# Appendix to "Quantifying the Standard of Care"

A Framework for Quantitative Risk Measurement
in Fiduciary Investment Practice

**February 13, 2026**

Presented to:
The Commissioners of the U.S. Securities and Exchange Commission
The Board of Governors of the Financial Industry Regulatory Authority
The U.S. Senate Committee on Banking, Housing, and Urban Affairs
The U.S. House Committee on Financial Services
The Consumer Financial Protection Bureau
State Securities Commissioners
Registered Investment Advisors & the Investment Community
Public Investors Advocate Bar Association (PIABA)
North American Securities Administration Association (NASAA)

**Investment advisors cannot fulfill their fiduciary duty without access to reliable, quantitative measures of the probability and magnitude of potential loss.**

**Those tools exist today. This report demonstrates how they work and why they matter—especially for the Americans who can least afford preventable losses.**

EQUITY RISK SCIENCES
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**Featuring Case Studies: Amazon, IBM, Microsoft, NVIDIA, PayPal, Pfizer, Tesla, and Walmart**

*All conclusions are probability-based and non-predictive.*

# Table of Contents

# APPENDIX A: The Full ERS Microsoft Case Study

## A.1 Why Microsoft?

Of all the companies ERS could have chosen to demonstrate that investment risk can be quantified, why Microsoft?

The answer is simple: Microsoft provides **dispositive evidence** — not merely suggestive evidence, but a documented record so consistent across multiple time periods that alternative explanations become difficult to sustain.

### The Scientific Value of Microsoft as a Case Study

**Same company across three eras.** By examining Microsoft in 1999, 2011, and 2025, ERS eliminates "company quality" as a variable. Mr. Mullaney is not comparing a strong company to a weak one. He is not comparing different industries, different management teams, or different competitive positions. He is examining the same company—one of the most successful businesses in history—at three different points in time.

**Consistently dominant.** Microsoft was a "great business" in all three periods:

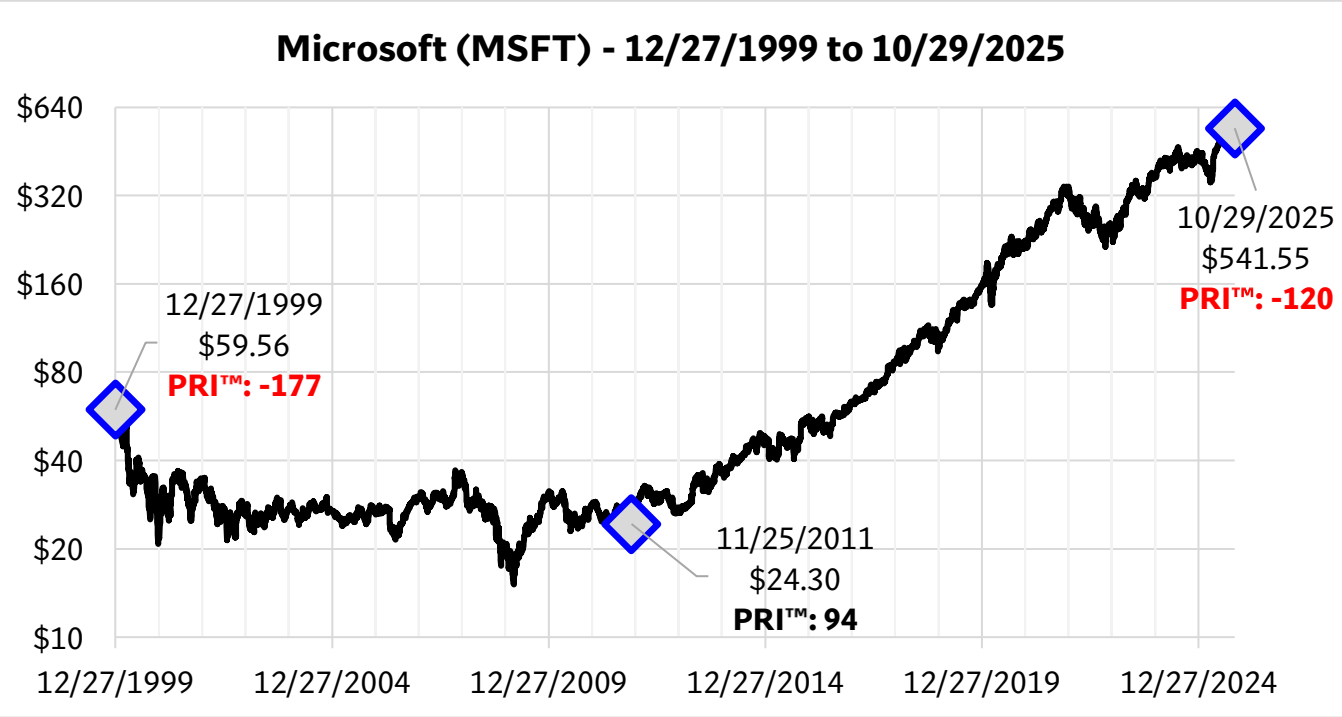
- In 1999, Microsoft dominated the PC operating system and productivity software markets
- In 2011, Microsoft dominated enterprise software and was building its cloud infrastructure
- In 2025, Microsoft dominated cloud computing, productivity software, and was a leader in artificial intelligence

