



New Constructs<sup>®</sup>

Diligence | Independence | Performance

# Technology:

## For Better Research on Stocks, ETFs and Mutual Funds

[david.trainer@newconstructs.com](mailto:david.trainer@newconstructs.com)

615-377-0443

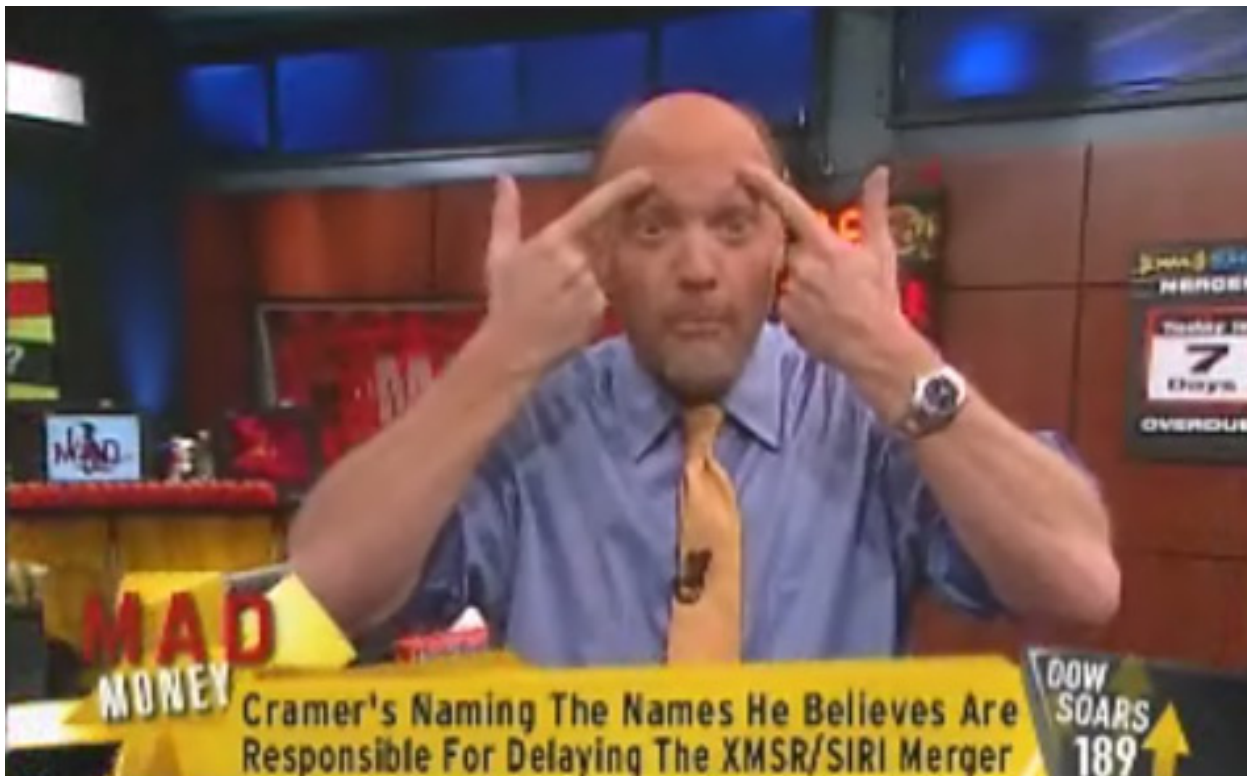
**Important Disclosure Information is contained on the last page of this report.  
The recipient of this report is directed to read these disclosures.**

# Agenda

- I. **Cracking the (Wall Street) Code**
- II. **Background**
- III. **Free Resources**

