



**new Constructs**<sup>TM</sup>  
Tools for Better Investment Performance

# More Diligence – Better Advice

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The recipient of this report is directed to read these disclosures.**

# Agenda

- I. Quick Background
- II. Deliverables
- III. Product Details and samples
- IV. Value Proposition

[Hyperlinks](#) in this presentation enable you to download free reports and more info.

# Part I

## Quick Background

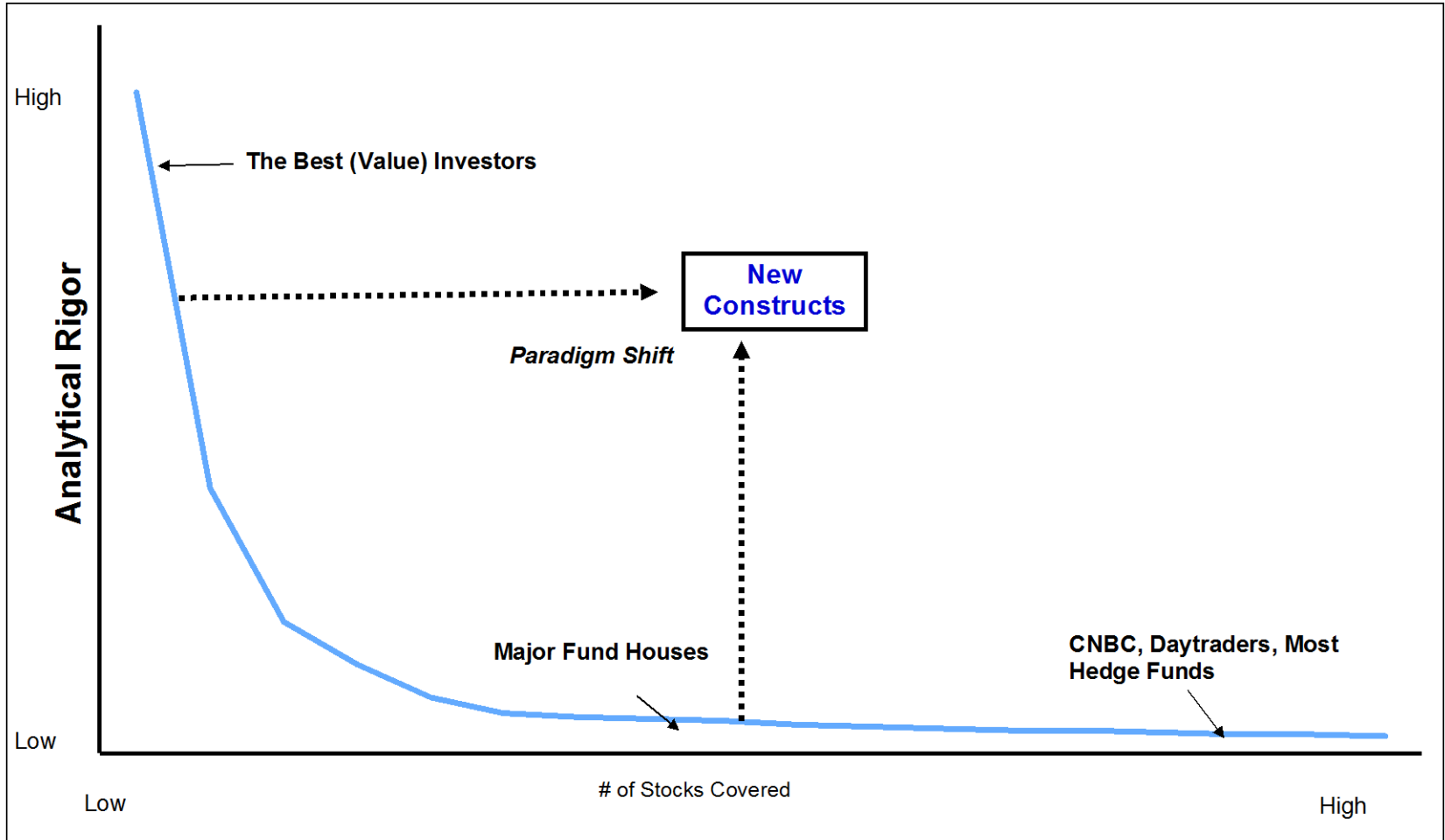
# Overview

## Independent Proprietary Research & Diligence

- Founded July 2002
- Top-rated stock-picking by [Barron's](#)
- Deep, financial fundamental focus
- Patented research platform covers 3000 stocks & 7400+ funds
- Untapped source of alpha
- Footnotes expertise is a competitive advantage
- Integrated ratings for stocks, ETFs and mutual funds

# Deep Fundamental Research on 50,000 10-Ks

## Best Insights on 3000+ U.S. Stocks



# Part II

## Deliverables

## Deliverables: Diligence Packaged For You

Ideas, reports, website, models, custom data

- [Stock screener](#)
- [ETF & mutual fund screeners](#)
- Detailed reports on 10,000+ stocks, ETFs and mutual funds – updated daily
- Weekly actionable ideas on [blog](#)
- Monthly newsletters: [Most Attractive](#) & [Most Dangerous](#) Stocks
- [Forensic Accounting reports](#) and studies
- Valuation models (web-based)
- Database for screening and downloading data

## Why Diligence Is Needed

Core Problem: GAAP is exploitable.

