



Position Close Update: Zillow Group Inc. (ZG)

Zillow Group Inc. (ZG) – Closing Short Position – +394% vs. S&P +114%

We put Zillow Group (ZG) in the [Danger Zone](#) on [March 7, 2016](#). At the time of the report, ZG received an Unattractive [rating](#). Our short thesis posited that, given its reliance on third-party data, the firm would not be able to effectively monetize its website. However, we did not foresee Zillow leveraging purchasing, search, and individual market data to become the leading player in the iBuying market.

This report, along with all of our research¹, leverages our [more reliable fundamental data](#)² to get the truth about earnings, as shown in the Journal of Financial Economics paper, "[Core Earnings: New Data and Evidence](#)."

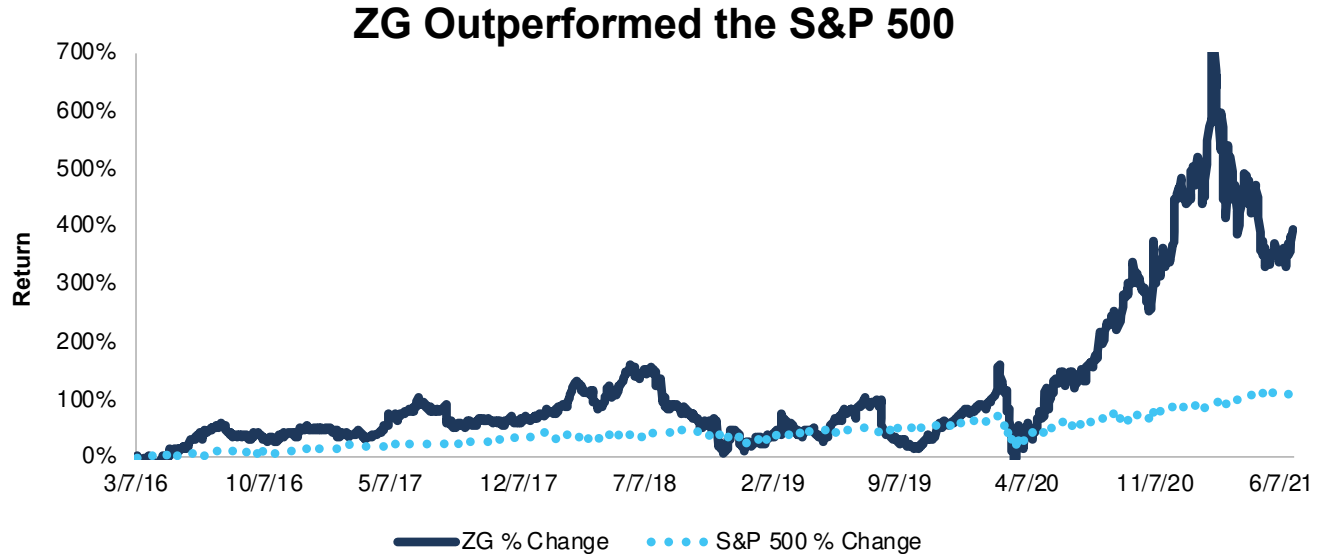
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During the 5+ year holding period, ZG underperformed as a short position, rising 394% compared to a 114% gain for the S&P 500.

While the stock is down 42% from its all-time high in mid-February 2021, the firm's strong position in the iBuying market and bullish macroeconomic trends in the housing market leave the stock more likely to rise than fall in the near-term. Our reverse discounted cash flow (DCF) model reveals the stock is still significantly overvalued, but risk/reward skews towards risk in a short position in the current market.

While the company still earns an Unattractive rating, we believe the stock no longer presents quality risk/reward and are closing this short position.

Figure 1: ZG vs. S&P 500 – Price Return – Underperforming Short Idea



Sources: New Constructs, LLC and company filings
Note: Gain/Decline performance analysis excludes transaction costs and dividends.

This article originally published on [June 29, 2021](#).

¹ Harvard Business School features our Robo-Analyst research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

² Three independent studies from respected institutions prove the superiority of our data, models, and ratings. Learn more [here](#).



Disclosure: David Trainer, Kyle Guske II, Alex Sword, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
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Best Fundamental Data in the World

Forthcoming 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

A top accounting firm 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 Indiana’s Kelley School of Business. 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.

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