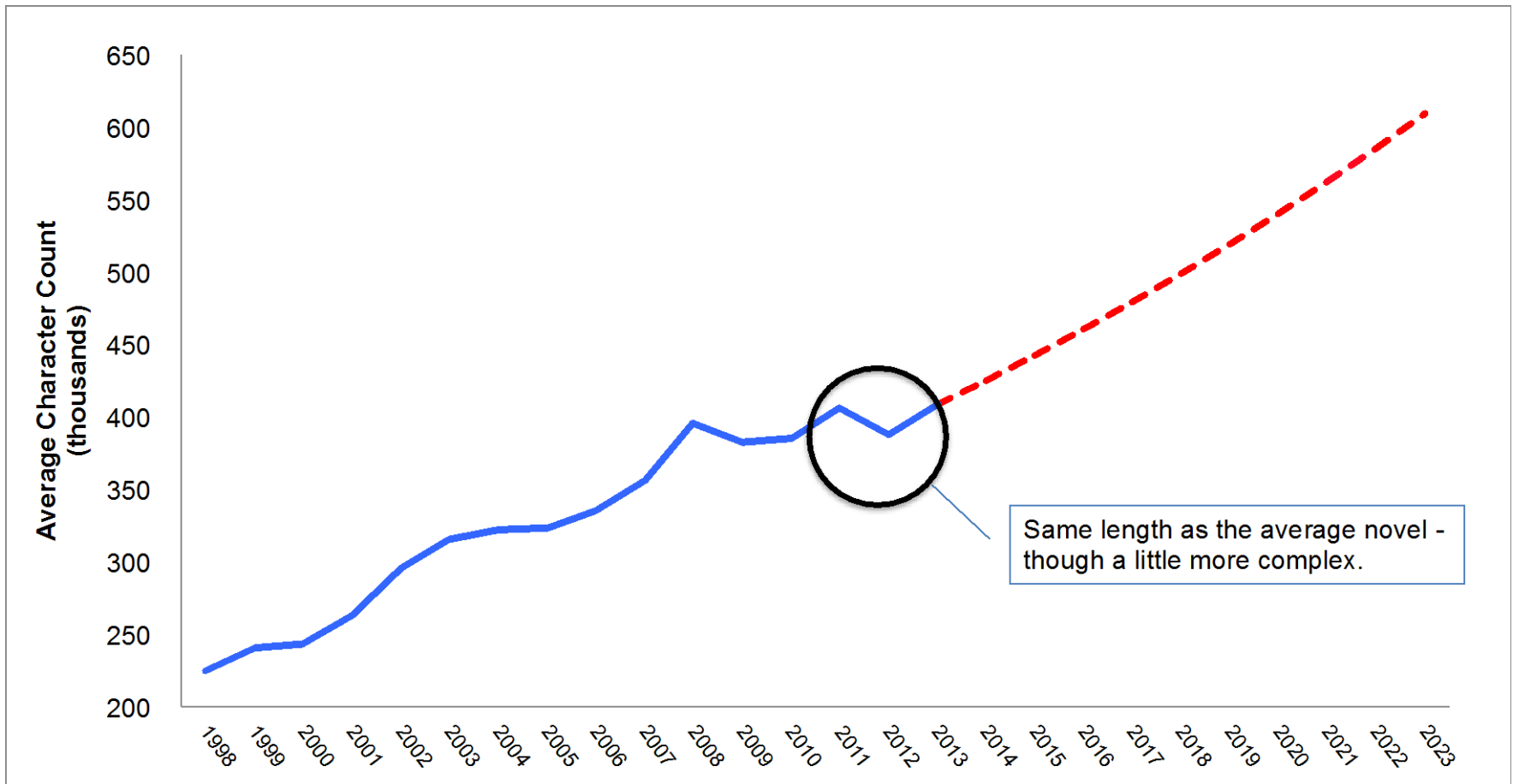
# Wall Street's Big Secret

Stock Research/Recommendations Are Biased & Incomplete



# Average Length of 10-Ks Is Quite Long

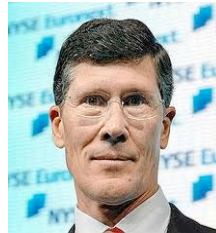
Keeping Up With Disclosures Is Nearly Impossible



# Harder To Find the Bad Guys

*More Data, More Noise*

- Filings have grown to **200+ pages** on average  
*(That's longer than the average novel.)*
- Increasingly complex and time-consuming work
- Accounting rules are constantly changing



