



## Focus List: Short Winner That Will Fall Further – Part 3

Our [Focus List Stocks: Short Model Portfolio](#) outperformed the S&P 500 as a short portfolio by 36% in 2021 with 29 out of our 31 picks outperforming the index. This is the last of three reports reviewing the biggest winners from this Model Portfolio last year and their potential returns for this year. We reviewed our worst performers from 2021 [here](#).

**Buy the Focus List Stocks: Short Model Portfolio**

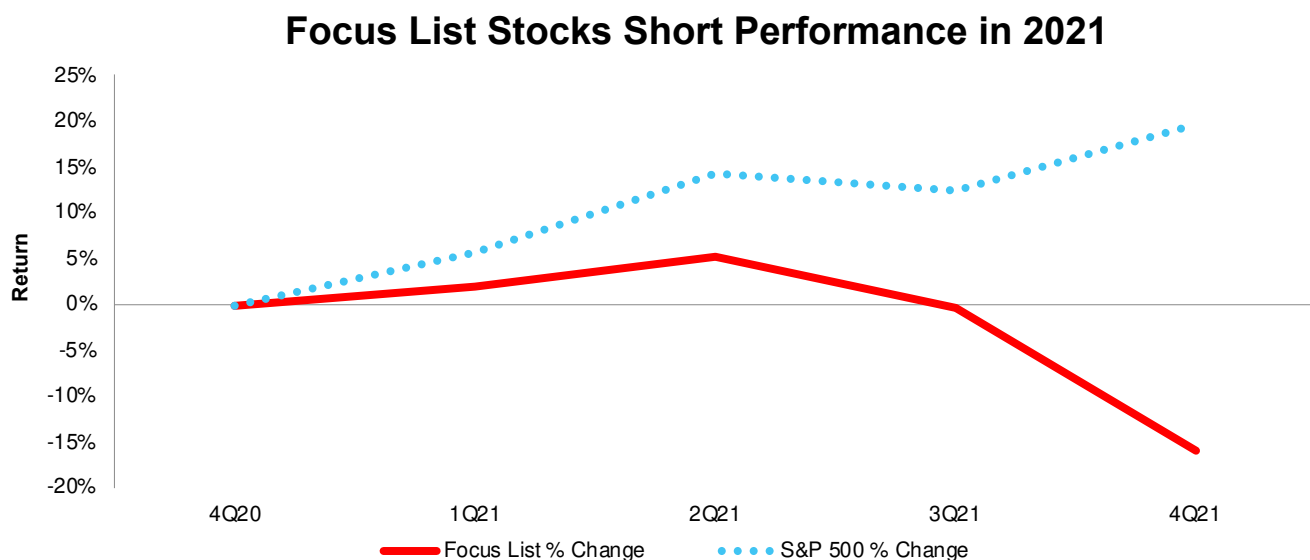
Koss Corp (KOSS: \$10/share) outperformed as a short in 2021 and we remain bearish on the stock. We also feature two other Focus List: Short stocks that outperformed in 2021, Peloton (PTON) [here](#) and Beyond Meat (BYND) [here](#).

### Focus List Stocks: Short Outperformed in 2021

The Focus List Stocks: Short Model Portfolio contains the best of our [Danger Zone](#) picks and leverages superior fundamental data, as proven in The Journal of Financial Economics<sup>1</sup>, which provides a [new source of alpha](#). This Model Portfolio is available in real-time to [Pro](#) and higher members, or you can purchase the current version of the Model Portfolio [here](#).

The Focus List Stocks: Short Model Portfolio fell, on average, -16% in 2021 compared to an average return of 20% for the S&P 500, per Figure 1<sup>2</sup>.

**Figure 1: Focus List Stocks: Short Model Portfolio Performance from Period Ending 4Q20 to 4Q21**



Sources: New Constructs, LLC

<sup>1</sup> Our research utilizes our [Core Earnings](#), a more reliable measure of profits, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).

