



## Value Investing 2.0 & The Technology Behind New Constructs

New Constructs was founded to build best valuation models in the business across thousands of securities. The old construct for models relies primarily on analysts who cover a small number of companies and independently build models that don't all work the same way. To build the best models, we had to create our own [data collection technology](#) to ensure we had both complete and accurate data so that our clients could trust our research.

Back in 2003, our original customers included top portfolio managers at Fidelity, Janus and TIAA-CREF. These highly sophisticated investors could not risk making billion-dollar decisions with models built on traditional databases like Compustat or Capital IQ. They needed to know an accounting expert had analyzed every page of a company's SEC filings to close GAAP accounting loopholes, and a finance expert had built a [truly comprehensive valuation model](#).

Our machine learning technology has processed over 120,000 filings since 2003. Recent advances in natural language processing (NLP) enable us to leverage machines to automatically parse 85%+ of filings and footnotes compared to just 30% a few years ago.

CEO David Trainer explains the background and workings of our technology in the video below.

[Watch New Constructs' Technology video here.](#)

The keys to the successes of our data collection technology are:

1. Experts in accounting and finance drive the machine learning and data parsing processes
2. Vast knowledge base (120,000+ filings) of expert-verified parsing instructions informs the natural language processing technology
3. Expert-verified models in the hands of sophisticated investors have vetted the results of our parsing and models for nearly a decade and a half

### Value Investing 2.0

We provide the due diligence advisors and portfolio managers need to fulfill fiduciary duties on 10,000 securities. We make true value investing practical again.

Validation of our technology and the research it generates comes from all corners of the market: [media](#), [partners](#), [customers](#) and [track record](#).

### Figure 1: Value Investing 2.0: Our Technology Offering In Pictures



Sources: New Constructs, LLC and company filings

For more insight into the technology behind New Constructs, we've created a page that details how we use source data from SEC filings and how that data is then analyzed and integrated into our company models.



[Learn more about New Constructs' technology here.](#)

*This article originally published [here](#) on December 1, 2016.*

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



## ***New Constructs® – Profile***

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### ***How New Constructs Creates Value for Clients***

We find it. You benefit. Cutting-edge technology enables us to scale our [forensic 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](#).

## *DISCLOSURES*

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