U.S. Financial Reporting Is Stuck in the 20th Century

Link

Sintesis

A fund worth about 10 million dollars recently closed its operation. How come?

One of the most important uses of financial statements is to enable investors to make timely decisions about buying and selling stocks. In the simplest analysis, an investor makes money by buying shares cheap and selling when it becomes overpriced. A way to know this, relies on income statement (profits) and balance sheets (assets) to identify cheap or expensive stocks. For example, a stock with low stock prices but large assets and profits could be a good stock to buy.

However, this technique is becoming useless because of the evolution of companies. An example is FAANG which leads the market but it doesn't seem like a good option for previous analysis or techniques, and some funds lost many opportunities by deciding not to invest there.

As new metrics are new invented to approach the problem, investors are making wild, often wrong, guesses on how much firms spent on intangible investments. So, this situation still has a long way to go.

Why don't companies just disclose what they spend on innovation, human resources, and organizational competencies?

Comentario

I think this article has been an extremely appropriate disclaimer on the financial analysis we just learned about in class.

Even though I still think it's a good idea to see the results of a company, now I know it's also recommendable to look at their investments and try to tell how much effort they're putting into their knowledge and networking.

Hopefully a new tool or regulation shows up to bring clarity to investors who are, at the end of the day, the owners of companies.