Only Solution: Read the Footnotes and MD&A.

### Traditional P&L

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Revenues

- operating expenses

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= pretax earnings

- taxes

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= Reported Profit

### Economic P&L

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Revenues

- operating expenses

- **Hidden Incomes/Charges**

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= pretax earnings

- taxes

---

= Profit

- **capital charge/hidden liabilities and assets**

---

= Economic Profit



## What Is the Diligence Done For You

Scouring the Footnotes and MD&A of 50,000 10-Ks

- Hidden Expenses/Income
- Unrecorded Goodwill
- Impairments
- Unconsolidated Subsidiaries
- Minority Interests
- Unrealized Gains/Losses
- Changes in Accounting Rules
- Derivatives Exposure
- Customer Concentration
- FASB 159
- Employee Stock Options
- Option Valuation Assumptions
- Operating Leases
- Loan Loss/LIFO Reserves
- Pension Assumptions
- Excess Cash
- Pension Over/Under Funding
- Auditor's Opinions
- Carrying Value vs Fair Value
- Mid-year acquisitions

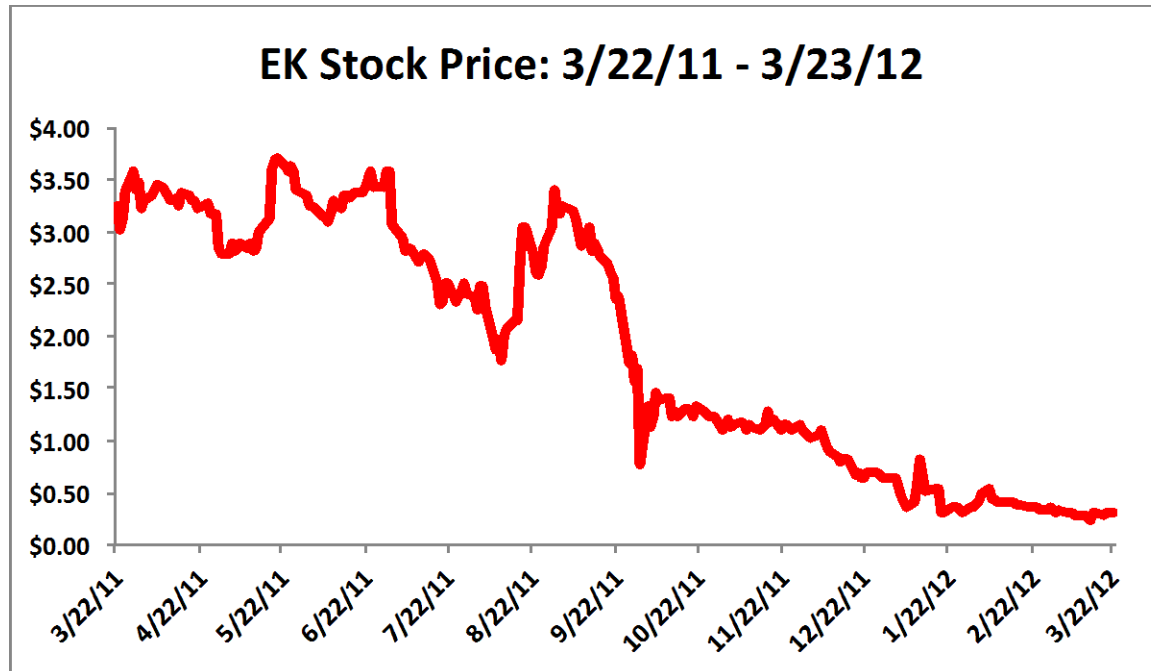
*Depth and Breadth Is Critical*

# Diligence Pays

## Sell Call: Eastman Kodak (EKDKQ.PK) on 3/21/2011

### 2010 10-K Revealed Funny Pension Attg

1. Underfunded by \$2.6bn or 3x the market cap at the time
2. 2.2% of revs from pension, abnormally high return on plan asset assumption 8.7%
3. Valuation implied 10% CAGR in NOPAT for 11 years
4. Down 90% while S&P500 was down ~3%, no longer under coverage



