



Write-Downs Near 15-Year Lows Post 2020 “Kitchen Sink”

In what turned out to be a “[kitchen sink](#)” year, corporate managers used COVID-19 as a justification to write-down more assets in 2020 than any year since 2008. With the books “cleaned up”, S&P 500 companies are on pace to record the lowest amount of write-downs in 15 years. We see a similar trend in Small Cap and All Cap companies.

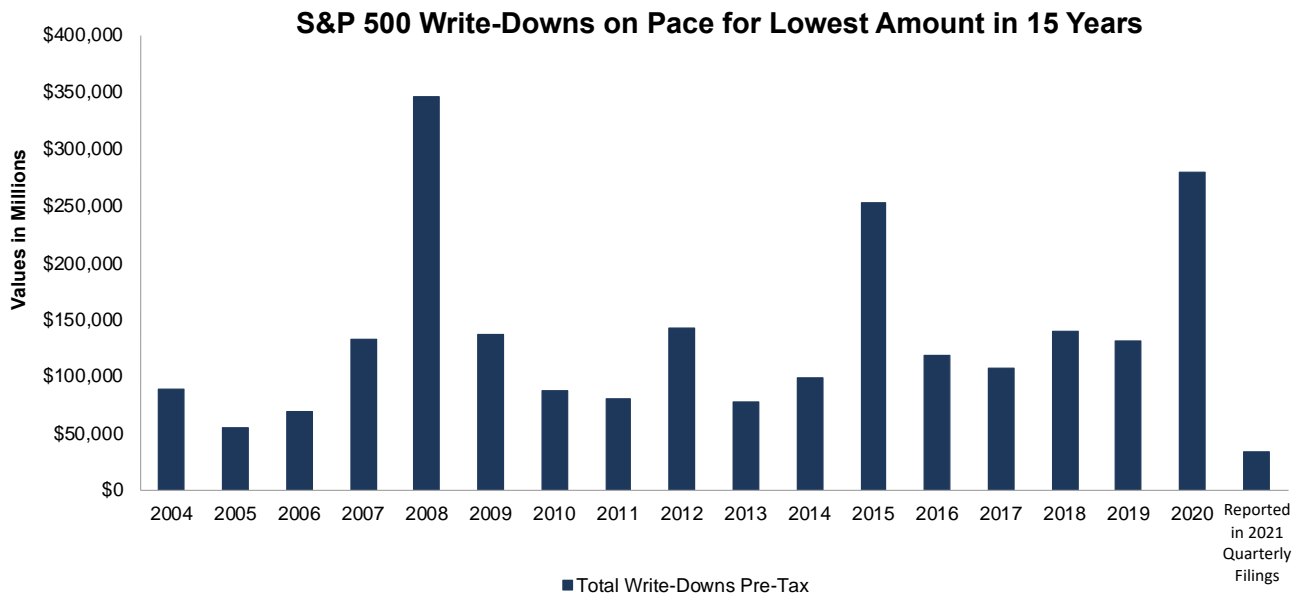
In this report, we’ll look at the write-down trends across the S&P 500, NC 1500 (our proxy for Small Cap companies), and the NC 2000 (our proxy for All Cap companies).

These reports leverage [more reliable fundamental data](#)¹ that overcomes [flaws with legacy fundamental datasets](#). Our [Earnings Distortion](#) factor generates [substantial idiosyncratic](#) alpha.

S&P 500 1H21: Write-Downs Are 81% Lower than 1H20

The total value of pre-tax² write-downs for the S&P 500 in 1H21 is \$33.6 billion, or just 12% of the total write-downs in 2020. Our analysis shows write-downs tend to spike (“[kitchen sink](#)” effect) when stock markets and economic growth sink as they did during the financial crisis of 2008, the economic turbulence in 2015, and the pandemic-driven disruptions in 2020.

