HBS & MIT Sloan Paper: Our "Novel Database" Corrects Market Inefficiencies and Generates Alpha

"The implications of these findings are potentially far-reaching for investors and for researchers."
– page 31, 2nd paragraph, 1st sentence

In "Core Earnings: New Data and Evidence", Ethan Rouen and Charles C.Y. Wang of Harvard Business School (HBS) and Eric So of Massachusetts Institute of Technology (MIT) Sloan School of Management use our "novel database" of earnings adjustments to reveal market inefficiencies and show investors how to:

- Measure & predict earnings more accurately
- Lower risks of using misleading data from traditional providers
- Generate alpha

"…this is the most comprehensive dataset that captures what a fundamental analyst would be likely to identify as transitory or non-operating earnings items..."
– page 9, 2nd paragraph, 2nd sentence

Only our research utilizes the superior data and earnings adjustments featured by the paper.

Get the paper

This paper shows how our superior data and research helps you:

- Pick better stocks
- Avoid losses from using other firms' data
- Build better cash flow & valuation models
- Exploit market inefficiencies
- Fulfill fiduciary duties

Don't just take our word for it. See what HBS and MIT Sloan professors say in the paper:

Pick better stocks:

"*Trading strategies that exploit cross-sectional differences in firms' transitory earnings produce abnormal returns of 7-to-10% per year.*" – Abstract, 4th sentence

"*The findings…suggest that firms in the highest decile of Total Adjustments outperform firms in the lowest decile by approximately 9-10% in the year after firms' 10K filings.*" – page 29, 3rd paragraph, 2nd sentence

Avoid losses from using other firms' data:

"*…many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat…*" – page 13, last paragraph, 1st sentence

"*To further explore Compustat's treatment of non-recurring items that appear on the income statement, we examined a random sample of 30 firm-years that reported economically meaningful items on their income statements to determine if and where Compustat reported these items. In all instances, NC identified the items as non-operating, and Core Earnings includes adjustments for these items. In 10 of the firm-years, the item was not reported in any Compustat variable; the other 20 items were reported in 13 different variables.*" – page 14, 1st paragraph, 4th-7th sentences

Build better models:

"*Core Earnings [calculated using New Constructs' novel dataset] provides predictive power for various measures of one-year-ahead performance…that is incremental to their current-period counterparts.*" – page 3-4, 3rd paragraph, 2nd sentence

Important Disclosure Information is contained on the last page of this report.
The recipient of this report is directed to read these disclosures.

"Because of the comprehensive nature of NC's approach to identifying non-operating and transitory income-statement related items, and because of its status as an independent research firm, the resulting measure of core earnings is less likely to exhibit the systematic bias that has been found in managers' pro-forma earnings." – page 2, 2nd paragraph, 4th sentence

Exploit market inefficiencies:

"These results suggest that the adjustments made by analysts to better capture core earnings are incomplete, and that the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures." – page 26, 1st paragraph, 2nd sentence

"Analysts and market participants are slow to impound the implications of transitory earnings." – page 1, Abstract, 3rd sentence

"…these figures show that the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications." – page 19, 2nd paragraph, last sentence

Fulfill fiduciary duties

"An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A." – page 31, 2nd paragraph, 4th sentence

"These findings also suggest that 'Income before Special Items' is not a good measure of operating or core income." – page 21, 2nd paragraph, 5th sentence

"…Core Earnings is a superior accounting measure of a company's operating earnings, and incremental to other measures when predicting future performance." – page 25, 1st paragraph, 1st sentence

Conclusion: Have Your Cake and Eat It Too

Now everyone can benefit from more accurate fundamental data and rigorous research without spending hours scouring financial filings.

This HBS and MIT Sloan paper shows that our Robo-Analyst[1] technology delivers materially better data that can improve stock-picking. Unconflicted and comprehensive fundamental research is finally available to all who care to make it a part of their investing process.

Why take the unnecessary risk of using lower quality data and research? You and your clients deserve the best technology has to offer.

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

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[1] Harvard Business School features the powerful impact of our research automation technology in the case New Constructs: Disrupting Fundamental Analysis with Robo-Analysts.

New Constructs® - Research to Fulfill the Fiduciary Duty of Care

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.

DISCLOSURES

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New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first 15 days after New Constructs issues a report on that security.

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