Setting the global standard for investment professionals

Short-Termism Survey
Practices and Preferences of Investment Professionals

Earnings & Other Guidance,
Communications & Incentives

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Purpose

CFA Institute conducted a survey of investment professionals in the United States on the issues of earnings and other guidance, communications, and incentives. The CFA Institute study ran concurrently with a similar survey of corporate officers and investor relations consultants that the National Investor Relations Institute (NIRI) conducted to uncover trends in guidance practices among firms.

Methodology

Over the period of two months, CFA Institute and NIRI staff jointly constructed the questionnaire, beginning with the reworking of the 2006 NIRI Guidance Survey questions so that they applied to investment practitioners, as opposed to firms. Several of the questions on each organization's version of the survey are parallel, although both CFA Institute and NIRI had relevant questions that were asked only of their respective audiences.

The intended targets for the CFA Institute survey were members in the United States currently analyzing, following, and/or investing in companies. Targeted job functions or responsibilities included buy-side analysts, investment banking analysts/investment bankers, manager of managers, portfolio managers, research analysts, and sell-side analysts. The professional profile as self-identified by members in the CFA Institute database was used in an initial attempt to target these members. Two questions were added to the beginning of the questionnaire to further qualify respondents.

The survey was programmed online, and an e-mail invitation was sent out on 13 March 2008 to 16,000 members. Of those invitations, 15,997 were successfully delivered. A reminder e-mail to non-respondents was sent on 19 March, and the survey closed on 27 March.

Response

In total, 1,853 respondents started the survey and 1,232 completed the survey. After cleaning the data—by removing non-qualified and empty responses—a total of 1,133 completed surveys remained for analysis. Based on the 15,997 delivered e-mails, the response rate was 7 percent. More importantly, the margin of error is +/- 2.8 percent at a 95 percent confidence level. The number of responses received and resulting margin of error is sufficient for analysis.

The full results of the survey and associated demographic data are included in the separate Data Tables and Demographics sections at the end of this report.

Introduction

The CFA Institute Centre for Financial Market Integrity (the CFA Institute Centre) is part of CFA Institute and provides regular commentary on the work of national and international accounting standard setters and capital market regulators through written comment letters, participation in public discussion roundtables, and informal input. As part of the CFA Institute Centre's due process for formulating positions, it seeks the views of those CFA Institute members who are the "end users" of financial statements and disclosures, e.g., investment analysts, portfolio managers, and/or investment advisors.

With offices in Charlottesville, VA, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 95,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 134 countries, of whom more than 80,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 56 countries and territories. In deciding upon new initiatives, the CFA Institute Centre looks to address changes that impact financial market integrity and capital markets efficiency across the globe.

Why Short-Termism and Earnings Guidance?

In 2005 and 2006, the CFA Institute Centre and the Business Roundtable Institute for Corporate Ethics held a series of symposiums addressing the issue of "short-termism": corporate and investment decision-making based on short-term earnings expectations versus long-term value creation for all stakeholders. Panel discussions during the symposium led to the publication in July 2006 of the report *Breaking the Short-Term Cycle*, which recommended that companies and investment professionals help:

- Reform earnings guidance practices
- Develop long-term incentives across the board
- Demonstrate leadership in shifting to focus on long-term value creation
- Improve communications and transparency
- Promote broad education of all market participants about the benefits of long-term thinking.

Model Earnings Release

In early 2007 the CFA Institute Centre and the Business Roundtable Institute for Corporate Ethics followed up *Breaking the Short-Term Cycle* with the paper *Apples to Apples: A Template for Reporting Quarterly Earnings*, a report that addressed some of the recommendations raised in the "Improved Communications" section of *Breaking the Short-Term Cycle. Apples to Apples* proposed a "Model Earnings Release" as a consistent template corporations could use in communicating their quarterly financial results in a more transparent manner that allows investors to better focus on drivers of long-term value. A number of the questions in this survey address recommendations made in the *Apples to Apples* paper.

Partnership with the National Investor Relations Institute

A unique aspect of this CFA Institute survey is that it was conducted in parallel with a similar survey administered by NIRI.

CFA Institute worked with NIRI to craft a survey that asked our respective memberships many of the same questions, so that we could determine how the views of CFA Institute members—who are largely asset managers and analysts—mirrored or differed from the views of NIRI members—who are predominantly investor relations officers at the public companies that CFA Institute members invest in and follow.

To ensure that both NIRI and CFA Institute survey respondents adequately understood the key terminology used in these surveys, the following definitions were provided at the beginning of each survey:

1. Earnings guidance: i.e., earnings-per-share guidance
2. Financial guidance: all other quantitative economic measures of a company's performance including revenue, cash flow, EBITDA, operating income, gross margin, expenses, CAPEX, tax rate, etc. excluding earnings guidance
3. Non-financial guidance: any information about current market or business conditions that have the potential to impact company performance and are not typically reflected in a company's financial statements.

View the joint press release from CFA Institute and NIRI at www.cfainstitute.org/aboutus/press/index.html. Learn more about the NIRI survey at www.niri.org

Executive Summary

Conclusions

The information gathered through this survey serves as helpful data in beginning to answer the question of how much the analyst and asset manager community is driving short-term thinking in the markets through their actions and preferences for information. Although this is a start, arriving at the complete answer is, of course, more complicated. Like all players in the capital markets, analysts and asset managers do play some role, but this survey shows that this group is not the sole driver of short-term thinking in the markets. The results of this survey show that analysts and asset managers will use short-term information, such as quarterly earnings guidance if it is given, but prefer that the companies they follow present a wider array of both financial and non-financial metrics.

Analysts and asset managers overall prefer some form of yearly guidance over quarterly guidance, with sell-side professionals more inclined to use and prefer shorter-term metrics such as quarterly guidance.

Likewise, the incentive structures applicable to the buy-side differ from those applicable to sell-side professionals. The former group, analysts and asset managers, are currently geared to thinking in terms of yearly performance, as incentives for periods of one year or greater are more common for them than are short-term incentives. By contrast, professionals in the latter group—those on the sell-side—are more likely to receive quarterly incentives in their pay packages, though still just 30% of this group has any kind of quarterly incentives.

Going Forward

The CFA Institute Centre for Financial Market Integrity will formally present these findings in September 2008 at a conference in New York focused on the issues of short-termism and the role quarterly earnings guidance plays in encouraging short-sighted markets.

The results of this survey will also further inform the ongoing dialogue between corporate issuers and the investment community about how best to manage and analyze companies without damaging long-term performance for either.

Long-Term Communications

CFA Institute members surveyed feel that their own firms tend to do a better job of communicating the firms' long-term objectives than do the companies they cover. Nearly 70 percent of those surveyed indicate that their firm adequately communicates its own long-term objectives. Yet at the same time, 54 percent of respondents feel that just half of the firms they follow do so. Those on the sell-side were slightly more likely than were their counterparts on the buy-side to say that companies they cover adequately communicate their long-term strategic objectives.

Earnings, Financial, and Non-Financial Guidance

Survey respondents approve of the use of yearly earnings guidance at a higher rate than they approve of the use of quarterly earnings guidance. When asked whether it is a best practice for companies to provide quarterly earnings guidance, 45 percent of participants agreed or strongly agreed that it is. When the same question was asked concerning yearly earnings guidance, 60 percent agreed or strongly agreed.

When forced to choose between quarterly and yearly earnings guidance, survey respondents favor annual estimates over quarterly estimates: Fifty-three percent prefer annual, while 42 percent prefer quarterly.

When asked if they agree that it is a best practice for companies to provide financial guidance (guidance on all financial measures other than earnings) on a quarterly basis, just over half of all respondents agreed or strongly agreed. When asked whether it is a best practice for companies to provide financial guidance on a yearly basis, the response was stronger: nearly seventy percent agreed or strongly agreed.

Incentives of Investment Professionals

Survey respondents indicate that their compensation structures are largely based on yearly performance, with incentive compensation based on performance for periods of greater than a year more commonly than it is based on quarterly performance. The survey also revealed some differences in term-structures of incentive pay between those on the buy-side and those on the sell-side.

A high proportion of both buy-side and sell-side respondents indicate that none of their compensation is related to quarterly performance (85 percent of buy-side respondents and 70 percent of sell-side). Of those who do receive some compensation related to quarterly performance, more are on the sell-side than on the buy-side (11 percent sell-side versus 2 percent buy-side receive half or more of their compensation based on quarterly performance). And, more sell-side than buy-side professionals indicated that none of their compensation is based on a performance period of longer than one year (62 percent versus 40 percent). Nearly half of those surveyed stated that none of their pay is based on performance measured in a period of greater than one year.

