



## Model Portfolio: March 2021: Exec Comp Aligned with ROIC

*15 Large/Mid/Small Cap Stocks*

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- **Figure 1** shows nine new stocks that make our March list.
- The portfolio (+1.8%) outperformed the S&P 500 (-0.8%) from February 12, 2021 through March 10, 2021.
- **Figure 8** shows the nine stocks that outperformed since February’s report.
- The stocks in this model portfolio earn an Attractive or Very Attractive rating. All of the companies have executive compensation plans that are aligned with return on invested capital (ROIC).
- ROIC is by far the [biggest driver](#) of stock valuation.
- This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.
- Our Robo-Analyst technology, [featured by Harvard Business School](#), enables analysis of financial footnotes at unprecedented scale.
- Our research utilizes more reliable & [proprietary](#) fundamental data, proven in [The Journal of Financial Economics](#) and [studies](#) from the public & private sectors.

**Figure 1: Additions for March**

Portfolio Additions	
Ticker	Company Name
AOS	A.O. Smith Corp
CMI	Cummins Inc.
GNTX	Gentex Corporation
GWW	W.W. Grainger, Inc.
KMB	Kimberly-Clark Corp
LII	Lennox International
NVR	NVR Inc.
ORLY	O’Reilly Automotive
RHI	Robert Half International

Sources: New Constructs, LLC

This model portfolio is updated around the 15<sup>th</sup> of every month.

Please see Appendix B for explanations of additions and deletions to the [Executive Compensation Aligned with ROIC Model Portfolio](#).

## The 5 “Accurate ROIC Calculation/Strong Alignment with Exec Comp” Stocks for March

We recommend that investors equal-weight holdings in all 5 stocks.

**Figure 2: 5 Accurate ROIC Calculation/Strong Alignment with Exec Comp Stocks for March**

Ticker	Company Name	Sector	High-Quality Earnings		Cheap Valuation				Executive Compensation Plans Aligned with ROIC
			As of Last Twelve Months		as of 3/10/21				Proxy Statement
			Positive Economic EPS	Return On Invested Capital (ROIC)	Positive Free Cash Flow Yield	Low Price-to-Economic Book Value	Short Market-Implied GAP (years)	Market Value (\$mm)	
NVR	NVR Inc.	Consumer Cyclical	\$216.30	35%	5%	1.0	Less than 1	\$17,583	<a href="#">NVR Proxy Statement</a>
AZO	AutoZone Inc.	Consumer Cyclical	\$78.54	27%	6%	0.6	Less than 1	\$28,585	<a href="#">AZO Proxy Statement</a>
JBSS	John B. Sanfilippo & Son	Consumer Non-cyclical	\$4.10	17%	4%	0.5	Less than 1	\$1,048	<a href="#">JBSS Proxy Statement</a>
KMB	Kimberly-Clark Corp	Consumer Non-cyclical	\$7.09	17%	2%	0.5	Less than 1	\$45,490	<a href="#">KMB Proxy Statement</a>
CLX	The Clorox Company	Consumer Non-cyclical	\$8.08	16%	2%	0.6	Less than 1	\$23,810	<a href="#">CLX Proxy Statement</a>

\* Addition to the list in March

Stocks are ranked by ROIC in Descending Order

Sources: New Constructs, LLC

## The 5 “Flawed ROIC Calculation/Strong Alignment with Exec Comp” Stocks for March

We recommend that investors equal-weight holdings in all 5 stocks.