**Only changing variable: The valuation ratio.** If the company remained excellent throughout, what explains the radically different investment outcomes? Only one factor changed: the price investors paid relative to the company's financial performance.

- In 1999, investors paid 29x sales and 74x earnings
- In 2011, investors paid 3x sales and 9x earnings
- In 2025, investors paid 14x sales and 38x earnings

## A.2 The Three Critical Dates — Overview

The following chart displays Microsoft's stock price from December 1999 through October 2025, with three critical dates marked—the dates that prove our thesis:




The chart tells the story visually, but the data tells it precisely:

| Metric | Dec 27, 1999 | Nov 27, 2011 | Oct 29, 2025 |
|---|---|---|---|
| **Stock Price** | $59.56 | $24.30 | $541.55 |
| **P/S Ratio** | 29.29x | 2.93x | 13.70x |
| **P/E Ratio** | 73.9x | 8.88x | 38.37x |
| **ERS Profit Map™ Rating** | F (Extreme Risk) | A (Safe) | F (Extreme Risk) |
| **ERS Price Risk Indicator™** *(+150 (best) to -250 (worst))* | -177 | +94 | -120 |
| **Subsequent Result** | 17 years, 0% return | 19x gain (~1,900%) | -~$1T loss |

### Understanding the Price Risk Indicator™ (PRI)

The **Price Risk Indicator** (PRI) shown on the chart is a proprietary measure developed by Equity Risk Sciences that synthesizes multiple valuation factors into a single score:

- **Negative PRI values** indicate that the stock is trading at valuations historically associated with poor forward returns. The more negative the value, the greater the risk.
- **Positive PRI values** indicate that the stock is trading at valuations historically associated with favorable forward returns. The more positive the value, the more attractive the opportunity.

## A.3 Date One: December 27, 1999 — The Bubble

December 27, 1999 was four days before the turn of the millennium. The dot-com boom was at its peak. Microsoft was one of the most admired companies in the world—and one of the most expensive.

Mr. Mullaney ran Microsoft through ERS's **Profit Map**™ analysis using its financial condition as of 12/27/1999. What he found was unambiguous: Microsoft was priced for catastrophic loss.

### A.3.1 The Valuation Picture

The following table summarizes Microsoft's financial condition as of December 27, 1999:

| Stock Price | Market Cap | Annual Revenue | Net Income | P/S Ratio | P/E Ratio |
|---|---|---|---|---|---|
| **$59.56** | **$613.3B** | **$20.9B** | **$8.3B** | **29.29x** | **73.9x** |

To understand what these numbers mean in context, they must be measured against Microsoft's own historical valuation norms:

| Metric | 12/27/1999 Value | 20-Year Median |
|---|---|---|
| **Price-to-Sales** | **29.29x** | 5.88x |
| **Price-to-Earnings** | **73.9x** | 22.92x |
| **Multiple of Normal (P/S)** | **4.98x normal** | — |

A P/S ratio of 29.29x meant investors were paying $29.29 for every $1 of annual sales—nearly **five times** Microsoft's normal valuation relative to revenue. A P/E of 73.9x meant it would take nearly 74 years of current earnings just to recover the purchase price, assuming no growth and no dividends.