Detailed Survey Results

Guidance

The symposium series that led to the publication of the paper *Breaking the Short-Term Cycle* focused on a number of factors that contributed to the short-sighted approach of both companies and investors. One aspect of the short-termism cycle that everyone involved wished to address was the practice of giving quarterly earnings guidance.

Companies stated that such quarterly earnings expectations often made them feel excessive pressure to hit these numbers, or suffer consequences such as a decreased stock price, excess volatility, and possibly the loss of analyst coverage. They also stated that these expectations do not consider the long-term prospect of their companies.

Anecdotal evidence and academic studies confirmed some of these concerns, but what was originally unclear was where this pressure originated. Some symposium participants pointed the finger at hedge funds in particular, and the larger investment community in general, who were seen as increasingly pushing companies to hit quarterly earnings expectations. In the end everyone shares some culpability in perpetuating the short-term cycle that includes the practice of issuing, and then trying to meet, quarterly earnings guidance expectations.

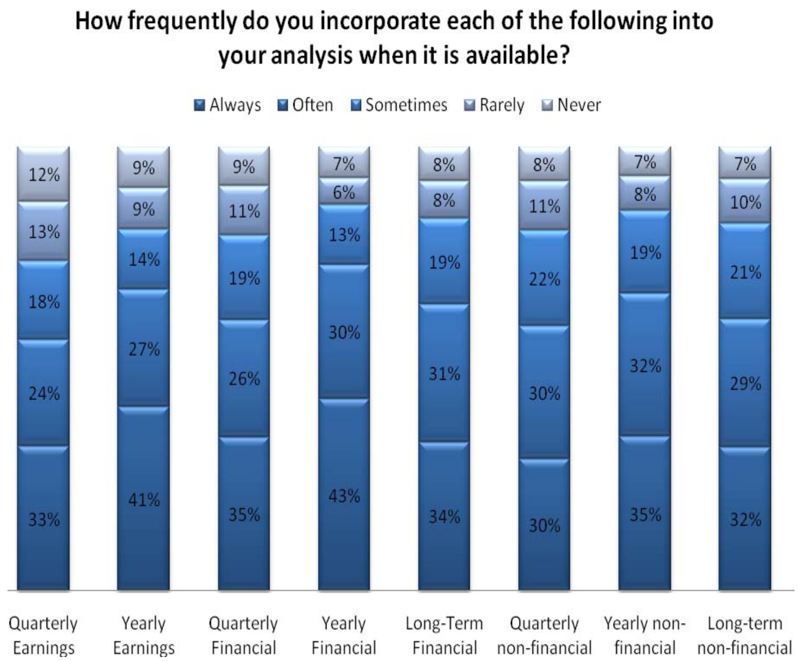
We therefore asked CFA Institute members, who as investment professionals use financial statements, what measurements they use, which they prefer, and what type of guidance practice they see as best practices for the companies they analyze.

We found that although CFA Institute members do use quarterly earnings estimates, they use yearly estimates more often, and prefer broader measurements of corporate performance than quarterly earnings hits or misses. We also found that those on the sell-side use and prefer quarterly earnings estimates more than do financial professionals from the buy-side.

Practices

How frequently respondents incorporate various types of guidance into their analysis when it is available

Survey respondents noted that they incorporate yearly estimates of both quarterly earnings and more broad measures of financial guidance into their analyses more than they do quarterly estimates of the same data (see Table 1 at the end of this report). For example, 33 percent of survey respondents stated that they “always” incorporate quarterly earnings into their analyses when it is available, while 41 percent note that they “always” incorporate yearly earnings estimates into their analyses when it is available. The pattern is much the same when the question turns to quarterly versus yearly financial or non-financial guidance.



Buy-Side versus Sell-Side

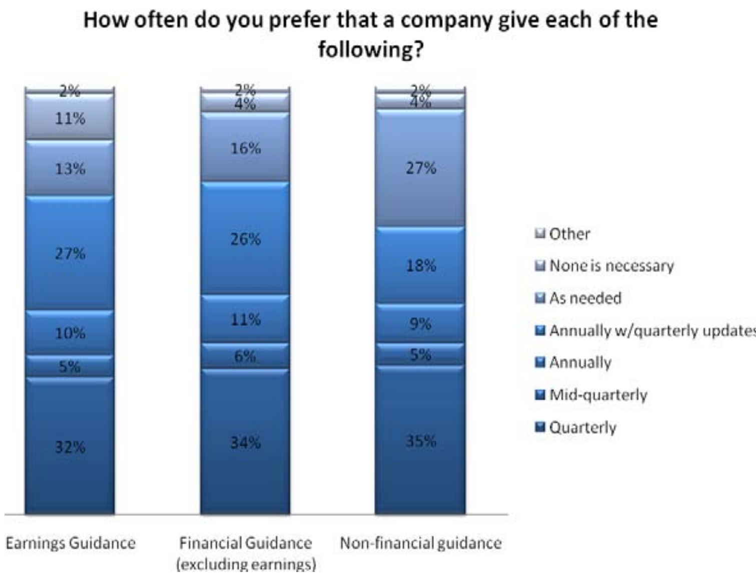
A larger proportion of those on the sell side *always* use *quarterly* guidance compared to those on the buy-side (46 percent versus 32 percent regarding *earnings guidance* and 45 percent versus 35 percent regarding *financial guidance*). Concurrently, larger proportions of those on the buy-side indicated they only sometimes use quarterly guidance reports (earnings, financial, and non-financial) compared to sell-side respondents.

	Always		**Often**		**Sometimes**		**Rarely**		**Never**	
	Buy Side	Sell Side	Buy Side	Sell Side	Buy Side	Sell Side	Buy Side	Sell Side	Buy Side	Sell Side
Quarterly Earnings	32%	46%	24%	20%	19%	12%	13%	13%	12%	10%
Yearly Earnings	42%	49%	27%	24%	14%	10%	9%	9%	9%	8%
Quarterly Financial	35%	45%	26%	26%	20%	11%	11%	10%	8%	8%
Yearly Financial	44%	50%	30%	29%	14%	10%	6%	5%	7%	6%
Long-Term Financial	36%	34%	30%	33%	19%	20%	8%	7%	7%	7%
Quarterly non-financial	30%	37%	30%	30%	23%	16%	11%	12%	7%	6%
Yearly non-financial	36%	39%	31%	33%	19%	15%	8%	8%	6%	4%
Long-term non-financial	33%	34%	29%	28%	21%	22%	10%	10%	7%	6%

**Those highlighted in yellow are significant at the 0.05 level*

Preferences

Because the information investors and analysts use and the information they *prefer* can differ, we decided to ask our members about the guidance information they prefer to receive. The largest proportion of respondents preferred earnings guidance on a yearly basis, although they disagreed slightly over which yearly model is best (see chart below and Table 2). Approximately 37 percent of those surveyed preferred earnings guidance on an annual basis (10 percent annually, 27 percent annually with quarterly updates). Nearly a third of those surveyed (32 percent) preferred earnings guidance in a quarterly format. Eleven percent of survey participants felt that no earnings guidance is necessary.



These numbers change little when survey participants expressed their preferences about the frequency of other financial guidance (excluding earnings guidance). Again, about 37 percent felt some form of yearly guidance is best (11 percent annually, 26 percent annually with quarterly updates). About 34 percent preferred this broader financial guidance in a quarterly format.