Figure 1: S&P 500: Total Write-Downs Pre-Tax: 2004³ through First Half of 2021



Sources: New Constructs, LLC, and company filings

S&P 500 1H21: Write-Downs by Quarter

In 1Q21, S&P 500 companies disclosed \$16.3 billion in pre-tax write-downs, 84% less than 1Q20 and just 6% of the total for 2020. In 2Q21, we found another \$17.3 billion in pre-tax write-downs for the S&P 500. See Figure 2.

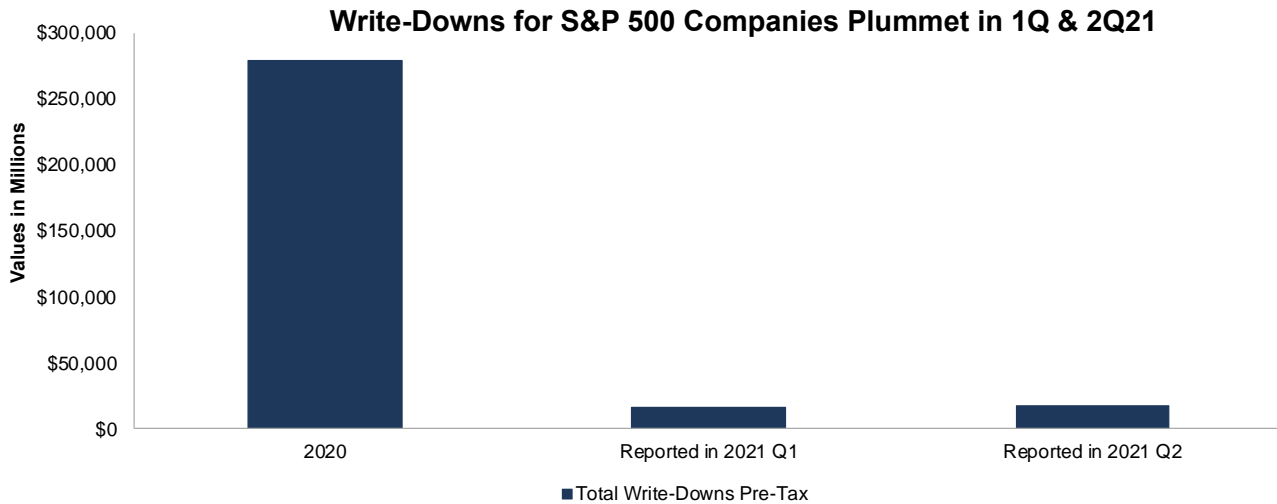
¹ For 3rd-party reviews, including [The Journal of Financial Economics](#), on our more reliable fundamental data, click [here](#) and [here](#).

² This report focuses on “pre-tax” values though we also have the after-tax values for all views presented.

³ Our S&P 500 research goes back to 2004. Our data on All Cap and Small Cap stocks go back to 1998.



