



## HBS & MIT Sloan Paper: Our “Novel Database” Corrects Market Inefficiencies and Generates Alpha

*“The implications of these findings are potentially far-reaching for investors and for researchers.”*

– page 33, 2<sup>nd</sup> paragraph, 1<sup>st</sup> sentence

In “[Core Earnings: New Data and Evidence](#)”, Ethan Rouen and Charles C.Y. Wang of Harvard Business School (HBS) and Eric So of Massachusetts Institute of Technology (MIT) Sloan School of Management use our “novel database” of earnings adjustments to reveal market inefficiencies and show investors how to:

- Measure & predict earnings more accurately
- Lower risks of using misleading data from traditional providers
- Generate alpha

*“...this is the most comprehensive dataset that captures what a fundamental analyst would be likely to identify as transitory or non-operating earnings items...”*

– page 9-10, 4<sup>th</sup> paragraph, 2<sup>nd</sup> sentence

**Only our research utilizes the superior data and earnings adjustments featured by the paper.**

[Get the paper](#)

This paper shows how our superior data and research helps you:

- Pick better stocks
- Avoid losses from using other firms’ data
- Build better cash flow & valuation models
- Exploit market inefficiencies
- Fulfill fiduciary duties

Don’t just take our word for it. See what HBS and MIT Sloan professors say in the paper:

### **Pick better stocks:**

*“Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.”* – Abstract, 5<sup>th</sup> sentence

*“The findings...suggest that firms in the highest decile of Total Adjustments outperform firms in the lowest decile by approximately 9-10% in the year after firms’ 10K filings.”* – page 31-32, 4<sup>th</sup> paragraph, 2<sup>nd</sup> sentence

### **Avoid losses from using other firms’ data:**

*“...many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat...”* – page 14, last paragraph, 1<sup>st</sup> sentence

*“To further explore Compustat’s treatment of non-recurring items that appear on the income statement, we examined a random sample of 30 firm-years that reported economically meaningful items on their income statements to determine if and where Compustat reported these items. In all instances, NC identified the items as non-operating, and Core Earnings includes adjustments for these items. In 10 of the firm-years, the item was not reported in any Compustat variable; the other 20 items were reported in 13 different variables.”* – page 15, 1<sup>st</sup> paragraph, 4<sup>th</sup>-6<sup>th</sup> sentences

### **Build better models:**

*“Core Earnings [calculated using New Constructs’ novel dataset] provides predictive power for various measures of one-year-ahead performance...that is incremental to their current-period counterparts.”* – page 4, 1<sup>st</sup> paragraph, 3<sup>rd</sup> sentence



*“Because of the comprehensive nature of NC’s approach to identifying non-operating and transitory income-statement related items, and because of its status as an independent research firm, the resulting measure of core earnings is less likely to exhibit the systematic bias that has been found in managers’ pro-forma earnings.” – page 2, 3<sup>rd</sup> paragraph, 4<sup>th</sup> sentence*

**Exploit market inefficiencies:**

*“The results... suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures.” – page 26, 3<sup>rd</sup> paragraph, 1<sup>st</sup>-2<sup>nd</sup> sentences*

*“Analysts and market participants also are slow to impound the implications of these [non-operating and less persistent income-statement] items.” – page 1, Abstract, 4<sup>th</sup> sentence*

*“...these figures show that the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications.” – page 20, 2<sup>nd</sup> paragraph, last sentence*

**Fulfill fiduciary duties**

*“An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A.” – page 33-34, 1<sup>st</sup> paragraph, 4<sup>th</sup> sentence*

*“These findings also suggest that Income before Special Items is not a good measure of operating or core income.” – page 22, 1<sup>st</sup> paragraph, 6<sup>th</sup> sentence*

*“...Core Earnings is a superior accounting measure of a company’s operating earnings, and incremental to other measures when predicting future performance.” – page 25, 1<sup>st</sup> paragraph, 1<sup>st</sup> sentence*

**Conclusion: Have Your Cake and Eat It Too**

Now everyone can benefit from more accurate fundamental data and rigorous research without spending hours scouring financial filings.

This HBS and MIT Sloan paper shows that our Robo-Analyst<sup>1</sup> technology delivers materially better data that can improve stock-picking. Unconflicted and comprehensive fundamental research is finally available to all who care to make it a part of their investing process.

Why take the unnecessary risk of using lower quality data and research? You and your clients deserve the best technology has to offer.

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

*Follow us on [Twitter](#), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.*

<sup>1</sup> Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).



## Footnotes adjustments matter. We are the ONLY source.

We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

**HBS & MIT Sloan research** reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies ([featured by Harvard Business School](#)), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, [Core Earnings: New Data and Evidence](#), shows how our superior data drives uniquely comprehensive and independent debt and equity research.

This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

Quotes from HBS & MIT Sloan professors on our research:

### **Get better research:**

*“...the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications.” – page 20*

### **Pick better stocks:**

*“Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.” – Abstract*

### **Avoid losses from using other firms’ data:**

*“...many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat...” – page 14*

### **Build better models:**

*“Core Earnings [calculated using New Constructs’ novel dataset] provides predictive power for various measures of one-year-ahead performance...that is incremental to their current-period counterparts.” – page 4*

### **Exploit market inefficiencies:**

*“These results ... suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures.” – page 26*

### **Fulfill fiduciary duties:**

*“An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A.” – page 33-34*



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