Live Podcast Friday: The AI Boom Has a Profit Problem

Sign up to join us for our next live podcast on Friday, November 13 at 12pm ET.

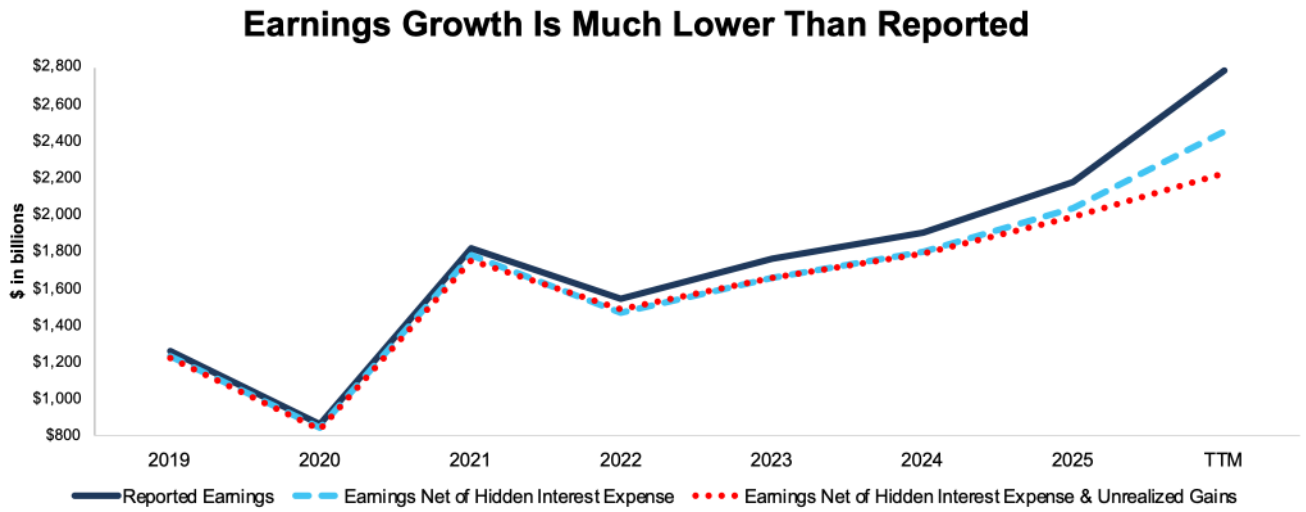
The more money companies spend on AI, the more important one question becomes:

Where are the profits?

Our latest research reveals another problem with the AI boom: reported earnings growth is lower than it appears.

Unrealized investment gains, fueled by soaring AI valuations, make profits appear stronger without any improvement in the underlying business.

Figure 1: Earnings Net of Hidden Interest Expense & Unrealized Gains: S&P 500: 2019-TTM



Sources: New Constructs, LLC and company filings
* S&P 500 data includes TTM data for companies in the S&P 500 at the end of each period.

What happens when those valuations stop rising?

In addition, the cost of off-balance sheet debt is conveniently kept off the income statement. Adjusting for both reveals S&P 500 earnings are 20% lower than reported.

We're combining our Monthly Live Podcast and Earnings Watch Party for a special look at the risks and opportunities facing investors.

We'll kick things off with a review of our latest research exposing hidden costs and inflated earnings. Then, we'll turn to the latest earnings from Cisco (CSCO), Applied Materials (AMAT), Nebius (NBIS), CoreWeave (CRWV), and Take-Two Interactive (TTWO).

From the enormous capital requirements of AI infrastructure to the expectations surrounding networking, semiconductors, and gaming, we'll look past the headlines to determine which stocks offer Attractive Risk/Reward.

Join Us Live at 12pmET on November 13

This live podcast is free to attend.

Get your spot here.

Want your question answered live? Submit it now — here.

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

For replays of past live podcasts, click here.

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Disclosure: David Trainer and Kyle Guske II 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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