Figure 2: S&P 500: Write-Downs in 2020 vs 1Q21 and 2Q21

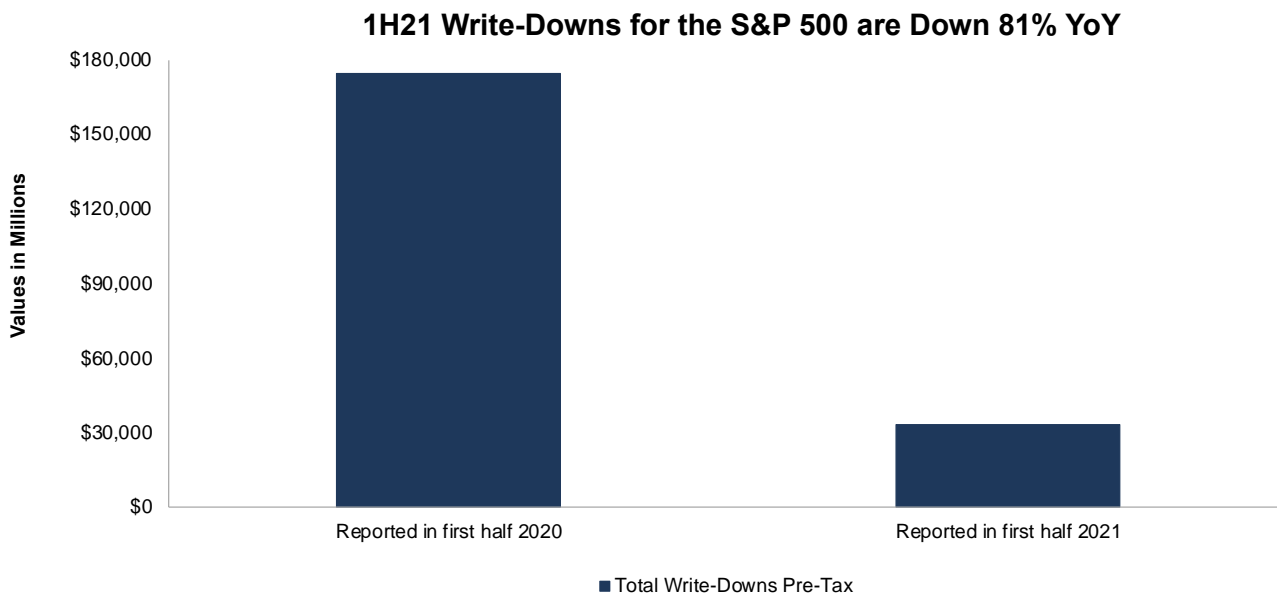


Sources: New Constructs, LLC, and company filings

S&P 500: Write-Downs In 1H21 vs 1H20

Pre-tax write-downs in the first half of 2021 totaled \$33.6 billion or 19% of the total pre-tax value of write-downs in the first half of 2020.

Figure 3: S&P 500: Write-Downs in First Half of 2020 vs 2021



Sources: New Constructs, LLC, and company filings

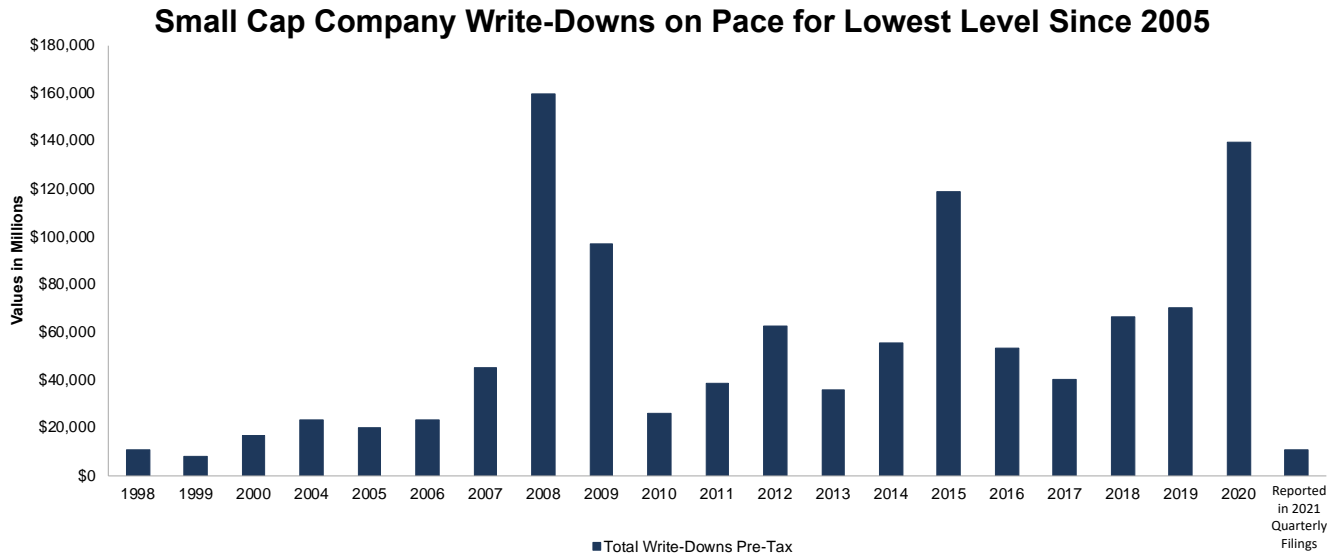
Small Cap Companies: 1H21: Write-Downs Are 89% Lower than 1H20

