

## **RCA – April 1995 – Ask The Analyst – Research Report Forecasts**

**Q:** In 1993 the NASD amended the Rules of Fair Practice to prohibit predictions or projections. Does this mean we can no longer include forecasts in research reports?

**A:** The new rule specifies that predictions or projections of investment results cannot be made in advertisements or sales literature (see Article a Section 35(d)(2)(N) of the Rules of Fair Practice). That means you may not predict results to the investor. For example, research reports may not include a projected dollar amount of income one could expect from purchasing a stock. Similarly prohibited is a projection of a mutual fund investment's total return over the next two years. However, this prohibition is not intended to prevent members from providing information to the public regarding the future operations of a specific business. For example, reasonable estimates of a corporation's earnings or fair stock price targets based on historic trading ranges may be included in research reports, as long as their basis is provided in the material and it is clear that these are forecasts that may not be met (see Article III Section 35(d)(2)(C) of the Rules of Fair Practice). Although you must avoid excessively long-term or exaggerated forecasts, member firms can continue to offer forecasts regarding an individual company as long as such information is not translated into specific investment benefits to an investor.