrality occurred with the 2008 market crisis, when the Fed first introduced explicit guidance noting that rates would stay low “for some time”, and it has largely continued that practice through the stewardships of Bernanke (2006-2014), Yellen (2014-2020) and Powell (2020-2026). Along the way, its place in markets has changed, as both bond and equity investors have become focused on the Fed as the arbiter of interest rates and director of the economy.

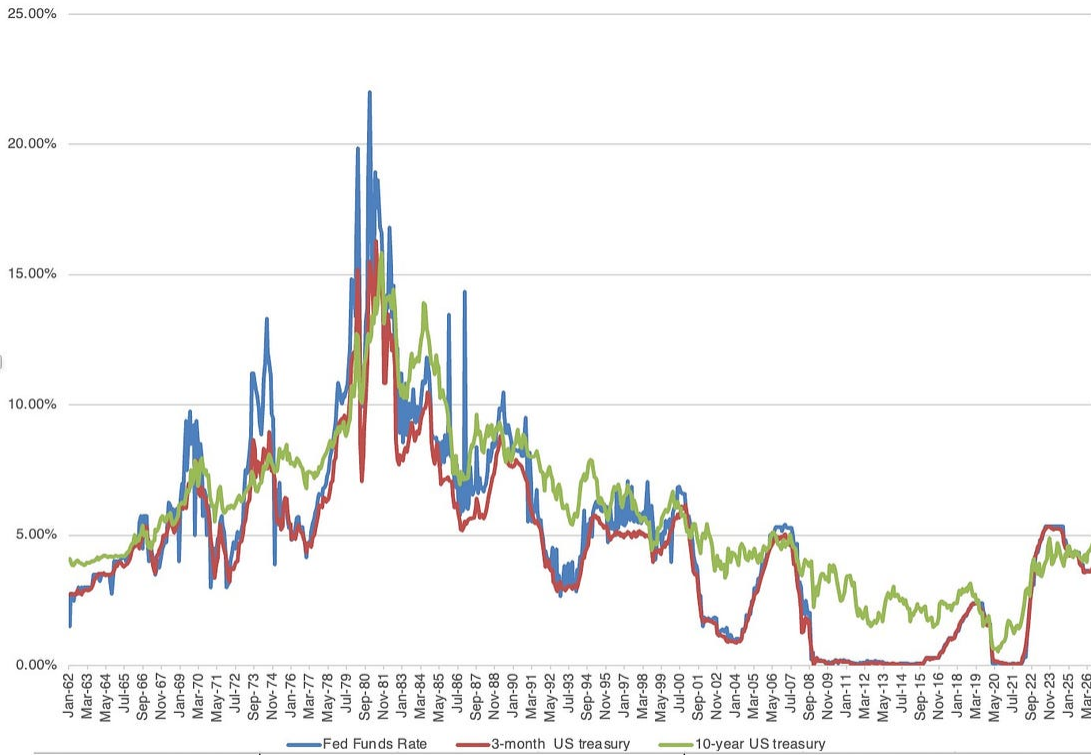
The Fed's Powers (and Powerlessness)

To understand the extent and limits of the Fed's capacity to guide rates and the economy, it is useful to begin with an understanding of what it does. Through its twelve districts that span the United States, the Fed collects information on almost every aspect of the economy, from price pressures building on consumers and producers to the pace of economic growth. While there are other government agencies that also track these statistics, it is undeniable that the Fed has a big picture view and access to more data than any other government agency. The Federal Open Market Committee, composed of all of the members of the board of governors and representatives of the district presidents, sets Fed policy on open market operations (where the Fed buys and

sells US government securities), the size of the Fed's balance sheet and the Fed Funds rate (an overnight rate at which banks can borrow and lend their reserves). In addition to the FOMC providing policy direction on inflation and the economy, the Fed chair testifies to Congress every six months, facing and answering questions from legislators.