We found is ~\$10.6 billion in pre-tax write-downs, or 8% of the total in 2020, for Small Cap companies in 1H21. Going back to the tech bubble, our analysis shows write-downs tend to spike when stock markets and economic growth lag.

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 2021

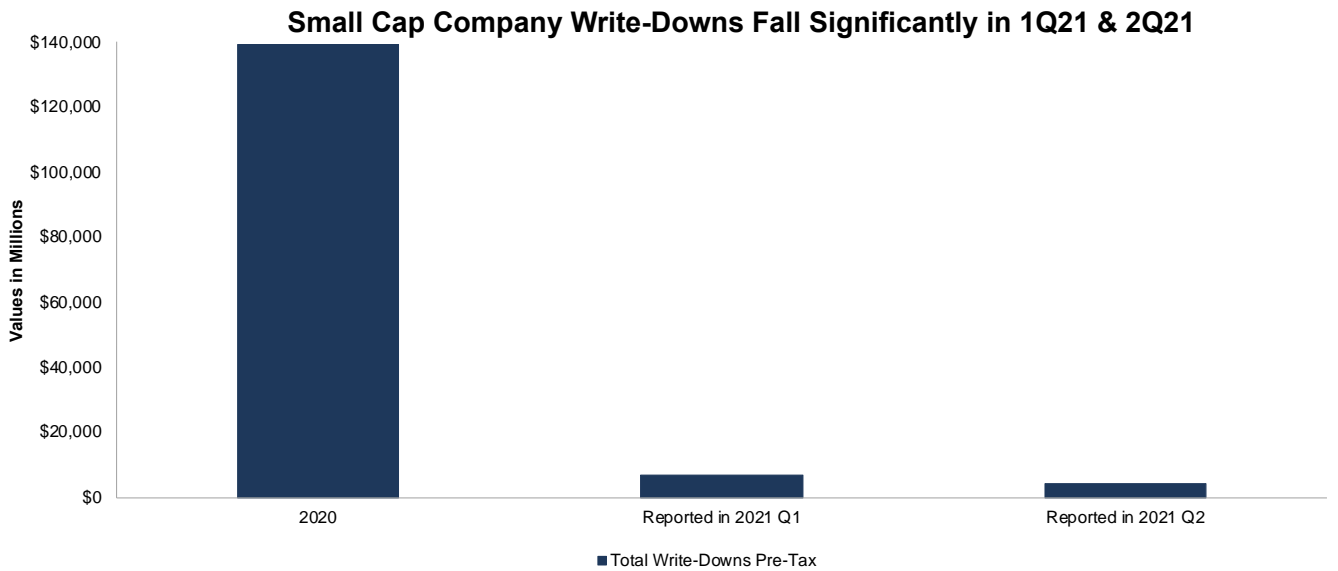


Sources: New Constructs, LLC, and company filings

Small Cap Companies: 1H21: Massive Drop-off in Charges in 1Q21 & 2Q21

In 1Q21 Small Cap companies disclosed \$6.6 billion in pre-tax write-downs, 90% less than 1Q20 and just 5% of the total for 2020. In 2Q21, we found another \$4 billion in pre-tax write-downs, 87% less than 2Q20.