The **Profit Map**™ then asked a straightforward question: *what happens if valuations simply return to historical norms?* Even assuming robust continued growth—30% annual revenue growth, 30% profit margins, and only 2% annual dilution over three years—the results were stark:

| Reversion Scenario | Future Valuation | Projected Price | Gain / (Loss) |
|---|---|---|---|
| P/S reverts to 20-year median | 5.88x | $24.74 | **-58.5%** |
| P/E reverts to 20-year median | 22.92x | $28.95 | **-51.4%** |

Under either measure, a reversion to Microsoft's own 20-year median valuation implied losses exceeding 50%—**even with extremely optimistic growth assumptions built in.**

### A.3.2 The "What Must Happen" Analysis

ERS's **What Must Happen**™ framework inverts the conventional question. Rather than asking "Will this stock go up?"—a question no one can answer—it asks: *What specific, falsifiable conditions must be true for this investment to succeed?* This is the analytical standard proposed by the philosopher Karl Popper: a claim that makes no testable prediction is not knowledge.

Mr. Mullaney modeled extremely optimistic assumptions:

| Desired Annual Return | # of Years Later | Annual Revenue Growth | Future Profit Margin | Annual Dilution Rate |
|---|---|---|---|---|
| 15% | 3 years | 30% | 30% | 2% |

These were not conservative projections. A 30% annual revenue growth rate sustained for three consecutive years, combined with 30% profit margins, represented a best-case scenario for a company

of Microsoft's size. Yet even under these assumptions, **the stock would still require a P/S ratio of 21.52x at Year 3 just to deliver a 15% annual return.**

Microsoft's 20-year median P/S was 5.88x. The investment required the market to sustain a valuation **3.7 times the historical norm**—three years into the future, after all the optimistic growth had already been delivered—merely to break even on an annualized basis at the investor's target return.

### Sensitivity Analysis: Future Returns Based on Projected P/S Ratios

Mr. Mullaney then tested what would happen under a range of future P/S scenarios, holding the optimistic 30% revenue growth assumption constant:

| Scenario | Future P/S | Future Revenue | Future Mkt Cap | Future Price | Gain (Loss) |
|---|---|---|---|---|---|
| -50% Below Projected P/S | **2.94** | $46,001 | $135,012 | $12.36 | **-79.3%** |
| -25% Below Projected P/S | **4.40** | $46,001 | $202,518 | $18.54 | **-68.9%** |
| Projected P/S (20-yr median) | **5.87** | $46,001 | $270,025 | $24.71 | **-58.5%** |
| 25% Above Projected P/S | **7.34** | $46,001 | $337,531 | $30.89 | **-48.1%** |
| 50% Above Projected P/S | **8.80** | $46,001 | $405,037 | $37.07 | **-37.8%** |

At every P/S level tested—including scenarios 50% *above* the projected median—the investment showed losses ranging from **-37.8%** to **-79.3%**. There was no plausible P/S ratio at which the December 1999 purchase price could be justified.

