What is Earnings Season & What to Look for in Earnings Reports?

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Earnings season provides a great opportunity for equity traders to gain insight on stocks they have invested in, while also offering context to potential share price moves. Read on for more on what earnings season is, earning announcement dates to know, and what to look for in an earnings report.To get more news about [WikiFX](), you can visit wikifx.com official website.

WHAT IS EARNINGS SEASON & WHY IS IT IMPORTANT□

□□Earnings season is a period each fiscal quarter, usually lasting several weeks, where many of the largest listed companies announce their latest financial accounts. An earnings report consists of revenue, net income, earnings per share (EPS) and forward outlook, amongst a bevy of other data points, which can help to provide investors with insight relating to the current health and outlook for the company. This information can be found on sec.gov, various financial publications, and individual companies' websites.

□□Earnings season is important because it helps market participants glean information from the companies that they are monitoring along with the broader index. For example, a strong Apple (AAPL) earnings report may see investors bullish on Nasdaq 100 futures, a concept discussed further below when looking at bellwether stocks.

□□Something else that can accompany an earnings release is an earnings call. This is a conference between the company and analysts, press and investors which discusses the outcome of an earnings report and, in many cases, opens the floor for questions to company management. Such scrutiny of the reports can enable traders to access more information to further inform their decisions, although not all companies hold earnings calls.

WHEN IS EARNINGS SEASON & WHEN DO REPORTS COME OUT□

□□Earnings season takes place typically a few weeks after each quarter ends (December, March, June, September). In other words, earnings seasons begins around January-February (Q4 results), April-May (Q1 results), July-August (Q2 results) and October-November (Q3 results), with the unofficial start of earnings season usually marked by when the major US banks report results.

This typically coincides with an increase in the number of earnings being released, while the unofficial end of earnings season is usually around the time that Walmart (WMT) announces its earnings report.

3 THINGS TO LOOK FOR IN COMPANY EARNINGS REPORTS

There are a number of factors to look for in company earnings reports. Traders should be most mindful of the performance of the largest ‘bellwether’ stocks, understand the significance of an earnings recession in a given stock, and grasp how a stocks earnings announcement might impact a relevant index, depending on the weighting of the given security.

1) Performance of bellwether stocks

When analyzing company earnings, it is important to look out for ‘bellwether’ stocks which can be seen as a gauge for the performance of the macro-economy. While the status of a bellwether stock can change over time, the largest and most-established companies are typically considered a bellwether stock.

An earnings recession is characterized as two consecutive quarters of year-on-year declines in company profits. However, while earnings are an important factor in stock market returns over the long term, an earnings recession does not necessarily coincide with an economic recession.

The chart below shows that in the past six earnings recessions witnessed in the US, only two had coincided with an economic recession. The blue circles show where there was an earnings recession without an economic recession, while the red circles represent where both an earnings and economic recession occurred.

Traders should understand that when trading earnings, certain stocks will have a greater impact on the wider index according to their index weighting. For example, when trading the Dow Jones, Boeing releasing its earnings will be highly influential on the index, while Visa likely won‘t be as influential, due to the former’s 9.49% weighting compared to the latters 4.41%, as shown in the table below. This highlights the importance of paying close attention to bellwether stocks and how they may impact a broader equity index.

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