



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

With the talking heads spinning narrative's day in and day out, investing can feel more confused than ever. As the S&P 500 reaches record highs, investors may be wondering how to navigate this market?

There is one straight answer: make sure you've done your diligence and understand the true cash flows of the underlying business you're looking to invest in (or already own).

The sole purpose of our [Most Dangerous Stocks](#) Model Portfolio is to find the worst of the worst stocks in any kind of market. The stocks in this Model Portfolio have both terrible fundamentals and expensive valuations. In other words, the risk/reward for these stocks is very dangerous.

To help our readers protect their portfolios, we're giving you a free stock pick from this 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.

Keep an eye out for the [free pick](#) from our Most Attractive Stocks Model Portfolio, which will be published this week as well! The work that goes into that report is just as valuable

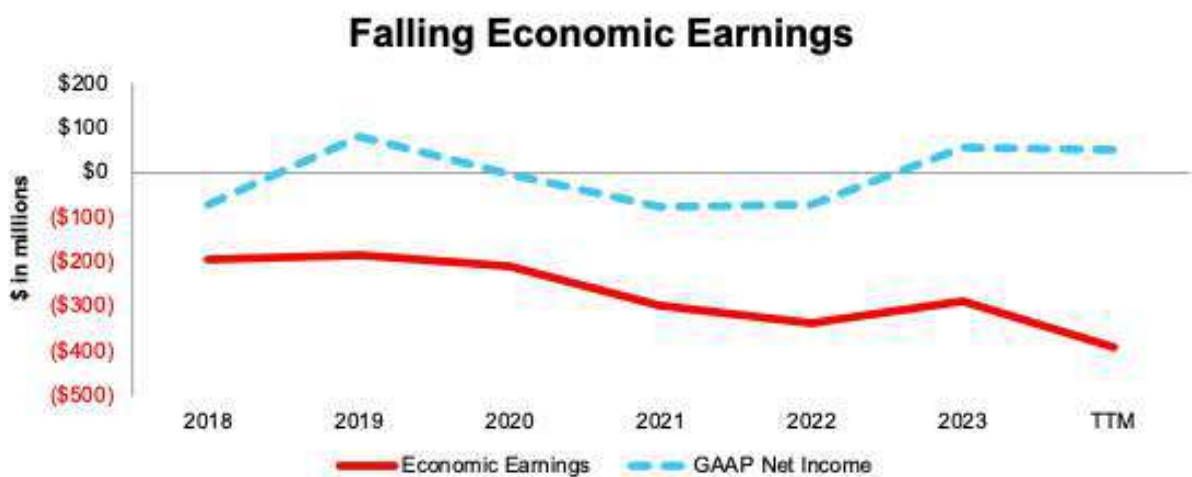
We update this Model Portfolio monthly. The latest [Most Attractive](#) and [Most Dangerous](#) stocks Model Portfolios were updated and published for clients on February 5, 2024.

Free Most Dangerous Stock Pick: Dayforce Inc. (DAY)

Dayforce Inc. (DAY: \$68/share) is the featured stock from February's Most Dangerous Stocks Model Portfolio.

Dayforce's net operating profit after tax ([NOPAT](#)) margin fell from 9% in 2018 to 5% in the TTM, while the company's [invested capital turns](#) rose from 0.3 to 0.4 over the same time. Falling NOPAT margins offset the improved capital turns and drive Dayforce's return on invested capital ([ROIC](#)) from an already low 2.4% in 2018 to 1.9% in the TTM.

Dayforce's [economic earnings](#), a key component of the [Golden Metric for picking stocks](#) (free training [here](#)), fell from -\$197 million in 2018 to -\$389 million in the TTM. Meanwhile, the company's GAAP net income rose from -\$71 million to \$53 million over the same time. Whenever GAAP earnings rise while economic earnings decline, investors should beware.

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

Sources: New Constructs, LLC and company filings

DAY Provides Poor Risk/Reward

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

To justify its current price of \$68/share, Dayforce must improve its NOPAT margin to 15% (above best-ever NOPAT margin of 10%) and grow revenue by 25% (compared to 15% over the five years) compounded annually over the next eight years. In this [scenario](#), Dayforce grows its NOPAT 35% compounded annually to \$2.1 billion in 2033. We think these expectations are overly optimistic, especially considering the company's NOPAT grew just 4% compounded annually over the last five years.

Even if Dayforce improves its NOPAT margin to 10% (equal to best-ever NOPAT margin) and grows revenue 20% compounded annually through 2033, the stock would be worth no more than [\\$28/share today](#) – a 59% downside to the current stock price.

Each of these scenarios also assumes Dayforce 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 Dayforce's 10-Qs and 10-Ks:

Income Statement: we made around \$50 million in adjustments, with a net effect of removing just under \$50 million in [non-operating expenses](#). Professional members can see all adjustments made to Dayforce's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made over \$1.1 billion in adjustments to calculate invested capital with a net decrease of just under \$200 million. One of the most notable adjustments was for [other comprehensive income](#). Professional members can see all adjustments made to Dayforce's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made just under \$1.8 billion in adjustments to shareholder value with a net decrease of just under \$1.0 billion. The most notable adjustment to shareholder value was for [total debt](#). Professional members can see all adjustments to Dayforce's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on [February 21, 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](#).



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