



## COVID-19 Drives Record Write-downs in 1H2020

Corporate managers appear to be using COVID-19 as a justification for writing down assets in unusually large amounts, aka the “[kitchen sink](#)” effect. We’re seeing the effect in large and small cap companies.

The Wall Street Journal features our research on the magnitude of asset impairments in the first half of 2020 as compared to the last twenty years in [Company Write-Downs Surge as Business Slows During Covid-19](#).

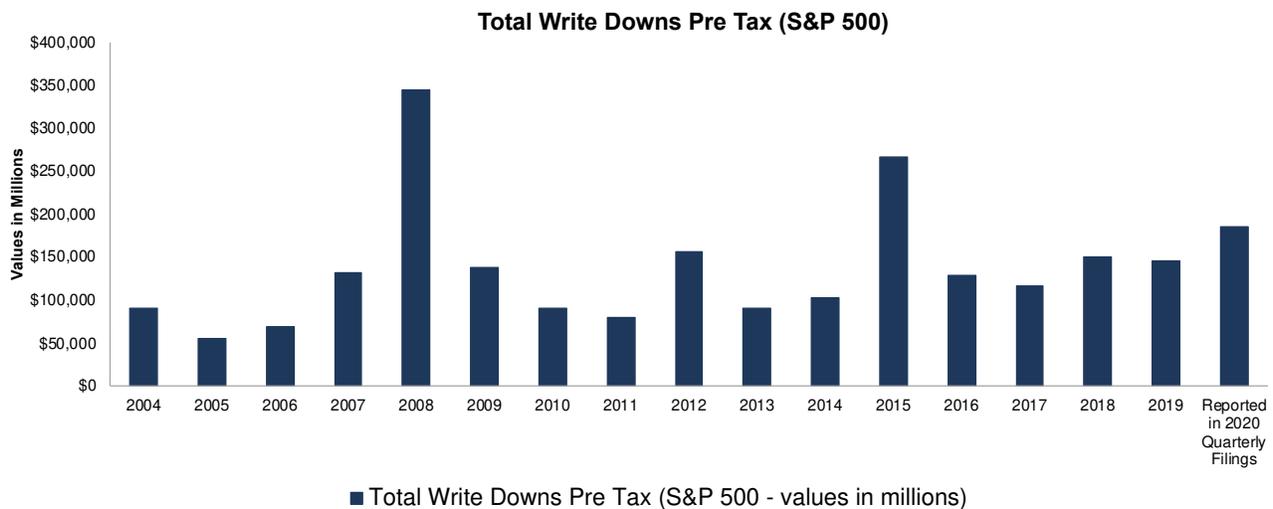
This research leverages our [Robo-Analyst](#) technology to shine a light in the dark corners of financial filings (i.e. footnotes) and provide clients with [more accurate](#) measures of earnings as proven by a recent study [from Harvard Business School and MIT Sloan](#).

### S&P 500 1H2020: Write-Downs Thus Far in 2020 Are 27% Higher than All of 2019

The total value of pre-tax<sup>1</sup> write-downs for the S&P 500 thus far in 2020 is ~\$185 billion, or 127% of the total in 2019. Our analysis shows write-downs tend to spike when stock markets and economic growth sink as they did during the financial crisis of 2008 and the economic turbulence in 2015.

We only have S&P 500 mappings back to 2004. Our data on All Cap and Small Cap stocks go back to 1998.

