Free Stock Pick from the Very Attractive Stocks Index for May 2025

Wall Street uses so many different metrics and narratives to justify buy ratings on over 50% of stocks; no wonder investors are confused.

Less than 4% of the 3,300+ stocks we cover get our Very Attractive Rating. More importantly, Very Attractive-rated stocks outperform the S&P 500 by a significant margin in good markets and bad.

We deliver alpha instead of confusion. Our Stock Ratings are easy to understand. Green means good, Red means bad.

While simple on the surface, the work that goes on to derive these ratings is anything but simple. No one works harder to find the truth about profits and valuation than we do. We know of no other firm that can point to published studies by the likes of Harvard Business School, MIT Sloan and Ernst & Young for proof of the superiority of its research.

Now, we have more proof, the Very Attractive Stocks Index, officially known as the Bloomberg New Constructs Ratings VA-1 Index (ticker: BNCVA1T:IND). This index holds the stocks in the Bloomberg US 1000 that get our Very Attractive rating. Thus, we refer to it as the Very Attractive Stocks Index. What matters most is that the index's outperformance over the short- and long-term is garnering more and more attention. More details below.

The purpose of this report is to share one of the stocks in the Index along with a brief overview of why we think Very Attractive stocks can make good investments. Enjoy this free stock pick. Feel free to share it with friends and family. We are proud of our work and want more people to see it.

Featured Stock from Bloomberg New Constructs Ratings VA-1 Index: Paccar Inc. (PCAR)

Paccar Inc. (PCAR: $89/share) earns an overall Very Attractive rating, driven by Very Attractive ratings in three of the 5 criteria that drive our overall rating. See Figure 1.

Figure 1: Paccar's Stock Rating

	Quality of Earnings		Valuation		
Risk/Reward Rating	Economic vs Reported EPS	ROIC	2 yr Avg FCF (excl cash) Yield	Price to EBV	Market-Implied GAP
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	> 3.5 or -1 < 0	> 50
Unattractive	False Positive	4th Quintile	-5% < -1%	2.4 < 3.5 or < -1	20 < 50
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20
Attractive	**Positive EE**	2nd Quintile	**3% < 10%**	1.1 < 1.6	3 < 10
Very Attractive	Rising EE	**Top Quintile**	> 10%	**0 < 1.1**	**0 < 3**

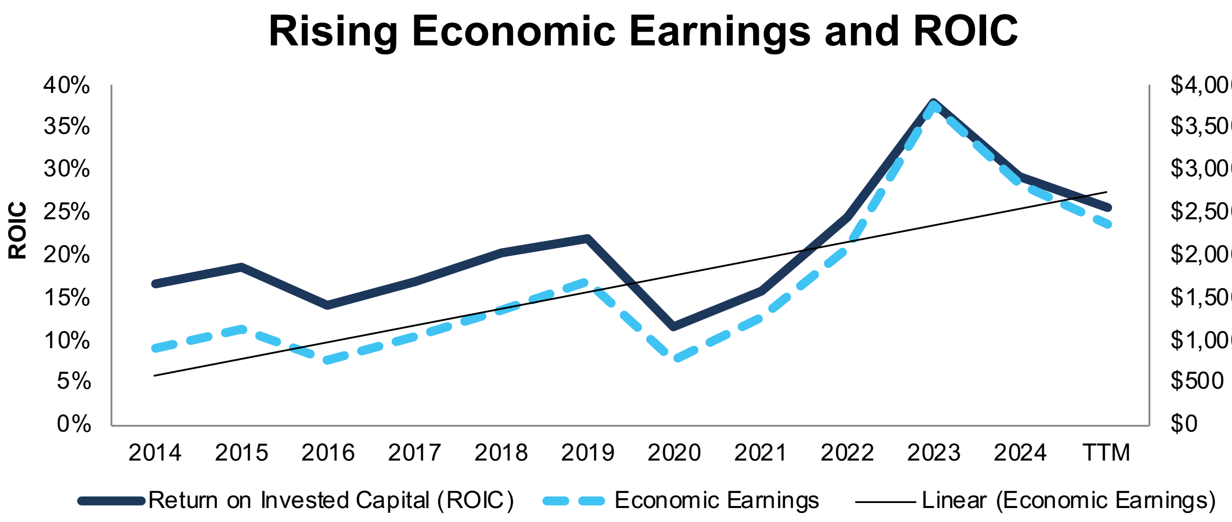
Sources: New Constructs, LLC and company filings

Quality of Earnings Analysis

Paccar earns positive economic earnings and earns an Attractive rating for the Economic vs. Reported Earnings criterion. The company's top quintile ROIC gets our Very Attractive rating.

We like to see companies grow their economic earnings, and Paccar increased its economic earnings from $916 million in 2014 to $2.4 billion in the TTM. See Figure 2.

Figure 2: Paccar's Economic Earnings and ROIC: 2014 – TTM



Sources: New Constructs, LLC and company filings

PCAR Is Undervalued

Paccar has a 2-year average FCF (excl. cash) yield between 3% and 10%, which earns an Attractive rating. And, a PEBV lower than 1.1, and a market-implied GAP of less than one year, both of which earn Very Attractive ratings.

Specifically, at its current price of $89/share, PCAR has a price-to-economic book value (PEBV) ratio of 0.9. This ratio means the market expects Paccar's NOPAT to permanently decline by 10% from 2024 levels. This expectation seems overly pessimistic for a company that has grown NOPAT by 11% compounded annually over the last five and ten years.

The low expectations baked into Paccar's stock price, along with strong quality of earnings, drive its Very Attractive Overall Stock Rating.