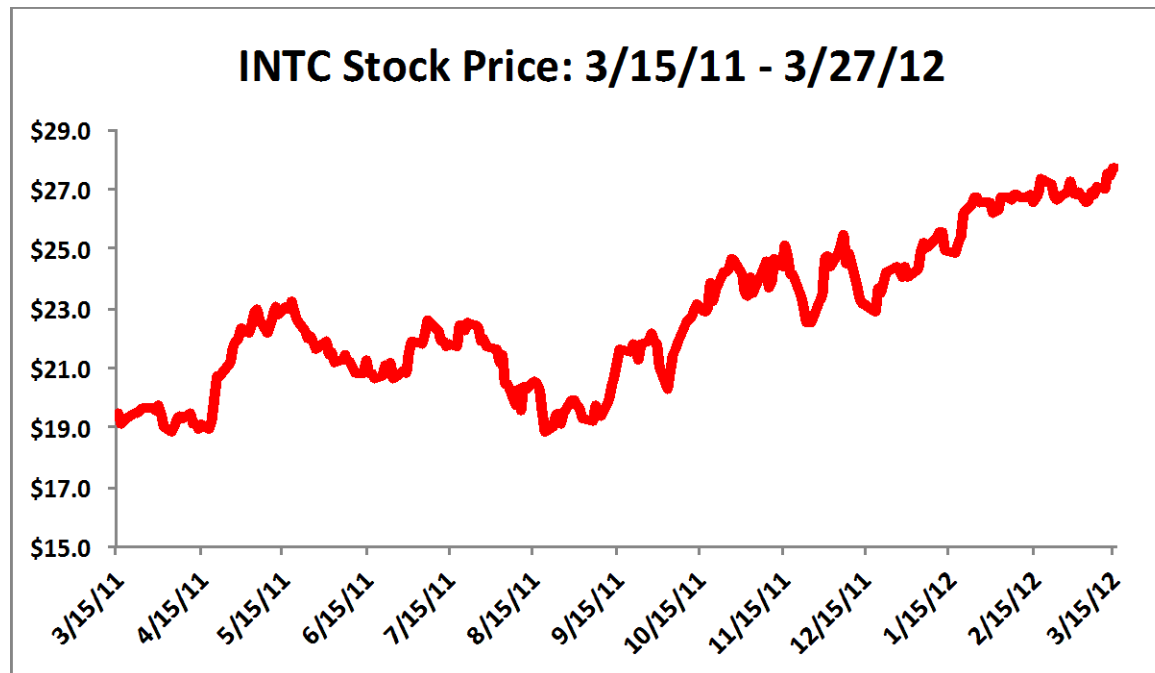
\*This graph was created based on information collected and analyzed by New Constructs, LLC. New Constructs regularly gathers information from over 3,000 companies' 10Ks, including the Notes to the Financial Statements and MD&A.

# Diligence Pays

## Buy Call: Intel (INTC) on 3/15/2011

### Excess Cash Drives Higher ROIC

1. \$26 billion in excess cash in 2010
2. ROIC more than doubled to 31%
3. Valuation implied permanent 30% decline in profit (NOPAT)
4. Up 45% while S&P500 was up ~5%, no longer recommending



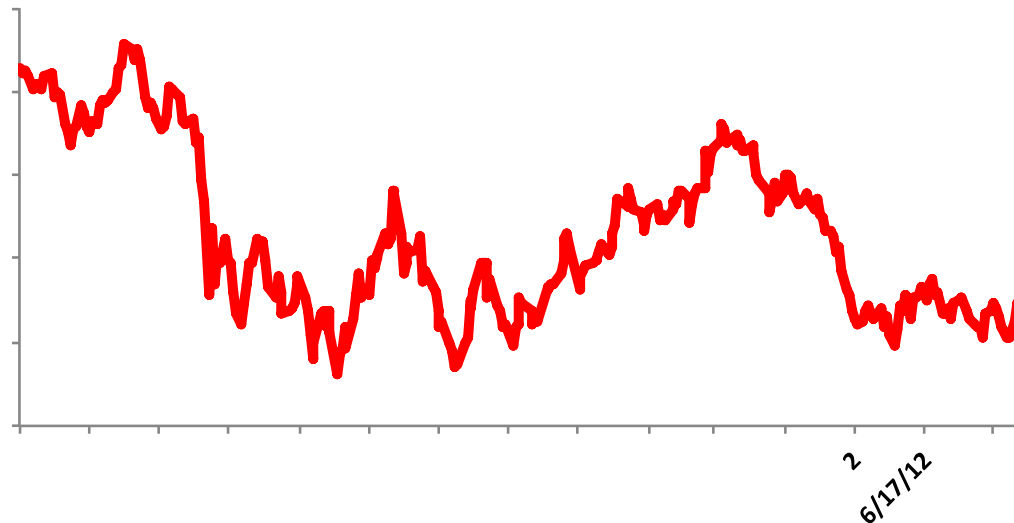
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# Diligence Pays