### Sensitivity Analysis: Future Returns Based on Projected P/E Ratios

The same analysis was performed using price-to-earnings ratios, holding both 30% revenue growth and 30% profit margins constant:

| Scenario | Future P/E | Future Rev. | Net Income | Future Mkt Cap | Future Price | Gain (Loss) |
|---|---|---|---|---|---|---|
| -50% Below Projected P/E | **11.46** | $46,001 | $13,800 | $158,220 | $14.48 | **-75.7%** |
| -25% Below Projected P/E | **17.20** | $46,001 | $13,800 | $237,330 | $21.72 | **-63.5%** |
| Projected P/E (20-yr median) | **22.93** | $46,001 | $13,800 | $316,439 | $28.96 | **-51.4%** |
| 25% Above Projected P/E | **28.66** | $46,001 | $13,800 | $395,549 | $36.20 | **-39.2%** |
| 50% Above Projected P/E | **34.39** | $46,001 | $13,800 | $474,659 | $43.44 | **-27.1%** |

The P/E analysis confirmed the P/S findings. Even at a future P/E of 34.39x—50% above the 20-year median—the stock would still lose **-27.1%**. At the projected median P/E of 22.93x, losses reached **-51.4%**. The two independent valuation measures converged on the same conclusion: **the December 1999 price could not be mathematically supported under any reasonable scenario.**

Complete platform output for all analyses at this date is reproduced in Appendix B, Figures B.1.1–B.1.7.

### A.3.3 What Actually Happened

The analysis was validated by subsequent events:

| Time Period | Outcome |
|---|---|
| 1999–2001 (2 years) | Stock declined ~65% |
| 1999–2009 (at March low) | Shareholders lost ~75% of capital |
| 1999–2016 (17 years) | Zero total return |
| Revenue growth, 1999–2016 | Revenue more than tripled (+310%) |

The company did not fail. Microsoft continued to execute, ship products, grow revenue, and expand its competitive position throughout this entire period. The source of the investor's loss was not corporate failure—it was the price paid for an excellent company. The valuation compressed from 29x sales to under 3x sales, and no amount of business performance could overcome the mathematical consequences of that compression.

**This is the mechanism of permanent capital impairment in a high-quality company:** the business performs, but the return to the investor is determined by the price paid, not by the quality of the enterprise. Every data point that Wall Street cited as a reason to buy Microsoft in December 1999—growing revenue, rising earnings, dominant market position, visionary management, and breakthrough technology—was true. And none of it protected the investor.

## A.4 Date Two: November 25, 2011 — The Opportunity

By late 2011, Microsoft had spent more than a decade in the wilderness. Shareholders who bought at the 1999 peak had endured 12 years of negative returns. The stock was widely dismissed as a "has-been"—a legacy technology company that had missed the mobile revolution and was being left behind by Apple and Google.

Sentiment was terrible. The narrative was bearish. However, the opportunity was exceptional! **The mathematics told a more accurate story.** Data science identifies when a company's price and market capitalization have a higher probability of expanding than contracting—and that is exactly what Microsoft's valuation metrics showed on this date.

### A.4.1 The Valuation Picture

The following table summarizes Microsoft's financial condition as of November 25, 2011:

| Stock Price | Shares O/S | Market Cap | Annual Revenue | Net Income | P/S Ratio | P/E Ratio | Div. Yield |
|---|---|---|---|---|---|---|---|
| **$24.30** | **8.4B** | **$204B** | **$71.1B** | **$23.5B** | **2.87x** | **8.7x** | **~3%** |

The transformation from 1999 was dramatic—not in the business, which had grown substantially, but in the price the market was willing to pay for it:

| Metric | Dec 1999 | Nov 2011 | Change |
|---|---|---|---|
| **Revenue** | $20.9B | **$71.1B** | **+240%** |
| **Net Income** | $8.3B | **$23.5B** | **+183%** |
| **P/S Ratio** | 29.29x | **2.87x** | **–90%** |
| **P/E Ratio** | 73.9x | **8.7x** | **–88%** |

Revenue had more than tripled. Net income had nearly tripled. Yet the stock price had fallen from $59.56 to $24.30—a decline of almost 60%. The entire difference was valuation compression: the P/S ratio fell 90% (from 29.29x to 2.87x) and the P/E ratio fell 88% (from 73.9x to 8.7x). **The business performed. The investor's return was determined entirely by the price paid.**

Measured against Microsoft's own historical norms, the 2011 valuation was the mirror image of 1999:

| Metric | 11/25/2011 Value | 20-Year Median |
|---|---|---|
| **Price-to-Sales** | **2.87x** | 5.87x |
| **Price-to-Earnings** | **8.7x** | 22.93x |
| **Fraction of Normal (P/S)** | **0.49x normal** | — |

