

## The Fiduciary Duty – Stock Valuation Risk Analysis: A Step-by-Step Approach

January 22, 2025

**Key Message:** Fiduciaries must critically assess whether a stock's projected returns justify its risks. Optimistic assumptions are not enough when realistic valuation metrics tell a different story.

---

### Step-by-Step Logic for Valuation Analysis:

1. **Revenue Growth Assumptions:** Begin with future revenue projections, even optimistic ones.
  - Example: A company forecasts 30% annual revenue growth for the next 5 years.
2. **Profit Margin Projections:** Apply potential profit margins based on industry standards and historical data.
  - Example: Assume a future profit margin of 20%, significantly above current levels.
3. **Realistic Valuation Metrics:** Use historical P/E and P/S ratios to evaluate future valuations.
  - Example: Historically, mature companies in the same sector trade at P/E ratios of 15-20 and P/S ratios of 3-5.
4. **Calculate Implied Market Cap:** Based on the projections, calculate the future market cap.
  - Example: If revenues grow to \$10 billion and profit margins are 20%, with a P/E ratio of 20, the market cap is \$40 billion.
5. **Expected Rate of Return:** Compare the future market cap to the current valuation.
  - Example: If the current market cap is \$30 billion, the annualized return over 5 years is just 5%, far below acceptable levels for the risk taken.

---

### Fiduciary Responsibility:

- **Avoid Speculation:** Fiduciaries must prioritize realistic scenarios over speculative optimism.
- **Documented Analysis:** Maintain clear records showing that realistic valuation metrics were applied to justify the investment decision.
- **Protect Client Interests:** Ensure that the expected return adequately compensates for the inherent risks of the investment.

**Call to Action:** ERS equips fiduciaries with tools to perform these analyses effectively, ensuring better client outcomes and compliance with fiduciary standards.

\***Not just fiduciaries**, but every investor and every trust beneficiary can learn THIS rational, prudent and responsible method of analyzing the risk of overpaying for popular stocks in bull markets. When a reasonable investor, with the aid of Artificial Intelligence and even a minimal amount of analysis, can determine that due to a stock's price, that stock offers little or no chance of a profit for the buyer, the investor may seek alternative advisors.

In the future, RIAs and all fiduciaries who invest in stocks that demonstrably fall short of a Fiduciary Prudent Standard may have liability for losses that could clearly have been avoided with a modicum of professional analysis.

## A Prudent Method to Prevent Losses for All Investors

How AI and Clear Analysis Can Prevent Overpayment for Stocks

**Key Message:** Every investor, not just fiduciaries, can learn reliable, rational and responsible ways to evaluate stocks with great risks of loss and avoid overpaying for stocks in a bull market.

---

### The Process Simplified:

With the help of Artificial Intelligence and a minimal time investment, anyone can analyze a stock's price and determine if it offers realistic profit potential.

**Example:** If a stock's price implies unrealistic growth or profits, it may not be a wise investment.

### Why This Matters:

- Investors who learn this method can avoid speculative stocks and seek better advisors.
- In the future, fiduciaries who fail to apply prudent standards and lose clients' money may face liability for avoidable losses.

**Call to Action:** ERS makes this process accessible to every investor, helping you make smarter decisions and protect your portfolio.