## Sell Call: Citigroup (C) on 5/17/2011

### 2010 10-K Revealed Deferred Tax Asset Manipulation

1. Overstated earnings from tax accounting trickery and loan loss reserve drawdowns
2. Valuation implied 16% CAGR in NOPAT for 20+ years
3. Down 35% while S&P500 was up ~3%, Sell recommendation remains



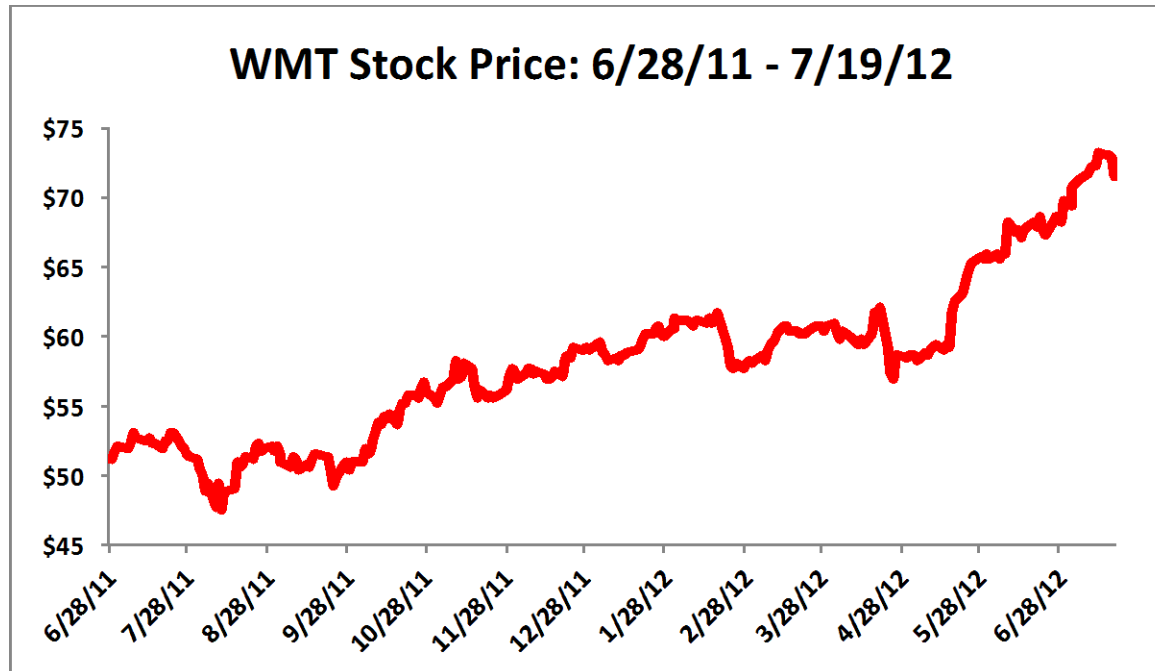
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# Diligence Pays

## Buy Call: Wal-Mart (WMT) on 6/28/2011

### Focus on ROIC and valuation

1. Superior ROIC and consistency of economic earnings
2. Valuation implied permanent 35% decline in profit (NOPAT)
3. Up 40% while S&P500 was up ~9%, closed position on 7/19/12



