December 2024: Featured Stock from our Most Attractive Stocks Model Portfolio

With Wall Street insider selling near all-time highs, do you think you can trust all those buy ratings from Wall Street anymore?

In our recent training, The AI-Powered Edge: Your 2025 Investment Playbook, we showed how Wall Street research is conflicted and unreliable. Our CEO told the story about technology analysts using two sets of earnings estimates (one for institutional clients and one for the public) to fleece smaller investors.

The bottom line is that no one else has technology like ours. We deliver proven superior fundamental research to give investors an edge in any market. Let us prove it to you with a free stock pick.

Whether bear or bull market, finding strong businesses trading at undervalued prices is key to building a winning portfolio.

Scanning the entire stock market to find the best stocks is exactly what our Most Attractive Stocks Model Portfolio does for investors. By understanding the true profits of a business, coupled with rigorous analysis of a stock's valuation, the Model Portfolio identifies profitable companies that are undervalued and hold upside potential. The results speak for themselves: the Long Large Cap Most Attractive Stocks outperformed the S&P 500 by 25% from 2021 – 3Q24.

Today, we're giving you a free stock pick. We are sharing this month's featured stock for our Most Attractive Stocks Model Portfolio.

This feature provides a concise summary of how we pick stocks for these Model Portfolios. It is not a full Long Idea report, but it gives you insight into the rigor of our research and approach to picking stocks. Whether you're a subscriber or not, we think it is important that you're able to see our research on stocks on a regular basis. We're proud to share our work.

We update this Model Portfolio monthly. December's Most Attractive and Most Dangerous stocks Model Portfolios were updated and published for clients on December 4, 2024.
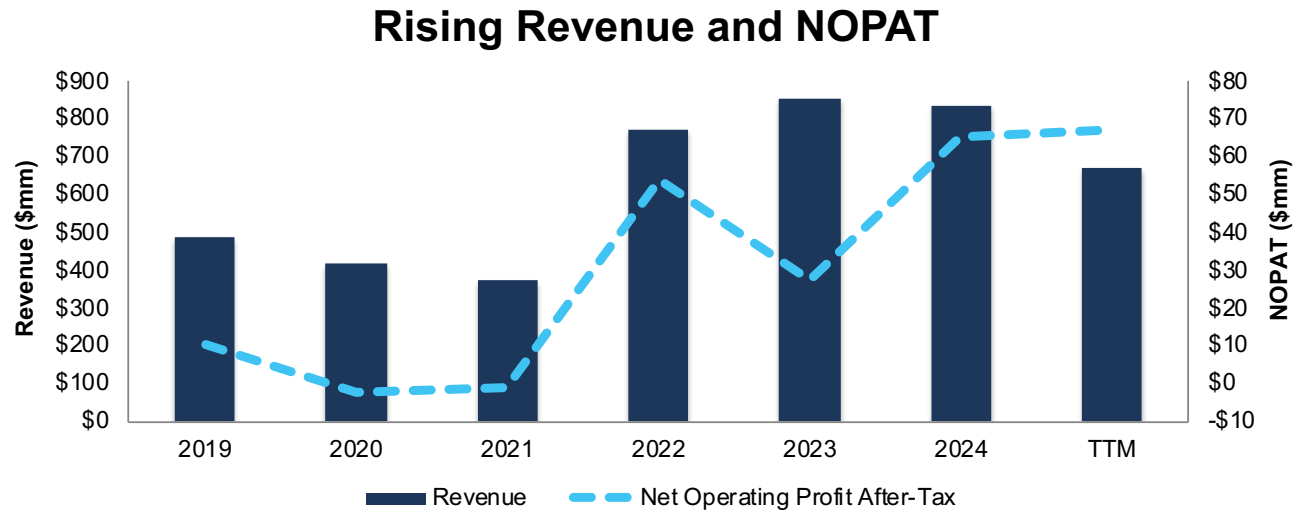
November Performance Recap

Our Most Attractive Stocks (+2.4%) outperformed the S&P 500 (+2.0%) last month by 0.4%. The best performing large cap stock gained 18%, and the best performing small cap stock was up 73%. Overall, 15 out of the 40 Most Attractive stocks outperformed the S&P 500.

The Most Attractive/Most Dangerous Model Portfolios underperformed as an equal-weighted long/short portfolio by 1.3%.

Free Featured Stock: Rex American Resources Corp (REX)

Rex American Resources (REX: $41/share) is the featured stock from December's Most Attractive Stocks Model Portfolio.

Rex American Resources has grown revenue and net operating profit after tax (NOPAT) by 6% and 38% compounded annually since fiscal 2019, respectively. Rex American Resources' NOPAT margin increased from 2% in fiscal 2019 to 10% in the TTM while invested capital turns rose from 1.5 to 2.1 over the same time. Rising NOPAT margins and invested capital turns drive Rex American Resources' return on invested capital (ROIC) from 3% in fiscal 2019 to 21% in the TTM.

Important Disclosure Information is contained on the last page of this report.
The recipient of this report is directed to read these disclosures.

Figure 1: Rex American Resources' Revenue and NOPAT Since Fiscal 2019

Sources: New Constructs, LLC and company filings

Rex American Resources Is Undervalued

At its current price of $41/share, REX has a price-to-economic book value (PEBV) ratio of 0.7. This ratio means the market expects Rex American Resources' NOPAT to permanently decline by 30%. This expectation seems overly pessimistic for a company that has grown NOPAT by 5% compounded annually since fiscal 2014 and 38% compounded annually since fiscal 2019.

Even if Rex American Resources' NOPAT margin falls to 6% (below TTM NOPAT margin of 10%) and the company's revenue grows just 2% (below five-year compound annual growth rate of 6%) compounded annually through fiscal 2034, the stock would be worth $53/share today – a 29% upside. In this scenario, Rex American Resources' NOPAT would fall 1% compounded annually through fiscal 2034. Should Rex American Resources 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 Rex American Resources' 10-Qs and 10-Ks:

Income Statement: we made over $35 million in adjustments, with a net effect of removing just under $5 million in non-operating expenses. Professional members can see all adjustments made to Rex American Resources' income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made over $370 million in adjustments to calculate invested capital with a net decrease of over $310 million. One of the most notable adjustments was for asset write downs. Professional members can see all adjustments made to Rex American Resources' balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made over $440 million in adjustments to shareholder value, with a net increase of around $220 million. The most notable adjustment was for excess cash. Professional members can see all adjustments to Rex American Resources' valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on December 19, 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.

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