**Figure 3: 5 Flawed ROIC Calculation/Strong Alignment with Exec Comp Stocks for March**

Ticker	Company Name	Sector	High-Quality Earnings		Cheap Valuation				Executive Compensation Plans Aligned with ROIC
			As of Last Twelve Months		as of 3/10/21				Proxy Statement
			Positive Economic EPS	Return On Invested Capital (ROIC)	Positive Free Cash Flow Yield	Low Price-to-Economic Book Value	Short Market-Implied GAP (years)	Market Value (\$mm)	
RHI	Robert Half International	Industrials	\$1.68	20%	5%	1.8	5	\$8,655	<a href="#">RHI Proxy Statement</a>
STX	Seagate Technology	Technology	\$3.91	20%	5%	0.7	Less than 1	\$17,735	<a href="#">STX Proxy Statement</a>
GWW	W.W. Grainger	Industrials	\$14.46	18%	3%	1.1	Less than 1	\$20,736	<a href="#">GWW Proxy Statement</a>
AOS	A.O. Smith Corp	Industrials	\$1.57	15%	5%	1.2	1	\$10,514	<a href="#">AOS Proxy Statement</a>
CMI	Cummins Inc.	Consumer Cyclical	\$6.91	11%	4%	1.1	Less than 1	\$40,330	<a href="#">CMI Proxy Statement</a>

\* Addition to the list in March

Stocks are ranked by ROIC in Descending Order

Sources: New Constructs, LLC

## The 5 “Weak Alignment with Exec Comp” Stocks for March

We recommend that investors equal-weight holdings in all 5 stocks.

**Figure 4: 5 Weak Alignment with Exec Comp Stocks for March**

Ticker	Company Name	Sector	High-Quality Earnings		Cheap Valuation				Executive Compensation Plans Aligned with ROIC
			As of Last Twelve Months		as of 3/10/21				Proxy Statement
			Positive Economic EPS	Return On Invested Capital (ROIC)	Positive Free Cash Flow Yield	Low Price-to-Economic Book Value	Short Market-Implied GAP (years)	Market Value (\$mm)	
ORLY	O'Reilly Automotive	Consumer Cyclical	\$22.51	29%	5%	0.8	Less than 1	\$33,271	<a href="#">ORLY Proxy Statement</a>
GNTX	Gentex Corporation	Consumer Cyclical	\$1.10	23%	4%	1.2	Less than 1	\$8,894	<a href="#">GNTX Proxy Statement</a>
JOUT	Johnson Outdoors	Consumer Cyclical	\$5.40	19%	4%	0.8	Less than 1	\$1,426	<a href="#">JOUT Proxy Statement</a>
LII	Lennox International	Industrials	\$8.02	17%	3%	1.2	4	\$11,024	<a href="#">LII Proxy Statement</a>
AMGN	Amgen Inc.	Healthcare	\$10.12	16%	5%	0.7	Less than 1	\$132,817	<a href="#">AMGN Proxy Statement</a>

\* Addition to the list in March

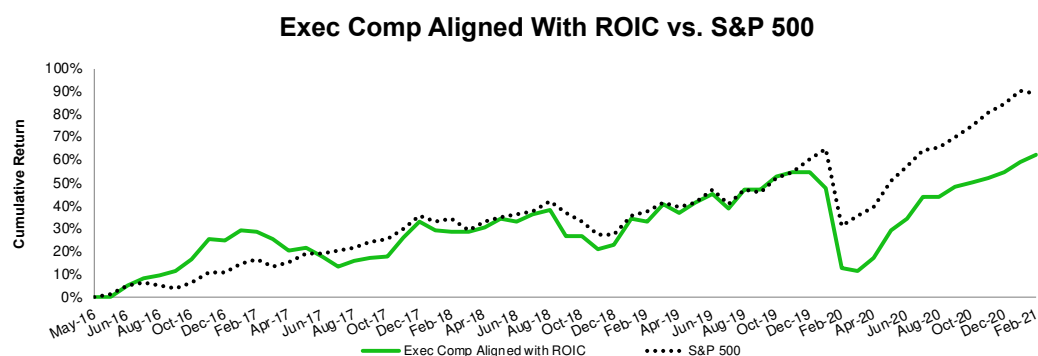
Stocks are ranked by ROIC in Descending Order

Sources: New Constructs, LLC

## Exec Comp Aligned with ROIC: Overall Performance

Per Figure 5, The Exec Comp Aligned with ROIC Portfolio has underperformed since inception in May 2016. Since then, the Exec Comp Aligned with ROIC Portfolio has cumulative returns of 62% compared to 89% for the S&P 500. A detailed breakdown of last month's performance can be seen on the next page.