Where 1999 had been priced at nearly 5x the historical norm, 2011 was priced at **less than half** the historical norm. The **Profit Map**™ asked the same question it asked in 1999: *what happens if valuations simply return to historical norms?* This time, the answer pointed to exceptional gains:

| Reversion Scenario | Future Valuation | Projected Price | Gain / (Loss) |
|---|---|---|---|
| P/S reverts to 20-year median | 5.87x | $58.93 | **+142.5%** |
| P/E reverts to 20-year median | 22.93x | $57.54 | **+136.8%** |

Under either measure, a reversion to Microsoft's own 20-year median valuation implied gains exceeding 135%—**even with conservative growth assumptions.**

### A.4.2 The "What Must Happen" Analysis

Mr. Mullaney applied the **What Must Happen**™ framework to Microsoft at its November 2011 price—but this time with deliberately conservative assumptions, far more modest than those used for the 1999 analysis:

| Desired Annual Return | # of Years Later | Annual Revenue Growth | Future Profit Margin | Annual Dilution Rate |
|---|---|---|---|---|
| 20% | 3 years | 8% | 25% | 2% |

Note the contrast with 1999: the desired return was *higher* (20% vs. 15%), yet the growth assumptions were far *lower* (8% revenue growth vs. 30%; 25% profit margin vs. 30%). This was not an exercise in optimism. It was a test of whether the stock could deliver strong returns under modest conditions.

The answer was unambiguous. Under these conservative assumptions, **the stock would only require a P/S ratio of 4.18x at Year 3 to deliver 20% annual returns.**

Microsoft's 20-year median P/S was 5.87x—**40% higher** than what was required. The investment did not need the market to sustain an extreme valuation. It did not need heroic growth. It only needed the valuation to remain *below normal*—and it would still deliver 20% annual returns. Both the P/S and P/E projection ratings were **A (Safe)**.

**Sensitivity Analysis: Future Returns Based on Projected P/S Ratios**

Mr. Mullaney tested what would happen under a range of future P/S scenarios, holding the conservative 8% revenue growth assumption constant:

| Scenario | Future P/S | Future Revenue | Future Mkt Cap | Future Price | Gain (Loss) |
|---|---|---|---|---|---|
| -50% Below Projected P/S | **2.94** | $89,591 | $262,949 | $29.46 | **+21.2%** |
| -25% Below Projected P/S | **4.40** | $89,591 | $394,423 | $44.18 | **+81.8%** |
| Projected P/S (20-yr median) | **5.87** | $89,591 | $525,898 | $58.91 | **+142.4%** |
| 25% Above Projected P/S | **7.34** | $89,591 | $657,372 | $73.64 | **+203.0%** |
| 50% Above Projected P/S | **8.80** | $89,591 | $788,846 | $88.37 | **+263.7%** |

At every P/S level tested—including the most pessimistic scenario, 50% *below* the projected median—the investment showed gains. The range extended from **+21.2%** in the worst case to **+263.7%** in the best. There was no plausible scenario that produced a loss.

**Sensitivity Analysis: Future Returns Based on Projected P/E Ratios**

The same analysis using price-to-earnings ratios, holding 8% revenue growth and 25% profit margins constant:

| Scenario | Future P/E | Future Rev. | Net Income | Future Mkt Cap | Future Price | Gain (Loss) |
|---|---|---|---|---|---|---|
| -50% Below Projected P/E | **11.46** | $89,591 | $22,398 | $256,789 | $28.77 | **+18.4%** |
| -25% Below Projected P/E | **17.20** | $89,591 | $22,398 | $385,184 | $43.15 | **+77.6%** |
| Projected P/E (20-yr median) | **22.93** | $89,591 | $22,398 | $513,579 | $57.53 | **+136.8%** |
| 25% Above Projected P/E | **28.66** | $89,591 | $22,398 | $641,973 | $71.91 | **+195.9%** |
| 50% Above Projected P/E | **34.39** | $89,591 | $22,398 | $770,368 | $86.30 | **+255.1%** |

