



The Mental Edge Matters Most

Hey Everyone - I'm going to start writing to you a little more. I want to know my people and I want them to know me. So much goes into professional investing that trust and familiarity plays a vital role to success... below is a mental run through in what it takes and at the end I break down a classic mistake that we caught ahead of time.

Last weekend, I attended the state individual wrestling championships for prep schools in Tennessee. Just watching those boys compete with the entire season on the line makes me nervous. It reminds me of when I competed and how hard wrestling is.

Anyone remotely familiar with the sport knows how physically challenging wrestling is.

But, it's hard to understand how mentally challenging it is until you step out on the mat and actually compete against another person who wants to beat you. You can have the biggest muscles and the most athleticism in the world, but you'll get whooped by a weakling with superior technique. It's not about the strongest or the fastest, it's about the best technique and most mentally focused. The really good wrestlers, the ones that make it to the state championships, are all super strong, fast and have great technique. The difference among those wrestlers is all mental. They have a mental edge. It's hard to describe how important that edge is. It is literally the difference between winning and losing, and it matters more than all the strength and speed in the world. The mental edge gives wrestlers the ability to be confident and relaxed enough to bring their best combination of technique, speed and strength to bear when they need it most. The mental edge gives them the ability to harness all of their assets at once to be the best they can be in the most important moments in the biggest matches of their lives... to that point. Shoot, I get nervous just thinking about it.

Building a mental edge takes work.

It's not something that people are born with, can get from reading a book or from talking to other people.

It takes physical and mental work. First, on the physical work. There is no shortcut to putting in the hard work and practice to know that you deserve to win. There's no shortcut to working tirelessly to get yourself in good enough shape to believe you have the stamina to win. There's no shortcut to practicing technique until you know you can do the moves well enough to win.

You have to build the physical foundation first.

From there, you can build the mental foundation. One that makes you strong enough not to choke under the pressure of all the people watching and the entire season on the line. Developing mental strength takes discipline, self-awareness and dedication to focusing on the things you can control.

And, then I started thinking about how much wrestling is like investing. Long-term success in investing is built on similar foundations: analytical and mental.

First, you have to do the work to understand the companies in which you invest. There is no shortcut to reading the fine print in 200+ page financial filings if you want to know the truth. There is no shortcut to building profit and valuation models that capture all the financial facts about the business. There is no shortcut to quantifying the future cash flows required to justify the current price or your target price. In order to make an informed decision, you need this analytical foundation.

From there, it's all mental. And, mental strength in investing requires the same things as mental strength in wrestling: discipline, self-awareness and dedication to focusing on the things you can control.

Discipline: needed to stick with your process and not fall prey to MOMO, YOLO or whatever acronym they come with next. Self-awareness to know whether you're falling into the confirmation trap - do you really believe that research report or do you like it because it agrees with your current thesis. Good investors have to search for information that contradicts what they believe as hard as they search for information that confirms. If you do not look for the blindspots in your investment thesis, you won't see them until it's too late. Lastly and most importantly, focusing on what you can control is as important to investors as to those in the 12-steps process. You cannot control the market. You can only control how much risk you take.



And, in order to control your risk exposure, you have to have the discipline to do the work to build the right analytical foundation for every investment you consider.

How else are you going to assess profitability and valuation...honestly?

Sure, that's a lot of work, but that's what it takes to have a chance at consistent success.

These days markets are crazy. Meme stocks, bored apes, IPOs, Zombie Stocks and sexy Wall Street narratives - these are the temptations that make it hard to be successful. Only if you put in the work to know the truth about profitability and valuation can you avoid falling prey to Wall Street pitches for stocks like Beyond Meat (BYND). We did our homework and warned investors to avoid that stock since before the IPO - see our Pre-IPO report [here](#).

As you probably know, the stock went on to soar up from its oversubscribed IPO price of ~\$70/share up to over \$200/share. Now, the stock is well under \$10/share. How did we know to avoid this stock? We built the right analytical foundation, and we had the mental strength to trust our diligence and not fall prey to all the talking heads saying the company was the best thing since sliced meat. We stuck to our guns because we trusted our work.

Figure 1: Beyond Meat Performance Since IPO



Sources: Google Finance

The same applies to our Long Ideas. We recently featured [several of our favorite stocks](#) in our top-ranked sector. Our financial models on those stocks are the best in the world - you don't have to take my word for it. Ask Harvard Business School, MIT Sloan and/or Ernst & Young. And, our sector models, they are aggregations of our best-in-class company models. In other words, our analytical foundation for these long ideas and our top sector is about as solid as it gets.

Now, here's the hard part.



Do you have the mental edge needed to be successful with this research? If you need help finding that edge - let me know... write me back at support@newconstructs.com. I'll read every email.

Diligence matters,
David Trainer, Founder & CEO

This article was originally published on [March 7, 2024](#).

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

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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.

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, 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.

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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