

Fulfilling Fiduciary Responsibilities: Protecting Client Capital and Acting in Their Best Interests

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1. Prioritize Risk Assessment

- Implement robust tools to assess the statistical probability and magnitude of price losses.
- Use quantitative models like ERS's Fiduciary Risk Rating (FRR) to evaluate risks before making investment decisions.
- Systematically monitor changes in the financial condition of companies held AND act quickly to material elevations in the risks of those investments.
- Use *Active Risk Monitoring*[™]

2. Adopt Prudent Investment Principles

- Focus on time-tested valuation metrics, such as P/S and NPV, and consistency of earnings and asset growth of the company to ensure investments have a realistic probability of appreciation.
- Avoid speculative stocks that lack a clear history of well-defined fundamental growth of the **value** of the stock.
- Use conservative growth projections and realistic assumptions in investment models.

3. Transparency and Documentation

- Keep detailed records of investment decisions.
- Document the rationale and risk analysis performed before investing.
- Share these insights with clients to build trust and demonstrate a disciplined approach to managing their assets.

4. Client-Centric Investment Strategies

- Customize portfolios to match clients' risk tolerance, financial goals, and investment horizons.
- Develop diversified portfolios that reduce exposure to highly volatile or high-risk assets.

5. Continuous Education and Compliance

- Stay updated on SEC regulations and best practices for fiduciaries, such as consistency between stated ADV practices and actual portfolio management.
- Conduct mock examinations and self-audits to ensure compliance with fiduciary standards.
- Invest in training and tools that improve analytical capabilities and enhance decision-making.

6. Proactive Risk Management

- Use *Active Risk Monitoring*[™] to identify and respond to early signs of potential losses in the portfolio.

- Establish clear guidelines for when to sell stocks, particularly when risks exceed acceptable levels.

7. Client Communication and Trust-Building

- Engage in honest and frequent communication with clients about their portfolio's performance and any significant changes in strategy.
- Explain the rationale behind risk mitigation strategies, including selling stocks to protect against major losses.

8. Embrace Technology and Data Science

- Leverage advanced tools like ERS's investment technology to gain deeper insights into the risk and potential of individual stocks.
- Integrate AI and big data into investment processes to improve prediction accuracy and protect against market downturns.

9. Ethical Standards and Social Responsibility

- Ensure investment strategies align with ethical considerations and clients' values, such as avoiding investments in industries they oppose.
- Explore socially responsible investment options to meet the growing demand for ESG (Environmental, Social, Governance) investments.

10. Prepare for Market Crises

- Develop strategies to minimize losses during major market downturns, such as maintaining liquidity or investing in defensive assets.
- Educate clients on the importance of risk preparedness and the steps taken to shield their portfolios.

By following these fiduciary principles, advisors can enhance their credibility, improve client outcomes, and differentiate themselves in a competitive market.

5 Critical Steps Fiduciaries Must Take Before Buying Any Stock for a Conservative or Moderate Risk Investor Using ERS's Technology

1) Conduct a Comprehensive Risk Assessment

- a) Use ERS's **Fiduciary Risk Ratings (FRR)** to evaluate the statistical probability, magnitude, and timing of potential stock price declines.
- b) Focus on objective, quantitative metrics like the company's price-to-sales (P/S) ratio, earnings stability, and debt-to-equity ratio to gauge the stock's financial safety.
- c) Prioritize stocks with low-risk ratings that align with the investor's risk tolerance.

2) Analyze Historical Performance Trends

- a) Review the ERS **Historical Performance & Risk Charts™** to identify patterns in the stock's price changes relative to its financial condition over 1, 3, and 5 years.
- b) Verify if the stock has demonstrated resilience in past market downturns, a key indicator for conservative or moderate portfolios.

3) Validate Fundamental Valuation Metrics

- a) Utilize the ERS **Net Present Value (NPV) Model Rating** to determine if the stock's market capitalization is justified by its projected future net income and tangible equity.
- b) Avoid overvalued stocks by comparing NPV to market cap, ensuring investments offer realistic potential for appreciation.

4) Monitor Financial Stability Indicators

- a) Use ERS's **Active Risk Monitoring™** to evaluate recent changes in the company's financial condition, such as debt levels, cash flow, and revenue growth trends.
- b) Flag stocks showing significant deterioration in key financial metrics, even if their price appears stable.

5) Document and Justify the Investment Decision

- a) Record the decision-making process using ERS's tools, such as **Profit Map™**, to explain the logic behind selecting the stock based on data-driven insights.
- b) Provide documentation to demonstrate compliance with fiduciary responsibilities, ensuring alignment with the client's investment objectives and regulatory standards.

These steps ensure fiduciaries minimize risk, act prudently, and prioritize their clients' financial well-being, meeting both ethical and legal obligations.