Background on our Stock Ratings

Five criteria drive our stock ratings. We divide those criteria into two categories: quality of earnings and valuation.

Quality of earnings criteria:

1. Economic vs. Reported EPS: compares both the level and trend of Economic Earnings, the true cash flows of the business, vs. reported earnings.
2. Return on Invested Capital (ROIC): measures how much profit a company generates for every dollar invested in the company.

Valuation criteria:

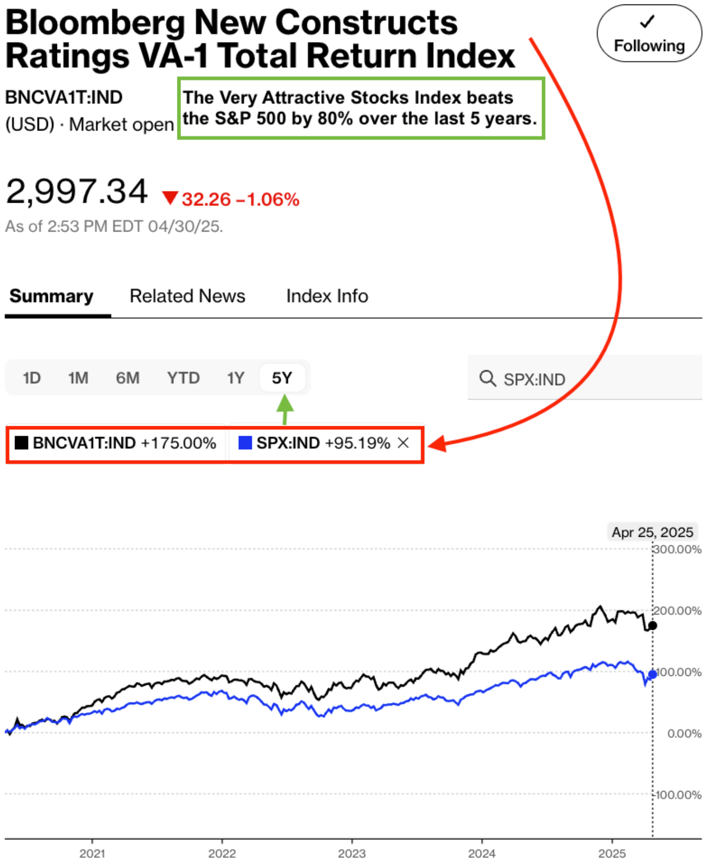
1. 2-year Average Free Cash Flow (excluding cash) Yield: measures the true cash yield of a company.
2. Price to Economic Book Value: measures the growth expectations implied by the company's stock price.
3. Market-Implied Growth Appreciation Period (GAP): measures the number of years of future profit growth required to justify the current valuation of the stock.

Stocks that get an overall Very Attractive rating are poised to outperform in any market.

Real-Time Proof of Superior Stock Ratings

The strong outperformance of the Very Attractive Stocks Index proves the superiority of our Stock Ratings. BNCVA1T outperformed the S&P 500 by 80% over the last 5 years, rising 175% compared to the S&P 500 rising 95%. See Figure 3.

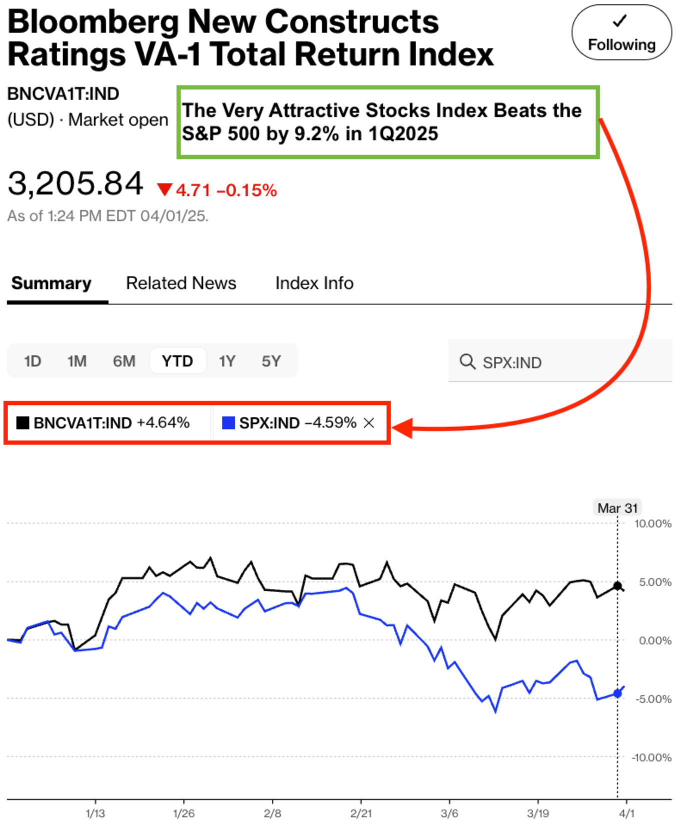
Figure 3: Very Attractive-Rated Stocks Strongly Outperform the S&P 500 Over the Last Five Years



Sources: Bloomberg
Note: Past performance is no guarantee of future results.

Wondering how the index has done more recently? See Figure 4 for details on the strong outperformance of the Very Attractive Stocks Index in the first quarter of 2025. BNCVA1T was up 4.6% while the S&P 500 was down 4.6% and outperformed by 9.2%. Not bad.

Figure 4: Very Attractive-Rated Stocks Strongly Outperform the S&P 500 in 1Q2025



Sources: [Bloomberg]
Note: Past performance is no guarantee of future results.

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Disclosure: Hakan Salt owns PCAR. 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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