



S&P 500 & Sectors: GAAP vs Core Earnings Update for 2Q24 (Free, Abridged)

Movement in Core Earnings and GAAP earnings were quite different again this quarter and raises red flags about the quality of reported earnings. These results underscore the more stable nature of Core Earnings. Because we remove unusual gains and losses, Core Earnings are not as volatile as GAAP Earnings.

This report is an abridged and free version of [S&P 500 & Sectors: GAAP vs Core Earnings Update for 2Q24](#), one of our quarterly series of reports on [fundamental market and sector trends](#). The full reports are available to [Institutional](#) members.

The full version of the report analyzes [Core Earnings](#)^{1,2} and GAAP earnings for the S&P 500 and each of its sectors (last analysis is [here](#)) from 2004 to present.

This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#)³ fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

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GAAP Earnings Are Again Misleading in 2Q24

Our superior fundamental data protects investors from being fooled by misleading trends in GAAP Earnings. The recent rise in GAAP Earnings understates the rise in Core Earnings for the S&P 500.

When GAAP earnings and Core Earnings diverged last quarter, we thought we might see the [kitchen sink effect](#) accentuate that divergence. So, this quarter's results are even more interesting. See Figure 1 in the [full report](#).

GAAP Earnings⁴ Understate Core Earnings for Over Half of the S&P 500 (by Market Cap)

58% of the companies in the S&P 500 reported GAAP Earnings that are lower than Core Earnings for the TTM ended 2Q24.

When GAAP Earnings understate Core Earnings, they do so by an average of 77%, per Figure 1.

Figure 1: S&P 500 GAAP Earnings Understated by 77% On Average

Understated GAAP Earnings	Understated by >10%	Average Understatement %
288 companies	146 companies	77%

Sources: New Constructs, LLC and company filings.
We use Funds from Operations (FFO) for Real Estate companies rather than GAAP Earnings.

The 288⁵ companies with understated GAAP Earnings make up 51% of the market cap of the S&P 500 as of August 15, 2024. Companies with understated GAAP earnings made up 55% of the S&P 500 market cap in as of May 16, 2024 (last quarter's report).

¹ [The Journal of Financial Economics](#) features the superiority of our Core Earnings in [Core Earnings: New Data & Evidence](#).

² Based on the latest audited financial data, which is the calendar 2Q24 10-Q in most cases. Price data as of 8/15/24.

³ Our research utilizes our [Core Earnings](#), a more reliable measure of profits, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).

⁴ Overstated companies include all companies with Earnings Distortion >0.1% of GAAP earnings.

⁵ For reference, 296 companies reported GAAP Earnings below Core Earnings in the TTM ended 1Q24.



Figure 2: Understated Earnings as % of Market Cap: 2012 through 8/15/24



Sources: New Constructs, LLC and company filings.

Key Details on Select S&P 500 Sectors

Six of eleven sectors saw a QoQ rise in Core Earnings through the TTM ended 2Q24.

The Technology sector saw the largest QoQ improvement in Core Earnings.

The Technology sector also generates the most Core Earnings. On the flip side, the Real Estate sector has the lowest Core Earnings.

To give you a sense of what we show in the full report, we provide a snippet on the Consumer Cyclical sector, below.

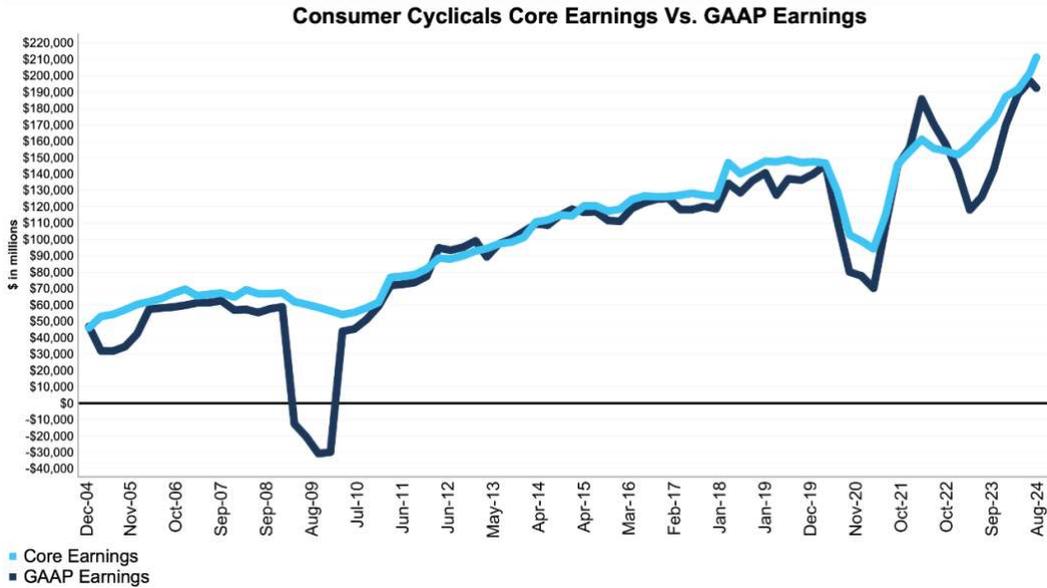
Sample Sector Analysis⁶: Consumer Cyclical Sector

Figure 3 shows Core Earnings for the Consumer Cyclical sector rose 5% QoQ in 2Q24, while GAAP earnings fell 3% over the same time. The full report provides these details and charts on the S&P 500 and all sectors.

⁶ The full version of this report provides analysis for all eleven sectors.



Figure 3: Consumer Cyclical Core Earnings Vs. GAAP: 2004 – 2Q24



Sources: New Constructs, LLC and company filings.
 Our Core Earnings analysis is based on aggregated TTM data for the sector constituents in each measurement period.
 The August 15, 2024 measurement period incorporates the financial data from calendar 2Q24 10-Qs, as this is the earliest date for which all the calendar 2Q24 10-Qs for the S&P 500 constituents were available

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

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Appendix: Calculation Methodology

We derive the Core Earnings and GAAP Earnings metrics above by summing the Trailing Twelve Month individual S&P 500 constituent values for Core Earnings and GAAP Earnings in each sector for each measurement period. We call this approach the “Aggregate” methodology.

The Aggregate methodology provides a straightforward look at the entire sector, regardless of market cap or index weighting and matches how S&P Global (SPGI) calculates metrics for the S&P 500.



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](#).



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