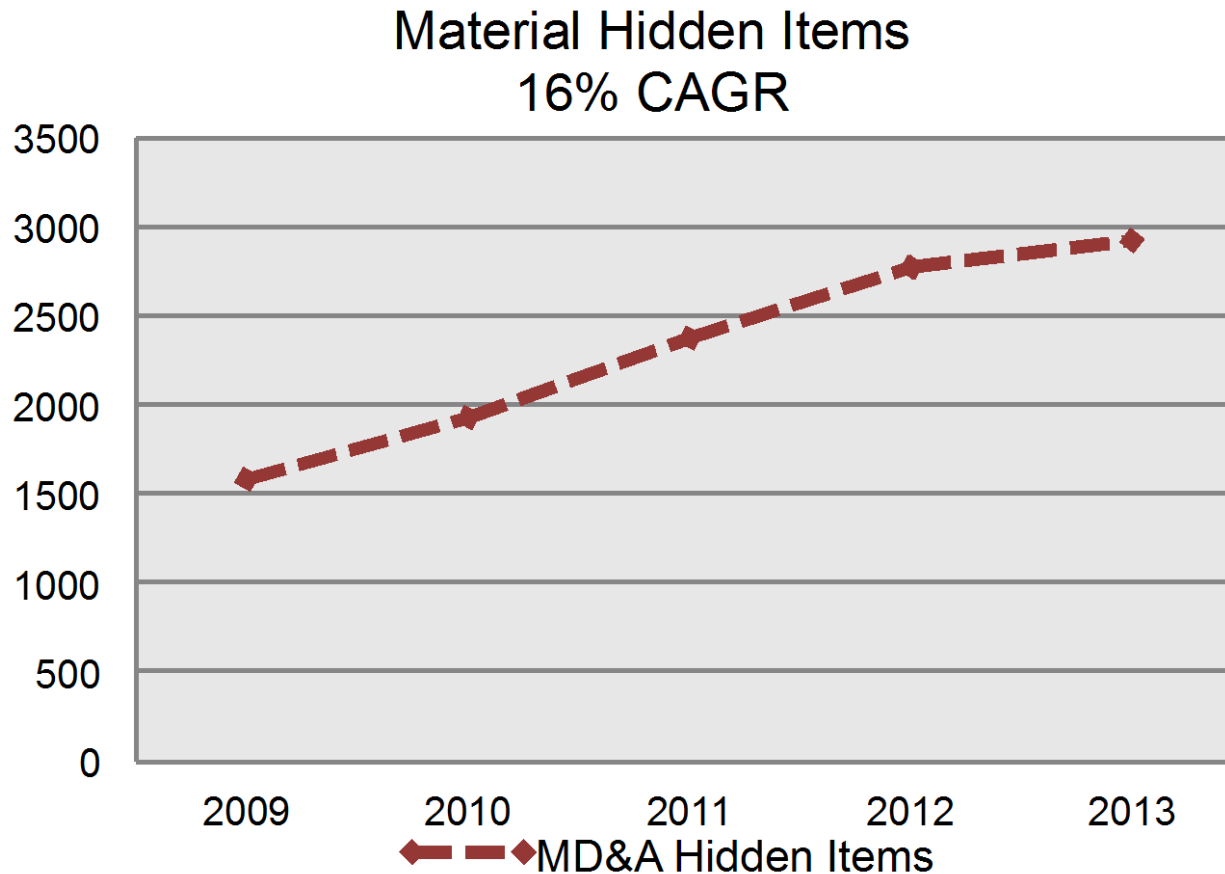
# Try A 10-K On For Size

*More Data, More Noise*

- Here's a [10-K](#), below average size
- Here's a [marked & trimmed version](#): 39 vs. 179 pages

Our technology shines a light in the dark corners of these huge filings to help you make smarter investments.