The P/E analysis confirmed the P/S findings. Even at a future P/E of 11.46x—50% below the 20-year median—the stock would still gain **+18.4%**. At the projected median P/E of 22.93x, gains reached

**+136.8%**. Both valuation measures converged on the same conclusion: **the November 2011 price was mathematically supported under every reasonable scenario.**

### The 1999–2011 Contrast: Same Company, Opposite Mathematics

The following table makes the contrast explicit. The same analytical framework, applied to the same company at two different price levels, produced diametrically opposite conclusions:

| Scenario | December 1999 | November 2011 |
|---|---|---|
| Best case (50% above median) | **-37.8%** | **+263.7%** |
| Base case (at 20-yr median) | **-58.5%** | **+142.4%** |
| Worst case (50% below median) | **-79.3%** | **+21.2%** |

The company was better in 2011 than in 1999—more revenue, more earnings, a more diversified business. Yet in 1999 the stock was a catastrophic risk, and in 2011 it was an exceptional opportunity. **The difference was not the company. It was the price.**

Complete platform output for all analyses at this date is reproduced in Appendix B, Figures B.2.1–B.2.7.

### A.4.3 What Actually Happened

The analysis was validated by subsequent events—spectacularly so:

| Time Period | Outcome |
|---|---|
| Nov 2011 – Oct 2025 (14 years) | Stock price increased ~2,100% |
| $100,000 invested in Nov 2011 | Worth ~$2,200,000 by Oct 2025 |

An advisor who said in November 2011 that "Microsoft is solid as a rock—its balance sheet is impeccable, its valuation ratios have never been more attractive" would have been stating **objective, measurable fact**—not opinion. The valuation metrics were publicly available. The historical medians were documented. The gap between price and intrinsic value was quantifiable. Any fiduciary with access to the same data and a disciplined framework would have reached the same conclusion.

**This is the symmetry of valuation science:** the same mathematical framework that identified catastrophic risk in December 1999 identified exceptional opportunity in November 2011. The method did not change. The data did not change. Only the price changed—and the price was the variable that determined the investor's outcome.

## A.5 Date Three: October 29, 2025 — The Recurrence

By late 2025, Microsoft had become the poster child for the AI revolution. The company's investments in OpenAI and integration of artificial intelligence across its product suite had captured Wall Street's imagination. Sentiment was euphoric. The stock had risen more than 20-fold from its 2011 lows.

And the mathematics looked remarkably similar to 1999. Mr. Mullaney ran Microsoft through ERS's **Profit Map**™ based on its financial condition as of 10/29/2025. What he found was history repeating: Microsoft was once again priced for catastrophic loss.

### A.5.1 The Valuation Picture

The following table summarizes Microsoft's financial condition as of October 29, 2025:

| Stock Price | Market Cap | Annual Revenue | Net Income | P/S Ratio | P/E Ratio |
|---|---|---|---|---|---|
| **$541.55** | **$4.025T** | **$293.8B** | **$104.9B** | **13.70x** | **38.4x** |

Measured against Microsoft's own historical norms, the 2025 valuation had returned to dangerous territory:

| Metric | 10/29/2025 Value | 20-Year Median |
|---|---|---|
| **Price-to-Sales** | **13.70x** | 5.87x |
| **Price-to-Earnings** | **38.4x** | 22.93x |
| **Multiple of Normal (P/S)** | **2.33x normal** | — |

A P/S ratio of 13.70x meant investors were paying $13.70 for every $1 of annual sales—more than **twice** Microsoft's 20-year median. While not as extreme as the 29.29x of 1999, the 2025 valuation was well within the range that has historically produced severe losses.