<sup>2</sup> Performance represents the price performance of each stock during the time in which it was on the Focus List Stocks: Short Model Portfolio in 2021. For stocks removed from the Focus List in 2021, performance is measured from the beginning of 2021 through the date the ticker was removed from the Focus List. For stocks added to the Focus List in 2021, performance is measured from the date the ticker was added to the Focus List through December 31, 2021.



Because our Focus List Stocks: Short Model Portfolio represents the best of the best picks, not all Danger Zone picks we publish make the Model Portfolio. We published 46 [Danger Zone Reports](#) in 2021 but added just 11 of those picks to the Focus List Stocks: Short Model Portfolio during the year. Currently, the Focus List Stocks: Short Model Portfolio holds 28 stocks.

Figure 2 shows a more detailed breakdown of the Model Portfolio’s performance, which encompasses all the stocks that were in the Model Portfolio at any time in 2021.

**Figure 2: Performance of Stocks in the Focus List Stocks: Short Model Portfolio in 2021**

Stocks in Portfolio Throughout 2021	Number of Outperformers	Number of Underperformers	Avg Return	Avg S&P 500 Return	Avg Outperformance as Short
31	29	2	-16%	20%	36%

Sources: New Constructs, LLC

Performance includes the performance of stocks currently in the Focus List Stocks: Short Model Portfolio, as well as those removed during the year, which is why the number of stocks in Figure 2 (31) is higher than the number of stocks currently in the Model Portfolio (28).

**Winner: Focus List Stock: Short: Koss Corp (KOSS): Down 54% vs. S&P 500 Up 13% Since Added to Focus List in 2021**

We originally added [Koss Corp](#) to the Focus List Stocks: Short Model Portfolio in [June 2021](#) and from that point through the end of 2021 it outperformed as a short by 67% in 2021. As the meme-stock rally ages, Koss remains significantly overvalued. We also warned investors of the risks of investing in other meme-stocks such as [GameStop](#) (GME), [AMC Entertainment](#) (AMC), and [Express Inc.](#) (EXPR).

**Main Reason for Short Outperformance: Meme-Stock Rally Ran Out of Steam:** Koss rose to popularity in January 2021 amongst the Wall Street Bets (WSB) Reddit crowd and was fully swept up in a meme-stock rally that saw its stock rise from \$3/share to as high as \$64/share. As with all the meme-stocks, Koss’ fundamentals had nothing to do with the stock’s rise. Once the meme-driven surge fizzled, Koss shares fell back to earth.

**Why Koss Remains Very Unattractive: Business Cannot Justify Current Valuation:** Even though Koss never traded based on its fundamentals, when we analyze its fundamentals, and juxtapose them with the expectations baked into the stock price, we see a large disconnect.

The retail dollar value of global headphone shipments has grown by 30% (vs -8% for KOSS) compounded annually since 2016. Meanwhile, Koss’s revenue has fallen 6% compounded annually over the same time.

Put another way, Koss’ revenue fell 28% while the retail dollar value of global headphone shipments rose 273% over the same time. If Koss can’t grow revenue in such a good environment, one must ask, when will it?

Koss’ revenue has been deteriorating for many years, and its profitability has lagged its competition as well. Of the competitors in Figure 3, Koss is the only company with negative NOPAT margin and ROIC. In fact, ROIC and NOPAT margin have been negative every year since 2016.

**Figure 3: Profitability Metrics: Koss vs. Peers: TTM**

Company	Ticker	NOPAT Margin	Invested Capital Turns	ROIC
Apple Inc.	AAPL	26%	8.9	227%
Sonos, Inc.	SONO	11%	12.5	137%
GoPro Inc	GPRO	11%	3.3	36%
Turtle Beach Corp	HEAR	9%	1.9	17%
Universal Electronics, Inc.	UEIC	5%	1.6	7%
Sony Group Corp	SONY	10%	0.5	5%
VOXX International Corporation	VOXX	4%	1.0	4%
IntriCon Corp	IIN	2%	1.2	2%
<b>Koss Corp</b>	<b>KOSS</b>	<b>-3%</b>	<b>1.4</b>	<b>-4%</b>

Sources: New Constructs, LLC and company filings

### Current Price Implies Profits 6x Previous Quarterly Record

We use our [reverse discounted cash flow \(DCF\) model](#) to quantify the expectations for future profit growth baked into the current stock price and see what the stock would be worth assuming more reasonable growth.