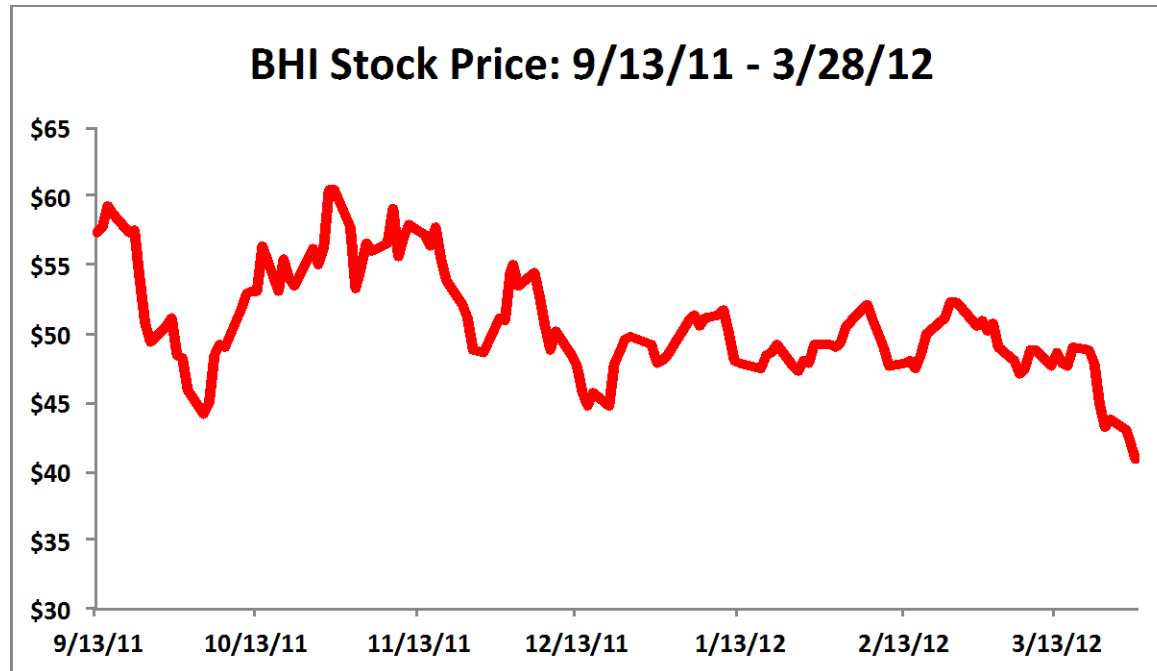
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# Diligence Pays

## Sell Call: Baker Hughes (BHI) on 9/13/2011

### 2010 10-K – Acquisition Accounting Overstated EPS and Margins

1. Economics of BJ Services deal were bad: accounting creates “[hi/lo fallacy](#)”
2. [Economic earnings](#) diverged from reported earnings. Stock follows economics.
3. Valuation implied 20% CAGR in NOPAT for 12 years
4. Down 30% while S&P500 was up ~20%, Neutral rated as of 3/21/12



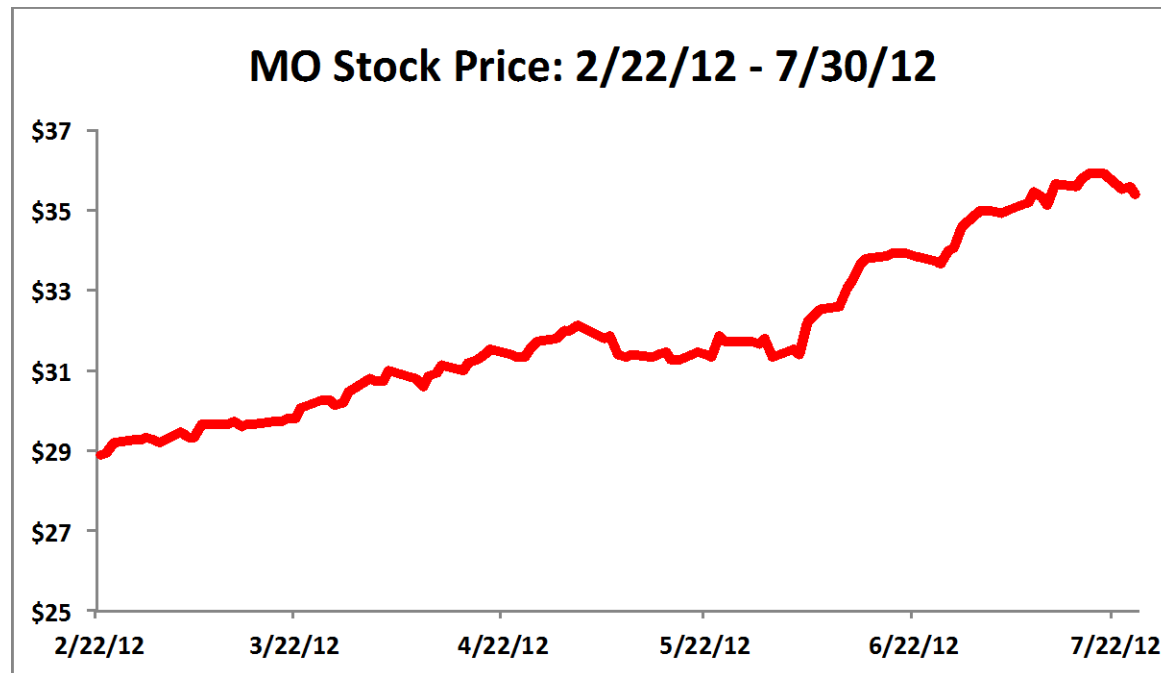
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# Diligence Pays

## Buy Call: Altria (MO) on 2/22/12

### Reported earnings understate cash flows

1. We remove \$700mm unusual charge buried in MD&A
2. Valuation implied permanent 10% decline in profit (NOPAT)
3. Up 25% while S&P500 is flat, position remains