Figure 5: NC 1500 Small Cap: Write-Downs in 2020 vs 1Q21 and 2Q21



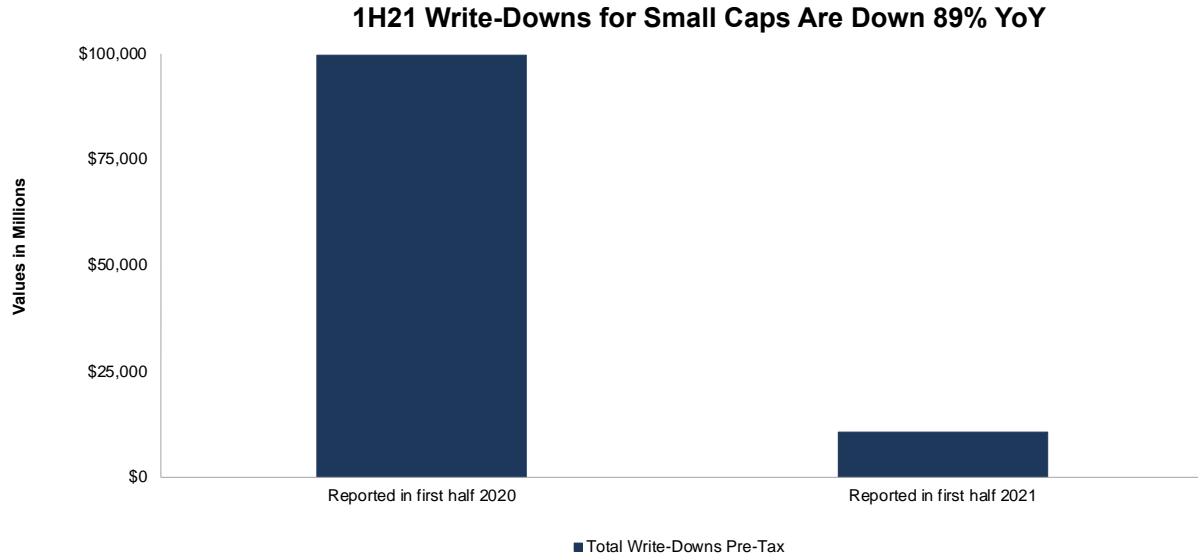
Sources: New Constructs, LLC, and company filings

Small Cap Companies: Write-Downs in 1H21 vs 1H20

Pre-tax write-downs in the first half of 2021 totaled \$10.6 billion, or just 11% of the total pre-tax value of write-downs in the first half of 2020.



Figure 6: NC 1500 Small Cap: Write-Downs in First Half of 2020 vs First Half of 2021