# Sample Of Red Flags We Find



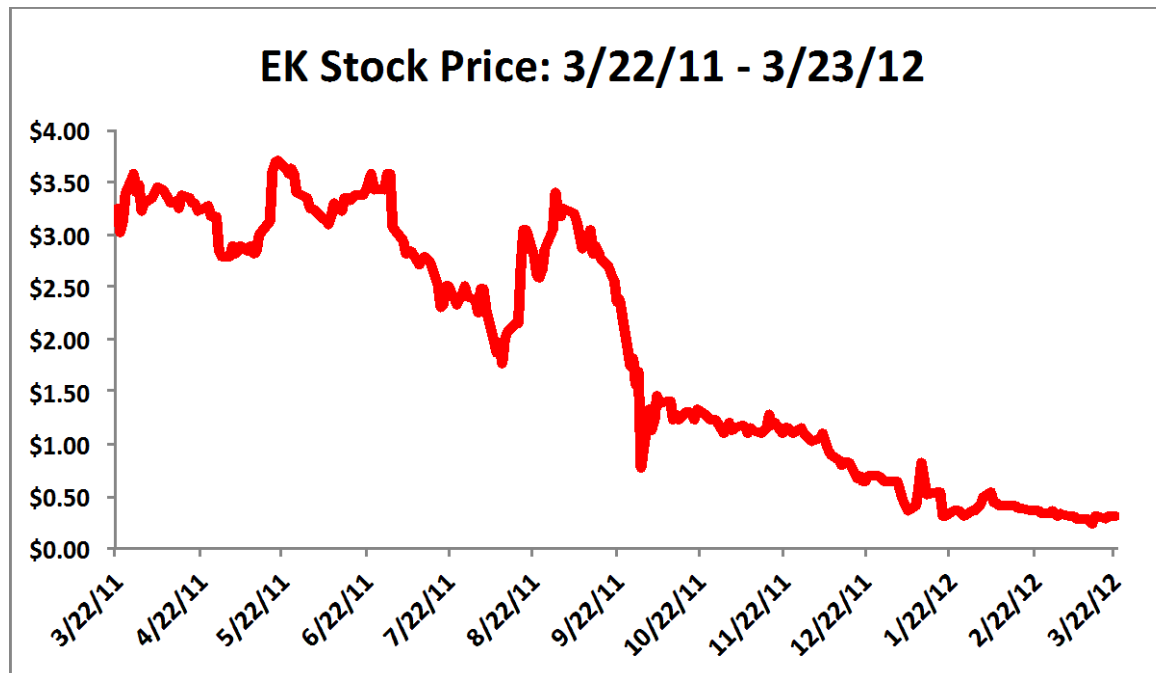
Items found only in the MD&A (e.g. gains, charges, deferred items, etc.) that distort income statement results are rising rapidly.

# Early Indicator for Bankruptcy

Report on Eastman Kodak (EKDKQ.PK) on [3/21/2011](#)

## 2010 10-K Revealed Abnormal Pension Assumptions

1. 2.2% of revs from pension, abnormally high return on plan asset assumption 8.7%
2. Underfunded by \$2.6bn or 3x the market cap at the time
3. Valuation implied 10% CAGR in NOPAT for 11 years
4. Down 90% while S&P 500 was down ~3%, no longer under coverage



\*This graph was created based on information collected and analyzed by New Constructs, LLC. New Constructs regularly gathers information from over 3,000 companies' 10Ks, including the Notes to the Financial Statements and MD&A.



# Early Indicator for Fraud

## Dynegy (DYN) Fraud Case 2012 – Defrauding Creditors

1. Asset transfer in subsidiaries found to be fraudulent
2. Benefited activist investor Carl Icahn, with two board representatives at DYN
3. New Constructs rating before fraud charges: Very Dangerous
4. Write-Downs in 3-yrs prior to fraud: 16 charges totaling \$3.85bn (346% net assets)

