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What Warren Buffett Is Buying and One Proposed Corporate Rule Change You Need to Know

The Oracle of Omaha is still a buyer of stocks, and President Trump is considering a major change to corporate reporting requirements.

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Berkshire Hathaway (NYSE:BRK-A) (NYSE:BRK-B) saw quite a bit of buying and selling activity in the second quarter. Plus, President Donald Trump is looking into ending the quarterly reporting requirement for publicly traded companies.

In this episode of *Industry Focus: Financials*, host Shannon Jones and Motley Fool contributor Matt Frankel give listeners a rundown of these two news items.

Shannon Jones: Welcome to *Industry Focus*, the show that dives into a different sector of the stock market every day. It's Monday, August the 20th. On today's *Financials* show, we're tracking what Warren Buffett's Berkshire Hathaway is buying and selling. Also, we'll dive into President Trump's ask of the SEC to study the possibility of moving away from quarterly company earnings reports to twice a year reporting. We'll dive into all of that and what it could mean for investors in this week's episode of *Industry Focus: Financials*.

Before we do, I'm your host, Shannon Jones, I'm joined in the studio via Skype with financials guru and certified financial planner, Matt Frankel….

Jones: Alright, last Friday, President Trump tweeted, and I'll read it for our listeners who are catching up. Specifically, he said, "In speaking with some of the world's top business leaders, I asked what it is that would make business and jobs even better in the U.S. Stop quarterly reporting and go to a six-month system, said one. That would allow greater flexibility and save money. I have asked the SEC to study."

Alright, Matt, let's unpack this particular tweet. Just for our listeners catching up, currently, public companies are required to report earnings on a quarterly basis. But according to President Trump and others, this schedule may be less than ideal, some even calling it quarterly capitalism. Matt, tell us what this all really means, and what's really driving the desire for this change, too.

Frankel: Quarterly reports came about in the Security Exchange Act of 1934, a response to the Great Depression. Everyone was concerned that investors weren't being well informed about what's going on in public companies. As an investor protection, companies are required to report every three months, just to kind of inform their potential investors, let them know what they're doing, to make better decisions.

The problem with that is, it's evolved to where it really encourages short-term thinking on the part of management teams. In other words, managers are often incentivized to perform to this quarter's numbers, especially when they're issuing quarterly guidance projections, which is a whole other issue. Managers are often incentivized compensation-wise, where the stock price is going to be at the end of this year, at the end of this quarter. They want to make the analysts' projections, so the stock doesn't plunge as a result of missing estimates.

So, they make decisions based on what's best for the company over the next few months, rather than what's best for investors over the long-term. They might choose to cut down on their capital spending to make their earnings look better, whereas instead, they could spend more money if it's going to have a better long-term effect. The concern is that managers are making trade-offs that are good in the short-term but bad in the long-term, and that the long-term potential of American business would be so much better if they didn't have the requirement. That's the main idea behind this.

President Trump's not alone. In addition to the business leaders he was talking to, we've heard from Warren Buffett, who says that quarterly projections are generally a bad thing because they encourage short-term thinking. Jamie Dimon, CEO of **JPMorgan Chase**. There have been several others. There have been studies done about this. I read one right before we recorded, a study from **The Accounting Review**, that said, outside of the U.S., a lot of places don't have these quarterly requirements. Companies that have annual reporting requirements instead of quarterly have, on average, 10% greater sales as a percentage of their assets, 3.5% higher sales growth a year, and 1.5% greater return on assets. There have been studies done that say that getting rid of quarterly reporting does incentivize companies to make better long-term decisions that pay off in the form of better sales, better returns. He's got a point there…

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