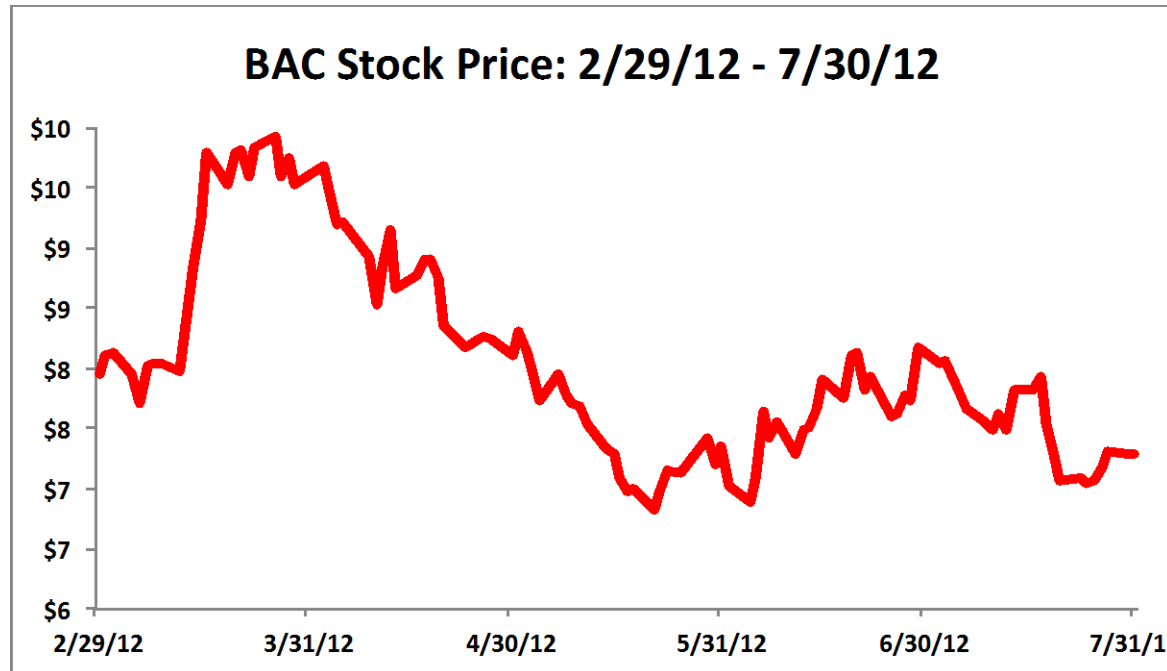
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## Diligence Pays

### Sell Call: Bank of America (BAC) on 2/29/2012

2011 10-K Revealed deteriorating economics masked by reserve drawdowns

1. Economic earnings fell \$10bn to -\$46.6bn while reported income +\$3.7bn to \$84mm
2. Valuation implied 20% CAGR in Rev for 18 yrs & ROIC from -2% to 12%
3. Down 35% while S&P500 is down 1%, Sell recommendation remains



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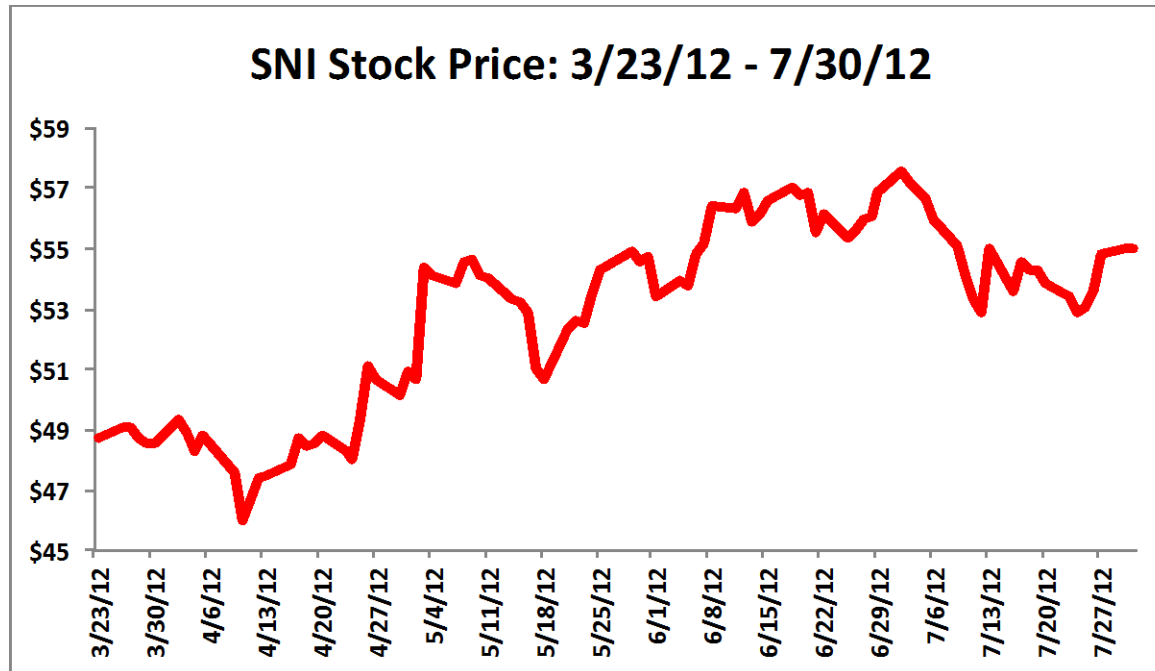