As the key interest rate set by the Fed, *the Fed Funds rate* often acquires an outsized role and there are good reasons to pay attention to it. First, it *operates as a signal* of what the Fed is seeing in the data it has collected on the economy, with an increase (decrease) in rates indicating that it sees higher (lower) inflation and an overheated (slowing) economy. Second, *there are interest rates that are directly tied to the Fed Funds rate*, where changes percolate down to businesses and customers; the prime rate and some credit card and CD rates move with the Fed Funds rate. That said, I believe that Fed's capacity to affect interest rates is far more limited than most believe, for two reasons. First, while there is positive correlation between Fed Funds rates and short-term market-set rates (like the US treasury bill rate), there is as much evidence (if not more) that the latter lead the former, rather than the other way around. Put simply, Fed funds rates tend to be increased (cut) after short term treasury rates have gone up (down), suggesting that the Fed is mimicking the market. Second, the relationship between Fed Funds rates and long-term market-set rates, which drive asset valuation and affect borrowers more, is even weaker. To back these contentions, I chart the effective fund funds rate, the three-month US treasury bill rate and the 10-year treasury note rate on a monthly basis from January 1962 to June 2026:

The Fed and Interest Rates: Fed Funds and US treasury rates - 1962 to 2026

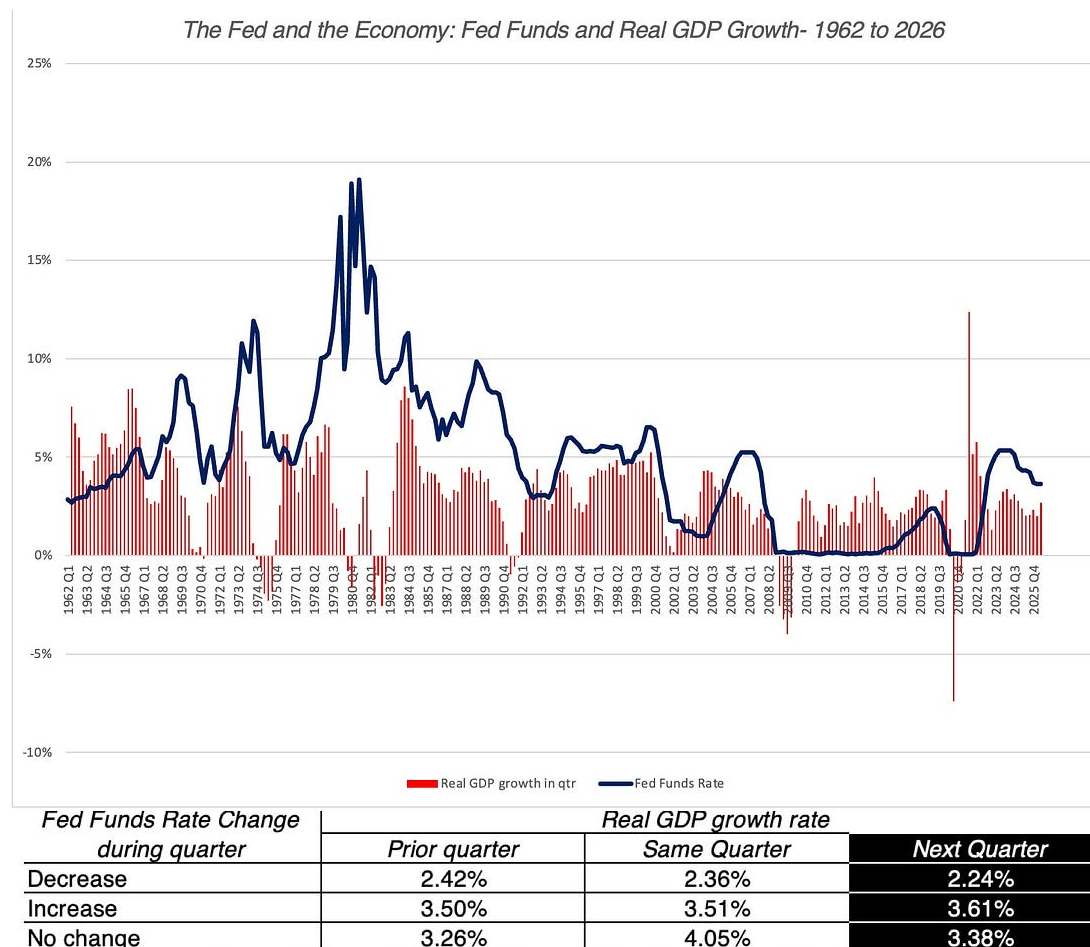


Fed Funds Rate Change during quarter	Change in 3-mth US treasury bill			Change in 10-yr US treasury note		