### DYN - stock price

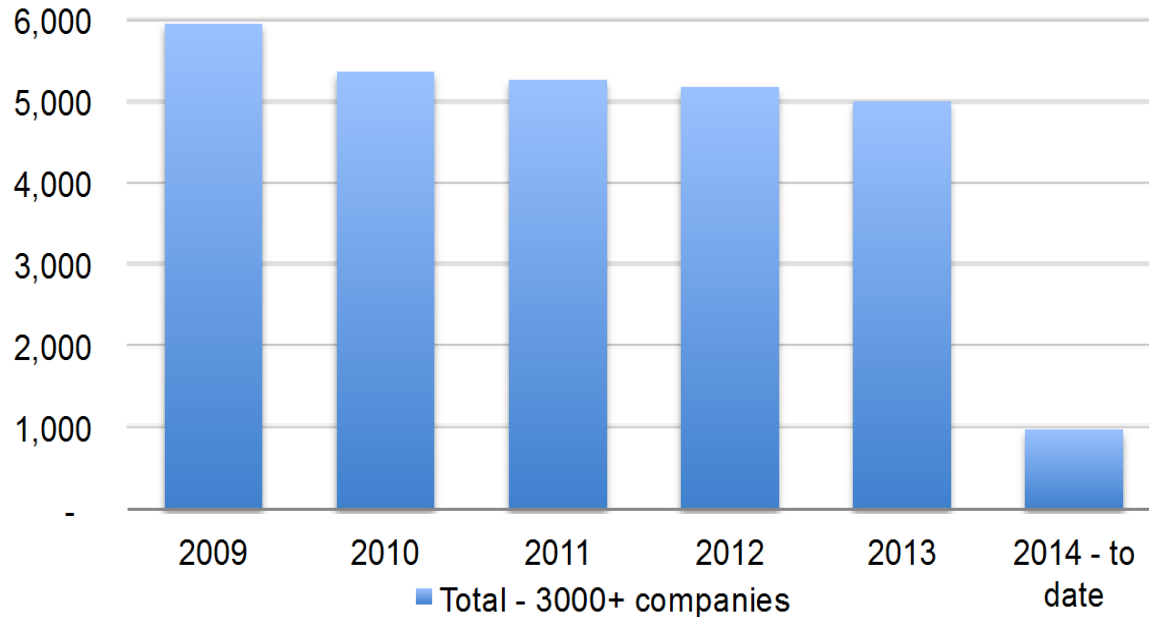


# Large Asset Write-Downs – A Red Flag

27,764

Over the last 5+ Years, we found 27,764 write-downs.

# of Write-Downs



# Value Proposition

We find it. You benefit.

1. Fundamental data collected by highly-trained analysts
2. Earnings quality and valuation models built by experts
3. Protection from devils in details of SEC filings
  - Proprietary technology augments our **accounting & finance expertise**

# What Do We Mean by “Independent and Unbiased”?

We Provide A True “Investor” Perspective

No banking, advisory or Wall Street ties – none

- Access our raw data via **Marked-up filings**: [download a sample](#).

Unbiased expertise in accounting, finance and SEC filings.

# What We Do For You

Ratings	<b>3000+ Stocks</b>	<b>400+ ETFs</b>	<b>7000+ Mutual Funds</b>
	Updated Daily	Updated Daily	Updated Daily
Protection	Ratings & Reports	Ratings & Reports	Ratings & Reports
	Screeners	Screeners	Screeners
Idea Generation	Monthly Newsletter	Qrtly Newsletter	Qrtly Newsletter
	Pick of the Week	Pick of the Week	Pick of the Week
Monitoring	Portfolio Reviews	Portfolio Reviews	Portfolio Reviews
	Alerts	Alerts	Alerts
Access	Web/mobile	Web/mobile	Web/mobile
	Email	Email	Email
	Custom data/reports	Custom data/reports	Custom data/reports

# Portfolio Tracking & Alerts

My Dashboard [My Portfolio](#) Ratings Screeners [Blog](#)

Add up to 50 tickers at a time to your portfolio.

Portfolio: My Portfolio (default) ▾ » Edit » Alerts Add Ticker(s):  Add

Ticker ▲	Name	Type	Sector / Category	Price <sup>1</sup>	Mkt Val / AUM <sup>2</sup>	Overall Rating	Report / Details	ROIC	FCF Yield	Price to EBV	GAP	Analyst Notes <sup>3</sup>	Remove
AAPL	Apple Inc.	Stock	Information Technology	\$118.90	\$697,329	Attractive		177%	6%	1.1	> 100		✖
ABCO	The Advisory Board Company	Stock	Industrials	\$47.33	\$1,704	Dangerous		5%	-8%	6.5	> 100	Upgraded: Jan 22 Most Dangerous	✖
AIG	American International Group, Inc.	Stock	Financials	\$49.26	\$68,960	Attractive		6%	15%	0.8	< 1	Upgraded: Jan 16	✖
AMZN	Amazon.com Inc.	Stock	Consumer Discretionary	\$311.78	\$144,356	Dangerous		1%	-4%	-16.1	> 100	Upgraded: Jan 22	✖
BA	The Boeing Company	Stock	Industrials	\$147.78	\$105,357	Attractive		14%	6%	1.7	19	Poor Disclosure	✖
BBH	Van Eck Market Vectors Biotech ETF	ETF	Health Care	\$123.37	\$727	Neutral		16%	-1%	5.3	55		✖
BCSIX	Brown Capital Management Mutual Funds: Brown Capital Management Small	Mutual Fund	Small Cap Growth	\$70.01	\$2,634	Neutral		19%	0%	4.8	79		✖
BFAM	Bright Horizons Family Solutions, Inc.	Stock	Consumer Discretionary	\$49.16	\$3,238	Very Dangerous		6%	-3%	25.2	79		✖
CI	CIGNA Corporation	Stock	Health Care	\$109.62	\$28,674	Very Attractive		16%	4%	1.0	2	Most Attractive	✖
CRM	salesforce.com Inc.	Stock	Information Technology	\$58.10	\$36,661	Dangerous		-2%	-4%	-8.6	> 100	Upgraded: Jan 22 Most Dangerous	✖

# Detailed Ratings, Models and Reports

Ratings for Apple Inc. (AAPL) based on closing stock price on Jan 29, 2015: \$118.90.

