



Filing Season Finds: Wednesday, February 21

Forget all the “earnings season” analysis you read last month. The [real earnings season](#) – annual 10-K filing season – is happening right now.

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. Our analysts work tirelessly to uncover [red flags hidden in the footnotes](#) and make our models the best in the business.¹

For February 20, 2018, our forensic accounting red flag is from a hotel REIT with significant [hidden non-operating income](#).

We pulled this highlight from yesterday’s research of 111 10-K filings, from which our [Robo-Analyst](#) technology collected 17,910 data points. Our analyst team used this data to make 2,830 forensic accounting [adjustments](#) with a dollar value of \$1.3 trillion. The adjustments were applied as follows:

- 1,239 income statement adjustments with a total value of \$130 billion
- 1,138 balance sheet adjustments with a total value of \$478 billion
- 453 valuation adjustments with a total value of \$671 billion

Tuesday was the first day of filing season. Figure 1 shows the work our analysts did yesterday. As filing season goes on, we’ll compile the total amount of work performed by our analysts over the whole period.

Figure 1: Filing Season Diligence for Tuesday, February 20th

	Filings Parsed	Data Points Collected	# of Adjustments	Total Value of Adjustments (\$Billions)
Filing Season Day 1	111	17,910	2,830	\$1,279

Sources: New Constructs, LLC and company filings.

We believe this research is necessary to fulfill the [Fiduciary Duty of Care](#).

Today’s Forensic Accounting Needle in a Haystack Is for REIT Investors

Analyst Hunter Anderson found an unusual item yesterday in Chesapeake Lodging Trust’s (CHSP) 10-K.

On [page 26](#), CHSP disclosed a \$14.3 million decrease to expenses due to the write-off an unfavorable contract liability and a settlement gain following the change in management at its Denver hotel from Marriott (MAR) to Hilton (HLT).

CHSP’s GAAP net income, which includes this non-operating item, stayed flat between 2016 and 2017. Excluding this non-operating income, along with several other adjustments, shows that CHSP’s after-tax operating profit ([NOPAT](#)) actually declined by 15%, from \$111 million to \$94 million.

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

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¹ Ernst & Young’s recent white paper, “[Getting ROIC Right](#)”, proves the superiority of our research and analytics.



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Ratings & screeners on 3000 stocks, 450 ETFs and 7000 mutual funds help you make prudent investment decisions.

New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.



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