



Featured Stocks in July 2024's Most Attractive/Most Dangerous Model Portfolios

Ten new stocks made our Most Attractive list this month, while three new stocks joined the Most Dangerous list. We published July's Most Attractive and Most Dangerous stocks to members on July 3, 2024.

June Performance Recap

Our Most Attractive Stocks (-2.9%) underperformed the S&P 500 (+2.3%) last month by 5.2%. The best performing large cap stock gained 10% and the best performing small cap stock was up 17%. Overall, 12 out of the 40 Most Attractive stocks outperformed the S&P 500.

Our Most Dangerous Stocks (-2.0%) outperformed the S&P 500 (+2.3%) as a short portfolio last month by 4.3%. The best performing large cap short stock fell by 8% and the best performing small cap short stock fell by 26%. Overall, 33 out of the 39 Most Dangerous stocks outperformed the S&P 500 as shorts.

The Most Attractive/Most Dangerous Model Portfolios underperformed as an equal-weighted long/short portfolio by 0.9%.

This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#)¹ fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

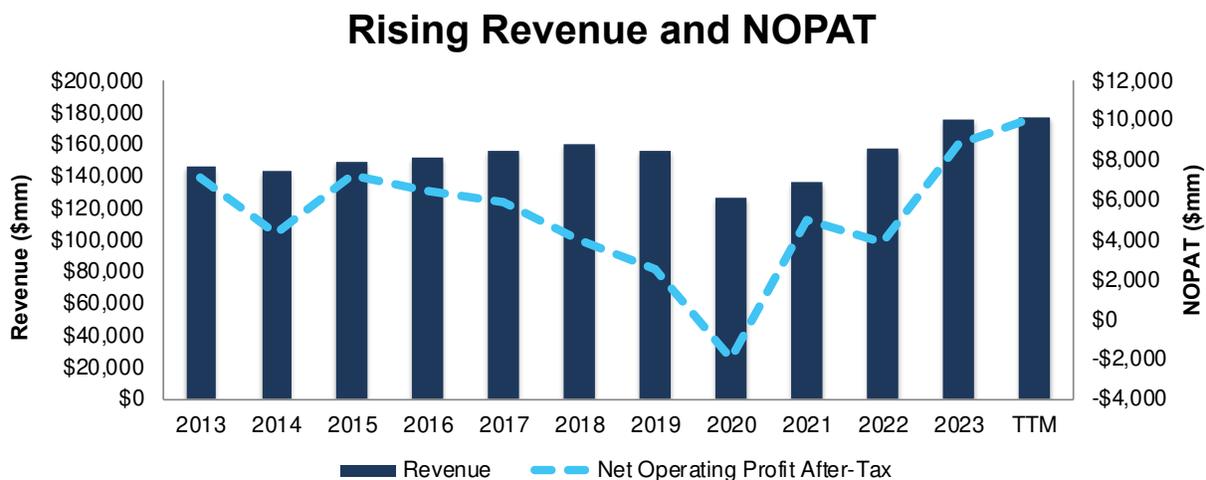
All of our Most Attractive stocks have high (and rising) return on invested capital ([ROIC](#)) and low [price to economic book value ratio](#). Most Dangerous stocks have [misleading earnings](#) and long [growth appreciation periods](#) implied by their market valuations.

Most Attractive Stocks Feature for July: Ford Motor Company (F)

Ford Motor Company (F: \$13/share) is the featured stock from July's [Most Attractive Stocks Model Portfolio](#).

Ford has grown revenue and net operating profit after tax ([NOPAT](#)) by 2% and 4% compounded annually since 2013, respectively. Ford's NOPAT margin increased from 5% in 2013 to 6% in the TTM and [invested capital turns](#) rose from 1.8 to 2.1 over the same time. Rising NOPAT margins and invested capital turns drive Ford's return on invested capital ([ROIC](#)) from 9% in 2013 to 12% in the TTM.

Figure 1: Ford's Revenue and NOPAT Since 2013



Sources: New Constructs, LLC and company filings

¹ 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](#).



Ford Is Undervalued

At its current price of \$13/share, F has a price-to-economic book value ([PEBV](#)) ratio of 0.6. This ratio means the market expects Ford's NOPAT to permanently decline by 40%. This expectation seems overly pessimistic for a company that has grown NOPAT by 4% compounded annually since 2013 and 20% compounded annually since 2018.

Even if Ford's NOPAT margin falls to 4% (below TTM NOPAT margin of 6%) and the company's revenue grows just 1% (below 10-year compound annual growth rate of 2%) compounded annually through 2033, the stock would be worth [\\$16/share today](#) – a 23% upside. In this scenario, Ford's NOPAT falls 1% compounded annually through 2033. Should Ford grow profits more in line with historical levels, the stock has even more upside.

