



Hope Is Not a (Micro) Strategy

Reporters from the Wall Street Journal and Bloomberg calling me to ask about Michael Saylor's bitcoin strategy is a sign that the markets are not entirely lost to speculative fervor.

During the conversations, I was relieved to hear that those reporters understood fundamentals and that MicroStrategy (MSTR) buying bitcoin is not a real corporate strategy. Let me repeat: there's no fundamental value to MSTR investors from the company investing in bitcoin...expect to speculate on bitcoin. If you want to speculate on bitcoin, then it's much less risky to buy bitcoin directly rather than owning it through MSTR.

Here's the math. Let's say you buy bitcoin at today's market price. The three most likely outcomes are:

1. Bitcoin does not go up or down much.
2. Bitcoin goes up a lot
3. Bitcoin goes down a lot.

In the first scenario, if you own bitcoin directly you gain/lose nothing. If you own MSTR, you likely gain nothing, but you still carry the risk that MSTR might drop because the company has no earnings and no real expectation for future earnings because the CEO leveraged the business to buy bitcoin.

In the second scenario, if you own bitcoin directly you gain a lot. If you own MSTR, you likely gain a lot, but not as much because so much of MicroStrategy's bitcoin purchases are funded by debt, which has to be paid back before you get your bitcoin. Plus, you still carry the risk that MSTR might drop because the company has no earnings and no real expectation for future earnings because the CEO leveraged the business to buy bitcoin.

In the third scenario, if you own bitcoin directly you lose a lot, but you still have your bitcoin, albeit at an above-market price. If you own MSTR, you likely lose everything because MicroStrategy's bitcoin are now valued above market, which means all the debt funding those purchases could be underwater. Because the debt holders get their money back before anything goes to equity holders, there is likely nothing left over for equity holders once the debt holders get paid. If the value of the stock is tied this tightly to the value of bitcoin, then there's nothing left for equity holders since MicroStrategy has no earnings and no real expectation for future earnings because the CEO leveraged the business to buy bitcoin.

In other words, it makes no sense to buy MSTR to get bitcoin exposure, which means it makes no sense to buy MSTR for any other reason. Here's what the Wall Street Journal quoted me saying about MSTR:

"It's symptomatic of a market that has become obsessed with believing in get-rich-quick schemes," Trainer said. "If you like bitcoin, go buy bitcoin. But don't invest in a company that's losing money and also buying bitcoin, because then you've sort of doubled your risk."

You can always trust me to tell you the unvarnished truth because I want my clients to be successful. New Constructs is not about luring unsuspecting investors into speculative schemes that line the pockets of Wall Street insiders. We're about giving you the best research in the business based on proven-superior fundamental data that we work extremely hard to get.

Speaking of picking stocks, did you know we're launching a family of funds with Bloomberg?

We have three indices in production now with Bloomberg's Index Licensing Group. You can get more details on them [here](#).

1. [Bloomberg New Constructs Core Earnings Leaders Index](#) (ticker: [BCORE:IND](#))
2. [Bloomberg New Constructs 500 Index](#) (ticker: [B500NCT:IND](#))
3. [Bloomberg New Constructs Ratings VA-1 Index](#) (ticker: [BNCVA1T:IND](#)).

The takeaway here is that there are a lot of folks who think our stock picking is second to none. You do not have to take my word for it.

I hope you'll take the time to get to know us better because you have more confidence that you can trust us.



This article was originally published on [December 4, 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 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](#).



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 may 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 may 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 may 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 may 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 may have issued, and may 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 may 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, may 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.