**Figure 1: S&P 500: Total Write-Downs Pre-Tax: 2004 through First Half of 2020**



Sources: New Constructs, LLC, and company filings

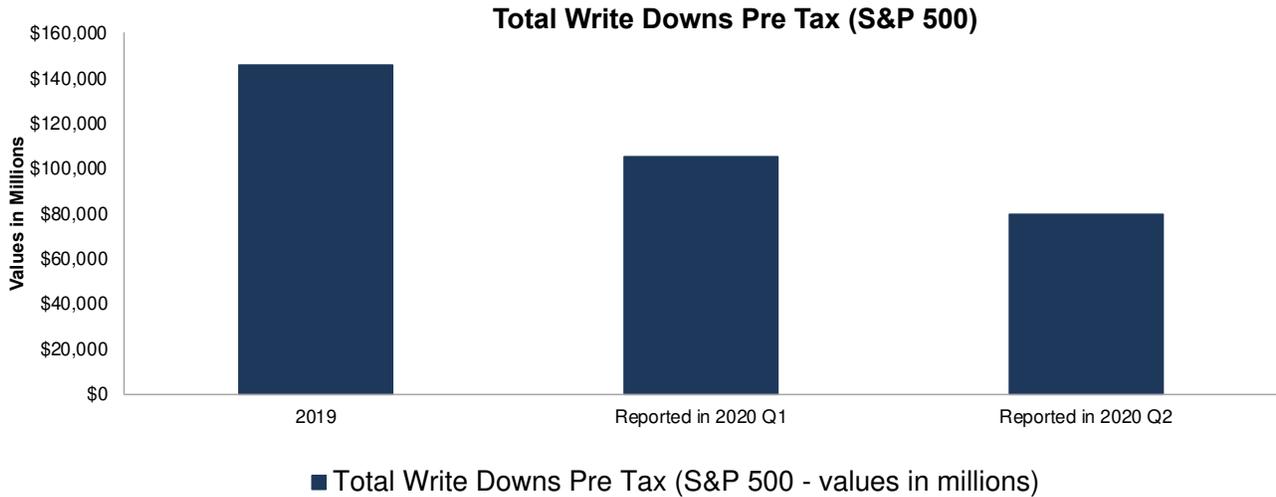
### S&P 500 1H2020: Write-Downs by Quarter

In 2020 Q1, the value of pre-tax write-downs disclosed was ~\$105 billion, or 72% of the total for 2019 for the S&P 500. Since then, we’ve collected another \$80 billion in pre-tax write-downs for the S&P 500.

<sup>1</sup> This report focuses on “pre-tax” values though we also have the after-tax values for all views presented.



Figure 2: S&P 500: Write-Downs in 2019 vs 1Q20 and 2Q20

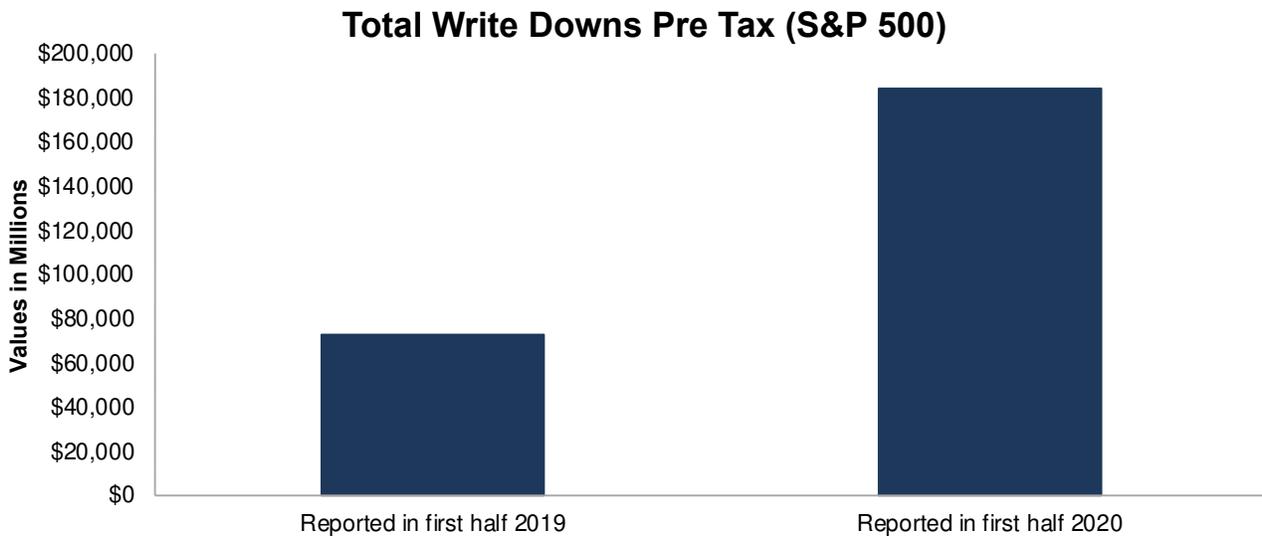


Sources: New Constructs, LLC, and company filings

**S&P 500: Write-Downs In 1H2020 vs 1H2019**

Pre-tax write-downs in the first half of 2020 totaled ~\$185 billion or 153% more than the total pre-tax value of write downs in the first half of 2019 for the S&P 500.