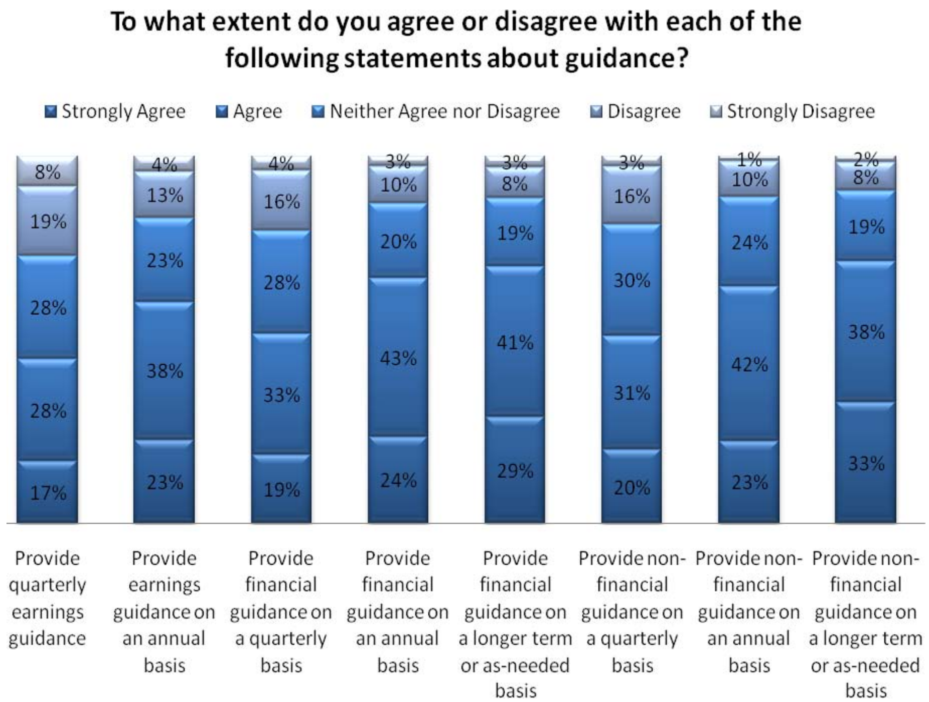
Buy-Side versus Sell-Side

There are not many differences in preference between buy- and sell-side respondents for how often firms should report various types of guidance. However, a significantly higher proportion of sell-side respondents felt that non-financial guidance should only be reported on an as-needed basis (34 percent versus 26 percent, respectively).

Preferences		N	Quart-erly	Mid-quarterly	Annually	Annually w / quarterly updates	As needed	None is necess-ary	Other
Earnings Guidance	Buy Side	780	33%	5%	11%	27%	12%	10%	2%
	Sell Side	179	34%	6%	7%	29%	13%	11%	1%
Financial Guidance	Buy Side	777	35%	6%	12%	26%	16%	4%	2%
	Sell Side	176	35%	7%	7%	27%	18%	5%	1%
Non-Financial Guidance	Buy Side	779	35%	5%	10%	18%	26%	3%	2%
	Sell Side	176	35%	6%	3%	17%	34%	5%	1%

**Those highlighted in yellow are significant at the 0.05 level*

In order to be as thorough as possible, after asking our members how they incorporate different forms of guidance into their analysis, and their preferences, we decided to ask them what constituted "best practices" in terms of companies issuing guidance.



Seventy percent agreed ("Strongly Agree" or "Agree") that it is a best practice to provide financial guidance on a longer-term or on an as-needed basis (see chart above and Table 3). Overall, higher proportions of respondents agreed with statements calling for guidance on longer-term bases (longer-term/as-needed and annual) compared with providing guidance quarterly. Seventy-one percent of respondents agreed ("Strongly Agree" or "Agree"; the top two boxes) that it is a best practice to provide non-financial guidance on a longer-term or as-needed basis.

Buy-Side versus Sell-Side

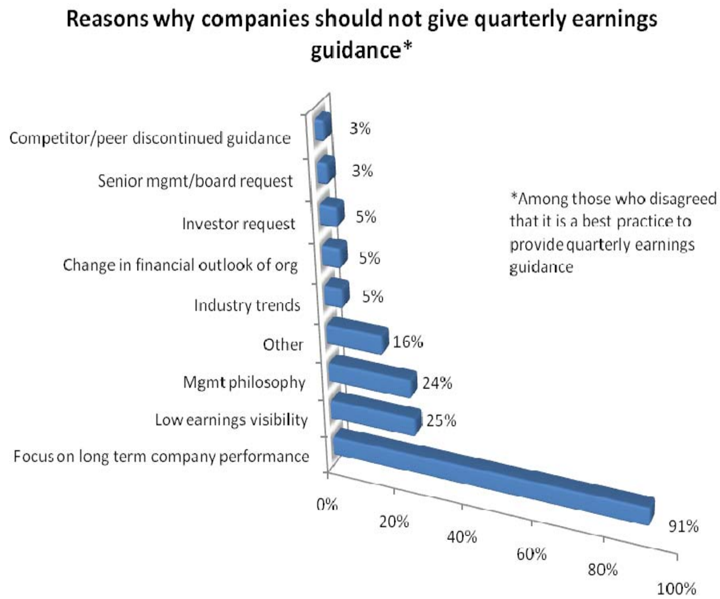
There are not many differences between buy-side and sell-side respondents for this question (See Tables 4 and 5). Although 45 percent of those on the buy-side agreed (top two boxes) and 47 percent of those on the sell-side agreed that it is generally a best practice to provide quarterly earnings guidance, (see top two boxes in Table 4), a higher proportion of both buy-side and sell-side respondents *felt that is is generally a best practice to provide earnings guidance on an annual basis (61 percent for the buy-side and 59 percent on the sell-side).*

Also, a higher proportion of buy-side respondents *neither agree nor disagree* that companies should provide financial guidance (excluding earnings guidance) on a longer-term or as-needed basis (i.e. when material changes occur) than sell-side (19 percent versus 13 percent).

Finally, more sell-side respondents *strongly agree* that companies should provide non-financial guidance on an annual basis (29 percent sell-side versus 22 percent buy-side).

Reasons Not to Give Quarterly Earnings Guidance[1]

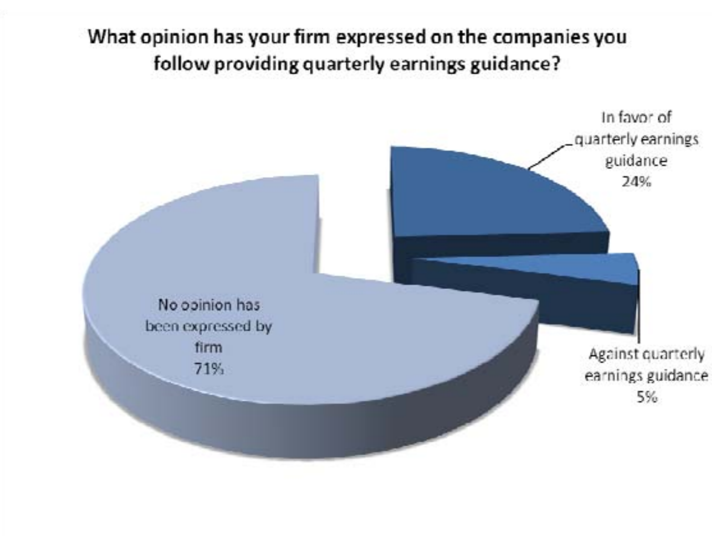
In order to further investigate the reasoning behind any of our members disagreeing with the notion that issuing quarterly earnings guidance is a best practice, we asked those who disagreed that it is a best practice to provide quarterly earnings guidance why companies should not give quarterly earnings guidance.



The main reason respondents gave for disagreeing was that companies can better focus on long-term company performance (91 percent), followed by low earnings visibility (25 percent), and management philosophy (24 percent). Respondents could select multiple reasons (see also Table 6).

Firm Opinion Towards Quarterly Earnings Guidance

The majority of respondents (71 percent) indicated that their firm has expressed no official opinion on whether they are in favor of or against companies providing quarterly earnings guidance. Twenty-four percent indicated that their firm is in favor of quarterly earnings guidance and 5 percent are against quarterly earnings guidance.

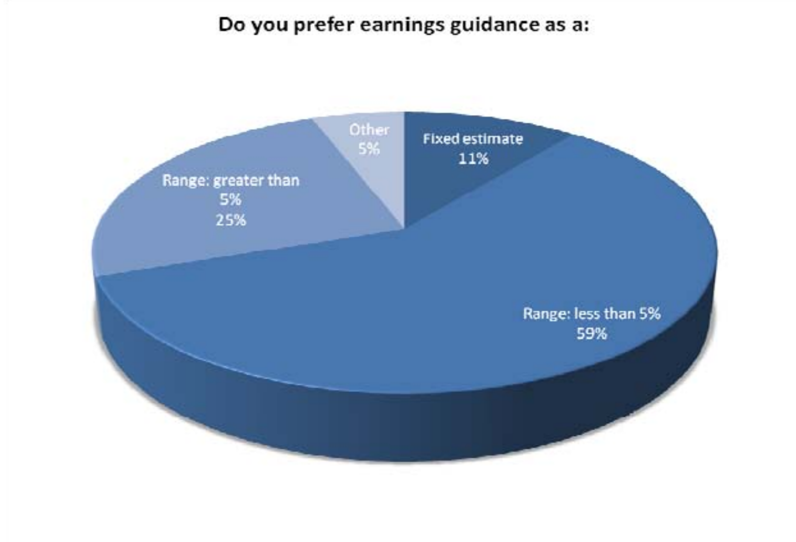


There are no significant differences between respondents on the buy-side and those on the sell-side. (See Table 7.)

