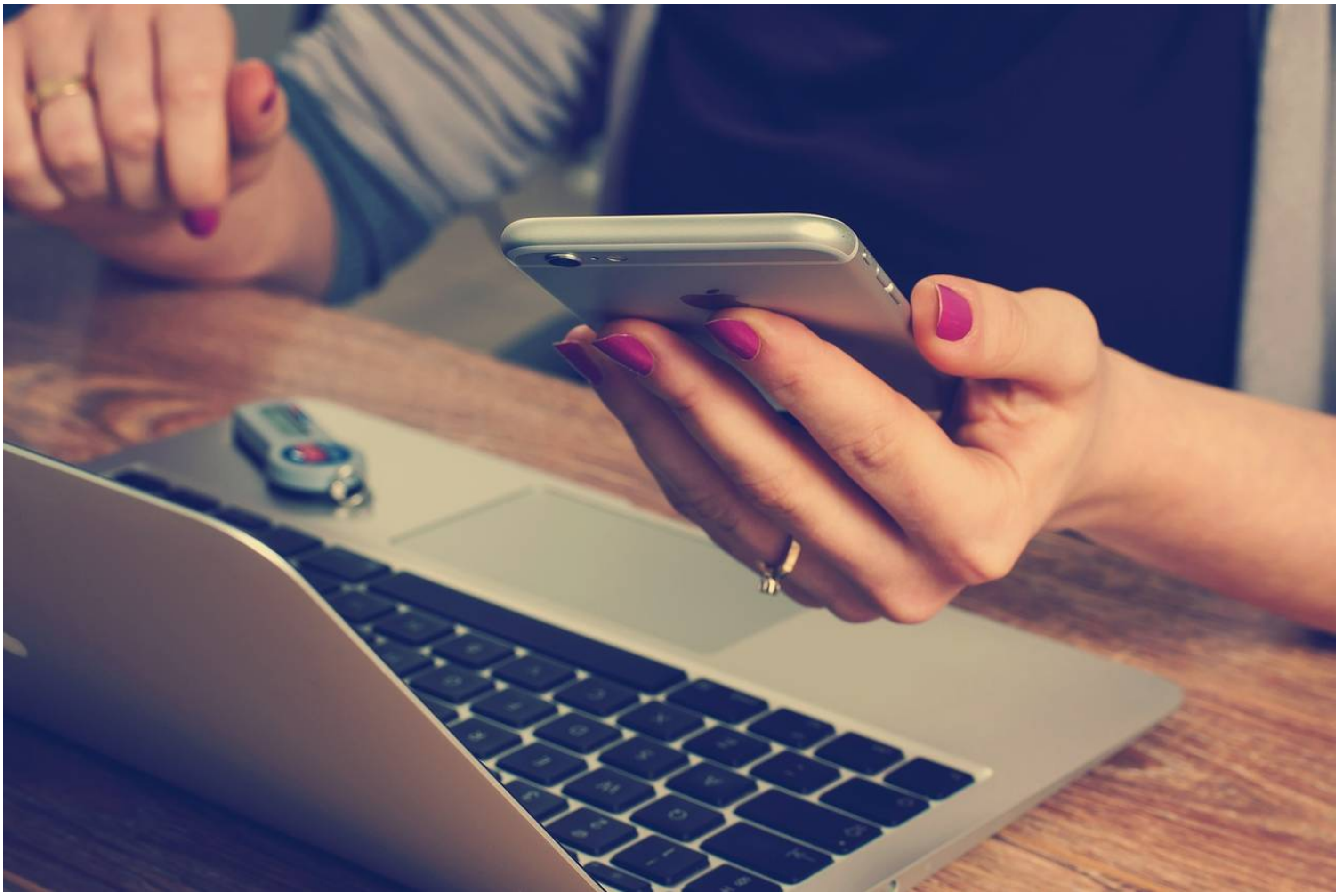
DIGITAL INVESTOR

Websites That Clarify Corporate Accounting for Investors

New Constructs, finbox.io, and Valuentum Securities offer online analysis of often baffling company earnings reports.

By MIKE HOGAN
June 25, 2016



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The gap between GAAP and non-GAAP earnings is growing every quarter. In English: Corporate earnings per share reported under generally accepted accounting principles keep falling further behind the pro forma alternatives increasingly emphasized in earnings releases.

It has gotten so large that the Securities and Exchange Commission is threatening some companies with closer scrutiny of their quarterly reports, and SEC Chair Mary Jo White has publicly suggested that new regulations may be needed. The worry is that some EPS substitutes are just window dressing.

“No kidding,” says New Constructs founder David Trainer, who has been beating that drum for years. “Our research shows that 92% of companies using non-GAAP measures make earnings look better than they really are by excluding real operating expenses.”

Investors don’t have to wait for the SEC. Trainer’s New Constructs (newconstructs.com) and finbox.io, a Website due to launch next week, offer more shareholder-relevant views of corporate results.

Trainer, a forensic accountant, created New Constructs 14 years ago to address both the GAAP and non-GAAP ways that companies polish their figures. His team digs through footnotes and annotations in balance sheets, income, and cash-flow statements to find where bad news is buried, then reconciles those values.

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exchange-traded funds whose financial values have been reviewed and recalibrated. New Constructs rates and ranks these tickers by what it views as a truer measure of performance than those played up in earnings releases. Important values include return on invested capital, or ROIC, free-cash-flow yield, and the difference between stock price and adjusted economic value per share.

Subscriptions, which start at $49 monthly, include use of the site's screener to fill watch lists that meet these and other criteria. Easier still: The site has just introduced a model portfolio of strong performers that, Trainer says, exemplify what it is to be transparent and aligned with shareholder interests. The 15 companies not only receive the site's highest ranking and have low book values, but also link executive compensation to corporate ROIC. It's available for a one-time fee of $10. One name on the list is home builder NVR (ticker: NVR). Besides a 20% ROIC, half of executive option grants vest only while the company is earning a ROIC near the top of its peer group.

"ROIC directly correlates to shareholder value creation and is a fully comprehensive measure of a company's financial persformance," says Trainer. "It speaks to what we really care about in any financial endeavor: how much money it generates relative to how much capital has gone into it."

THE NEW FINBOX.IO site highlights many of the same values but derives them somewhat differently. For $39 monthly, it offers a battery of routines that represent the most commonly used methods for determining a stock's hypothetical intrinsic, or "fair," market value.

While widely used, the routines are pretty complicated. Fortunately, subscribers don't have to do any heavy lifting if they accept finbox.io's assumptions about the optimum approach to analyzing different company and industry types.

Type in a ticker for one of the 5,800 North American companies for which finbox.io has built models, and the site responds with its share price and fair market value. The delta between those two values is the margin of safety that famed value hunter Benjamin Graham recommended, and, if positive, the site suggests the gain possible based on assumed future cash flows.

The site's default approach is a five-year discounted-cash-flow analysis. But subscribers are free to tinker with assumptions in that or any of nine other models for other sorts of forecasts.

New Constructs and finbox.io aren't the only sites that emphasize real measures of shareholder value. Valuentum Securities, for one, has long employed similar models and methods. Its subscriptions start at $150 annually.

All three can help retail investors sidestep the non-GAAP measures that have the SEC's hackles standing on end.

E-mail: mike@mikhogan.com