# Diligence Pays

## Buy Call: Scripp Networks Interactive (SNI) on 3/23/12

### Reported earnings understate cash flows

1. Economic earnings +50% to \$440mm compared to 1% growth in reported income
2. Valuation implied 0% in profit (NOPAT)
3. Up 13% while S&P500 is down 2%, position remains



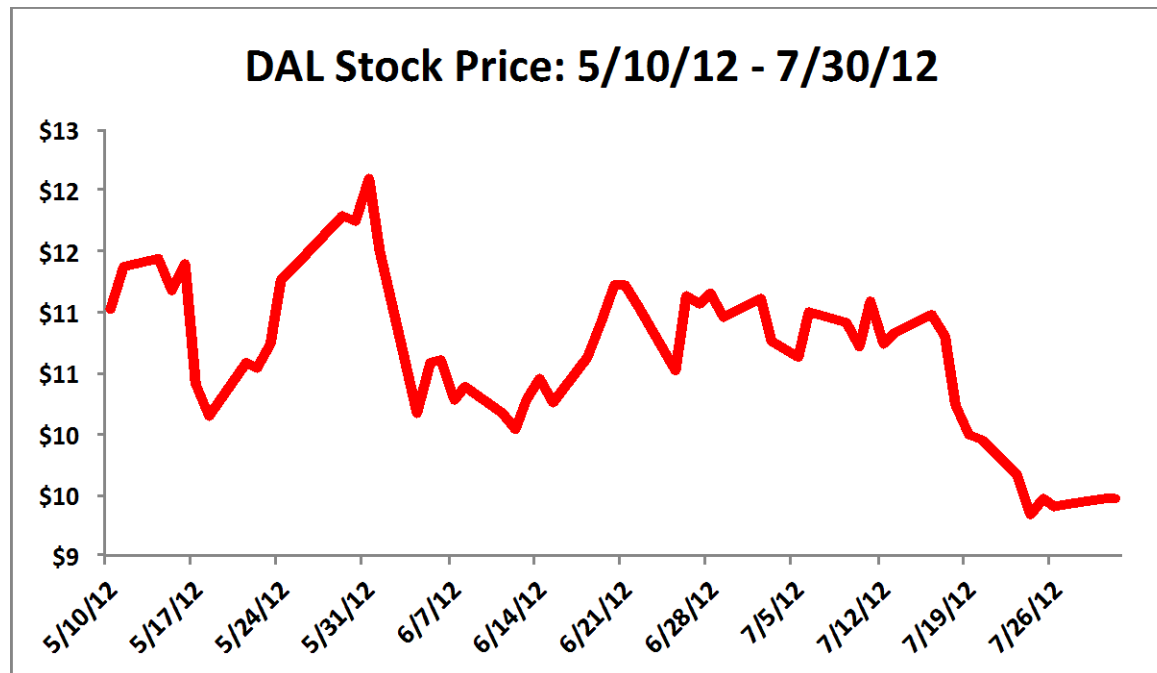
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# Diligence Pays

## Short Call: Delta Airlines (DAL) on 5/10/2012

### 2011 10-K – Manipulating pension accounting to overstate EPS

1. 8.93% for Expected return on plan assets, higher than 98% of all companies
2. \$14.1bn in underfunded pension 1.5x market cap + \$22bn of debt
3. Valuation implied 15% CAGR in NOPAT for 9 years
4. Down 14% while S&P500 is flat, short call remains



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# Part III

## Product Details and Samples

# Stock Research

## Real Diligence and Hard Work

- Top-rated stock-picking by [Barron's](#)
- 3000+ US stocks – reports and models updated daily
- Focus on true economic earnings via footnotes study
- Sophisticated valuation analysis
- 100% transparent adjustments
- Customizable models
- Custom feeds
- Screener
- Monthly newsletter on [Most Attractive](#) and [Most Dangerous](#) stocks

Click for [sample report](#)

