



Filing Season Finds: Thursday, March 1

For February 28, 2018, our forensic accounting red flag is a marketing and private label credit card company with some unusual acquisition accounting.

We pulled this highlight from yesterday's research of 127 10-K filings, from which our [Robo-Analyst](#) technology collected 20,430 data points. Our analyst team used this data to make 3,369 forensic accounting [adjustments](#) with a dollar value of \$1.4 trillion. The adjustments were applied as follows:

- 1,451 income statement adjustments with a total value of \$106 billion
- 1,374 balance sheet adjustments with a total value of \$582 billion
- 544 valuation adjustments with a total value of \$736 billion

Figure 1: Filing Season Diligence for Wednesday, February 28th

	Filings Parsed	Data Points Collected	# of Adjustments	Total Value of Adjustments (\$Billions)
Filing Season Day 7	127	20,430	3,369	\$1,424
Filing Season Total	761	120,919	19,318	\$9,690

Sources: New Constructs, LLC and company filings.

We believe this research is necessary to fulfill the [Fiduciary Duty of Care](#). Ernst & Young's recent white paper, "[Getting ROIC Right](#)", demonstrates how these adjustments contribute to meaningfully superior models and metrics.

Today's Forensic Accounting Needle in a Haystack Is for Business Support Services Investors

Analyst Peter Apockotos found an unusual item yesterday in Alliance Data Systems' (ADS) 10-K.

On [page 17](#) of the footnotes (page 76 overall), ADS disclosed a \$7.9 million (1% of GAAP net income) bargain purchase gain on its \$945 million acquisition of Signet Jeweler's (SIG) credit card receivables and associated accounts. ADS believes that the assets it acquired in this deal are worth \$7.9 million more than they paid for them.

Since most companies [overpay for acquisitions](#), it seems surprising that ADS would have managed to acquire these receivables at a discount. There's a chance that ADS is under-reserving for credit losses or overstating the value of the intangible assets (valued at \$52 million) in this deal to boost short-term earnings. Investors should exclude that \$7.9 million gain and be aware that ADS has a heightened probability of credit losses and [write-downs](#) in the future.

This article originally published on [March 1, 2018](#).

Disclosure: David Trainer, Peter Apockotos, and Sam McBride receive no compensation to write about any specific stock, sector, style, or theme.

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To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.



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