



## Featured Stocks in November's Most Attractive/Most Dangerous Model Portfolios

### Recap From October's Picks

Our Most Attractive Stocks (-1.3%) outperformed the S&P 500 (-3.2%) from October 7, 2020 through November 2, 2020 by 1.9%. The best performing large cap stock gained 12% and the best performing small cap stock was up 21%. Overall, 25 out of the 40 Most Attractive stocks outperformed the S&P 500.

Our Most Dangerous Stocks (-0.5%) underperformed the S&P 500 (-3.2%) as a short portfolio from October 7, 2020 through November 2, 2020 by 2.7%. The best performing large cap stock fell by 14% and the best performing small cap stock fell by 17%. Overall, 14 out of the 35 Most Dangerous stocks outperformed the S&P 500 as shorts.

The Most Attractive/Most Dangerous Model Portfolios underperformed as an equal-weighted long/short portfolio by 0.4%.

Get the best fundamental research

Only our research utilizes the superior data and earnings adjustments featured by the HBS & MIT Sloan paper, "[Core Earnings: New Data and Evidence](#)." The successes of these model portfolios highlight the value of our machine learning and AI [Robo-Analyst technology](#)<sup>1</sup>, which helps clients fulfill the [fiduciary duty of care](#) and make smarter investments<sup>2</sup>.

18 new stocks make our Most Attractive list this month, and one new stock falls onto the Most Dangerous list this month. November's Most Attractive and Most Dangerous stocks were made available to members on November 4, 2020.

Our Most Attractive stocks have high and rising returns on invested capital (ROIC) and low [price to economic book value ratios](#). Most Dangerous stocks have [misleading earnings](#) and long [growth appreciation periods](#) implied by their market valuations.

### Most Attractive Stocks Feature for November: Intel Corporation (INTC: \$46/share)

Intel Corporation (INTC), is the featured stock from November's [Most Attractive Stocks Model Portfolio](#).

We recently made Intel a [Long Idea](#) in [August 2020](#) and while the stock is down 7% (vs. S&P 500 up 6%) since then, INTC still offers excellent risk/reward.

Intel has grown revenue by 7% compounded annually and net operating profit after-tax (NOPAT) by 15% compounded annually over the past three years. Longer term, the firm has grown NOPAT by 11% compounded annually over the past decade.

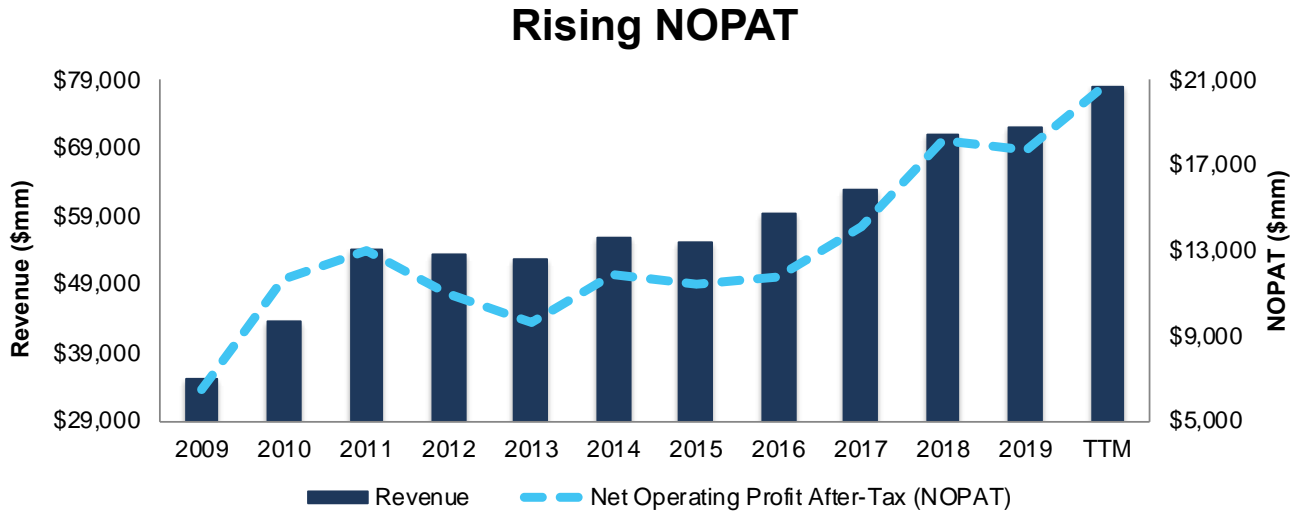
Intel's NOPAT margin increased from 20% in 2016 to 27% over the trailing-twelve-months (TTM) while its ROIC improved from 15% in 2016 to 18% TTM.