Figure 3: S&P 500: Write-Downs in First Half of 2019 vs 2020



Sources: New Constructs, LLC, and company filings

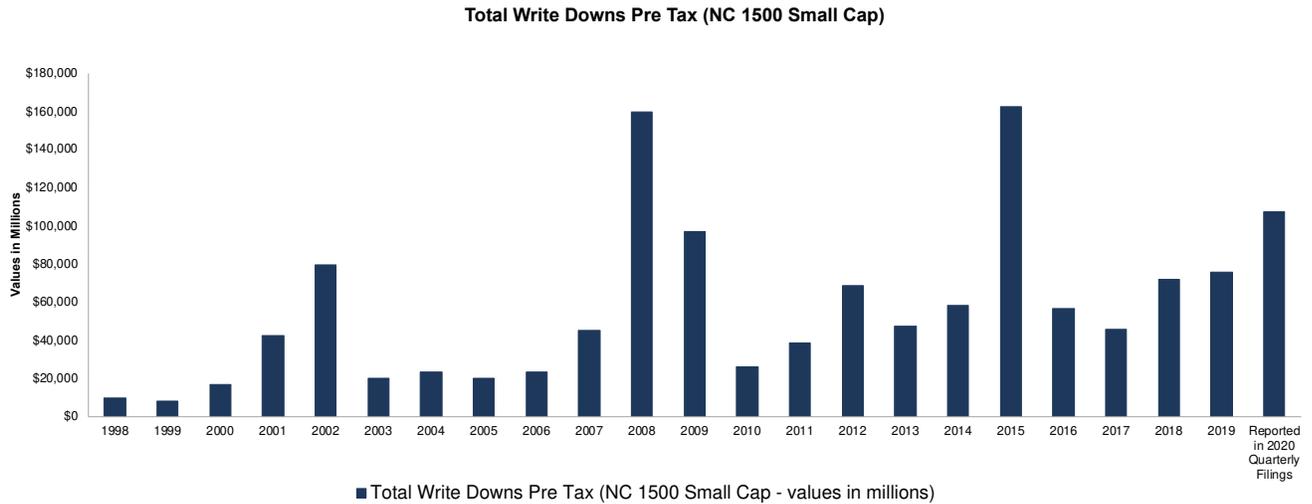
**Small Cap Companies: 1H2020: Write-Downs Thus Far in 2020 Are 83% Higher than All of 2019**

The total value of pre-tax write-downs for small cap companies thus far in 2020 is ~\$107 billion, or 183% of the total in 2019. Going back to the tech bubble, our analysis shows write-downs tend to spike when stock markets and economic growth flag.

The NC 1500 Small Cap index represents the aggregated results for the smallest 1500 companies by market cap in our NC 2000 All Cap index for each period. The list changes in each period based on the market caps of the companies in each period.



Figure 4: NC 1500 Small Cap: Total Write-Downs Pre-Tax: 1998 through First Half of 2020