To understand how Microsoft reached this point, one must examine how much of the stock's appreciation from 2011 was driven by business improvement versus valuation expansion:

| Metric | Nov 2011 | Oct 2025 | Multiple |
|---|---|---|---|
| **Market Cap** | $204.4B | **$4,025.4B** | **19.7×** |
| **Revenue** | $71.1B | **$293.8B** | **4.1×** |
| **Net Income** | $23.5B | **$104.9B** | **4.5×** |
| **Tangible Equity** | $45.8B | **$222.3B** | **4.9×** |
| **Free Cash Flow** | $25.1B | **$78.0B** | **3.1×** |

The business improved by **3–5×** across all fundamental metrics. The market capitalization expanded by **19.7×**. This represents valuation multiple expansion of 4–5× *beyond* what business improvement alone would justify. If Microsoft's market cap had grown in line with its fundamentals, it would be worth approximately $800 billion to $1 trillion—not $4 trillion.

The **Profit Map**™ asked the same question it asked in 1999 and 2011: *what happens if valuations return to historical norms?* The answer again pointed to significant risk:

| Reversion Scenario | Future Valuation | Projected Price | Loss |
|---|---|---|---|
| P/S reverts to 20-year median | 5.87x | $294.62 | **-45.6%** |
| P/E reverts to 20-year median | 22.93x | $328.19 | **-39.4%** |

Under either measure, a reversion to Microsoft's own 20-year median valuation implied losses of 39–46%—**even with strong growth assumptions built in.**

### A.5.2 The "What Must Happen" Analysis

Mr. Mullaney applied the **What Must Happen**™ framework to Microsoft at its October 2025 price. Unlike the deliberately optimistic assumptions used for 1999, these assumptions reflected Microsoft's actual recent performance—strong, but not extraordinary:

| Desired Annual Return | # of Years Later | Annual Revenue Growth | Future Profit Margin | Annual Dilution Rate |
|---|---|---|---|---|
| 15% | 3 years | 10.44% | 28.52% | 2% |

A 10.44% annual revenue growth rate was in line with Microsoft's trailing performance. A 28.52% profit margin reflected the company's actual operating results. These were not fantasy projections—they were a reasonable extrapolation of what the company was already doing.

Yet even under these assumptions, **the stock would require a P/S ratio of 16.42x at Year 3 just to deliver a 15% annual return**—nearly **2.8 times** the 20-year median of 5.87x. It would simultaneously require a P/E ratio of 57.6x—more than **2.5 times** the historical median of 22.93x.

Both the P/S and P/E projection ratings were **F (Extreme Risk)**—the identical ratings the framework assigned to Microsoft in December 1999.

### Sensitivity Analysis: Future Returns Based on Projected P/S Ratios

Mr. Mullaney tested what would happen under a range of future P/S scenarios, holding the 10.44% revenue growth assumption constant:

| Scenario | Future P/S | Future Revenue | Future Mkt Cap | Future Price | Gain (Loss) |
|---|---|---|---|---|---|
| -50% Below Projected P/S | **2.94** | $396 bil. | $1.16 tril. | $147.26 | **-72.8%** |
| -25% Below Projected P/S | **4.40** | $396 bil. | $1.74 tril. | $220.89 | **-59.2%** |
| Projected P/S (20-yr median) | **5.87** | $396 bil. | $2.32 tril. | $294.53 | **-45.6%** |
| 25% Above Projected P/S | **7.34** | $396 bil. | $2.90 tril. | $368.16 | **-32.0%** |
| 50% Above Projected P/S | **8.80** | $396 bil. | $3.48 tril. | $441.79 | **-18.4%** |

At every P/S level tested—including scenarios 50% *above* the projected median—the investment showed losses ranging from **-18.4%** to **-72.8%**. As in 1999, there was no plausible P/S ratio at which the October 2025 purchase price could be justified.