Overall Risk/Reward Rating	Quality of Earnings		Valuation		
	Economic vs Reported EPS	Return on Invested Capital (ROIC)	FCF Yield	Price-to-EBV Ratio	Growth Appreciation Period (GAP)
Very Dangerous	Misleading Trend	Bottom Quintile	<-5%	>3.5 or -1<0	>50
Dangerous	False Positive	4th Quintile	-5%<-1%	2.4<3.5 or <-1	20<50
Neutral	Neutral EE	3rd Quintile	-1%<3%	1.6<2.4	10<20
Attractive	Positive EE	2nd Quintile	3%<10%	1.1<1.6	3<10
Very Attractive	Rising EE	Top Quintile	>10%	0<1.1	0<3

Actual Values					
AAPL	\$6.14 vs. \$6.45	177%	6.3%	1.1	101
S&P 500 (SPY)	Positive EE	21%	3.7%	2.1	29
Russell 2000 (IWM)	Neutral EE	8%	-1.1%	4.8	62

← Back to View Portfolios

Company Model

Download Report

Click here for a [sample Stock report](#), [ETF report](#) or [mutual fund report](#).

# Screeners

My Dashboard My Portfolio Ratings **Screeners** Blog

Stocks ETFs and Mutual Funds Custom Data

Select criteria:

<p><b>Price</b></p> <p>&gt; = &lt; \$ <input type="text"/></p> <hr/> <p><b>Market Value</b></p> <p>&gt; = &lt; \$ <input type="text"/> MM</p>	<p><b>Sector</b></p> <p><input type="checkbox"/> Consumer Staples    <input type="checkbox"/> Industrials</p> <p><input type="checkbox"/> Health Care    <input type="checkbox"/> Consumer Discretionary</p> <p><input type="checkbox"/> Materials    <input type="checkbox"/> Utilities</p> <p><input type="checkbox"/> Financials    <input type="checkbox"/> Energy</p> <p><input type="checkbox"/> Information Technology    <input type="checkbox"/> Telecom Services</p>	<p><b>Index</b></p> <p><input type="checkbox"/> S&amp;P 500</p> <p><input type="checkbox"/> Russell 1000</p> <p><input type="checkbox"/> Russell 2000</p> <p><input type="checkbox"/> Russell 3000</p>
---	--	--

▼ Less

<p><b>Overall Rating</b></p> <p><input type="checkbox"/> <span style="color: green;">●</span> Very Attractive</p> <p><input type="checkbox"/> <span style="color: lightgreen;">●</span> Attractive</p> <p><input type="checkbox"/> <span style="color: yellow;">●</span> Neutral</p> <p><input type="checkbox"/> <span style="color: orange;">●</span> Dangerous</p> <p><input type="checkbox"/> <span style="color: red;">●</span> Very Dangerous</p>	<p><b>ROIC</b></p> <p>&gt; = &lt; <input type="text"/> %</p> <hr/> <p><b>GAP</b></p> <p>&gt; = &lt; <input type="text"/></p>	<p><b>FCF Yield</b></p> <p>&gt; = &lt; <input type="text"/> %</p> <hr/> <p><b>Price to EBV</b></p> <p>&gt; = &lt; <input type="text"/></p> <p><input type="checkbox"/> Positive Results Only</p>
--	--	--

**Filter**

Ticker	Name	Sector	Price <sup>1</sup>	Market Value (MM)	Overall Rating	ROIC	Free Cash Flow Yield	Price to EBV	GAP	Analyst Notes <sup>2</sup>	Add To Portfolio
SLM	SLM Corporation	Financials	\$9.11	\$3,905	Very Attractive	16.0%	242.2%	0.44	< 1	Large Divestiture	+
ENZN	Enzon Pharmaceuticals, Inc.	Health Care	\$1.00	\$44	Very Attractive	27.4%	157.3%	0.13	< 1		+
AGX	Argan Inc.	Industrials	\$32.13	\$460	Very Attractive	-	115.1%	0.67	< 1		+

