



That Which We Obtain Too Easily...

Can you lie to yourself? Do people do it often? Absolutely. People choose to believe what fits with their desires all the time. And, we are witnessing a world where more people are throwing themselves into confirmation traps than anything I've seen since the tech bubble. The lengths to which people will go to find or even fabricate information to confirm what they already believe at the expense of acknowledging anything that conflicts with what they believe are staggering. If you don't know what I am talking about, spend ten minutes on YouTube watching videos about Tesla, the cars or the stock. You'll see that people are willing to say and believe just about anything to make them feel good about their beliefs in Tesla – good or bad. We see the same behavior at play in politics, in religion – it's almost everywhere now.

But, that's not what really bothers me. The really scary trend I see is aversion to hard work. It feels like too many folks have forgotten the value of hard work. Or, they do not realize it until their portfolio underperforms or one of their holdings blows up. The truth is: bad stock ideas are easy. They require little to no work. Good stock ideas take lots of hard work. Lots. And, I am going to share an example in just a minute. One of our favorite sayings at New Constructs is: "There's no substitute for hard work." And, I believe that in my heart. I do not believe in relying on luck, which means the only way to get ahead in this world is to work harder than other people.

One of the quotes on our refrigerator is "Input matters more than output." I want my kids to know that I care more about how hard they work and how hard they try than I care about the results. I believe that hard work is its own reward. And, I want my kids to know they have control over what matters most: their attitude and effort. The rest is out of their hands. It is important for my boys to know the difference between what's their responsibility and what is not. They're responsible for how hard they work, no one else.

The alternative, ie. caring more about output than input, gets people into trouble in many ways. Perhaps, the worst habit that comes from too much focus on results is the desire to cheat or take shortcuts. They are the same thing, in my opinion.

Combine the desire to cheat with lying to oneself, and you have a lethal combination. That's exactly what I think is happening on Wall Street. I saw it first hand as I detailed in a prior e-letter: [Don't Believe the Hype](#).

We worked incredibly hard to create the AI that drives our Robo-Analyst technology at New Constructs. Our motivation was clear: if we work really hard to teach machines to analyze financial statements better than humans, then we have a technology that can change the world of investing. We can give everyone access to reliable fundamental research and improve the integrity of the capital markets, which my readers know is the mission of New Constructs.

I'm going to give you an example of a stock pick that clearly distinguishes our research from one of our competitors. Our clients first learned of this stock pick on June 15, 2023, when we published the report: [Coal In Green Clothing](#). Since then, the stock is up over 80% while the S&P 500 is up around 16%. We are still fans of this stock and have it on our Focus List Stocks: Long. In fact, we like it so much that we recently added another stock to our Focus List Stocks: Long that is in a very similar business.

The point is that the work that went into writing our report and determining that this stock should be on our Focus List was huge. To find this stock, we spent

1. Twenty years building a technology that enables us to screen the entire U.S. market of actively-traded stocks for the absolute best stocks from a fundamental risk/reward basis.
2. 27,000 human analyst hours (far fewer for the Robo-Analyst) every quarter to update our database with the latest 10-Ks and 10-Qs. Details on this work for last quarter are [here](#).
3. 3 weeks researching the coal industry, the different types of coal and how demand for coal might look in the future.
4. 5 days formatting the data and charts and crafting a compelling story that appropriately represented the value of the idea and the insights that drove it.



- 5. A lifetime of not being afraid to be contrarian and stand up for what is right as opposed to what was easy or popular.

The stock pick we are talking about is Warrior Met Coal (HCC). We believe it is one of the most overlooked stocks in the market and will outperform big time. We have confidence in our research because we put in the work. Even if we are wrong, and we don't think we are, at least we did our best to ensure we put out the best research possible. At the end of the day, input matters more than output.

To show how confident we are in our work, I want to share a free copy of [Coal In Green Clothing](#), click [here](#) to download it. Take a look, let me know if you agree with me about the quality and amount of work we did.

Then, I invite you to compare our research to what one of our competitors shows. Here's a sample:



Source: <https://www.zacks.com/stock/quote/HCC?q=hcc>

In case you were wondering, yes, we put the same amount of work into every stock that makes our Focus List: Long and our Focus List: Short. There is no substitute for hard work.

We regularly review our work and research on Long Ideas with clients. We want you to know how much work we do! Here's how we share our work:

1. Free live Podcast every month. The next one is on **May 10th at 12pmET**. Register [here](#). Send requests for stocks to review in our [Society of Intelligent Investors](#) (use this [form](#) to sign up for free) and ask questions and make requests anytime!
2. Monthly [Let's Talk Long Ideas](#) webinars where we do deep dives into our research, analytics, reverse DCF models and ideas for our Professional and Institutional clients. The next one is on **May 8th at 3:30pmET**.
3. 100% transparency into all models, analytics and data so clients can audit our work anytime with our [Marked-up Filings](#) feature.

Diligence matters,

David

This article was originally published on [May 3, 2024](#).

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

Questions on this report or others? Join our [Society of Intelligent Investors](#) and connect with us directly.



It's Official: We Deliver the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

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

Ernst & Young 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 Harvard Business School. 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.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first two days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs.

Copyright New Constructs, LLC 2003 through the present date. All rights reserved.