

## As A Fiduciary

By Raymond M. Mullaney, CEO – April 10 2024

Fiduciaries must “act with utmost care” in managing client investments. This obligation raises critical questions: How does your firm ensure it meets this standard? Are the risk assessments you rely on truly impartial? To effectively safeguard assets, fiduciaries must possess a deep understanding of the various factors leading to corporate failures, ensuring their strategies are well-informed and resilient against potential financial downturns.

Enter Equity Risk Sciences (ERS), America’s premier provider of quantitative risk analysis on US and Canadian stocks. ERS assists fiduciaries in upholding the highest standards of client capital protection, differentiating themselves in a competitive market.

The key to distinguishing successful companies from future failures lies not in their industry, but in their financial health and relative valuations, as evidenced by the trends and changes in their quarterly financial statements. Over the past 10 years, ERS has developed exceptionally reliable **Fiduciary Risk Ratings™** which are based solely on objective data science technology. These ratings provide exceptional protection for fiduciaries and their clients’ capital. ERS has amassed over 35 years of quarterly financial data on more than 15,000 US and Canadian companies to analyze evidence of trends of both successes and failures.

Not all investments are created equal. The investment landscape is filled with examples like Zoom, Pinterest, Peloton, Fannie Mae and hundreds of other examples which have disappointed investors with significant declines. ERS’s **Fiduciary Risk Rating™** has a proven track record of identifying such risks well in advance, helping advisors avoid potential pitfalls.

ERS emphasizes the study of corporate failures, learning from them to help advisors safeguard client investments. In 1973, Abraham Briloff, Ph.D., released "Unaccountable Accounting," followed by Howard M. Schilt, Ph.D., with "Financial Shenanigans," both of which stand as excellent resources for understanding corporate failures. ERS expands upon the groundwork laid by these two scholars and numerous others, furthering the understanding of corporate success and failure.

Abundance of capital does not guarantee success; many well-funded companies have failed. ERS's technology offers nuanced insights, enabling fiduciaries to discern whether a company is on a precarious financial path. In-depth analysis of companies experiencing a decline in tangible value or facing capital deficits is crucial. It involves scrutinizing their financial journey, reconciling various financial activities to understand their current position.

A thorough accounting reconciliation can illuminate the discrepancies between current net tangible equity and additional paid-in capital. It's invaluable to reconcile these figures with past net income statements, share issuances, insider stock option exercises, dividend payouts, share repurchases, and retained earnings. Analyzing past financial statements quarterly can uncover whether a company is on an unsustainable capital-burning trajectory, potentially leading to a significant drop in its stock price.

Even companies flush with billions in cash reserves must be scrutinized. As a fiduciary, it's your responsibility to trace the origins of this capital and project its longevity. It's essential to maintain a comprehensive record of your financial evaluations to highlight your commitment to identifying solid investments and avoiding risky ones. While investing in emerging companies can be tempting, history shows that caution is warranted, with many such ventures failing. Your rigorous analysis and proactive stance are the cornerstones upon which your clients' trust and financial future rest.