[1] Among those that disagreed or strongly disagreed that companies should provide quarterly earnings guidance. Samples sizes too small to report buy side vs. sell side.

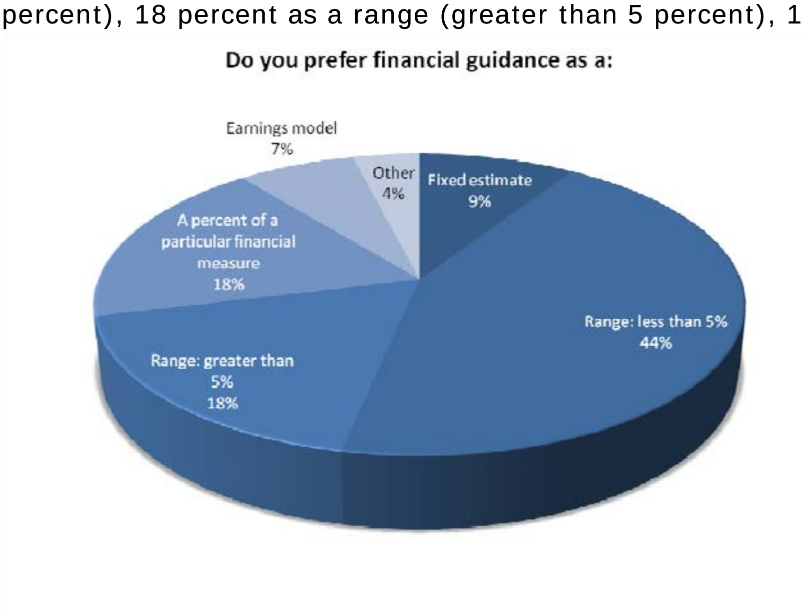
Additional Preferences: Earnings Guidance

Fifty-nine percent of respondents preferred earnings guidance as a range (less than 5 percent), 25 percent as a range (greater than 5 percent), 11 percent as a fixed estimate, and 6 percent as other. There were no significant differences between buy-side and sell-side respondents (see Table 8).



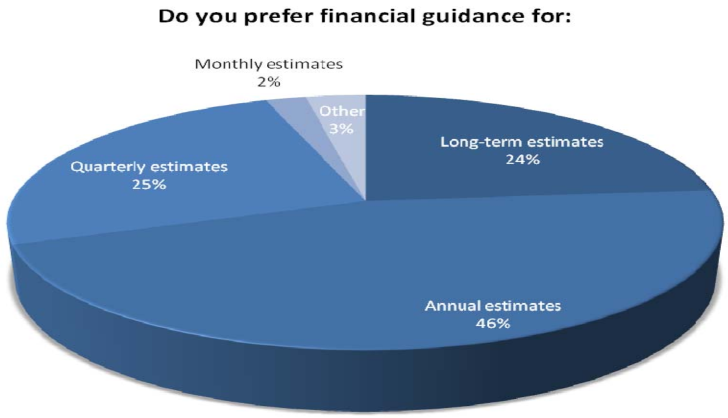
Additional Preferences: Financial Guidance

Forty-four percent of respondents preferred financial guidance as a range (less than 5 percent), 18 percent as a range (greater than 5 percent), 18 percent as a percentage of a particular financial measure, 9 percent as a fixed estimate, 7 percent as an earnings model, and 6 percent as other. There are no significant differences between buy-side and sell-side respondents (see Table 9).



Additional Preferences: Quarterly versus Yearly Financial Guidance

Forty-six percent of respondents preferred financial guidance for annual estimates, 25 percent for quarterly estimates, and 24 percent for long-term estimates. There are no significant differences between buy-side and sell-side respondents (see Table 10).



Communications

Although the earnings guidance cycle plays a large role in the "short-termism" myopia of some companies and investors, many of those who participated in the symposiums that led to the publishing of *Breaking the Short-Term Cycle* stressed that "more and better communications" need to go hand in hand with any changes to earnings guidance practices in getting companies and the markets to act in ways that engender long-term value creation.

With this in mind, we endeavored to ask a number of questions related to communications issues that arose from both *Breaking the Short-Term Cycle* and *Apples to Apples*. We asked survey participants what communications they prefer and which they use, and if this information is presented adequately in the current quarterly reporting format.

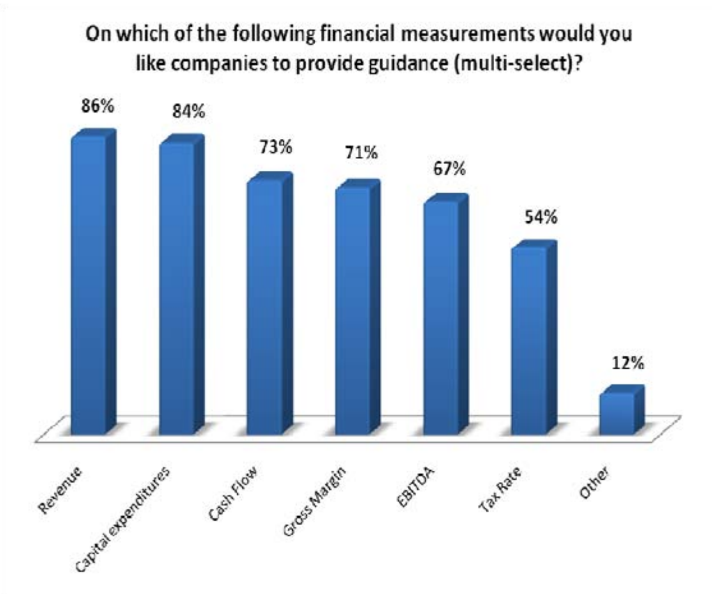
We found, to no surprise, that CFA Institute members prefer more information, on a broad range of financial and non-financial indicators, in order to properly do their analyses. Survey respondents generally felt that the information they receive is presented in a clear and consistent format that is easy to use, although there still remains room for improvement where the information that investors need is inconsistently presented, or not presented at all.

A recent review of quarterly reports from S&P 1500 companies by the Business Roundtable Institute for Corporate Ethics found that smaller and mid-sized companies were less likely to present reconciliation tables in immediate proximity to non-GAAP financial measures in quarterly earnings reports, and were more likely to fail to include a cash-flow statement or balance sheet that would allow investors to properly reconcile items presented in a company's income statement.[2]

[2] Differentiation Through Financial Reporting, *Dean Krehmeyer*, Kennedy's Investor Relations Newsletter. Issue 08 – 04, pg. 2, April 2008

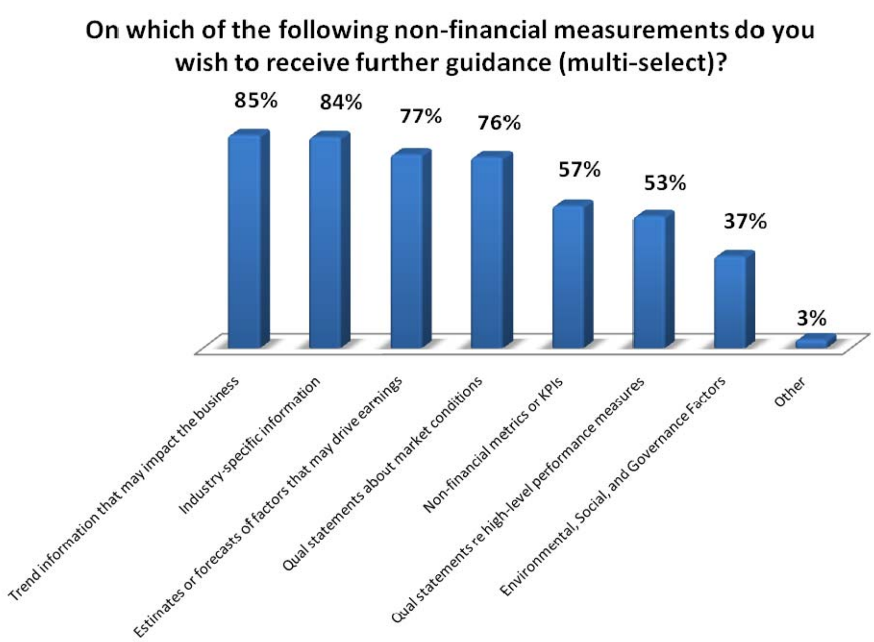
Communications: Financial Measurements

Respondents indicated a strong preference for companies to provide guidance on multiple financial measurements. Revenue and capital expenditures are the top two financial measurements for which respondents wanted guidance (86 percent and 84 percent, respectively). Cash flow (73 percent), gross margin (71 percent), EBITDA (67 percent), and tax rate (54 percent) are also seen as important measurements for companies to provide guidance. (See Table 11 for breakdown between buy-side and sell-side responses.)



