



Filing Season Finds: Thursday, February 22

For February 21, 2018, our forensic accounting red flag is from an amusement park operator with significant [hidden non-operating income](#).

We pulled this highlight from yesterday's research of 72 10-K filings, from which our [Robo-Analyst](#) technology collected 11,789 data points. Our analyst team used this data to make 1,985 forensic accounting [adjustments](#) with a dollar value of \$1.7 trillion. The adjustments were applied as follows:

- 878 income statement adjustments with a total value of \$133 billion
- 788 balance sheet adjustments with a total value of \$745 billion
- 319 valuation adjustments with a total value of \$842 billion

Figure 1: Filing Season Diligence for Wednesday, February 21st

	Filings Parsed	Data Points Collected	# of Adjustments	Total Value of Adjustments (\$Billions)
Filing Season Day 2	72	11,789	1,985	\$1,720
Filing Season Total	183	29,699	4,815	\$2,999

Sources: New Constructs, LLC and company filings.

We believe this research is necessary to fulfill the [Fiduciary Duty of Care](#). Ernst & Young's recent white paper, "[Getting ROIC Right](#)", demonstrates how these adjustments contribute to meaningfully superior models and metrics.

Today's Forensic Accounting Needle in a Haystack Is for Consumer Cyclical Investors

Analyst Pete Apockotos found an unusual item yesterday in Six Flags' (SIX) 10-K.

On [page 80](#), SIX disclosed a \$72.9 million reversal of stock-compensation expense. The compensation committee determined that they were unlikely to hit the \$600 million modified EBITDA target that would trigger executive stock grants in 2017, so they took a big gain to offset previous recorded stock-option expense. Essentially, the company got a \$72.9 million (27% of net income) boost to reported net income for failing to hit its performance target.

This non-operating income misleadingly boosted SIX's reported EPS by 147% in 2017. After this adjustment, our model shows that after-tax operating profit ([NOPAT](#)) grew by a much more modest 22%. Failure to adjust for this non-operating item creates the illusion that SIX is growing profits much faster than it truly is.

This article originally published on [February 22, 2018](#).

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

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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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