

CREDIBILITY AND UNCERTAINTY EFFECTS OF ADDITIONAL LONGER-TERM MANAGEMENT FORECASTS

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ABSTRACT

Management forecasts are judged to be the most important information for investors. That is why the regulation of management forecasts is a crucial and intensively discussed aspect worldwide. A unique element of the German Accounting Standard is that it requires firms to provide two-year forecasts in addition to annual forecasts. Empirical evidence considering the effects of additional longer-term forecasts on investors is absent. Therefore, this paper experimentally investigates the effects of providing additional longer-term forecasts on (i) perceived forecast credibility, (ii) nonprofessional investor uncertainty, and (iii) investment decisions using a pretest-posttest design. On the one hand, we find that additional longer-term forecasts harm credibility, particularly when forecasts are rather precise. On the other hand, we find that such forecasts reduce investor uncertainty, particularly if volatility is high. Taken together, these effects appear to be offsetting.

Keywords: *Management Forecast, Forecast Horizon, Credibility, Uncertainty, Volatility*