	Prior quarter	Same Quarter	Next Quarter	Prior quarter	Same Quarter	Next Quarter
Decrease	-0.13%	-0.50%	-0.19%	-0.14%	-0.16%	-0.04%
Increase	0.11%	0.43%	0.18%	0.13%	0.15%	0.02%
No change	0.08%	-0.07%	-0.15%	-0.07%	-0.15%	0.17%

Download data

At the bottom of the graph, I have a table where I look at the data on a quarterly basis, and break it down into three groups - quarters where the fed funds rate decreased, quarters where it increased and quarters where it stayed unchanged. With both fed funds rate increases and decreases, *you can see that the link with short term rates is stronger*, and with both short term and long term rates, *the bulk of the change in rates happens prior to or in the quarter that the Fed Funds rate changed*, but there is only a mild spill over into the quarter after, with three month rates, and almost no spillover, with long term rates. Put simply, baed on this history, it looks like changes in fed funds rate are less signals of future movements in interest rates and more reflectors of changes that have already happened.

The Fed's weaknesses in setting interest rates also plays out in its capacity to alter the trajectory of the real economy. While there are clearly periods that you can point to where Fed actions have had a material impact on the economy, with the Fed Fund rate was hiked to 20% under Paul Volcker in 1981, and triggering a deep recession, being a prime example, the link between Fed Fund rates and economic growth remains tenuous. In the graph below, I look at the changes in Fed Funds rates and real GDP growth in the quarter leading into, the quarter of and the quarter after the change:

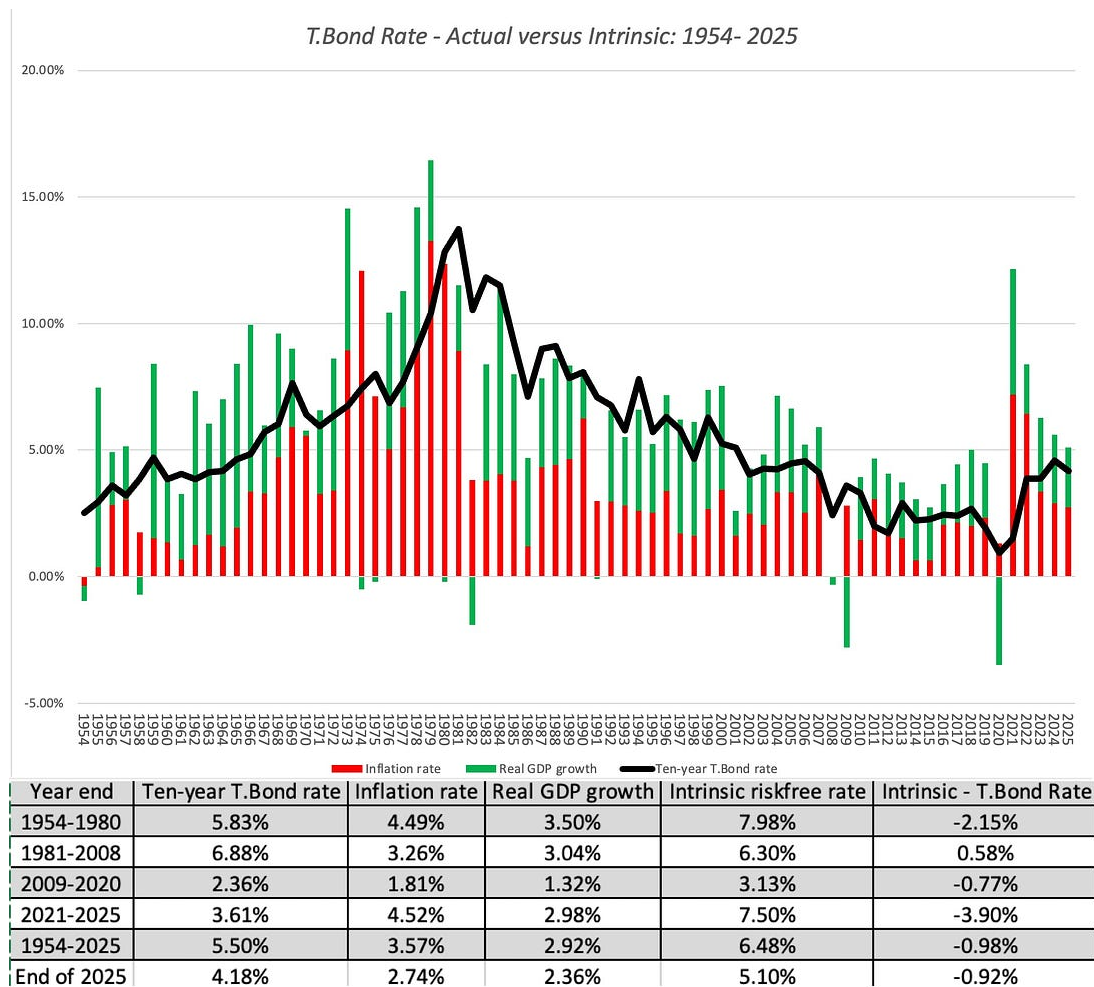


[Download data \(FRED\)](#)

Again, there is little backing for conventional wisdom, which is that fed tightening (by raising the Fed funds rate) leads to drops in real growth

(or even recessions) and that fed loosening (by lowering the Fed funds rate) is a signal of higher economic growth in the future. In fact, the more general conclusion that one can draw from the data is that the fed effect on the real economy has been more “meh” than “wow”.

The gap between investor perception on what the Fed can control on interest rates and the economy and its actual powers is not just wide, but potentially dangerous. From a policy perspective, it can lead to perverse actions, where central banks are pressured to lower the rates they control (like the Fed Funds rate) in the face of high inflation, leading to even higher inflation in the future. From an investor and business perspective, the focus on what the Fed is doing or will do can take attention away from the fundamentals, especially inflation, that ultimately drive both interest rates and growth.



[Download data](#)

As you can see, much of the variation in long term interest rates (with the ten-year US treasury rate standing in as proxy) can be explained by movements in inflation and real economic growth over time, not Fed action or inaction.

The Warsh Doctrine?

All Fed chairs have had to wrestle with the problem of being perceived as all-powerful, when their true powers are limited, but Kevin Warsh is perhaps more exposed than any of his predecessors. The market fixation with the Fed is now deeply embedded in market, and there are politicians on both sides of the aisle who seem to think that Warsh can

bring rates (mortgage, treasury) down to 2% or lower, if he so desires, when the truth is that with inflation expectations running at 2.5-3%, there is no chance of that happening.

The pathway out of this problem will be long and there will be pushback, but the end game should be a world where you see and hear from the Fed less, not more. I do believe that the decision to reduce or withhold guidance is a good first step, and it has to be followed by more open humility from the Fed (and from Warsh) about the limits of its powers and honesty about how frequently it follows markets, rather than leads them. In the context of today's (July 29, 2026) decision by the FOMC to leave rates unchanged, for instance, the subtext is that while inflation is running hotter than desired (3% or more, as opposed to the targeted number of 2%), much of that inflation is being driven by a war and its effect on oil prices