# ETF Research

## Real Diligence and Hard Work

- 475+ US Equity ETFs
- Reports updated daily
- Truly predictive rating
- Based on bottoms-up research of holdings
- Leverages research on individual stocks
- Transparent [methodology](#)
- [ETF screener](#)

Click for [sample report](#)

# Mutual Fund Research

## Real Diligence and Hard Work

- 7400+ US Equity ETFs
- Reports updated daily
- Truly predictive rating
- Based on bottoms-up research of holdings
- Leverages research on individual stocks
- [Total Annual Costs](#): apples-to-apples analysis of all-in costs
- Transparent [methodology](#)
- [Fund screener](#)

Click for [sample report](#)

# Part IV

## Value Proposition

# Value Proposition

How I Help You Make Better Investments & Raise Assets

## 1. Unrivaled Level of Diligence

- Heavy lifting and analysis of Footnotes
- Avg 10-K is 300 pages

## 2. Superior Insight

- [Diligence pays](#)

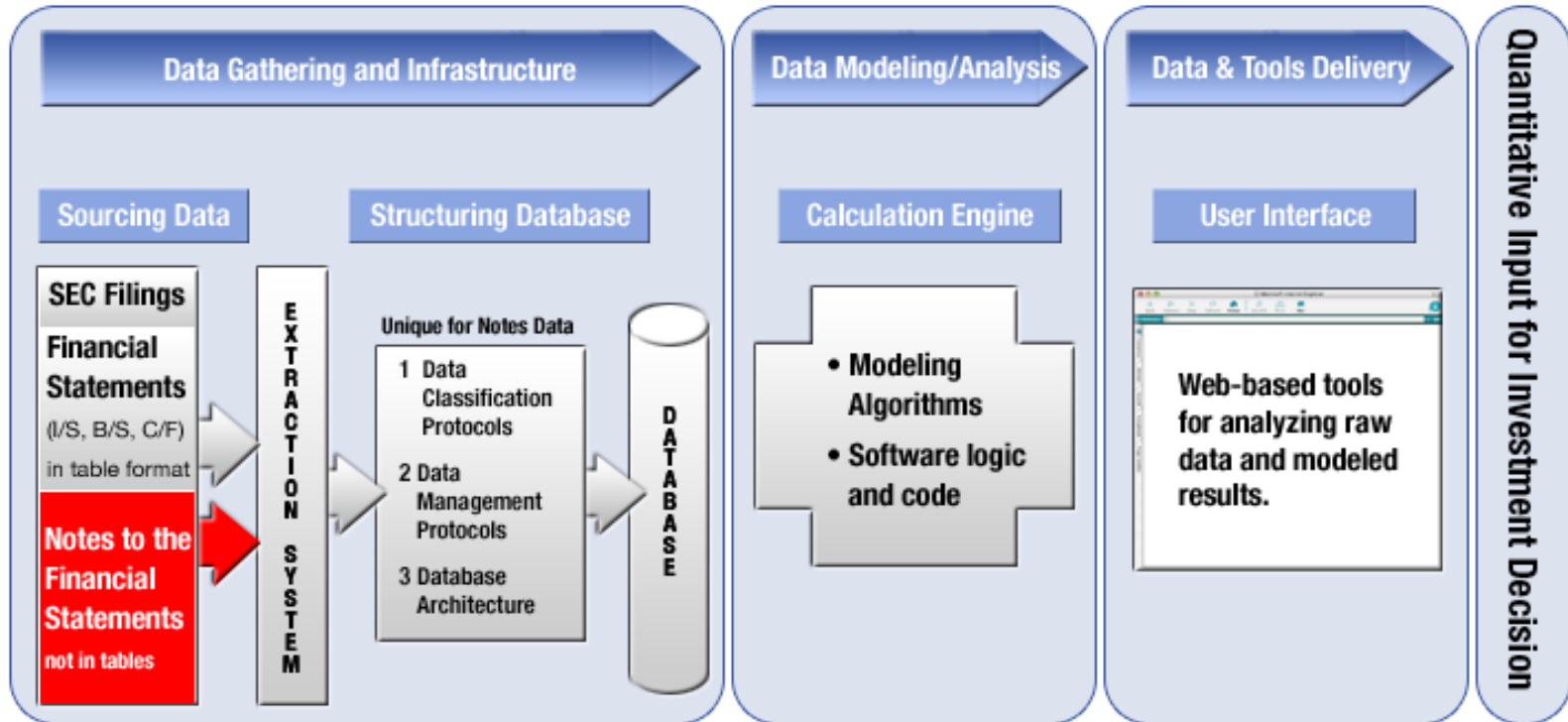
## 3. Competitive Differentiation

- Leading, not following
- Competitors cannot match your diligence or insights
- Early mover advantage



# 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.**

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