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

<sup>2</sup> This [paper](#) compares our analytics on a mega cap company to Bloomberg and Capital IQ (SPGI) in a detailed appendix.



Figure 1: Revenue & NOPAT Since 2009



Sources: New Constructs, LLC and company filings

### INTC Is Undervalued

At its current price of \$46/share, INTC has a price-to-economic book value ([PEBV](#)) ratio of 0.6. This ratio means the market expects Intel's NOPAT to permanently decline by 40%. This expectation seems overly pessimistic for a firm that grew NOPAT by 5% compounded annually over the past two decades.

Even if Intel's NOPAT margin falls to 22% (10-year average, compared to 27% TTM) and the firm grows NOPAT by just 2% compounded annually for the next decade, the stock is worth \$63/share today – a 37% upside. [See the math behind this reverse DCF scenario.](#)

### Critical Details Found in Financial Filings by Our [Robo-Analyst Technology](#)

As investors [focus more](#) on fundamental research, research automation technology is needed to analyze all the critical financial [details in financial filings](#) as shown in the Harvard Business School and MIT Sloan paper, "[Core Earnings: New Data and Evidence](#)".

Below are specifics on the adjustments we make based on Robo-Analyst findings in Intel's 10-K and 10-Q's:

**Income Statement:** we made \$5.4 billion of adjustments, with a net effect of removing \$3.2 billion in [non-operating income](#) (4% of revenue). You can see all the adjustments made to Intel's income statement [here](#).

**Balance Sheet:** we made \$43 billion of adjustments to calculate invested capital with a net decrease of \$4 billion. One of the largest adjustments was \$8.8 billion in [asset write-downs](#). This adjustment represented 8% of reported net assets. You can see all the adjustments made to Intel's balance sheet [here](#).

**Valuation:** we made \$63.8 billion of adjustments with a net effect of decreasing shareholder value by \$17.6 billion. Apart from [total debt](#), the most notable adjustment to shareholder value was \$23 billion in [excess cash](#). This adjustment represents 12% of Intel's market cap. See all adjustments to Intel's valuation [here](#).



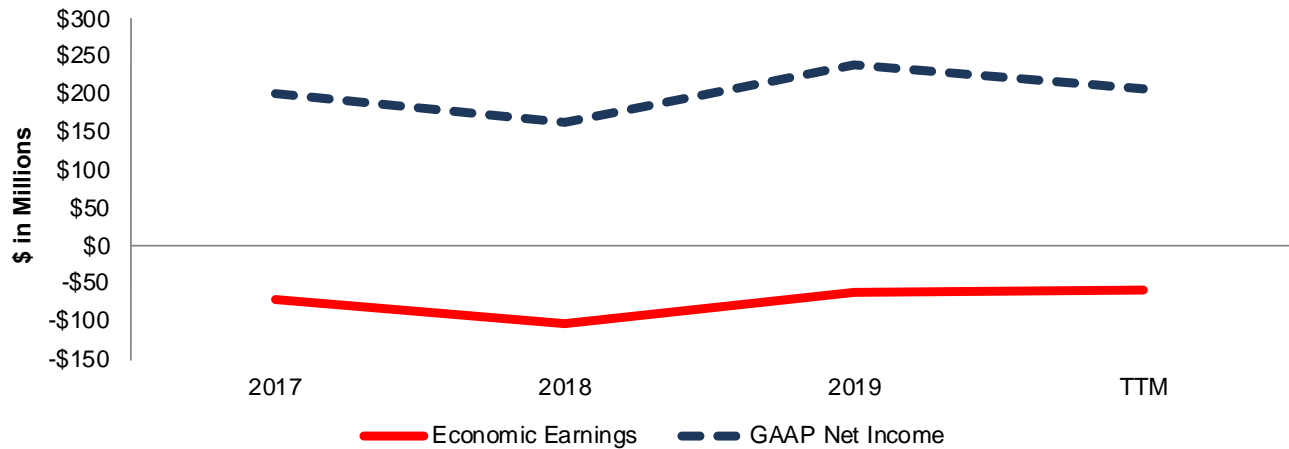
### Most Dangerous Stocks Feature: First Industrial Realty Trust, Inc. (FR: \$43/share)