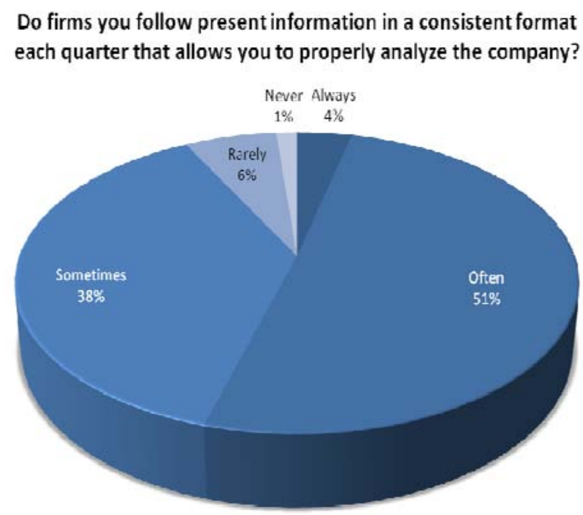
Communications: Non-Financial Measurements

Respondents indicated a strong preference for companies to provide guidance on multiple non-financial measurements as well. For example, trend information that may impact the business of the company and industry-specific information are the top two non-financial measurements for which respondents want the most guidance (85 percent and 84 percent, respectively). Nevertheless, more than 50 percent of respondents indicated a preference for guidance reporting for all of the non-financial measurements noted below, with the exception of information concerning environmental, social, and governance factors. (See Table 12 for breakdown between buy-side and sell-side responses.)



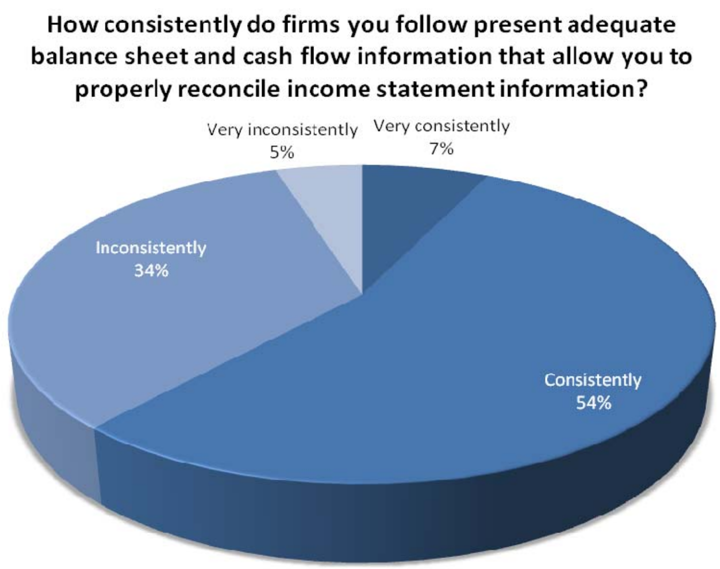
Other Communications

In order to determine whether our members are currently satisfied with the level of disclosure from the companies they cover, we asked our members a number of questions that come from our *Apples to Apples* paper concerning what would constitute an ideal earnings release. These questions aim to determine whether our members feel that companies are providing adequate information in a consistent format that provides them with enough information to effectively evaluate the companies they follow.

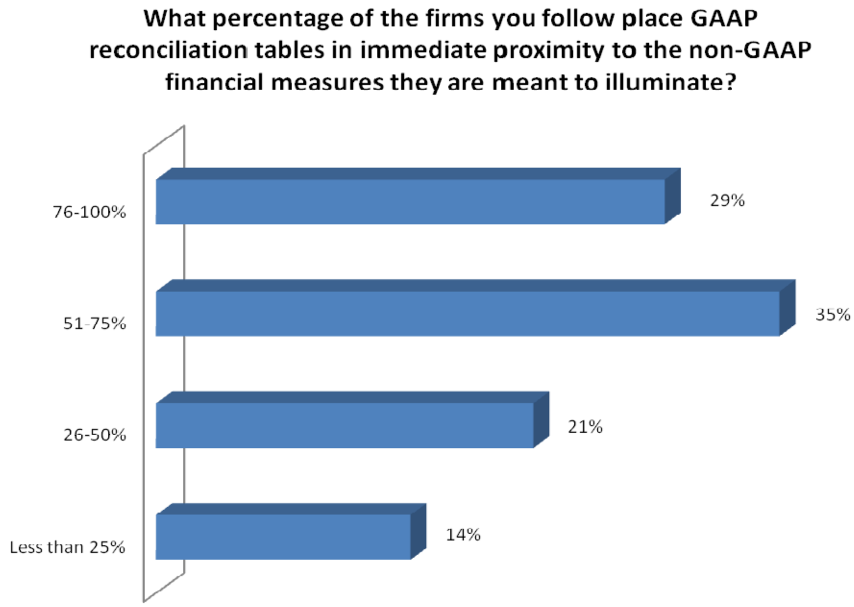


Fifty-four percent of respondents indicated that the firms they follow *always* or *often* present information in a consistent format each quarter that allows them to properly analyze the company. Thirty-eight percent indicated that they *sometimes* present information in a consistent format, and 8 percent indicated that firms *rarely* or *never* present information in a consistent format. There are no significant differences between buy-side and sell-side respondents (see Table 13).

Just 62 Sixty-two percent of respondents indicated that the firms they follow *very consistently* or *consistently* present adequate balance sheet and cash flow information that allows them to properly reconcile income statement information, while 38 percent indicated that firms do this *inconsistently* or_*very inconsistently*. There are no significant differences between buy- side and sell-side respondents (see Table 14).

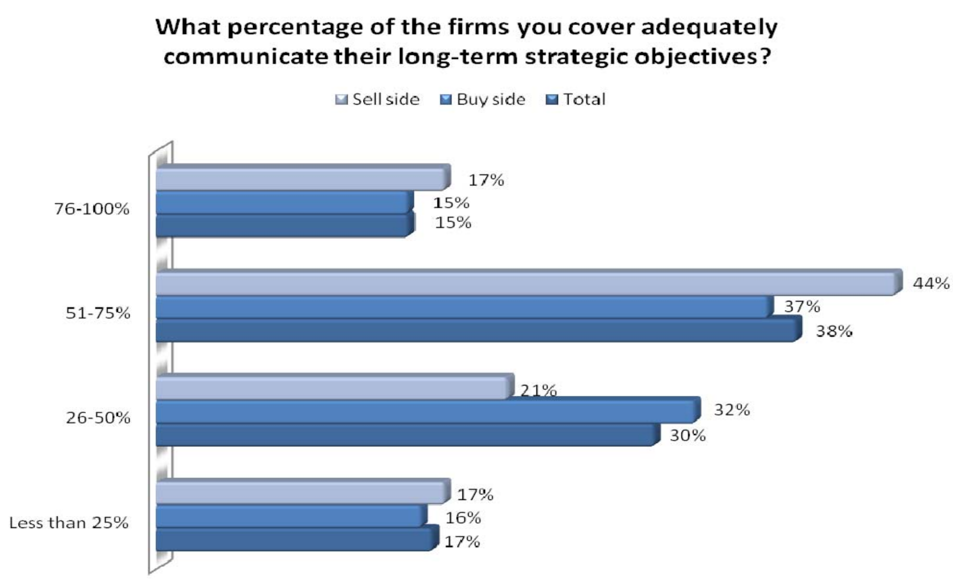


Sixty-four percent of respondents indicated that more than 50 percent of the firms they follow place GAAP reconciliation tables in immediate proximity to the non-GAAP financial measures they are meant to illuminate. Securities and Exchange Commission rules stipulate that such measures are located near associated GAAP-based information.

