Earnings for All Seasons

While nature offers four seasons, Wall Street offers only one – four times a year. It's called "earnings season," and it can move the markets. So, what is earnings season and why is it important?

Earnings season is the month of the year that follows each calendar quarter-end month (i.e., January, April, July, and October). It is the time during which many public companies release quarterly earnings reports. Some public companies report earnings at other times during the year, but many are reported on the calendar year that ends December 31.

Reported Earnings

To understand the importance of earnings, we need to remember that the value of a company can be tied to the amount of money it earns. Some companies don't have earnings, and they are valued based on their potential rather than their current earnings.[1]

Wall Street analysts maintain a close pulse on a company's quarterly report to help estimate future earnings. For example, these estimates may guide investors in determining an appropriate price for a company's stock. Remember, though, a company is not permitted to discuss interim earnings with select individuals; earnings reports must be disseminated publicly to level the playing field for all investors.[2]

An Inside Look

When an earnings report is released, it tells the market two things.

First, it offers an insight into how the company is performing and what its prospects may look like over the near term.[2]

And second, the report can serve as a bellwether for similar companies that still have not reported. For instance, if the earnings of a leading retailer are strong, it may offer an insight into the earnings of other retailers as well as other companies that similarly benefit from higher consumer spending.

What Time?

Earnings reports are generally released when the market is closed in order to provide market participants adequate time to digest the results. Earnings reports may move markets. If earnings diverge from the expectations of professional investors and traders, then price swings – up or down – may be significant. Such a divergence is referred to as an "earnings surprise."

If you are a "buy-and-hold" investor and feel confident in a company's long-term prospects, earnings season may mean little to you, since short-term results may not impact your long-term outlook. However, earnings reports can be meaningful if an earnings shortfall reflects a structural problem within a business or represents the continuation of a downward trend in earnings.

1. Past performance does not guarantee future results. Keep in mind that the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.
2. This is a hypothetical example used for illustrative purposes only. It is not representative of any specific investment or combination of investments.