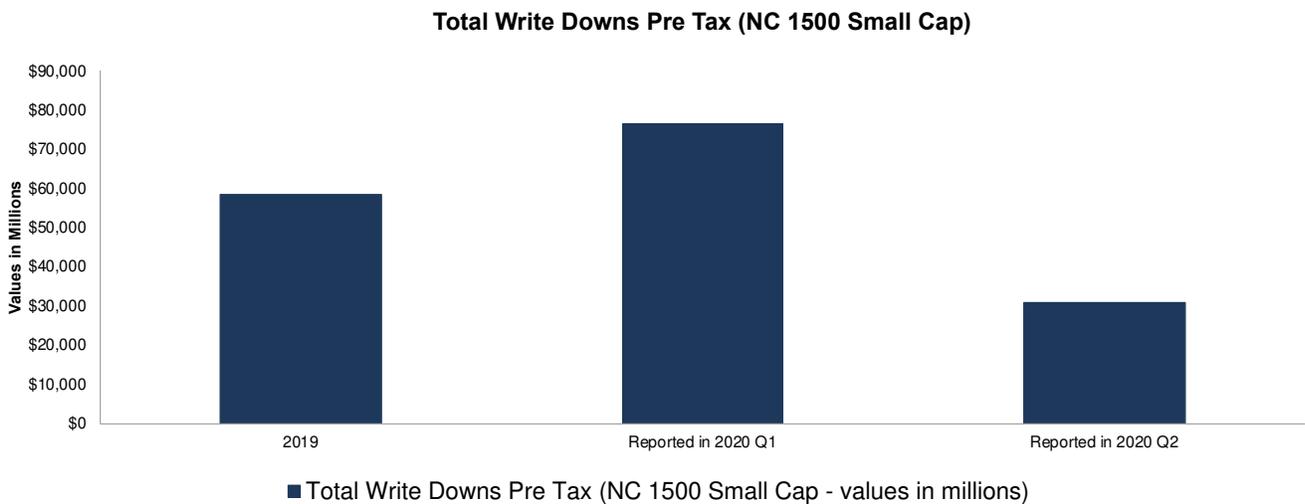


Sources: New Constructs, LLC, and company filings

Small Cap Companies: 1H20: Massive Charges in 2020 Q1

In 2020 Q1, the value of pre-tax write-downs disclosed was ~\$77 billion or 131% of the total for 2019 for small cap companies. Since then, we've collected another \$31 billion in pre-tax write-downs for small cap companies.

Figure 5: NC 1500 Small Cap: Write-Downs in 2019 vs 1Q20 and 2Q20



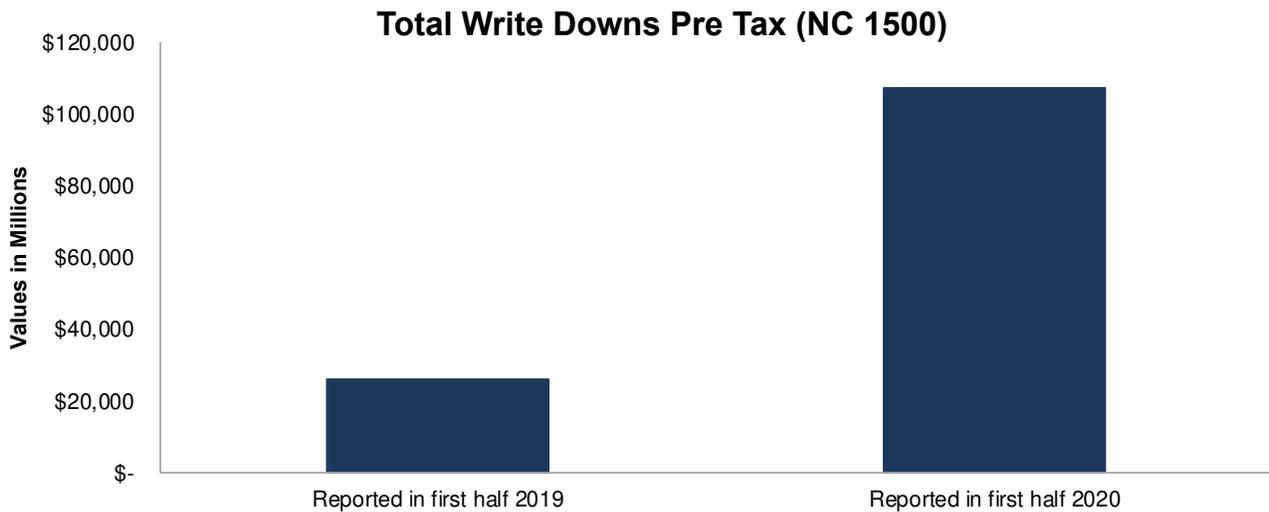
Sources: New Constructs, LLC, and company filings

NC 1500 Small Cap: Write-Downs In 1H2020 vs 1H2019

Pre-tax write-downs in the first half of 2020 totaled ~\$107 billion or 313% more than the total pre-tax value of write downs in the first half of 2019 for small cap companies.