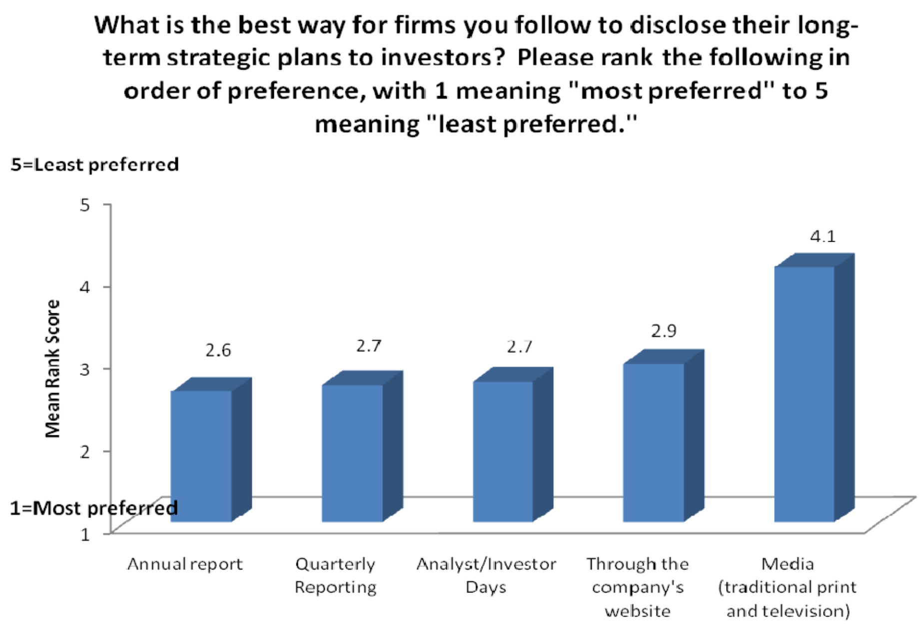


There are no significant differences between buy-side and sell-side respondents (Table 15).

Fifty-four percent of respondents indicated that more than 50 percent of the firms they follow adequately communicate their long-term strategic objectives (15 percent reported 76-100 percent and 38 percent reported 51-75 percent; see Table 16). Conversely, 46 percent indicated that 50 percent or fewer of their firms adequately communicate long-term objectives (30 percent reported 26-50 percent and 17 percent reported less than 25 percent). A higher proportion of buy-side respondents reported that only 26-50 percent of their firms adequately communicate these strategic objectives, 32 percent, compared to 21 percent of sell-side respondents (see Table 16).



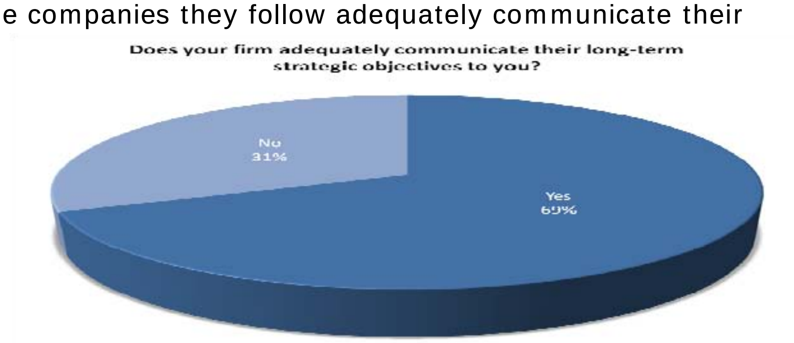
When asked to rank the following in order of preference for how firms they follow should disclose their long-term strategic plans to investors, respondents ranked annual reports as the best way, followed by quarterly reporting, analyst/investor days, the company website, and finally, traditional media. It is interesting to note that quarterly reporting and analyst/investors days, though ranked behind the annual report on both mean and median ranking scores, received more ‘1s’ (*most preferred*) than annual reports.



Mean preference scores were similar between buy- and sell-side respondents, although those on the sell-side ranked the company website slightly less favorably and analyst/investor days slightly more favorably than did respondents on the buy-side. (See also Table 17)

What is the best way for firms you follow to disclose their long-term strategic plans to investors?	Total	Buy Side	Sell Side
N=	950	684	144
Annual report	2.6	2.6	2.7
Quarterly Reporting	2.7	2.7	2.4
Through the company's website	2.9	2.9	3.3
Media (traditional print and television)	4.1	4.1	4.2
Analyst/ Investor Days	2.7	2.7	2.3

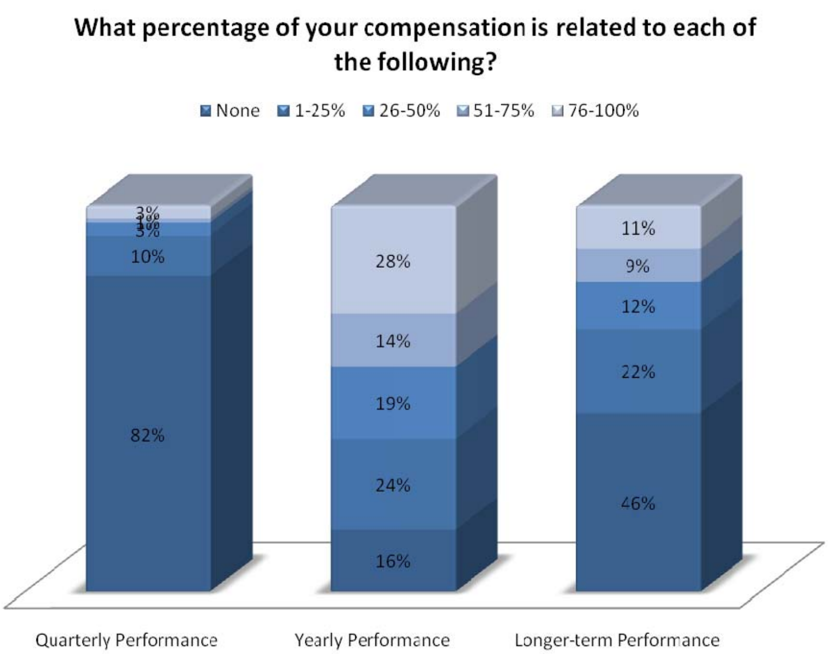
Because we asked our members if the companies they follow adequately communicate their long-term strategic objectives, we thought it only fair to ask whether the firms our members work for adequately communicate their own long-term strategic objectives.



Sixty-nine percent of those surveyed indicated that their firm adequately communicates their long-term objectives to them; more so by respondents on the buy-side (70 percent) than the sell-side (61 percent) (Table 18).

Incentives

One aspect of short-term behavior that first came up in *Breaking the Short-Term Cycle* that we wished to explore in this survey was the issue of incentive structures. In meetings with corporations, investment professionals, and institutional investors, a theme that arose again and again as a driver of "short-termism" was the existence of short-term incentive structures across the board—not just those at public companies. We therefore wanted to ask CFA Institute members about the structure of their incentives, specifically what proportion of those incentives could be considered long-term (a period greater than one year) and which were short-term (based on quarterly incentives).

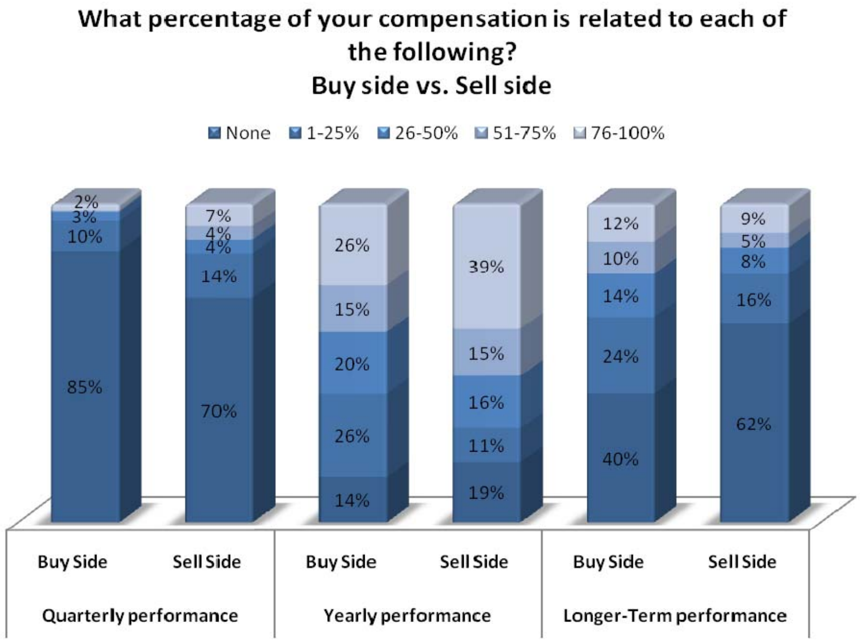


We found that, in general, the incentives of most financial professionals are based on yearly performance, though those with longer-term (greater than one year) incentives outnumbered those with shorter-term (quarterly) incentives. Financial professionals on the sell-side are more likely to have short-term incentives than those on the buy-side (see also Table 19).

An overwhelming 82 percent of respondents indicated that none of their compensation is related to *quarterly* performance. Of the nearly 18 percent who stated that some of their compensation is related to quarterly performance, more than half stated that less than 25 percent of their total compensation is linked to some quarterly metric.