Critical Details Found in Financial Filings by Our [Robo-Analyst Technology](#)

Below are specifics on the adjustments we made based on Robo-Analyst findings in Ford's 10-Qs and 10-Ks:

Income Statement: we made \$7.4 billion in adjustments, with a net effect of removing over \$2 billion in [non-operating expense](#) (about 1% of revenue). Professional members can see all adjustments made to Ford's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$75.9 billion in adjustments to calculate invested capital with a net increase of \$1.4 billion. One of the most notable adjustments was several billion in [asset write downs](#). This adjustment represents over 30% of reported net assets. Professional members can see all adjustments made to Ford's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$46.2 billion in adjustments to shareholder value with a net decrease of \$14.2 billion. The most notable adjustment was for the [overfunded pension](#). This adjustment represents over 10% of Ford's market value. Professional members can see all adjustments to Ford's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

Most Dangerous Stocks Feature: Cadence Bank (CADE)

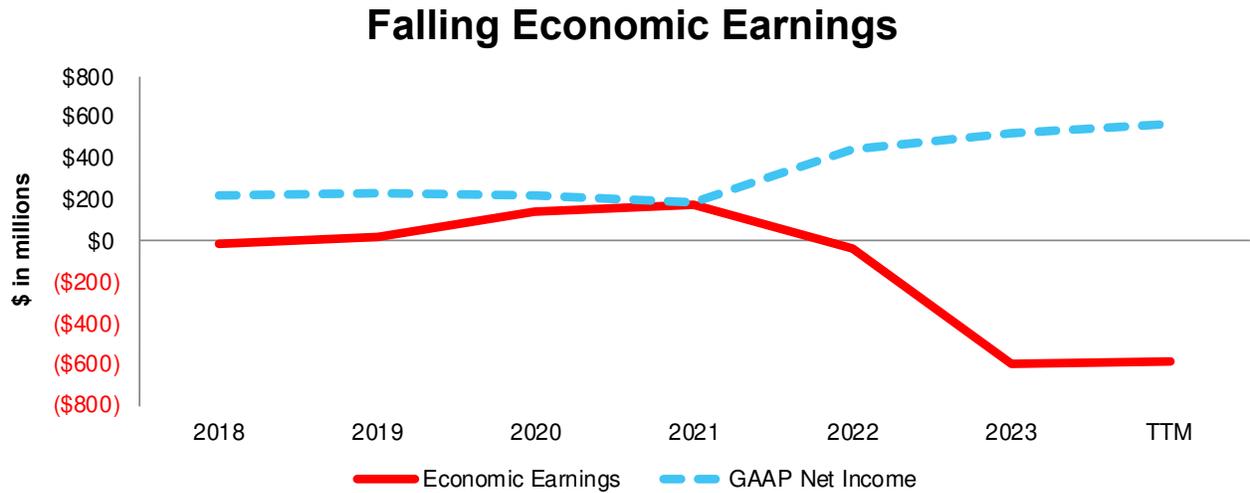
Cadence Bank (CADE: \$30/share) is the featured stock from July's [Most Dangerous Stocks Model Portfolio](#).

Cadence Bank's NOPAT margin fell from 24% in 2018 to 3% in the TTM while the company's invested capital turns remained the same at 0.3 over the same time. Falling NOPAT margins drive Cadence Bank's ROIC from 7% in 2018 to 1% in the TTM.

Cadence Bank's [economic earnings](#), the true cash flows of the business, which take into account changes to the balance sheet, have fallen from -\$16 million in 2018 to -\$584 million in the TTM. Meanwhile, the company's GAAP net income has risen from \$221 million to \$573 million over the same time. Whenever GAAP earnings rise while economic earnings decline, investors should take note.



Figure 2: Cadence Bank's Economic vs GAAP Earnings Since 2018



Sources: New Constructs, LLC and company filings

CADE Provides Poor Risk/Reward

Despite its poor and declining fundamentals, Cadence Bank's stock is priced for significant profit growth, and we believe the stock is overvalued.

To justify its current price of \$30/share, Cadence Bank must improve its NOPAT margin to 17% (above TTM NOPAT margin of 3%) and grow revenue by 5% compounded annually through 2033 at the same time. In this [scenario](#), Cadence Bank's NOPAT equals \$608 million in 2033. We think these expectations are overly optimistic, especially considering the highest NOPAT achieved by Cadence Bank is \$508 million.

Even if Cadence Bank improves its NOPAT margin to 10% (above TTM NOPAT margin of 3%) and grows revenue 5% compounded annually through 2033, the stock would be worth no more than [\\$17/share today](#) – a 42% downside to the current stock price.

Each of these scenarios also assumes Cadence Bank can grow revenue, NOPAT, and FCF without increasing working capital or fixed assets. This assumption is unlikely but allows us to create best case scenarios that demonstrate the high expectations embedded in the current valuation.

Critical Details Found in Financial Filings by Our [Robo-Analyst Technology](#)

Below are specifics on the adjustments we made based on Robo-Analyst findings in Cadence Bank's 10-Qs and 10-Ks:

Income Statement: we made \$649 million in adjustments, with a net effect of removing over \$400 million in [non-operating income](#) (over 20% of revenue). Professional members can see all adjustments made to Cadence Bank's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$2.3 billion in adjustments to calculate invested capital with a net increase of \$1.0 billion. One of the most notable adjustments was over \$700 million in [other comprehensive income](#). This adjustment represented over 10% of reported net assets. Professional members can see all adjustments made to Cadence Bank's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$441 million in adjustments to shareholder value with a net decrease of \$249 million. The most notable adjustment to shareholder value was over \$100 million in [total debt](#). This adjustment represents over 2% of Cadence Bank's market value. Professional members can see all adjustments to Cadence Bank's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on [July 12, 2024](#).

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 [online community](#) and connect with us directly.



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 July 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](#).



DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee July exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor July they purchase or sell a security for the first two days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report July not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that July be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs July have issued, and July in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report July provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, July be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs. Copyright New Constructs, LLC 2003 through the present date. All rights reserved.