**Figure 5: Performance of Exec Comp Aligned with ROIC Model Portfolio**



Sources: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs and dividends

Most recent month return data is through March 10, 2021. Official return data will be provided in our quarterly Model Portfolio Performance reports

**Figure 6: Monthly Return of Exec Comp Aligned with ROIC**

	Portfolio Returns						
	2016	2017	2018	2019	2020	Jan-21	Feb-21
Exec Comp Aligned with ROIC	24.6%	6.9%	-7.9%	26.4%	-0.1%	2.9%	1.8%
S&P 500	10.8%	22.4%	-6.1%	25.8%	15.3%	3.1%	-0.8%

Sources: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs and dividends

Most recent month return data is through March 10, 2021. Official return data will be provided in our quarterly Model Portfolio Performance reports

**Figure 7: Cumulative Return of Exec Comp Aligned with ROIC**

	Cumulative Portfolio Returns						
	2016	2017	2018	2019	2020	Jan-21	Feb-21
Exec Comp Aligned with ROIC	24.6%	33.1%	22.6%	55.0%	54.8%	59.3%	62.2%
S&P 500	10.8%	35.6%	27.4%	60.2%	84.7%	90.4%	88.9%

Sources: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs and dividends

Most recent month return data is through March 10, 2021. Official return data will be provided in our quarterly Model Portfolio Performance reports



**Exec Comp Aligned with ROIC: Monthly Updates**

The [Exec Comp Aligned With ROIC Portfolio](#) (+1.8%) outperformed the S&P 500 (-0.8%) from February 12, 2021 through March 10, 2021. Nine stocks from our February Exec Comp Aligned with ROIC lists outperformed the S&P 500, and nine stocks had positive returns. See Figure 8 for details. For updates on the performance of all of last month's stocks, see Appendix A. This performance is based on closing prices from February 12, 2021 through March 10, 2021.

See our quarterly [Model Portfolio Performance reports](#) for updates on performance through the publish date of each month's Model Portfolio.

**Figure 8: Nine Stocks That Outperformed Since February's Report**

Exec Comp Aligned With ROIC		
Ticker	Company Name	Change From 2/12/21
JOUT	Johnson Outdoors Inc.	13.7%
AZO	AutoZone Inc.	9.5%
FL	Foot Locker, Inc.	8.7%
SJM	The J.M. Smucker Company	5.2%
WSM	Williams-Sonoma Inc.	4.8%
STX	Seagate Technology, PLC	3.8%
CLX	The Clorox Company	1.8%
LMT	Lockheed Martin Corp	0.9%
JBSS	John B. Sanfilippo & Son, Inc.	0.5%
<b>S&amp;P 500</b>	<b>S&amp;P 500</b>	<b>-0.8%</b>

Sources: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs and dividends

Return data is through March 10, 2021. Official return data will be provided in our quarterly Model Portfolio Performance reports



### Exec Comp Aligned with ROIC: Methodology

Stocks on the Exec Comp Aligned with ROIC list must earn an Attractive or Very Attractive rating. Stocks earn an Attractive or Very Attractive rating when they have:

1. **High-Quality Earnings** based on:
  - a. Returns on Invested Capital that are rising; and
  - b. Economic Earnings/Cash Flows that are positive.

AND

2. **Cheap Valuations** based on:
  - a. *Free-Cash Flow Yields*<sup>1</sup> that are positive;
  - b. *Price-to-Economic Book Value* (EBV)<sup>2</sup> ratios that are relatively low; and
  - c. *Growth Appreciation Periods*<sup>3</sup> (GAP) that are relatively low.

Figure 9 shows our Risk/Reward Rating analysis, which we apply to each of the 3000+ companies that we cover. Stocks get a grade of 1 to 5 for each criterion, 5 being the worst and 1 being the best score. The Overall score is based on the average score of all five criteria. Stocks must get an average score of 1.4 or below to be rated Very Attractive.