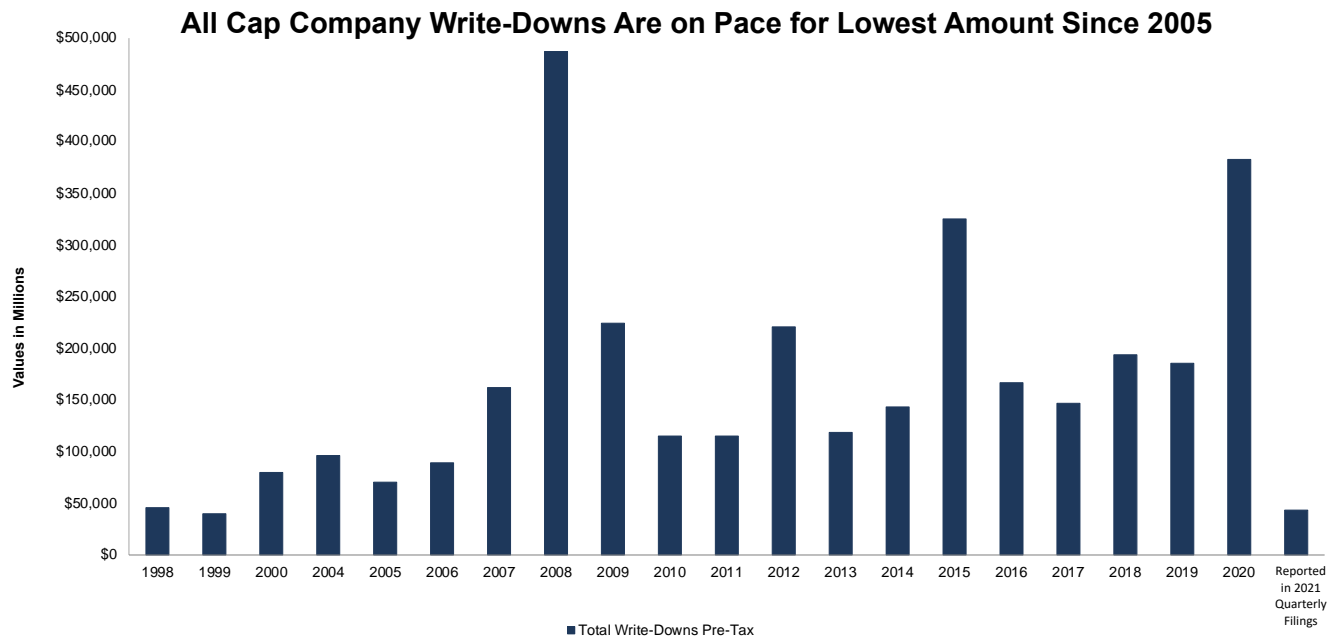
Sources: New Constructs, LLC, and company filings

All Cap Companies: 1H21: Write-Downs Are 82% Lower Than 1H20

We found \$43.5 billion in pre-tax write-downs, or 11% of the total in 2020, for our All Cap index in 1H21.

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 2021



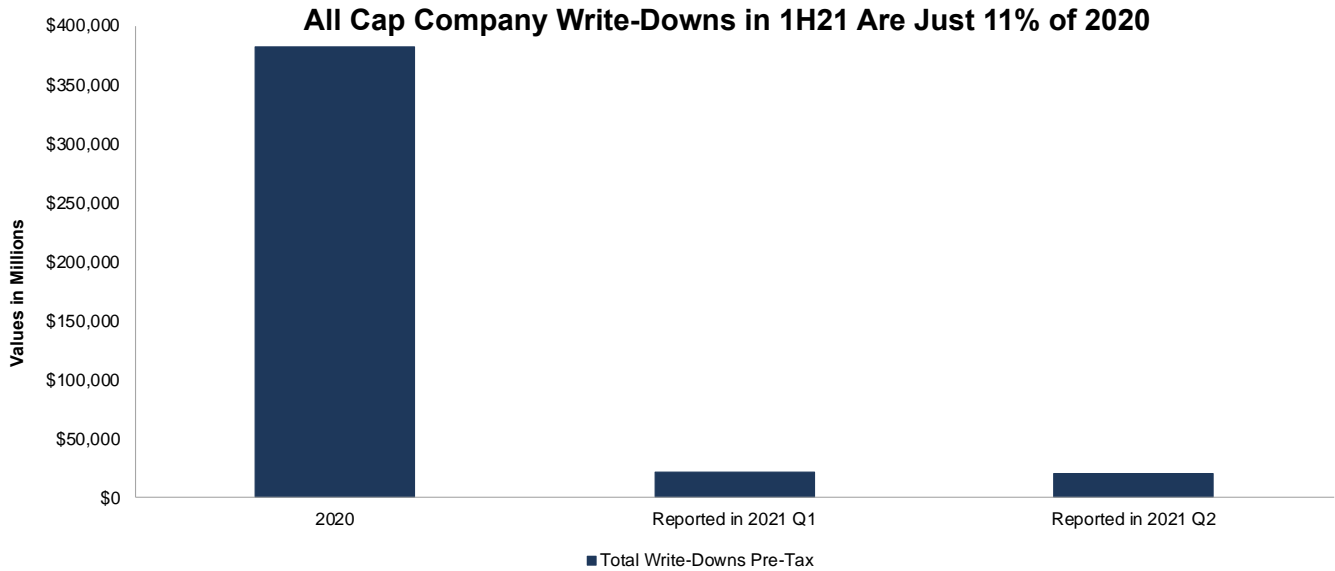
Sources: New Constructs, LLC, and company filings

