



The Hidden Flaws in Fundamental Data

There are so many misperceptions about fundamental data.

In “The Fundamentals of Fundamentals”, Tim Baker excellently lays out the good, the bad and the ugly in a simple, easy-to-consume review of a very complex and nuanced part of the investing business.

As co-founder of [viaNexus](#) and previous head of content strategy, acquisitions and innovation for Thompson Reuters, Tim Baker knows all aspects of the data business. He's recently made the "buy vs build" decision for fundamental data and other data sets.

The Fundamentals of Fundamentals by Tim Baker

Tim starts his breakdown of the fundamental data business with explanations of the different types of fundamental data.

The first type, “As-Reported Financials”, is a raw scrape of SEC filings. It is easy and fast to collect this data, but it's very inconsistently labeled and not reliable for any kind of modeling. The inconsistency makes it nearly impossible to create an apples-to-apples comparison between companies.

The second type is “Normalized Financials”, where the data is classified and mapped to a standard taxonomy. This type of data can be reliable enough for modeling. But, it is very difficult to find examples of taxonomies robust enough to work for all companies in all sectors. It is also very difficult to find companies that can assure consistent application of a given taxonomy. In other words, when humans are involved in parsing data into the taxonomy, they tend to make too many judgement calls, which leads to inconsistency.

The best type is “Normalized + Adjusted Financials”, which boasts reliable application of a robust taxonomy for both financial statements and footnotes. This data set captures all relevant financial information in filings and provides investors with the ability to accurately measure earnings and cash flow. This type of data is best for serious analysis and is the most consistent and comprehensive.

Here at New Constructs, we provide investors with the Normalized + Adjusted Financials type of fundamental data, as Tim Baker notes in this report. Most importantly, we have empirical proof of the accuracy, reliability and novel alpha in our data via these [published studies](#) and the strong [outperformance of the live-traded indices](#) based on our data.

Check out Tim Baker's full report.

The Fundamentals of Fundamentals by Tim Baker

Want data that can generate alpha in any market?

Learn more about our memberships [here](#).

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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 [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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