First Industrial Realty Trust, Inc. (FR) is the featured stock from November's [Most Dangerous Stocks Model Portfolio](#).

While First Industrial's GAAP net income improved from \$46 million in 2014 to \$208 TTM, the firm's [economic earnings](#), the true cash flows of the business, remain negative and improved at a much slower pace, per Figure 2. The firm's NOPAT margin fell from 41% in 2019 to 36% TTM and ROIC fell from 6% to a bottom-quintile 5% over the same time.

**Figure 2: GAAP Net Income vs. Economic Earnings**

### GAAP Significantly Overstates True Profitability



Sources: New Constructs, LLC and company filings

### FR Provides Poor Risk/Reward

Despite its poor fundamentals, FR is still priced for significant profit growth and is overvalued.

To justify its current price of \$43/share, First Industrial must achieve a 47% NOPAT margin (highest since 2002, compared to 36% TTM) and grow NOPAT by 11% compounded annually over the next decade. [See the math behind this reverse DCF scenario](#). This expectation seems overly optimistic given that First Industrial's NOPAT over the past two decades has fallen by 1% compounded annually.

Even if First Industrial can maintain its TTM NOPAT margin of 36% and grow NOPAT by 8% compounded annually for the next 10 years, the stock is worth just \$24/share today, a 44% downside to the current stock price. [See the math behind this reverse DCF scenario](#).

Each of these scenarios also assumes First Industrial is able to grow revenue, NOPAT, and FCF without increasing working capital or fixed assets. This assumption is unlikely, but allows us to create best-case scenarios that demonstrate how high expectations embedded in the current valuation are. For reference, First Industrial's [invested capital](#) has grown by an average of \$169 million (40% of 2019 revenue) per year since 2015.

### Critical Details Found in Financial Filings by Our [Robo-Analyst Technology](#)

As investors [focus more](#) on fundamental research, research automation technology is needed to analyze all the critical financial [details in financial filings](#) as shown in the Harvard Business School and MIT Sloan paper, "[Core Earnings: New Data and Evidence](#)".

Below are specifics on the adjustments we make based on Robo-Analyst findings in First Industrial's 10-K and 10-Q's:



Income Statement: we made \$188 million of adjustments, with a net effect of removing \$62 million in in [non-operating income](#) (14% of revenue). You can see all the adjustments made to First Industrial's income statement [here](#).

Balance Sheet: we made \$221 million of adjustments to calculate invested capital with a net decrease of \$10 million. One of the largest adjustments was \$74 million for [midyear acquisitions](#). This adjustment represented 2% of reported net assets. You can see all the adjustments made to First Industrial's balance sheet [here](#).

Valuation: we made \$1.9 billion of adjustments with a net effect of decreasing shareholder value by \$1.6 billion. Apart from total debt, the most notable adjustment to shareholder value was \$43 million in [minority interests](#). This adjustment represents 1% of First Industrial's market cap. See all adjustments to First Industrial's valuation [here](#).

*This article originally published on [November 13, 2020](#).*

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

*Follow us on [Twitter](#), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.*



## 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*



## DISCLOSURES

---

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

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.

## DISCLAIMERS

---

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs. Copyright New Constructs, LLC 2003 through the present date. All rights reserved.