All Cap Companies: 1H21: Write-Downs by Quarter

In 1Q21, our All Cap index of companies disclosed \$22.4 billion of pre-tax write-downs, 85% less than 1Q20 and just 6% of the total for 2020. In 2Q21, we found another \$21.1 billion in pre-tax write-downs, 77% less than 2Q20.



Figure 8: NC 2000 All Cap: Write-Downs in 2020 vs 1Q21 and 2Q21

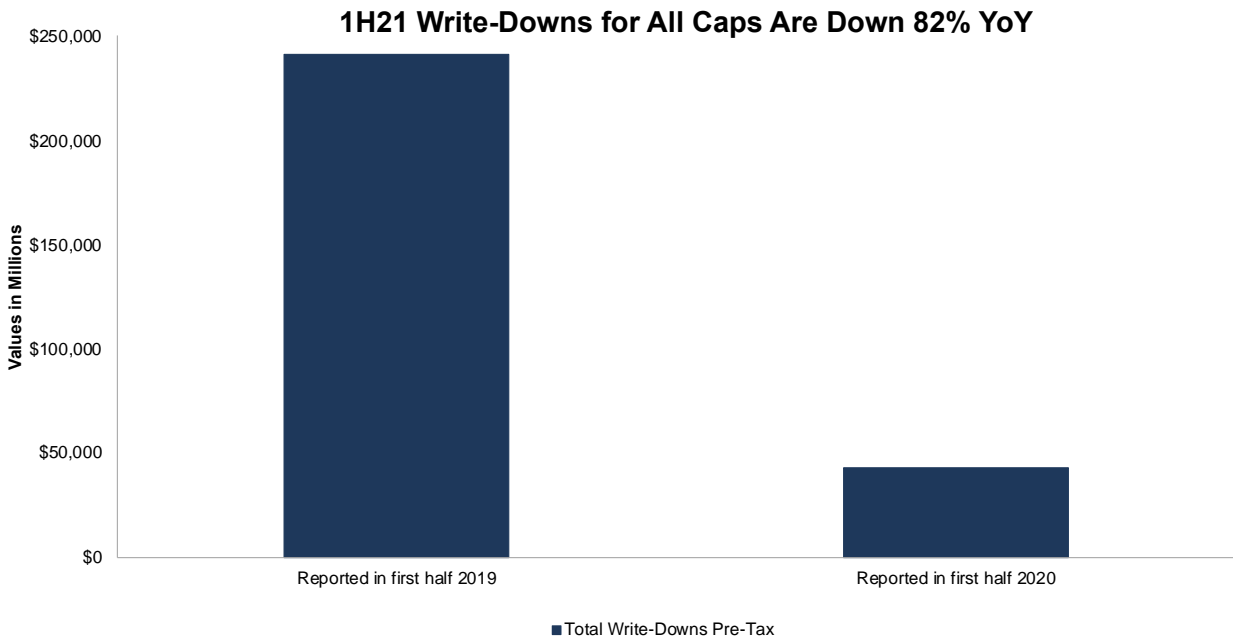


Sources: New Constructs, LLC, and company filings

All Cap Companies: Write-Downs In 1H21 vs 1H20

Pre-tax write-downs in the first half of 2021 totaled \$43.5 billion or 18% of the total pre-tax value of write-downs in the first half of 2020 for our All Cap index.

Figure 9: NC 2000 All Cap: Write-Downs in First Half of 2020 vs 2021



Sources: New Constructs, LLC, and company filings

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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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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, 1st 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, 2nd 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, 5th 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, 2nd 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, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

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