



Model Portfolio: January 2023: Exec Comp Aligned with ROIC

15 Large/Mid/Small Cap Stocks

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- **Figure 1 shows no new stocks make our January list.**
- **The portfolio (+7.1%) outperformed the S&P 500 (+1.5%) from December 15, 2022 through January 11, 2023.**
- **Figure 8 shows the 12 stocks that outperformed since December'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 leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#) fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).**

Figure 1: Additions for January

Portfolio Additions	
Ticker	Company Name
None	

Sources: New Constructs, LLC

This model portfolio is updated around the 15th 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 January

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

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

Ticker	Company Name	Sector	High-Quality Earnings		Cheap Valuation				Executive Compensation Plans Aligned with ROIC
			As of Last Twelve Months		as of 1/11/23				Proxy Statement
			Positive Economic EPS	Return On Invested Capital (ROIC)	Free Cash Flow Yield	Low Price-to-Economic Book Value	Market-Implied GAP (years)	Market Value (\$mm)	
AZO	AutoZone Inc.	Consumer Cyclical	\$113.43	35%	4%	1.4	5	\$45,661	AZO Proxy Statement
CMC	Commercial Metals	Basic Materials	\$5.87	20%	-4%	0.5	Less than 1	\$6,579	CMC Proxy Statement
LCII	LCI Industries	Consumer Cyclical	\$13.07	18%	5%	0.5	Less than 1	\$2,747	LCII Proxy Statement
JBSS	John B. Sanfilippo & Son	Consumer Non-cyclical	\$3.83	16%	4%	0.9	Less than 1	\$948	JBSS Proxy Statement
DOW	Dow Inc.	Basic Materials	\$3.61	11%	10%	0.6	Less than 1	\$40,522	DOW Proxy Statement

* Addition to the list in January

Stocks are ranked by ROIC in Descending Order

Sources: New Constructs, LLC

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

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

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

Ticker	Company Name	Sector	High-Quality Earnings		Cheap Valuation				Executive Compensation Plans Aligned with ROIC
			As of Last Twelve Months		as of 1/11/23				Proxy Statement
			Positive Economic EPS	Return On Invested Capital (ROIC)	Free Cash Flow Yield	Low Price-to-Economic Book Value	Market-Implied GAP (years)	Market Value (\$mm)	
RHI	Robert Half International	Industrials	\$5.67	50%	6%	0.9	5	\$8,270	RHI Proxy Statement
MLI	Mueller Industries	Industrials	\$8.95	37%	13%	0.5	Less than 1	\$3,784	MLI Proxy Statement
IIN	Insteel Industries	Basic Materials	\$4.87	34%	-4%	0.4	Less than 1	\$600	IIN Proxy Statement
LOW	Lowe's Companies	Consumer Cyclical	\$10.59	25%	6%	1.3	12	\$126,135	LOW Proxy Statement
GWW	W.W. Grainger	Industrials	\$23.46	25%	3%	1.5	18	\$29,422	GWW Proxy Statement

* Addition to the list in January

Stocks are ranked by ROIC in Descending Order

Sources: New Constructs, LLC

The 5 “Weak Alignment with Exec Comp” Stocks for January

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

Figure 4: 5 Weak Alignment with Exec Comp Stocks for January

Ticker	Company Name	Sector	High-Quality Earnings		Cheap Valuation				Executive Compensation Plans Aligned with ROIC
			As of Last Twelve Months		as of 1/11/23				Proxy Statement
			Positive Economic EPS	Return On Invested Capital (ROIC)	Free Cash Flow Yield	Low Price-to-Economic Book Value	Market-Implied GAP (years)	Market Value (\$mm)	
BCC	Boise Cascade Company	Consumer Cyclical	\$19.32	49%	7%	0.3	10	\$2,776	BCC Proxy Statement
WSM	Williams-Sonoma	Consumer Cyclical	\$14.47	41%	12%	0.6	Less than 1	\$8,660	WSM Proxy Statement
ORLY	O'Reilly Automotive	Consumer Cyclical	\$30.51	39%	5%	1.8	18	\$51,656	ORLY Proxy Statement
HD	The Home Depot	Consumer Cyclical	\$14.56	35%	4%	1.6	97	\$335,312	HD Proxy Statement
PCAR	PACCAR Inc.	Industrials	\$5.05	21%	5%	0.9	Less than 1	\$35,145	PCAR Proxy Statement