Figure 6: NC 1500 Small Cap: Write-Downs in First Half of 2019 vs First Half of 2020



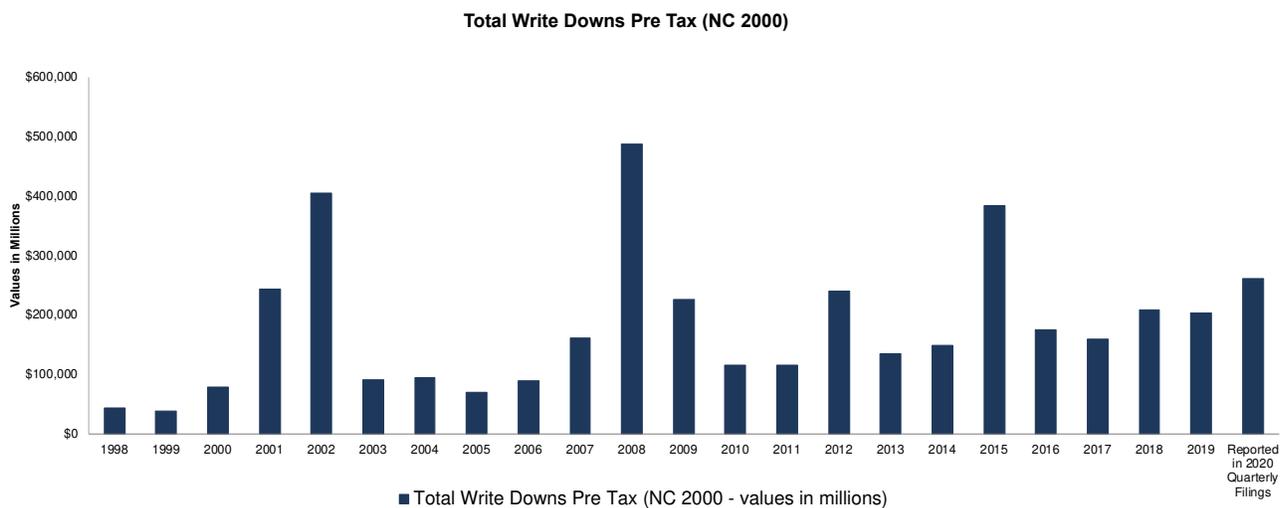
Sources: New Constructs, LLC, and company filings

All Cap Analysis: 1H2020: Write-Downs Thus Far 2020 Are 29% higher than All of 2019

The total value of pre-tax write-downs for our all cap index thus far in 2020 is ~\$261 billion, or 129% of the total in 2019. Going back to the tech bubble, our analysis shows write-downs tend to spike when stock markets and economic growth sink.

The NC 2000 All Cap index represents the aggregated results for the largest 2000 companies by market cap in our coverage universe for each period. The list changes in each period based on the market caps of the companies in each period.

Figure 7: NC 2000 All Cap: Total Write-Downs Pre-Tax: 1998 through First Half of 2020



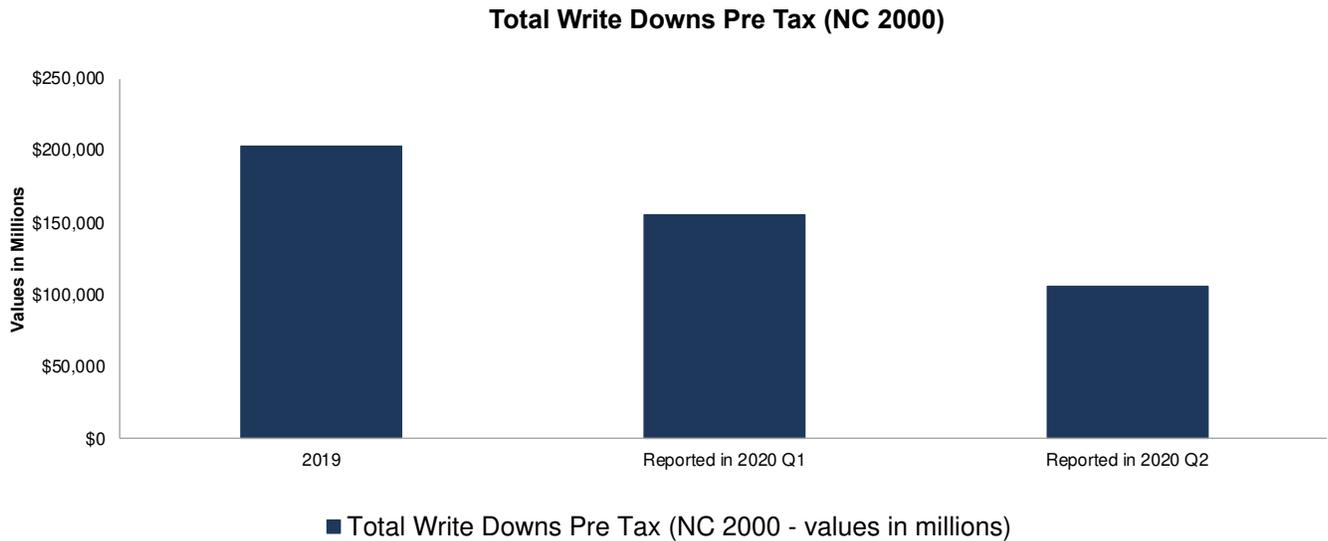
Sources: New Constructs, LLC, and company filings

