



Filing Season Finds: Week Of February 25 - March 3

Last week, our analysts parsed 700 filings and collected 102,289 data points. In total, they made 17,454 [adjustments](#) with a dollar value of \$6.1 trillion. That breaks down into:

- 7,361 income statement adjustments with a total value of \$422 billion
- 7,221 balance sheet adjustments with a total value of \$2.5 trillion
- 2,872 valuation adjustments with a total value of \$3.2 trillion

These adjustments helped to show that a former industrial giant's problems are even worse than they seem.

Figure 1: Filing Season Diligence

	Filings Parsed	Data Points Collected	# of Adjustments	Total Value of Adjustments (\$Billions)
Last Week	700	102,289	17,454	\$6,135
Filing Season Total	1,078	158,796	27,100	\$11,463

Sources: New Constructs, LLC and company filings.

So far this [filing season](#), we've found an [unusual contradictory disclosure](#) from Zoe's Kitchen (ZOES), [incredibly cheap stock options](#) granted by VMware (VMW), a [99-year operating lease](#) for Las Vegas Sands (LVS), and a [corporate jet](#) that constitutes 45% of homebuilder M/I Homes' (MHO) PP&E. Follow us on [Twitter](#) and check out the hashtag [#filingseasonfinds](#) for regular updates on our research.

Every year in this six-week stretch from mid-February through the end of March we parse and analyze roughly 2,000 10-Ks to update our [models](#) for companies with a 12/31 fiscal year end. This effort is made possible by the combination of expertly trained human analysts with what we call the "[Robo-Analyst](#)." The Robo-Analyst uses machine learning and natural language processing to automate much of the parsing process.

A Fiduciary Level of Diligence

Our technology enables us to deliver fundamental diligence at a previously impossible scale. We believe that in time investors will come to demand this level of diligence when it comes to their investment advice.

Only by reading through the footnotes and making adjustments to [reverse accounting distortions](#) can advisors go beyond the suitability standard and provide a fiduciary level of diligence to their clients.

One Company To Watch In 2017

Based on our analysis of US Steel's (X: \$37/share) 10-K this week, we have downgraded the stock from Dangerous to Very Dangerous.

Analyst Allen L. Jackson found a \$411 million [decrease in LIFO reserves](#) on [page 22](#) of the financial footnotes, page 112 overall. The decline in reserves helped to significantly decrease US Steel's reported cost of goods sold.

US Steel also recorded \$22 million [in non-operating pension income](#), attributable in part to its decision to raise its pension cost discount rate from 3.75% to 4.25% (found on [page 127](#)).

US Steel's GAAP net loss was 75% smaller in 2016 compared to 2015, but our adjustments showed that its net operating loss after tax ([NOPAT](#)) actually increased by 12%. Don't be fooled by the topline numbers, this former titan is only getting further from profitability.

Without reading the footnotes, investors would miss the large change in reserves in U.S. Steel's 10-K. Reading the footnotes is an essential part of providing a fiduciary level of diligence, and it has enabled our stock picks to [consistently outperform the market](#).



This article originally published [here](#) on March 6, 2017.

Disclosure: David Trainer, Allen L. Jackson, and Sam McBride receive no compensation to write about any specific stock, sector, style, or theme.

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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](#).



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