



## Filing Season Finds: Friday, March 17

Our latest forensic accounting red flag is from an industrial bellwether whose balance sheet significantly understates its [invested capital](#).

We pulled this highlight from yesterday's research of 64 10-K filings, from which our [robo-analyst](#) technology collected 8,054 data points. Our analyst team used this data to make 1,318 forensic accounting [adjustments](#) with a dollar value of \$55 billion. The adjustments were applied as follows:

- 534 income statement adjustments with a total value of \$5 billion
- 566 balance sheet adjustments with a total value of \$25 billion
- 218 valuation adjustments with a total value of \$25 billion

**Figure 1: Filing Season Diligence**

	Filings Parsed	Data Points Collected	# of Adjustments	Total Value of Adjustments (\$Billions)
Yesterday	64	8,054	1,318	\$55
Filing Season Total	1,787	250,032	42,385	\$13,222

Sources: New Constructs, LLC and company filings.

We believe this research is necessary to close the gap between the suitability and [fiduciary standard](#) of investment advice services.

### Today's Forensic Accounting Needle In A Haystack Is For Industrial Investors

Analyst Allen L. Jackson found an unusual item yesterday in Alcoa's (AA) 10-K.

On [page 128](#), Alcoa includes a table detailing its [accumulated other comprehensive loss](#) of \$3.8 billion. That number represents Alcoa's accumulated losses on non-shareholder investments such as pensions, foreign currency translation, and hedging activities.

These losses decrease Alcoa's reported net assets. We want to hold management responsible for all the capital invested in the company, so we add back that \$3.8 billion to our calculation of [invested capital](#). Without making this adjustment, AA's average invested capital would have been \$14.4 billion in 2016. With the adjustment, its average invested capital was \$17.1 billion.

Few analysts pay close attention to other comprehensive income (loss), but it's an important item if you want to accurately calculate return on invested capital ([ROIC](#)).

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*Disclosure: David Trainer, Allen L. Jackson, and Sam McBride receive no compensation to write about any specific stock, sector, style, or theme.*

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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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