All Cap Analysis: 1H2020: Write-Downs by Quarter

In 2020 Q1, the value of pre-tax write-downs disclosed was ~\$156 billion or 77% of the total for 2019 for our all cap index. Since then, we've collected another \$106 billion in pre-tax write-downs for our all cap index .



Figure 8: NC 2000 All Cap: Write-Downs in 2019 vs 1Q20 and 2Q20

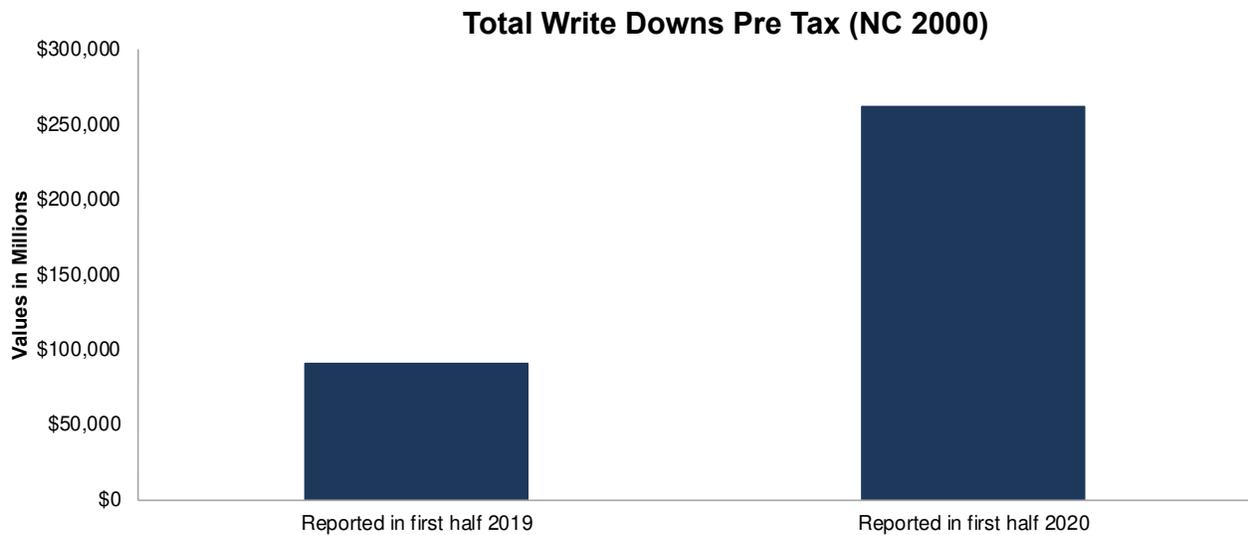


Sources: New Constructs, LLC, and company filings

**All Cap Analysis: Write-Downs In 1H2020 vs 1H2019**

Pre-tax write-downs in the first half of 2020 totaled ~\$262 billion or 188% more than the total pre-tax value of write downs in the first half of 2019 for our all cap index.

Figure 9: NC 2000 All Cap: Write-Downs in First Half of 2019 vs 2020



Sources: New Constructs, LLC, and company filings

This article originally published on [August 20, 2020](#).

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

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## Footnotes adjustments matter. We are the ONLY source.

We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

[HBS & MIT Sloan research](#) reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Corporate managers hide gains/losses in footnotes to manage earnings.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies ([featured by Harvard Business School](#)), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, [Core Earnings: New Data and Evidence](#), shows how our superior data drives uniquely comprehensive and independent debt and equity research.

This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

[Learn more.](#)

Quotes from HBS & MIT Sloan professors on our research:

### **Get better research:**

*“...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 20*

### **Pick better stocks:**

*“Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.” – Abstract*

### **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 14*

### **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 4*

### **Exploit market inefficiencies:**

*“These results ... suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, 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*

### **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 33-34*



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