



## New Constructs: 2016 In Review

As 2016 comes to an end, we'd like to highlight some of New Constructs' many accomplishments for this year. We've helped our partners and clients [avoid stock blow-ups](#), [find long ideas that soar](#) and leverage Model Portfolios [that outperform](#) across the board.

Overall, as the [importance of ROIC](#) continues to dominate headlines and the DOL raises awareness of the importance of [fulfilling fiduciary duties](#), our technology helps clients succeed.

### Top Performing Stock Picks

Our best Long Idea of 2016 was Thor Industries (THO), published to Gold and higher members on June 23. Thor was a true value stock - the fundamentals of the business were trending higher but the valuation was not keeping up. THO is up 54% since publication and still earns our Attractive rating. [Read "Long Idea: Thor Industries \(THO\)" here.](#)

On the flip side, our best performing Danger Zone/short idea was Valeant Pharmaceuticals (VRX), a company we originally warned against in [June 2014](#), and featured in the Danger Zone on February 29. Our research on VRX was [featured in Barron's](#). Valeant's problems were widespread and included questionable non-GAAP accounting practices that vastly overstated the company's true cash flows. Making matters worse, executive incentives were misaligned with shareholder interests, which made VRX a ticking time bomb. All told, VRX is down 78% since we published our Danger Zone article and still earns our Dangerous rating. [Read "Danger Zone: Valeant Pharmaceuticals \(VRX\)" here.](#)

### Partnerships Put New Constructs On Over 1 Million Desktops

New Constructs entered into 3 new major partnerships in 2016 to bring unrivaled due diligence to more investors. Through deals with some of the largest financial institutions in the market, New Constructs shines a light in the dark corners of SEC filings for over 1 million new desktops. Our new partnerships in 2016 include:

1. [Thomson Reuters](#)

Our Unlimited Membership is now available on Thomson ONE, which includes unlimited access to investment ratings for more than 3,000 stocks, 450 ETFs, & 7,000 mutual funds, our stock & fund screening tools, and all of our Model Portfolios. "Our partnership with New Constructs provides a consistent data-driven approach to research through our Thomson ONE open desktop, as well as simplifies their investment management processes" said David Akellian, managing director of Thomson Reuters Wealth Management.

2. [Scottrade](#)

6,000 Scottrade clients signed up for our Gold Membership in the first six weeks it was integrated into their Scottrade account. We also offer upgrades to Platinum and Pro memberships at special discounts for all Scottrade clients. "Our relationship with New Constructs will provide our clients with the research, reports and management tools that will give them a clear picture and help validate their investment ideas," said Brian Bachelier, vice president of Active Trader Strategy at Scottrade.

3. [Interactive Brokers](#)

Interactive Brokers clients can now purchase direct access to our Institutional Membership, which includes our forensic accounting research and valuation models on 3,000+ stocks, 7,000+ mutual funds, and 400+ ETFs as well as our stock & fund screening tools and the Most Attractive and Most Dangerous Model Portfolios. "We are pleased to provide our cutting-edge research technology to a fellow leader in innovation and transparency for investors like Interactive Brokers. We share a vision for helping investors maximize performance and leverage the latest in technology," said New Constructs chief executive David Trainer.

### New Model Portfolios: Excellent Ideas and Themes That Outperform

We created two new Model Portfolios in 2016. Both are aimed at providing well-screened lists of undervalued stocks that investors should have on their radar.

The [Executive Compensation Aligned With ROIC Model Portfolio](#) identifies undervalued stocks that align executive compensation with ROIC. Aligning executive compensation to ROIC is a [clear driver of shareholder value creation](#), and these stocks do the best job of aligning executive interests with those of shareholders. Since inception, this model portfolio is up 23% while the S&P is up 9%.

The [Safest Dividend Yields Model Portfolio](#) identifies undervalued stocks that provide investors with a high quality and safe dividend yield. Not all dividends are created equal. These companies, with strong free cash flow and economic earnings, provide higher quality and safer dividend yields because we know they have the cash to support their dividend. Since inception, this model portfolio is up 8.1% while the S&P is up 5.2%.

These new Model Portfolios join our long-running [Most Attractive](#) & [Most Dangerous](#) Model Portfolios, which identify the Most Attractive and Most Dangerous stocks in the market each month.

### Thought Leadership

Our research paved new ways of thinking about macro issues and was featured prominently by wealthmanagement.com, MarketWatch and Forbes on these topics:

1. [The importance \(or lack thereof\) of the Federal Reserve](#)
2. [Permanent changes to investors' expectations for a fiduciary level of service from advisors](#)
3. [The need for advisors to provide a fiduciary level of service to remain competitive](#)

### More Research Features For Clients

1. Added our Model Portfolios to your My Portfolio page for easier access
2. Added Dividend Yield to [My Portfolio, Stock Screeners, and company valuation models](#)
3. Added the ability to [download our company valuation models](#) in excel
4. Updated [Suspended Ratings and Analyst Notes](#)

### More Tools To Improve Client Experience

1. Created [video tours](#) to allow you to get the most out of your membership
2. Added in-line tours to key pages of the website
  - a. [My Portfolio](#)
  - b. [Stock Screener](#)
  - c. [ETF & Mutual Fund Screener](#)
  - d. [Ratings](#)
3. Created [step-by-step tours](#) to make navigation easier to follow

### More Coverage of Stocks, ETFs and Mutual Funds

We're always looking for ways to [improve our technology](#) in order to bring you the best fundamental research in the market. Throughout the year, we have done so in many different ways:

1. Added 90 stocks, 460 mutual funds, and 6 ETFs to coverage. Our coverage universe can be seen [here](#).
2. Added 20 IFRS-reporting companies to coverage
3. Parsed 2,960 company 10-Ks
4. Parsed 8,415 company 10-Qs
5. Parsed 805,372 individual line items

### Numerous Media Features

We were featured in Barron's eight times in 2016, including features on our [forensic accounting expertise](#), the [stocks to buy regardless of election outcome](#), and our [partnership with Scottrade](#). Two of our op-eds appeared in MarketWatch, and one on wealthmanagement.com, which helped solidify our thought leadership in areas such as [due diligence](#), [economic earnings](#), and [ROIC](#). [Bloomberg recognized our stock picking](#) in February and we were ranked the [#1 stock picker](#) on SumZero, a highly exclusive buy-side only platform, from March through June.

### Huge Growth In Customers and Followers in 2016

1. Our online subscribers grew 2533% to 8,348
2. To our mailing list, had had 45,757 new investors sign up for a total of 52,789

We expect this exponential growth to continue in 2017 as New Constructs research continues to impress with its quality and uniqueness. We are adding new partners, as well, that bring New Constructs into the raw data, auditing, corporate consulting and investor relations markets.

### **2017: The Best Is Yet To Come**

Accounting rules and disclosure practices are changing at an accelerated rate. It's difficult for investors to keep up. Our goal is to provide you with the most accurate and up-to-date fundamental analysis on the market using our [unparalleled machine learning technology](#). 2017 is no different. We believe there are key changes in the landscape that will make fundamental analysis even more important in the coming years.

First and foremost, the DOL's Fiduciary Rule is set to take effect next year. Advisors and wealth management firms must perform proper due diligence to avoid the crosshairs of regulators. Such diligence cannot be found in technical trading strategies and sell-side research, as each has inherent flaws and fail to alert advisers of potential red flags hidden in the details. Only real fundamental research that takes into account all the information in financial filings will suffice – including the critical information hidden in the footnotes & MD&A that New Constructs finds that other firms miss.

Additionally, we've laid out broad goals we're looking forward to achieving in 2017, some of which can be seen below:

1. Expand our coverage universe
2. Portfolio Diagnostic Tools
3. Enhanced metrics in our company valuation models
4. New Model Portfolios

We thank you for being a member of New Constructs and wish you a wonderful holiday and happy New Year.

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*Disclosure: David Trainer, Kyle Guske II, and Kyle Martone receive no compensation to write about any specific stock, style, or theme.*

*Scottrade clients get a Free Gold Membership (\$588/yr value) as well as 50% discounts and up to 20 free trades (\$140 value) for signing up to Platinum, Pro or Unlimited memberships. [Login or open your Scottrade account](#) & find us under Quotes & Research/Investor Tools.*



## ***New Constructs® – Profile***

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### ***How New Constructs Creates Value for Clients***

We find it. You benefit. Cutting-edge technology enables us to scale our [forensic accounting expertise](#) across 3000+ stocks. We shine a light in the dark corners of SEC filings so our clients can make safer, more informed decisions.

Our [stock rating methodology](#) instantly informs you of the quality of the business and the fairness of the stock's valuation. We do the diligence on earnings quality and valuation so you don't have to.

In-depth risk/reward analysis underpins our ratings. Our rating methodology grades every stock, ETF, and mutual fund according to what we believe are the 5 most important criteria for assessing the quality of an equity. Each grade reflects the balance of potential risk and reward of buying that equity. Our analysis results in the 5 ratings described below. Very Attractive and Attractive correspond to a "Buy" rating, Very Dangerous and Dangerous correspond to a "Sell" rating, while Neutral corresponds to a "Hold" rating.

QUESTION: Why shouldn't fund research be as good as stock research? Why should fund investors rely on backward-looking price trends?

ANSWER: They should not.

Don't judge a fund by its cover. Take a look inside at its holdings and understand the quality of earnings and valuation of the stocks it holds. We enable you to choose the best fund based on its stock-picking merits so you do not have to rely solely on backward-looking technical metrics.

The drivers of our [forward-looking fund ratings](#) are Portfolio Management (i.e. the aggregated ratings of its holdings) and Total Annual Costs. The Total Annual Costs Rating ([details here](#)) captures the all-in cost of being in a fund over a 3-year holding period, the average period for all fund investors.

### ***Our Philosophy About Research***

Accounting data is not designed for equity investors, but for debt investors. [Accounting data must be translated into economic earnings](#) to understand the profitability and valuation relevant to equity investors. Respected investors (e.g. Adam Smith, Warren Buffett and Ben Graham) have repeatedly emphasized that accounting results should not be used to value stocks. [Economic earnings](#) are what matter because they are:

1. Based on the complete set of financial information available.
2. Standard for all companies.
3. A more accurate representation of the true underlying cash flows of the business.

### ***Additional Information***

Incorporated in July 2002, [New Constructs](#) is an independent publisher of investment research that provides clients with consulting and research services. We specialize in quality-of-earnings, forensic accounting and discounted cash flow valuation analyses for all U.S. public companies. We translate accounting data from 10Ks into economic financial statements, i.e. [NOPAT](#), [Invested Capital](#), and [WACC](#), to create [economic earnings models](#), which are necessary to understand the true profitability and valuation of companies. Visit the [Free Archive](#) to download samples of our research. New Constructs is a [BBB accredited](#) business and a member of the [Investorside Research Association](#).

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