**+ Add All**

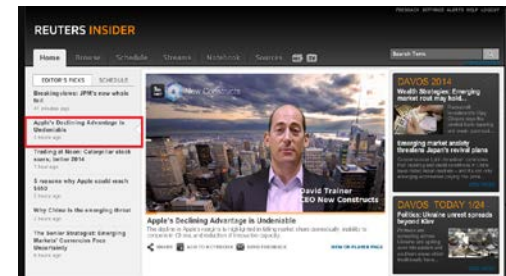


# Clients Are Increasingly Sophisticated & Wary

- Millennials do not trust the stock market.
- They know they need protection.
- Constant media coverage reminds them.



- Also featured in:*
- ◆ Wall Street Journal
  - ◆ The Week
  - ◆ Barron's Online
  - ◆ Greenwichtime.com
  - ◆ Fortune Magazine
  - ◆ Business Week



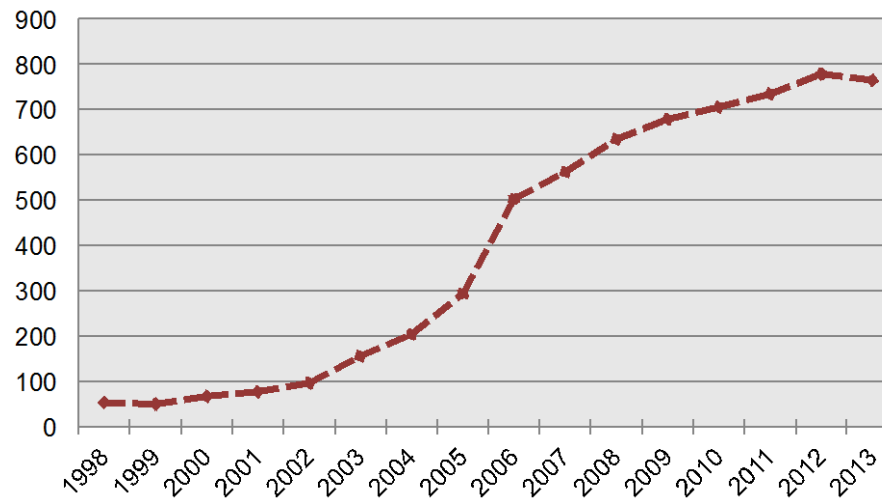
# Is Anyone Paying Attention?

## Flagging Missing Required Disclosures

6,353

Over the last 16 Years, we found 6353 filings that omitted disclosing the assumptions used to calculate Fair Value of the Employee Stock Options granted that year.

Filings With No ESO Assumptions



# Part II

## Background

# Overview/Background

## Independent Proprietary Research & Diligence

### New Constructs, LLC

- Founded July 2002
- Research featured in [Barron's](#)
- Deep, financial accounting expertise
- Patented research technology
- Footnotes expertise is a competitive advantage
- Integrated ratings for 3000 stocks, 400 ETFs and 7000 mutual funds

### David Trainer:

Former auditor with Arthur Andersen and equity analyst at Credit-Suisse, Mr. Trainer is the CEO of New Constructs, LLC. He leverages his accounting and finance expertise with proprietary technology that gleans insights from over 70,000 10-K filings.