* Addition to the list in January

Stocks are ranked by ROIC in Descending Order

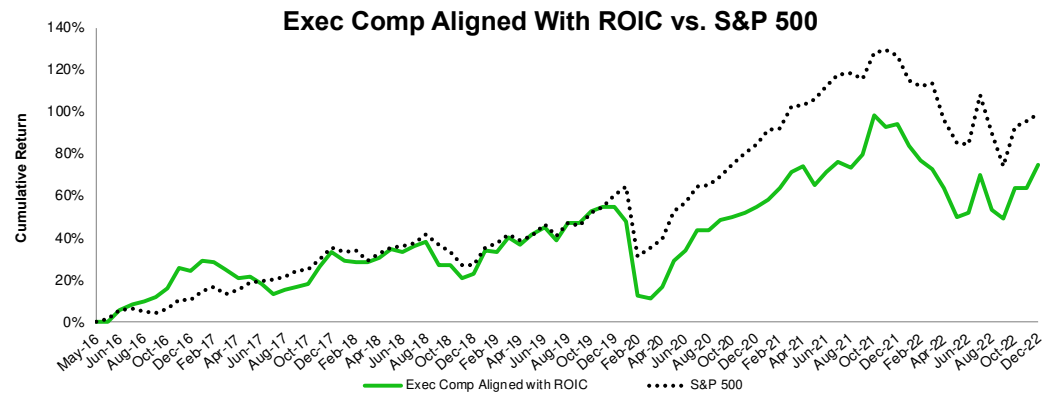
Sources: New Constructs, LLC



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 75% compared to 99% 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 January 11, 2023. 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	2021	1Q22	2Q22	3Q22	Oct-22	Nov-22	Dec-22
Exec Comp Aligned with ROIC	24.6%	6.9%	-7.9%	26.4%	-0.1%	25.6%	-11.2%	-11.9%	-2.0%	10.0%	-0.3%	7.1%
S&P 500	10.8%	22.4%	-6.1%	25.8%	15.3%	22.7%	-5.8%	-13.7%	-5.4%	10.5%	1.6%	1.5%

Sources: New Constructs, LLC

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

Most recent month return data is through January 11, 2023. 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	2021	1Q22	2Q22	3Q22	Oct-22	Nov-22	Dec-22
Exec Comp Aligned with ROIC	24.6%	33.1%	22.6%	55.0%	54.8%	94.4%	72.6%	52.1%	49.1%	64.0%	63.5%	75.1%
S&P 500	10.8%	35.6%	27.4%	60.2%	84.7%	126.7%	113.6%	84.4%	74.5%	92.8%	96.0%	99.0%

Sources: New Constructs, LLC

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

Most recent month return data is through January 11, 2023. 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](#) (+7.1%) outperformed the S&P 500 (+1.5%) from December 15, 2022 through January 11, 2023. 12 stocks from our December Exec Comp Aligned with ROIC lists outperformed the S&P 500, and 14 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 December 15, 2022 through January 11, 2023.

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

Figure 8: 12 Stocks That Outperformed Since December's Report

Exec Comp Aligned With ROIC		
Ticker	Company Name	Change From 12/15/22
IIIN	Insteel Industries Inc.	20.2%
CMC	Commercial Metals Company	18.4%
DOW	Dow Inc	16.3%
LCII	LCI Industries	15.9%
WSM	Williams-Sonoma Inc.	11.7%
MLI	Mueller Industries, Inc.	7.1%
RHI	Robert Half International, Inc.	3.9%
GWW	W.W. Grainger, Inc.	3.7%
PCAR	PACCAR Inc.	3.2%
AZO	AutoZone Inc.	3.2%
ORLY	O'Reilly Automotive, Inc.	2.3%
JBSS	John B. Sanfilippo & Son, Inc.	1.8%
S&P 500	S&P 500	1.5%

Sources: New Constructs, LLC

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

Return data is through January 11, 2023. 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*¹ that are positive;
 - b. *Price-to-Economic Book Value* (EBV)² ratios that are relatively low; and
 - c. *Growth Appreciation Periods*³ (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.

¹ 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.

² 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.

³ 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 December’s Report

Figure 10: Performance of All Stocks Since December’s Report

Exec Comp Aligned With ROIC		
Ticker	Company Name	Change From 12/15/22
IIIN	Insteel Industries Inc.	20.2%
CMC	Commercial Metals Company	18.4%
DOW	Dow Inc	16.3%
LCII	LCI Industries	15.9%
WSM	Williams-Sonoma Inc.	11.7%
MLI	Mueller Industries, Inc.	7.1%
RHI	Robert Half International, Inc.	3.9%
GWW	W.W. Grainger, Inc.	3.7%
PCAR	PACCAR Inc.	3.2%
AZO	AutoZone Inc.	3.2%
ORLY	O’Reilly Automotive, Inc.	2.3%
JBSS	John B. Sanfilippo & Son, Inc.	1.8%
S&P 500	S&P 500	1.5%
HD	The Home Depot, Inc.	0.4%
LOW	Lowe’s Companies, Inc.	0.3%
BCC	Boise Cascade Company	-2.3%
Portfolio Return		7.1%

Sources: New Constructs, LLC

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

Return data is through January 11, 2023. Official return data will be provided in our quarterly Model Portfolio Performance reports



Appendix B – Additions and Deletions

Accurate ROIC Calculation/Strong Alignment with Exec Comp

Deletions:

None

Additions:

None

Flawed ROIC Calculation/Strong Alignment with Exec Comp

Deletions:

None

Additions:

None

Weak Alignment with Exec Comp

Deletions:

None

Additions:

None



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.

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

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

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

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



Price-to-EBV Ratio	Rates stocks based on their Price-to-Economic Book Value Ratio. Values based on Latest Closing Stock price and Latest Fiscal Year.
>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

Growth Appreciation Period (yrs)	Rates stocks based on their Market-Implied Growth Appreciation Period. Values based on Latest Closing Stock price and Default Forecast Scenario.
>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



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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, 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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