**Figure 9: New Constructs Risk/Reward Rating for Stocks**

Risk/Reward Rating ⑦	Quality of Earnings		Valuation		
	Econ vs Reported EPS ⑦	ROIC ⑦	FCF Yield ⑦	Price to EBV ⑦	GAP ⑦
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	> 3.5 or -1 < 0	> 50
Unattractive	False Positive	4th Quintile	-5% < -1%	2.4 < 3.5 or < -1	20 < 50
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10
Very Attractive	Rising EE	Top Quintile	> 10%	0 < 1.1	0 < 3

Sources: New Constructs, LLC

Up to 15 stocks can make it into this model portfolio. These 15 stocks are broken into three groups of five:

1. Group 1: fairly accurate calculations of ROIC and strong alignment with executive compensation.
2. Group 2: question marks over their ROIC calculations but good alignment with executive compensation.
3. Group 3: weak alignment with executive compensation and put more value on metrics such as EPS.

Ultimately, any alignment between executive compensation and ROIC is better than none, but by using superior calculations and aligning a larger percentage of compensation with ROIC, the stocks in Group 1 do the best job of incentivizing shareholder value creation.

<sup>1</sup> Free-Cash Flow Yields measure the % of the total value of the firm for which the Free Cash Flows of the firm account. The formula is FCF/Current Enterprise Value.

<sup>2</sup> Economic Book Value (EBV) measures the no-growth value of the business based on its annual after-tax cash flow. The Formula for EBV is: (NOPAT / WACC) + Excess Cash + Non-operating assets – Debt (incl. Operating Leases) - Value of Outstanding Stock Options – Minority Interests.

<sup>3</sup> Growth Appreciation Period measures the number of years, implied by the market-price, that a company will grow its economic earnings. This measure assigns a numerical value to the width of the moat around a firm's business.



To be fair, calculating an accurate ROIC is not easy by any means. We have spent millions of dollars on technology to help us collect and model data as accurately as is humanly possible; so our standards are a little high. Still, we think investors should have high standards in this area.

For more on the methodology behind the Exec Comp Aligned with ROIC Model Portfolio, [click here](#).





***Appendix A – Performance of Stocks in February’s Report***

**Figure 10: Performance of All Stocks Since February’s Report**

<b>Exec Comp Aligned With ROIC</b>		
<b>Ticker</b>	<b>Company Name</b>	<b>Change From 2/12/21</b>
JOUT	Johnson Outdoors Inc.	13.7%
AZO	AutoZone Inc.	9.5%
FL	Foot Locker, Inc.	8.7%
SJM	The J.M. Smucker Company	5.2%
WSM	Williams-Sonoma Inc.	4.8%
STX	Seagate Technology, PLC	3.8%
CLX	The Clorox Company	1.8%
LMT	Lockheed Martin Corp	0.9%
JBSS	John B. Sanfilippo & Son, Inc.	0.5%
<b>S&amp;P 500</b>	<b>S&amp;P 500</b>	<b>-0.8%</b>
BIG	Big Lots, Inc.	-1.3%
CASY	Casey's General Stores, Inc.	-2.3%
AMGN	Amgen Inc.	-3.1%
HD	The Home Depot, Inc.	-4.1%
LOW	Lowe's Companies, Inc.	-4.9%
TGT	Target Corporation	-6.7%
<b>Portfolio Return</b>		<b>1.8%</b>

Sources: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs and dividends

Return data is through March 10, 2021. Official return data will be provided in our quarterly Model Portfolio

Performance reports



## ***Appendix B – Additions and Deletions***

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### **Accurate ROIC Calculation/Strong Alignment with Exec Comp**

#### **Deletions:**

- FL - Displaced by improved rank of other stocks
- TGT - Displaced by improved rank of other stocks

#### **Additions:**

- KMB - Addition by improved rank over other stocks
- NVR - Addition by improved rank over other stocks

### **Flawed ROIC Calculation/Strong Alignment with Exec Comp**

#### **Deletions:**

- BIG - Displaced by improved rank of other stocks
- CASY - Displaced by improved rank of other stocks
- LOW - Expected to file 10-K within current month
- SJM - Displaced by improved rank of other stocks

#### **Additions:**

- AOS - Addition by improved rank over other stocks
- CMI - Addition by improved rank over other stocks
- GWW - Addition by improved rank over other stocks
- RHI - Addition by improved rank over other stocks

### **Weak Alignment with Exec Comp**

#### **Deletions:**

- HD - Expected to file 10-K within current month
- LMT - Displaced by improved rank of other stocks
- WSM - Expected to file 10-K within current month

#### **Additions:**

- GNTX - Addition by improved rank over other stocks
- LII - Addition by improved rank over other stocks
- ORLY - Addition by improved rank over other stocks



## Explanation of Risk/Reward Rating System

Our Risk/Reward Rating System assigns a rating to every stock under our coverage according to what we believe are the 5 most important criteria for assessing the risk versus reward of stocks. See table that follows for details.

