How to Protect Your Wealth During the Current Market Meltdown

Over the past few days, investors have watched markets swing wildly. The Dow Jones declined over 1000 points on Monday. In the first 90 minutes of trading the index moved more than 3000 points in up and down trades, further highlighting the extreme price swings. Tuesday saw major indices initially increase 3% and gain back some of the prior day's losses, only to finish in negative territory, which marked the largest intra-day reversal since October 2008.

What are investors to do when markets enter correction mode and experience extreme volatility along the way? How can they be sure their portfolios are strong throughout all market cycles? The only way to feel confident in your investments during a bear market is to buy companies with strong cash flows. However, finding companies with strong cash flows is easier said than done. Accounting distortions must be backed out of reported earnings to find the true, recurring cash flows of the business.

New Constructs does just that for over 3000 companies under coverage. In fact, we provide a monthly Most Attractive Stocks list that includes those companies with strong cash flows and cheap valuations. As can be seen in Figure 1, Most Attractive Stocks, Brocade Communications (BRCD), Target Corporation (TGT) and NVIDIA (NVDA) all outperformed the market from 8/17 through 8/27. The S&P 500 was down 6% during this time.

Figure 1: Most Attractive Stocks Outperformed During Correction

Company	Ticker	Performance	New Constructs Rating
Brocade Communications	BRCD	5%	Very Attractive
Target Corporation	TGT	-2%	Attractive
NVIDIA	NVDA	-4%	Very Attractive

Sources: New Constructs, LLC and company filings

To avoid the stocks with negative cash flows and expensive valuations, we also create a monthly Most Dangerous Stocks list. Figure 2 highlights Most Dangerous stocks, Valero Energy (VLO), Charles Schwab (SCHW) and Twitter (TWTR) as just a few of the stocks which underperformed during the market correction over the last week and a half. Again, the S&P 500 was down only 6% during this time

Figure 2: Most Dangerous Stocks Underperformed During Correction

Company	Ticker	Performance	New Constructs Rating
Valero Energy	VLO	-16%	Dangerous
Twitter Inc.	TWTR	-10%	Very Dangerous
Charles Schwab	SCHW	-11%	Dangerous

Sources: New Constructs, LLC and company filings

For more information on protecting wealth during the current market, as well as all market cycles, watch our webinar " How to Protect Your Wealth During the Current Market Meltdown," which was recorded August 27, 2015. New Constructs CEO and Wall Street veteran, David Trainer, covers the keys to long-term portfolio protection and growth and the principles behind true value investing.

To receive alerts about future webinars, head over to our Education section and sign up today.

Disclosure: David Trainer and Kyle Guske II receive no compensation to write about any specific stock, style, or theme.

New Constructs® – Profile

How New Constructs Creates Value for Clients

We find it. You benefit. Cutting-edge technology enables us to scale our forensics accounting expertise across 3000+ stocks. We shine a light in the dark corners of SEC filings so our clients can make safer, more informed decisions.

Our stock rating methodology instantly informs you of the quality of the business and the fairness of the stock's valuation. We do the diligence on earnings quality and valuation so you don't have to.

In-depth risk/reward analysis underpins our ratings. Our rating methodology grades every stock, ETF, and mutual fund according to what we believe are the 5 most important criteria for assessing the quality of an equity. Each grade reflects the balance of potential risk and reward of buying that equity. Our analysis results in the 5 ratings described below. Very Attractive and Attractive correspond to a "Buy" rating, Very Dangerous and Dangerous correspond to a "Sell" rating, while Neutral corresponds to a "Hold" rating.

QUESTION: Why shouldn't fund research be as good as stock research? Why should fund investors rely on backward-looking price trends?

ANSWER: They should not.

Don't judge a fund by its cover. Take a look inside at its holdings and understand the quality of earnings and valuation of the stocks it holds. We enable you to choose the best fund based on its stock-picking merits so you do not have to rely solely on backward-looking technical metrics.

The drivers of our forward-looking fund ratings are Portfolio Management (i.e. the aggregated ratings of its holdings) and Total Annual Costs. The Total Annual Costs Rating (details here) captures the all-in cost of being in a fund over a 3-year holding period, the average period for all fund investors.

Our Philosophy About Research

Accounting data is not designed for equity investors, but for debt investors. Accounting data must be translated into economic earnings to understand the profitability and valuation relevant to equity investors. Respected investors (e.g. Adam Smith, Warren Buffett and Ben Graham) have repeatedly emphasized that accounting results should not be used to value stocks. Economic earnings are what matter because they are:

1. Based on the complete set of financial information available.
2. Standard for all companies.
3. A more accurate representation of the true underlying cash flows of the business.

Additional Information

Incorporated in July 2002, New Constructs is an independent publisher of investment research that provides clients with consulting and research services. We specialize in quality-of-earnings, forensic accounting and discounted cash flow valuation analyses for all U.S. public companies. We translate accounting data from 10Ks into economic financial statements, i.e. NOPAT, Invested Capital, and WACC, to create economic earnings models, which are necessary to understand the true profitability and valuation of companies. Visit the Free Archive to download samples of our research. New Constructs is a BBB accredited business and a member of the Investorside Research Association.

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