Regarding the breakdown of long-term and short-term incentives in the compensation structures of the responding investment professionals, only 16 percent of those surveyed indicated that none of their compensation is related to *yearly* performance. By comparison, 42 percent indicated that 50 percent or less of their compensation is related to yearly performance. The same number, 42 percent, indicated that more than 50 percent of their compensation is related to yearly performance. Forty-six percent of those surveyed indicated that none of the compensation is related to longer-term performance (a period greater than one year).

Buy-Side versus Sell-Side
A few significant differences regarding incentives between buy-side and sell-side respondents emerged from the survey. For example, a higher proportion of buy-side respondents indicated that none of their compensation is related to quarterly performance (85 percent versus 70 percent sell-side; see also Table 20). A higher proportion of those on the sell-side indicated that over 50 percent of their compensation had quarterly element. Nevertheless, just 11 percent of these professional fell into this category versus 2 percent on the buy-side.



Likewise, a higher proportion of buy-side respondents indicated that 1-25 percent of their compensation is related to yearly performance (26 percent versus 11 percent for sell-side respondents), while more sell-side respondents indicated that 76-100 percent of their compensation is related to yearly performance (39 percent versus 26 percent).

Not surprisingly based on the above differences, a higher proportion of sell-side respondents indicated that that *none* of their compensation is related to performance measured for a time period of greater than one year (62 percent versus 40 percent).

Conclusion
While analysts and asset managers are willing to use short-term information, such as quarterly earnings guidance if it is given to them, they regularly express a desire for companies to give them a broader array of both financial and non-financial metrics. From this information, they can develop a better understanding of a company's strategy and how it is working.

For their own part, sell-side investment firms are more likely to pay their professionals on the basis of short-term metrics. This includes quarterly incentives in their pay packages. This compensation structure, in turn, can lead some to appreciate the value of quarterly guidance.

Buy-side professionals, on the other hand, are more likely to have their pay based on annual performance. The results above indicate that their incentives are geared more to longer-term performance periods than to shorter durations. Nevertheless, the differences in incentives motivating buy-side and sell-side professionals are minimal.

Whether it is the issuers providing quarterly guidance or the investment firms paying their professionals on the basis of short-term performance, it is ultimately up to both sides to break an over-emphasis on the short-term perspective.

Data Tables

Table 1

How frequently do you incorporate each of the following into your analysis when it is available?	N	Always	Often	Sometimes	Rarely	Never
Quarterly Earnings	1120	33%	24%	18%	13%	12%
Yearly Earnings	1122	41%	27%	14%	9%	9%
Quarterly Financial	1119	35%	26%	19%	11%	9%
Yearly Financial	1113	43%	30%	13%	6%	7%
Long-Term Financial	1120	34%	31%	19%	8%	8%
Quarterly non-financial	1120	30%	30%	22%	11%	8%
Yearly non-financial	1118	35%	32%	19%	8%	7%
Long-term non-financial	1121	32%	29%	21%	10%	7%

Table 2

How often do you prefer that a company give each of the following?	Quarterly	Mid-quarterly	Annually	Annually w / quarterly updates	As needed	None is necessary	Other
Earnings Guidance	32%	5%	10%	27%	13%	11%	2%
Financial Guidance (excluding earnings)	34%	6%	11%	26%	16%	4%	2%
Non-financial guidance	35%	5%	9%	18%	27%	4%	2%

Table 3

It is generally a best practice to…	N	Strongly Agree	Agree	Neither Agree nor Disagree	Dis-agree	Strongly Disagree	Top two box
Provide quarterly earnings guidance	1114	17%	28%	28%	19%	8%	**45%**
Provide earnings guidance on an annual basis	1112	23%	38%	23%	13%	4%	**60%**
Provide financial guidance on a quarterly basis	1110	19%	33%	28%	16%	4%	**52%**
Provide financial guidance on an annual basis	1105	24%	43%	20%	10%	3%	**67%**
Provide financial guidance on a longer term or as-needed basis	1104	29%	41%	19%	8%	3%	**70%**
Provide non-financial guidance on a quarterly basis	1102	20%	31%	30%	16%	3%	**51%**
Provide non-financial guidance on an annual basis	1100	23%	42%	24%	10%	1%	**65%**
Provide non-financial guidance on a longer term or as-needed basis	1101	33%	38%	19%	8%	2%	**71%**

Table 4

It is generally a best practice to…		N		percent N	
		Buy side	Sell side	Buy Side	Sell Side
Provide quarterly earnings guidance.	Strongly agree	129	34	17%	19%
	Agree	218	50	28%	28%
	Neither agree nor disagree	218	53	28%	30%
	Disagree	150	26	19%	15%
	Strongly disagree	66	16	9%	9%
Provide earnings guidance on an annual basis.	Strongly agree	170	51	22%	28%
	Agree	303	55	39%	31%
	Neither agree nor disagree	179	37	23%	21%
	Disagree	93	28	12%	16%
	Strongly disagree	34	9	4%	5%
Provide financial guidance (excluding earnings guidance) on a quarterly basis.	Strongly agree	144	36	19%	20%
	Agree	247	68	32%	38%
	Neither agree nor disagree	219	50	28%	28%
	Disagree	136	19	18%	11%
	Strongly disagree	31	7	4%	4%

Provide financial guidance (excluding earnings guidance) on an annual basis.	Strongly agree	184	46	24%	26%
	Agree	336	78	43%	44%
	Neither agree nor disagree	156	32	20%	18%
	Disagree	79	18	10%	10%
	Strongly disagree	20	5	3%	3%
Provide financial guidance (excluding earnings guidance) on a longer term or as-needed basis (i.e. when material changes occur).	Strongly agree	220	51	28%	29%
	Agree	323	78	42%	44%
	Neither agree nor disagree	150	23	19%	13%
	Disagree	58	20	8%	11%
	Strongly disagree	25	6	3%	3%
Provide non-financial guidance on a quarterly basis.	Strongly agree	148	42	19%	24%
	Agree	240	55	31%	31%
	Neither agree nor disagree	239	58	31%	32%
	Disagree	121	18	16%	10%
	Strongly disagree	23	6	3%	3%
Provide non-financial guidance on an annual basis.	Strongly agree	167	52	22%	29%
	Agree	325	69	42%	38%
	Neither agree nor disagree	191	40	25%	22%
	Disagree	73	16	10%	9%
	Strongly disagree	12	3	2%	2%
Provide non-financial guidance on a longer term or as-needed basis (i.e. when material changes occur).	Strongly agree	251	61	33%	34%
	Agree	304	67	40%	37%
	Neither agree nor disagree	145	34	19%	19%
	Disagree	55	15	7%	8%
	Strongly disagree	15	2	2%	1%
**Those highlighted in yellow are significant at the 0.05 level*					

Table 5

It is generally a best practice to…	Mean Agreement Scores[3] Buy Side	Sell Side	Total*
Provide quarterly earnings guidance	2.8	2.7	2.7
Provide earnings guidance on an annual basis	2.4	2.4	2.4
Provide financial guidance on a quarterly basis	2.6	2.4	2.5
Provide financial guidance on an annual basis	2.3	2.2	2.3
Provide financial guidance on a longer term or as-needed basis	2.2	2.2	2.2
Provide non-financial guidance on a quarterly basis	2.5	2.4	2.5
Provide non-financial guidance on an annual basis	2.3	2.2	2.3
Provide non-financial guidance on a longer term or as-needed basis	2.1	2.1	2.1
**Total includes buy-side, sell-side, both, and neither*			

Table 6

Reasons respondents think companies should not give quarterly earnings guidance (N=302)	
Focus on long term company performance	91%
Low earnings visibility	25%
Mgmt philosophy	24%
Other	16%
Investor request	5%
Industry trends	5%
Change in financial outlook of org	5%
Senior mgmt/board request	3%
Competitor/peer discontinued guidance	3%

[3] Where 1=Strongly agree, 2=Agree, 3=Neither agree nor disagree, 4=Disagree, and 5=Strongly disagree. No significant differences emerged.