<b>Risk/Reward Ranking</b>	<b>The Risk/Reward Ranking provides a final rating based on the equal-weighted average rating of each criterion.</b>
<b>Very Unattractive</b>	FCF Yield is not included in the average.
<b>Unattractive</b>	FCF Yield is not included in the average.
<b>Neutral</b>	All criteria are equal-weighted in the average calculation.
<b>Attractive</b>	All criteria are equal-weighted in the average calculation.
<b>Very Attractive</b>	All criteria are equal-weighted in the average calculation.

<b>Economic vs Reported EPS</b>	<b>Rates stocks based on how their Economic Earnings compare to their Reported Earnings. Values based on Latest Fiscal Year.</b>
<b>Very Unattractive</b>	Negative and declining Economic Earnings despite positive and rising Reported Earnings
<b>Unattractive</b>	Same as above except Reported Earnings are not rising or Reported Earnings are not positive
<b>Neutral</b>	Negative Economic and Reported Earnings
<b>Attractive</b>	Economic Earnings are positive
<b>Very Attractive</b>	Economic Earnings are positive and rising

<b>Return on Invested Capital (ROIC)</b>	<b>Rates stocks based on their ROIC. Values based on Latest Fiscal Year.</b>
<b>Bottom Quintile</b>	Very Unattractive = < 4.8%
<b>4th Quintile</b>	Unattractive = 4.8% < 7.5%
<b>3rd Quintile</b>	Neutral = 7.5% < 10.5%
<b>2nd Quintile</b>	Attractive = 10.5% < 14.5%
<b>Top Quintile</b>	Very Attractive = > 14.5%

<b>FCF Yield</b>	<b>Rates stocks based on their Free Cash Flow Yield. Values based on Latest Closing Stock price and Latest Fiscal Year.</b>
<b>&lt;-5%</b>	Very Unattractive = less than or equal to -5%
<b>-5%&lt;-1%</b>	Unattractive = more than -5% but less than or equal to -1%
<b>-1%&lt;3%</b>	Neutral = more than -1% but less than or equal to +3%
<b>3%&lt;10%</b>	Attractive = more than +3% but less than or equal to +10%
<b>&gt;10%</b>	Very Attractive = more than +10%



<b>Price-to-EBV Ratio</b>	<b>Rates stocks based on their Price-to-Economic Book Value Ratio. Values based on Latest Closing Stock price and Latest Fiscal Year.</b>
>3.5 or -1>0	Very Unattractive = greater than or equal to 3.5 or less than 0 but greater than -1
2.4>3.5 or <-1	Unattractive = greater than or equal to 2.4 but less than 3.5 and less than or equal to -1
1.6>2.4	Neutral = greater than or equal to 1.6 but less than 2.4
1.1>1.6	Attractive = greater than or equal to 1.1 but less than 1.6
0>1.1	Very Attractive = greater than or equal to 0 but less than 1.1

<b>Growth Appreciation Period (yrs)</b>	<b>Rates stocks based on their Market-Implied Growth Appreciation Period. Values based on Latest Closing Stock price and Default Forecast Scenario.</b>
>50	Very Unattractive = greater than or equal to 50 years
20>50	Unattractive = at least 20 years but less than 50
10>20	Neutral = at least 10 years but less than 20
3>10	Attractive = at least 3 years but less than 10
0>3	Very Attractive = at least 0 years but less than 3



## *It's Official: We Offer the Best Fundamental Data in the World*

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

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Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms’ data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global’s (SPGI) Adjustments* individually.” – pp. 14, 1<sup>st</sup> para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2<sup>nd</sup> para.

### **Superior Models**

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [ as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5<sup>th</sup> para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2<sup>nd</sup> para.

### **Superior Stock Ratings**

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> para.

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