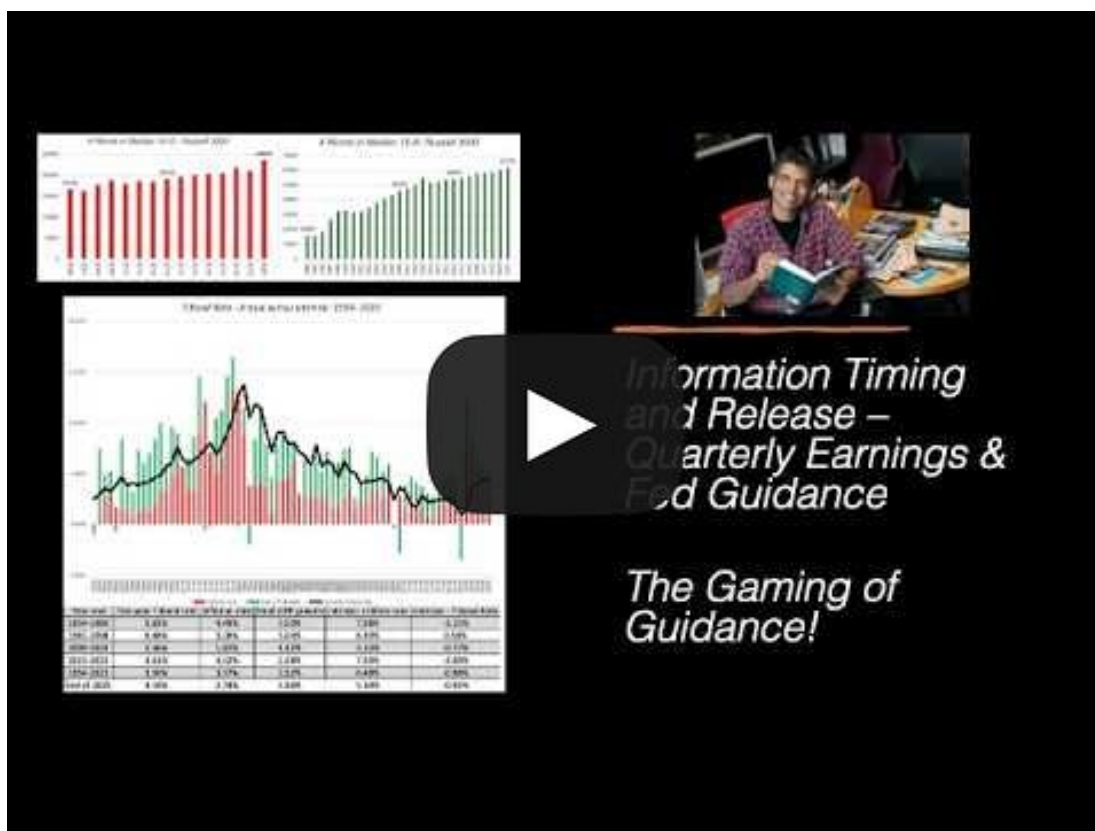
There will be some who feel that markets will be lost without Fed guidance, but I don't think so. After all, financial markets set interest rates and stock prices before the guidance era, and did a pretty good job. In fact, I think that the surge in guidance from the Fed has led many in markets to abdicate their responsibility for paying heed to fundamentals and gauging what interest rates should be.

Conclusion

If there is a takeaway from this post, it should be that there is nothing inherently good about having more disclosure. In fact, there is a tipping point, where information overload can cause investors to behave in perverse ways. Thus, I am less of an absolutist about the quarterly versus semi-annual reporting debate than some, though my view is that rather than reduce the frequency of reporting, the SEC should be looking at slimming down reports, by replacing one-size-fits-all disclosure requirements with targeted disclosures and keeping the focus on reporting what has happened rather than prognosticate about the future.

With the Federal Reserve too, I think less is more is a better strategy - less guidance from the Fed about what it will do in the future, less opining from FOMC members about interest rates and the economy and less attention to FOMC meetings and the smoke signals that emerge from these meetings. Markets will step in to fill the vacuum, and that is good not just for investors but for the Fed, since its decisions are informed by those market judgments.

YouTube Video



Data

1. [Fed Funds Rates and US Treasury rates, by month \(1962-2026\)](#)
2. [Fed Funds Rates and Real GDP growth, by quarter \(1962-2026\)](#)
3. [Intrinsic risk free rates and 10-year Treasuries \(1954-2025\)](#)