To justify \$10/share, Koss must:

- immediately improve its [profit margin](#) to 4% (double its highest ever margin of 2% TTM vs. a 5-year average margin of -2%) and
- grow revenue by 24% compounded annually through fiscal 2027 (which is over 2x the [projected industry growth](#) over the same time, vs. Koss' -6% CAGR over the past five years).

In this [scenario](#), Koss earns \$3 million in NOPAT in fiscal 2027, which would be the company's first ever positive annual NOPAT and 6x its highest quarterly NOPAT (\$0.5 million in fiscal 4Q21).

**There is a 76%+ Downside If Growth Reaches Industry Average:** In this scenario, Koss

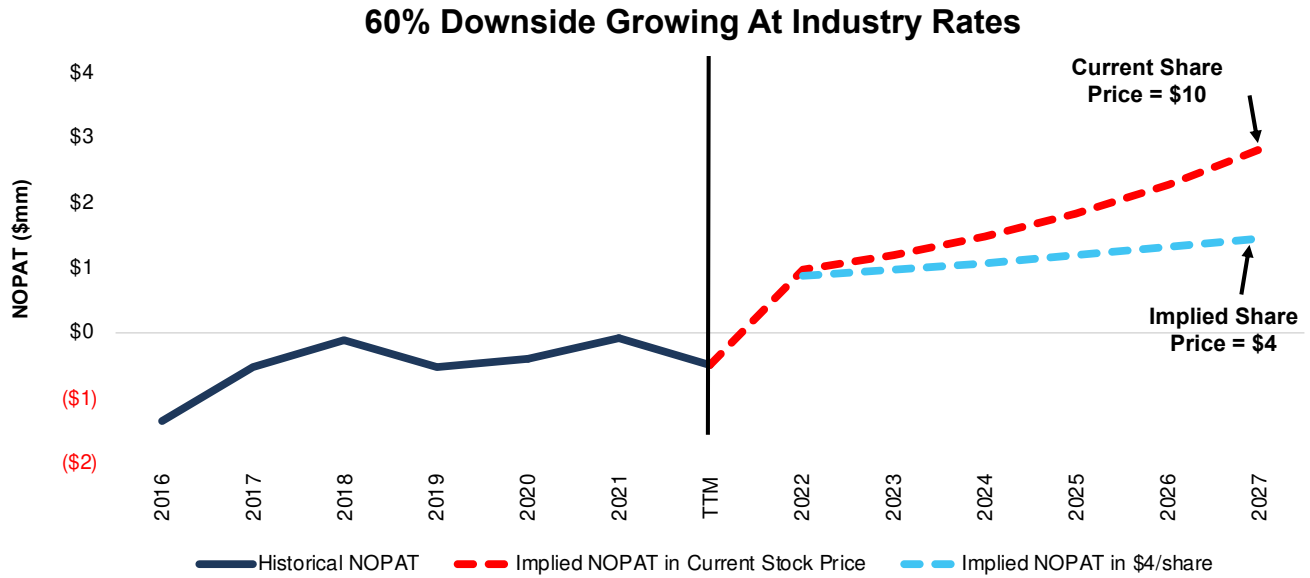
- improves its profit margin to 4% and
- grow revenue by 11% compounded annually through fiscal 2027 (which is equal to the [projected industry growth](#) over the same time), then

the stock is worth [just \\$4/share today](#) – a 60% downside to the current price. If Koss's revenue continues to fall, or it is unable to improve margins as assumed in the scenario above, the downside risk in the stock is even higher.

Figure 4 compares the firm's historical NOPAT and implied NOPATs for the two scenarios we presented to illustrate just how high the expectations baked into Koss' stock price remain.



Figure 4: Koss' Historical and Implied NOPAT: DCF Valuation Scenarios



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

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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.

### **Best Fundamental Data in the World**

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.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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