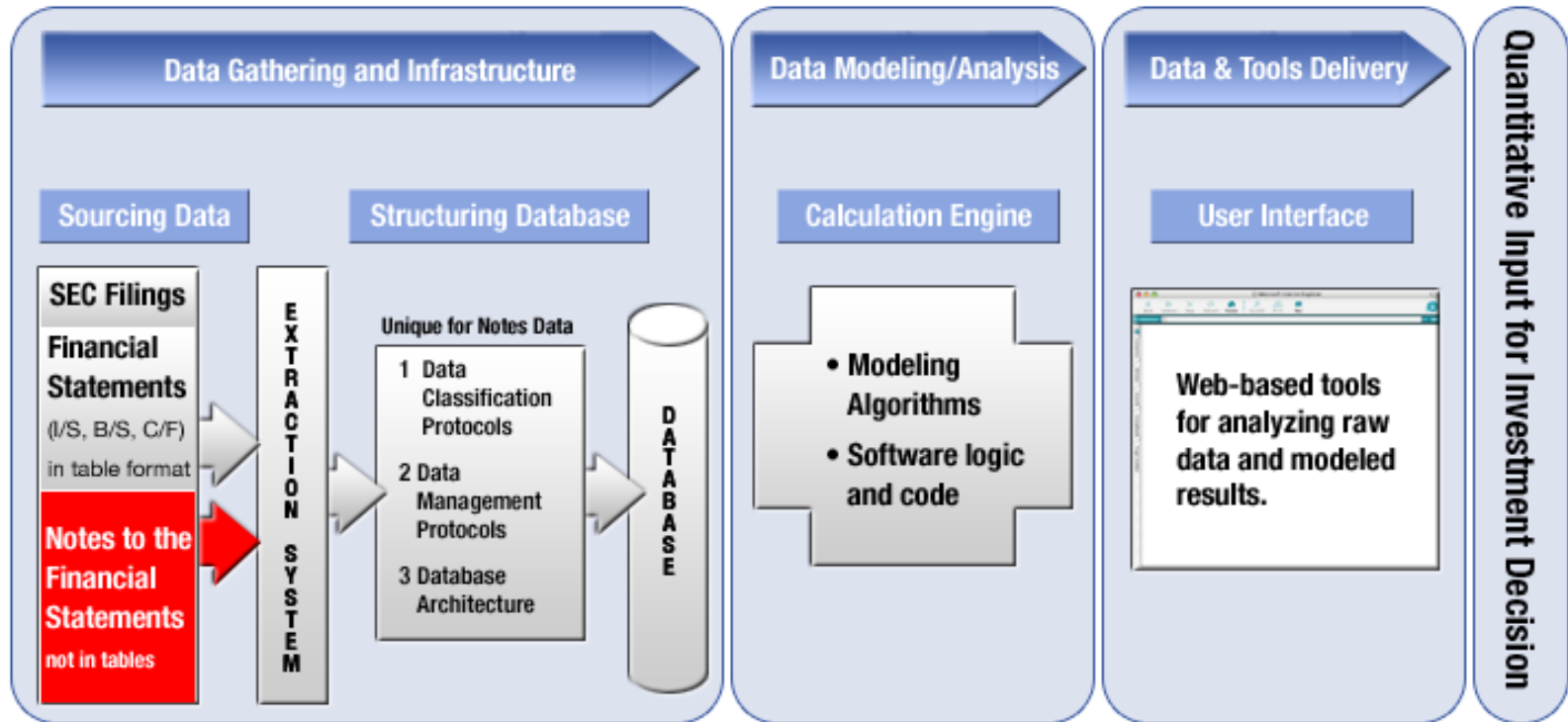
Mr. Trainer also serves on FASB's [Investor Advisory Committee](#), where he helps shape new and existing accounting rules. He has also advised the Senate Banking Committee and the subcommittee for Securities, Insurance and Investments.

He is a Wall Street veteran and corporate finance expert.

He is author of [Modern Tools for Valuation](#) (Wiley Finance 2010).

# Proprietary Research Platform

Focus: Exploit Insights from Footnotes on 3000+ Stocks



Source: Novo Capital Management, LLC

Gathering and analyzing data from the *Notes to the Financial Statements* is key to better analysis and understanding of:

1. Profitability and
2. Valuation.

# Part III

## Free Resources

# Get Free Insights

- Free stock, ETF and mutual fund picks
  - [Stock Picks of the Week](#)
  - The [Danger Zone](#)
- Details on [30+ accounting loopholes](#)
- [Videos](#) on how to use our website
- [Podcasts](#) on hot market topics
- [Webinars](#) on how to use our research
- [Media features](#) (Barron's, USA Today, CNBC etc)
- [Testimonials](#)

Click here for a [sample Stock report](#), [ETF report](#) or [mutual fund report](#).

## *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 15 days after New Constructs issues a report on that security.

New Constructs is affiliated with Novo Capital Management, LLC, the general partner of a hedge fund. At any particular time, New Constructs' research recommendations may not coincide with the hedge fund's holdings. However, in no event will the hedge fund receive any research information or recommendations in advance of the information that New Constructs provides to its other clients.

## *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 to present. All rights reserved.