

## The Very Dirty Dozen

January 7, 2025

Date	Number of Companies	Average PRI™	Average FRI™	Average ERI™	Average FRR™
1/3/2025	12	96.3	66.1	79.4	87.7

*ERS's proprietary risk ratings range from 0 (least risk) to 100 (greatest risk).*

Symbol	Company	Price	Market Cap (\$ billion)
ADI	Analog Devices Inc	\$215.26	\$107
BLK	BlackRock Inc	\$1,020.80	\$158
BSX	Boston Scientific	\$90.69	\$134
AVGO	Broadcom Inc	\$231.96	\$1,087
GS	Goldman Sachs	\$580.02	\$182
IBM	Int'l Business Machines	\$222.68	\$206
MRVL	Marvell Technology	\$118.46	\$103
MS	Morgan Stanley	\$125.76	\$203
NFLX	Netflix Inc	\$881.14	\$377
ORCL	Oracle Corp	\$166.36	\$465
TMUS	T-Mobile US Inc	\$219.09	\$254
WFC	Wells Fargo & Co	\$71.30	\$237

Equity Risk Sciences identified the "Very Dirty Dozen" – a group of 12 stocks with exceptionally high risk according to our proprietary risk ratings. These companies, highlighted in the accompanying image, include Analog Devices (ADI), BlackRock (BLK), Boston Scientific (BSX), Broadcom (AVGO), Goldman Sachs (GS), IBM, Marvell Technology (MRVL), Morgan Stanley (MS), Netflix (NFLX), Oracle (ORCL), T-Mobile (TMUS), and Wells Fargo (WFC).

While ERS's proprietary data sciences indicate a high statistical probability of significant declines for certain stocks, it's important to consider additional factors that could influence their performance, particularly momentum and popularity.

### Momentum and Popularity Effects

Momentum investing has been shown to be a compelling factor in stock performance.

This suggests that stocks with positive momentum can continue to perform well, at least in the short to medium term. Popularity can also play a crucial role in stock performance. ERS research indicates that

popular stocks tend to have higher prices relative to their expected NPV or any other time-tested business valuation methods

However, this relationship is not always straightforward, as seen with momentum stocks which can outperform despite their popularity.

### Considerations for ERS Ratings

While ERS's data-driven approach likely provides valuable insights, it's worth noting that:

1. Momentum effects may counteract negative fundamental indicators in the short term.
2. Popular stocks can maintain high valuations for extended periods due to investor sentiment.
3. Market dynamics can change rapidly, potentially invalidating historical patterns.

### Balancing Data Science with Market Realities

ERS's ratings provide a crucial perspective based on fundamental and statistical analysis. However, investors should also consider:

- The current market environment, which has seen major indices reach new highs
- Potential political and regulatory changes that could impact specific sectors or the broader market
- The possibility of shifts in market leadership, as suggested by some analysts for 2025

In conclusion, while ERS's ratings offer valuable insights, they should be considered alongside other factors such as momentum, popularity, and broader market trends when making investment decisions. The interplay between these various elements significantly influence stock performance, sometimes in ways that may not be fully captured by statistical models alone.

**All of this is true – but we still maintain that these stocks do not possess conservative financial characteristics and/or reasonable valuation metrics. This makes each of them unsuitable for conservative to moderate risk fiduciary accounts.**