Table 7

What opinion has your firm expressed on the companies you follow providing quarterly earnings guidance?	Total	Buy Side	Sell Side
N=	**1073**	**755**	**168**
In favor of quarterly earnings guidance	24%	25%	20%
Against quarterly earnings guidance	5%	5%	4%
No opinion has been expressed by firm	71%	71%	76%

Table 8

Do you prefer earnings guidance as a:	Total	Buy Side	Sell Side
N=	**899**	**637**	**151**
Fixed estimate	11%	11%	9%
Range: less than 5%	59%	58%	64%
Range: greater than 5%	25%	24%	24%
Other	6%	7%	3%
**excludes% that do not use earnings guidance*	*17%*	*16%*	*10%*

Table 9

Do you prefer financial guidance (excluding earnings guidance) as a:	Total	Buy Side	Sell Side
N=	**976**	**691**	**161**
Fixed estimate	9%	9%	8%
Range: less than 5%	44%	44%	46%
Range: greater than 5%	18%	17%	19%
A% of a particular financial measure	18%	18%	19%
Earnings model	7%	7%	6%
Other	4%	5%	3%
**excludes% that do not use financial guidance*	*10%*	*9%*	*5%*

Table 10

Do you prefer financial guidance (excluding earnings guidance) for:	Total	Buy Side	Sell Side
N=	**980**	**697**	**159**
Long-term estimates	24%	23%	23%
Annual estimates	46%	46%	46%
Quarterly estimates	25%	25%	26%
Monthly estimates	2%	2%	1%
Other	3%	3%	4%
**excludes% that do not use financial guidance*	*9%*	*8%*	*6%*

Table 11

On which of the following financial measurements would you like companies to provide guidance?

	Total	Buy Side	Sell Side
N=	997	717	150
Revenue	86%	85%	89%
Capital expenditures	84%	84%	87%
Cash Flow	73%	74%	65%
Gross Margin	71%	72%	73%
EBITDA	67%	67%	67%
Tax Rate	54%	52%	69%
Other	12%	14%	9%

Table 12

On which non-financial measurements do you wish to receive further guidance?

	Total	Buy Side	Sell Side
N=	993	712	151
Trend information that may impact the business of the company	85%	86%	86%
Industry-specific information	84%	83%	91%
Estimates or forecasts of factors that may drive earnings	77%	77%	78%
Qualitative statements about market conditions	76%	75%	81%
Non-financial metrics or KPIs	57%	56%	64%
Qualitative statements about high-level performance measures	53%	52%	59%
Environmental, Social, and Governance Factors	37%	37%	36%
Other	3%	4%	3%

Table 13

Do firms you follow present info in a consistent format each quarter that allows you to properly analyze the company?	Total	Buy Side	Sell Side
N=	991	713	146
Always	4%	4%	3%
Often	51%	51%	56%
Sometimes	38%	37%	36%
Rarely	6%	6%	5%
Never	1%	1%	1%

Table 14

How consistently do firms you follow present adequate balance sheet and cash flow information that allow you to properly reconcile income statement information?	Total	Buy Side	Sell Side
N=	888	641	136
Very consistently	7%	8%	7%
Consistently	55%	56%	50%
Inconsistently	34%	32%	39%
Very inconsistently	5%	4%	4%
*Excludes percent that responded "don't know"			

Table 15

What percentage of the firms you follow place GAAP reconciliation tables in immediate proximity to the non-GAAP financial measures they are meant to illuminate?	Total	Buy Side	Sell Side
N=	631	448	112
Less than 25%	14%	14%	14%
26-50%	21%	22%	21%
51-75%	35%	36%	31%
76-100%	29%	28%	33%
*Excludes percent that responded "don't know"			

Table 16

What percentage of the firms you cover adequately communicate their long-term strategic objectives?	Total	Buy Side	Sell Side
N=	833	603	133
Less than 25%	17%	16%	17%
26-50%	30%	32%	21%
51-75%	38%	37%	44%
76-100%	15%	15%	17%
**Excludes percent that responded "don't know"*			

Table 17

What is the best way for firms you follow to disclose their long-term strategic plans to investors?	Mean	Median	Mode	Minimum	Maximum
Annual report	2.6	2	2	1	5
Quarterly Reporting	2.7	3	1	1	5
Company website	2.9	3	4	1	5
Media (traditional print and television)	4.1	5	5	1	5
Analyst/Investor Days	2.7	3	1	1	5

Table 18

Does your firm adequately communicate their long-term strategic objectives to you?	Total	Buy Side	Sell Side
N=	1002	718	150
Yes	69%	70%	61%
No	31%	30%	39%

Table 19

What percentage of your compensation is related to each of the following?			
	Quarterly Performance	Yearly Performance	Longer-term Performance
None	82%	16%	46%
1-25%	10%	24%	22%
26-50%	3%	19%	12%
51-75%	1%	14%	9%
76-100%	3%	28%	11%
Excludes the following % of "no answers"	*16%*	*13%*	*18%*

Table 20

What percentage of your compensation is related to each of the following?		N=		percent Column	
		Buy Side	Sell Side	Buy Side	Sell Side
Quarterly performance	None	472	81	85%	70%
	1-25%	53	16	10%	14%
	26-50%	16	5	3%	4%
	51-75%	2	5	0%	4%
	76-100%	11	8	2%	7%
	Total	554	115	100%	100%
Yearly performance	None	87	23	14%	19%
	1-25%	160	13	26%	11%
	26-50%	120	20	20%	16%
	51-75%	90	18	15%	15%
	76-100%	157	48	26%	39%
	Total	614	122	100%	100%
Longer-Term performance	None	224	68	40%	62%
	1-25%	134	17	24%	16%
	26-50%	75	9	14%	8%
	51-75%	56	5	10%	5%
	76-100%	66	10	12%	9%
	Total	555	109	100%	100%

Demographics

Which of the following **best** describes your primary job function or responsibility?		
Buy-side Analyst	286	25%
Investment Banking Analyst/Investment Banker	38	3%
Manager of Managers	66	6%
Portfolio Manager	466	41%
Research Analyst	81	7%
Sell-side Analyst	111	10%
Other	85	8%
Total	**1133**	

Which of the following **best** describes your professional responsibilities?		
Buy side	791	70%
Sell side	183	16%
Both	64	6%
Neither	93	8%
Total	**1131**	

AUM (N=835)	
Less than US$250 million	21%
250 million to less than 1 billion	16%
1 billion to less than 5 billion	18%
5 billion to less than 20 billion	13%
20 billion to less than 50 billion	7%
50 billion to less than 250 billion	14%
More than 250 billion	11%
Excludes 15% not applicable	

Companies invest in/follow (N=980)	
Mirco-cap: less than $250 million	32%
Small-cap: $250 million-less than $2 billion	64%
Mid-cap: $2 billion-less than $10 billion	79%
Large-cap: $10 billion to less than $25 billion	77%
Mega-cap: $25 billion and above	64%
None of the above	6%

Companies invest in/follow (N=957)	
Accommodation & Food Services	41%
Administrative and Support and Waste Management and Remediation Services	34%
Agriculture, Forestry, Fishing and Hunting	39%
Arts, Entertainment, and Recreation	40%
Construction	43%
Educational Services	33%
Health Care and Social Assistance	54%
Information	53%
Management of Companies and Enterprises	34%
Manufacturing	59%
Mining, Quarrying and Oil and Gas Extraction	52%
Other Services	41%
Professional, Scientific, and Technical Services	45%
Real estate and Rental and Leasing	41%
Transportation and Warehousing	44%
Utilities	44%
Wholesale Trade	32%
Finance and Insurance*	34%
Retail Trade*	32%
None of the above	10%
*Industries added a week into the survey, as they were omitted in the original survey drafts	

Years Holding the CFA Charter						
Code	Years	Total Sample	Sample %	Total Responded	Respondent %	Response Rate
1	Less than 2	2524	16%	232	20%	9%
2	3 to 5	2993	19%	220	19%	7%
3	6 to 10	4283	27%	251	22%	6%
4	More than 10	4115	26%	254	22%	6%
5	N/A	2085	13%	176	16%	8%
Grand Total		**16000**		**1133**		**7%**

CFA Program Candidate Type						
Code	Candidate Type	Total Sample	Sample %	Total Responded	Respondent %	Response Rate
1	Candidate	843	5%	89	8%	11%
2	Lapsed candidate	170	1%	43	4%	25%
3	Charter Pending	748	5%	22	2%	3%
4	CFA Charterholder	13915	87%	957	84%	7%
5	N/A	324	2%	22	2%	7%
Grand Total		**16000**		**1133**		**7%**

Age Range						
Code	Candidate Type	Total Sample	Sample %	Total Responded	Respondent %	Response Rate
1	Under 30	1075	7%	102	9%	9%
2	30 to 34	2976	19%	254	22%	9%
3	35 to 39	3592	22%	250	22%	7%
4	40 to 44	2677	17%	154	14%	6%
5	45 to 50	2053	13%	127	11%	6%
6	Over 50	2698	17%	192	17%	7%
7	Not provided	929	6%	54	5%	6%
Grand Total		**16000**		**1133**		**7%**