



All Cap Index & Sectors: GAAP Vs. Core Update for 1Q24 (Free, Abridged)

We have updated the trailing-twelve-month (TTM) [Core Earnings](#) and GAAP Earnings for the NC 2000 and all sectors for 1Q24.

Results for Core Earnings and GAAP earnings are different again this quarter and raise red flags about the quality of reported earnings. These results underscore the more stable nature of Core Earnings. Because we remove unusual gains and losses, Core Earnings are not as volatile as GAAP Earnings.

This report is an abridged and free version of [All Cap Index & Sectors: GAAP Vs. Core Update for 1Q24](#), one of our quarterly reports on [fundamental market and sector trends](#).

The full version of the report analyzes Core Earnings¹² and GAAP earnings of the NC 2000 and each of its sectors (last version of this analysis is [here](#)) from 1998 to present. The full reports are available to [Institutional](#) members.

This report 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](#).

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GAAP Earnings Are Again Misleading in 1Q24

Our superior fundamental data protects investors from being misled by false trends in un-scrubbed GAAP Earnings. The recent move in GAAP Earnings, the first in this direction since 4Q22, supports our belief that pockets of quality stocks remain in the market while many stocks look very overvalued. Core Earnings for the S&P 500 in the TTM ended 1Q24 sit at record highs going back to 2004.

We've seen in the past that companies understate GAAP earnings in uncertain times ([kitchen sink effect](#)) to set up easy comps moving forward. This phenomenon occurred most recently from 1Q22 through 4Q22, when GAAP earnings significantly understated Core Earnings. Could companies be in the early stages of kitchen sink quarters again? We'll be watching closely to see if the fall in GAAP earnings continues in 2Q24 while Core Earnings continue to rise. See Figure 1 in the [full report](#).

GAAP Earnings Understate Core Earnings for Nearly Two-Thirds of the NC 2000 (by Market Cap)

For the TTM ended 1Q24, 57% of the companies in the NC 2000 reported GAAP Earnings that are lower than Core Earnings.

When GAAP Earnings are lower than Core Earnings, they are understated by an average of 464%, per Figure 1.

Figure 1: NC 2000 GAAP Earnings Understated by 464% On Average

Understated GAAP Earnings	Understated by >10%	Average Understatement %
1,138 companies	698 companies	464%

Sources: New Constructs, LLC and company filings.

We use Funds from Operations (FFO) for Real Estate companies rather than GAAP Earnings.

¹ Core Earnings enable investors to overcome the flaws in legacy fundamental data and research, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan for [The Journal of Financial Economics](#).

² Based on the latest audited financial data, which is the 1Q24 10-Q in most cases. Price data as of 5/16/24. QoQ analysis is based on the change since last quarter.



Key Details on Select NC 2000 Sectors

Seven of eleven sectors saw a QoQ rise in Core Earnings through the TTM ended 1Q24.

The Real Estate sector saw the largest QoQ improvement in Core Earnings.

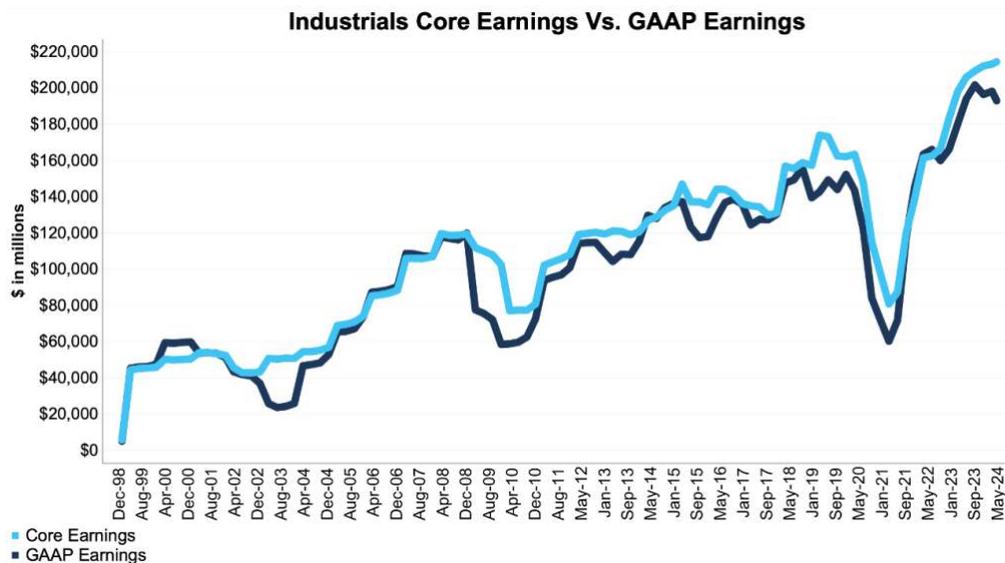
The Technology sector generates the most Core Earnings. On the flip side, the Real Estate sector has the lowest Core Earnings.

Below we highlight the Industrials sector.

Sample Sector Analysis³: Industrials Sector

Figure 2 shows Core Earnings for the Industrials sector, at \$214.4 billion, rose 1% QoQ in 1Q24, while GAAP earnings, at \$193.0 billion, fell 3% over the same time.

Figure 2: Industrials Core Earnings Vs. GAAP: 1998 – 1Q24



Sources: New Constructs, LLC and company filings.

Our Core Earnings analysis is based on aggregated TTM data for the sector constituents in each measurement period.

The May 16, 2024 measurement period incorporates the financial data from calendar 1Q24 10-Qs, as this is the earliest date for which all of the calendar 1Q24 10-Qs for the NC 2000 constituents were available.

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

Questions on this report or others? Join our [Society of Intelligent Investors](#) and connect with us directly.

³ The full version of this report provides analyses for all eleven sectors.



Appendix: Calculation Methodology

We derive the Core Earnings and GAAP Earnings metrics above by summing up the trailing-twelve-month individual NC 2000 constituent values for Core Earnings and GAAP Earnings in each sector for each measurement period. We call this approach the “Aggregate” methodology.

The Aggregate methodology provides a straightforward look at the entire sector, regardless of market cap or index weighting and matches how S&P Global (SPGI) calculates metrics for the S&P 500.



It's Official: We Deliver 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. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

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

Ernst & Young 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 Harvard Business School. 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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