# Free Stock Pick from our Most Dangerous Stocks Model Portfolio for January 2025

With a new president in office and geopolitical tensions rising, we expect high stock market volatility to continue in the new year. Volatility brings both risk and reward. Some stocks will rise, and others will fall. If you do your diligence, you can take advantage of the unpredictable markets.

Look everyone deserves good research that they know they can trust – just as we explained in our recent training, Unveiling a Trust-Based Rating System for Smarter Investing.

The S&P 500 continues to rise despite seeing its earnings estimates revised lower to end 2024. The valuations of many stocks seem to be increasingly disconnected from their fundamentals.

Is this disconnect now a feature and not a bug of the stock market?

We're not sure. And, if you're not sure, we recommend caution because when the corrections come, they could be quite severe. Evidence of an historically overvalued market continues to mount. How do you protect yourself?

One excellent answer to that question is our Most Dangerous Stocks Model Portfolio. This Model Portfolio contains the worst of the worst stocks in the entire market. You want to avoid these stocks at all cost!

We leverage our superior fundamental data to glean insights into the true profits of these stocks, which also have nosebleed valuations. Misleading profits plus an overvalued stock are a recipe for disaster for your portfolio.

Our research rescues you from being left in the dark by Wall Street.

Today, we're giving you a free stock pick. We are sharing this month's featured stock for our Most Dangerous Stocks Model Portfolio.

This feature provides a concise summary of how we pick stocks for this Model Portfolio. It is not a full Danger Zone report, but it gives you insight into the rigor of our research and approach to picking stocks. Whether you're a subscriber or not, we think it is important that you're able to see our research on stocks on a regular basis. We're proud to share our work. Please feel free to share it with your friends and family.

We update this Model Portfolio monthly. January's Most Attractive and Most Dangerous stocks Model Portfolios were updated and published for clients on January 8, 2024.

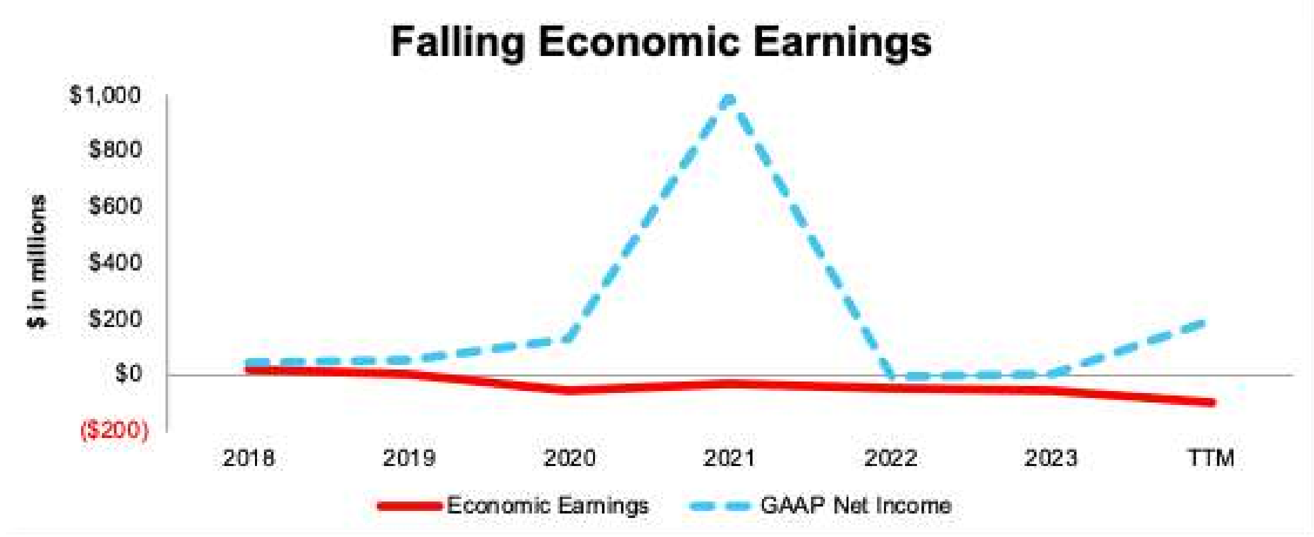
## Free Most Dangerous Stock Pick: Shenandoah Telecommunications (SHEN)

Shenandoah Telecommunications (SHEN: $12/share) is the featured stock from January's Most Dangerous Stocks Model Portfolio.

Shenandoah's net operating profit after tax (NOPAT) margin fell from 19% in 2018 to -4% in the TTM, while the company's invested capital turns fell from 0.4 to 0.3 over the same time. Falling NOPAT margins and invested capital turns drive Shenandoah's return on invested capital (ROIC) from 7% in 2018 to -1% in the TTM.

Shenandoah's economic earnings, the true earnings of the business, which take into account changes to the balance sheet, fell from $17 million in 2018 to -$98 million in the TTM. Meanwhile, the company's GAAP net income rose from $47 million to $199 million over the same time. Whenever GAAP earnings rise while economic earnings decline, investors should beware.

**Figure 1: Shenandoah' Economic vs GAAP Earnings Since 2018**




Sources: New Constructs, LLC and company filings

**SHEN Provides Poor Risk/Reward**

Despite its poor and declining fundamentals, Shenandoah's stock is priced for significant profit growth, and we believe the stock is overvalued.

To justify its current price of $12/share, Shenandoah must improve its NOPAT margin to 20% (equal to best-ever NOPAT margin) and grow revenue by 5% (compared to <1% over the last decade) compounded annually over the next eight years. In this scenario, Shenandoah grows its NOPAT 30% compounded annually to $85 million in 2031. We think these expectations are overly optimistic, especially considering the company's NOPAT fell from $117 million in 2018 to -$14 in the TTM.

Even if Shenandoah improves its NOPAT margin to 15% (above five-year average NOPAT margin of 4% and TTM margin of -4%) and grows revenue 5% compounded annually through 2031, the stock would be worth no more than $6/share today – a 47% downside to the current stock price.

Each of these scenarios also assumes Shenandoah can grow revenue, NOPAT, and FCF without increasing working capital or fixed assets. This assumption is unlikely but allows us to create best case scenarios that demonstrate the high expectations embedded in the current valuation.

**Critical Details Found in Financial Filings by Our Robo-Analyst Technology**

Below are specifics on the adjustments we made based on Robo-Analyst findings in Shenandoah's 10-Qs and 10-Ks:

Income Statement: we made just under $10 million in adjustments, with a net effect of removing just under $5 million in non-operating expenses. Professional members can see all adjustments made to Shenandoah's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made over $290 million in adjustments to calculate invested capital with a net decrease of over $150 million. One of the most notable adjustments was for asset write downs. Professional members can see all adjustments made to Shenandoah's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made just under $670 million in adjustments to shareholder value with a net decrease of over $580 million. The most notable adjustment to shareholder value was for total debt. Professional members can see all adjustments to Shenandoah's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

*This article was originally published on January 24, 2025.*

*Disclosure: David Trainer, Kyle Guske II, and Hakan Salt receive no compensation to write about any specific stock, style, or theme.*

*Questions on this report or others? Join our online community and connect with us directly.*

## *It's Official: We Deliver the Best Fundamental Data in the World*

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

**Best Fundamental Data in the World**

In The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

**Superior Models**

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [ as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

**Superior Stock Ratings**

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Harvard Business School. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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

## *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.