### Sensitivity Analysis: Future Returns Based on Projected P/E Ratios

The same analysis using price-to-earnings ratios, holding 10.44% revenue growth and 28.52% profit margins constant:

| Scenario | Future P/E | Future Rev. | Net Income | Future Mkt Cap | Future Price | Gain (Loss) |
|---|---|---|---|---|---|---|
| -50% Below Projected P/E | **11.46** | $396 bil. | $113 bil. | $1.29 tril. | $164.06 | **-69.7%** |
| -25% Below Projected P/E | **17.20** | $396 bil. | $113 bil. | $1.94 tril. | $246.09 | **-54.6%** |
| Projected P/E (20-yr median) | **22.93** | $396 bil. | $113 bil. | $2.59 tril. | $328.12 | **-39.4%** |
| 25% Above Projected P/E | **28.66** | $396 bil. | $113 bil. | $3.23 tril. | $410.15 | **-24.3%** |
| 50% Above Projected P/E | **34.39** | $396 bil. | $113 bil. | $3.89 tril. | $492.19 | **-9.1%** |

The P/E analysis confirmed the P/S findings. Even at a future P/E of 34.39x—50% above the 20-year median—the stock would still lose **-9.1%**. At the projected median P/E of 22.93x, losses reached **-39.4%**.

Both valuation measures converged on the same conclusion: **the October 2025 price could not be mathematically supported under any reasonable scenario.**

### The Three-Date Pattern: 1999, 2011, 2025

The following table presents the sensitivity analysis results across all three dates—the same framework, applied to the same company, at three different price levels:

| Scenario | Dec 1999 | Nov 2011 | Oct 2025 |
|---|---|---|---|
| Best case | -37.8% | +263.7% | -9.1% |
| Base case | -58.5% | +142.4% | -45.6% |
| Worst case | -79.3% | +21.2% | -72.8% |

The pattern is unmistakable. When Microsoft was priced far above its historical norms (1999 and 2025), every scenario showed losses. When it was priced below its historical norms (2011), every scenario showed gains. **The method did not change. The company did not change. Only the price changed—and the price determined the outcome.**

Complete platform output for all analyses at this date is reproduced in Appendix B, Figures B.3.1–B.3.7.

## A.5.3 What Actually Happened

The analysis was validated by subsequent events:

| Time Period | Outcome |
|---|---|
| Oct 29, 2025 – Feb 4, 2026 | Stock declined ~20% |
| Market cap loss | ~$1 trillion (exceeds GDP of Saudi Arabia) |
| As of this writing | Valuations remain elevated; further downside risk persists |

## A.5.4 This Was Not a "Black Swan"

The approximately $1 trillion loss in market capitalization was not an unpredictable event. It was not caused by fraud, accounting irregularities, or business failure. Microsoft remained an excellent company throughout. Its revenue continued to grow. Its products continued to ship. Its competitive position remained strong.

The loss was caused by the same mechanism that produced 17 years of zero returns after December 1999: **valuation compression.** The market had priced the stock at 13.70x sales and 38.4x earnings—levels that required the sustained defiance of every documented pattern in valuation history. When sentiment shifted, the mathematics reasserted themselves.

**The only question is why Wall Street analysts continued to recommend this stock to clients seeking capital preservation—when the mathematics clearly indicated extreme risk.** The ERS framework identified the risk. The historical precedent was documented. The probability and magnitude of loss were quantifiable. And every fiduciary in America had access to the same underlying data.

**Fiduciary standards do not require the certainty of harm—only the identification of known risks and probabilities of loss above acceptable thresholds.** By that standard, the October 2025 valuation of Microsoft was a known, measured, and documented risk. The tools to identify it existed. The precedent to contextualize it existed. The only thing that was missing was the willingness to look.

## A.6 NPV Analysis: What Must Be True to Justify $4 Trillion

If a stock's market capitalization dramatically exceeds the net present value of any reasonable earnings projection, the stock is priced for speculation, not investment.

### The Assumptions

| Assumption | Value | Rationale |
|---|---|---|
| **Current Net Income** | ~$105 billion | Microsoft's actual 2025 earnings |
| **Earnings Growth Rate** | 15% annually | Aggressive—above historical average |
| **Discount Rate** | 8% | Standard equity discount rate |
| **Time Horizon** | 10 years | Standard long-term projection |
| **Terminal value** | 1x year-10 sales | Business is worth something after projection ends |

These assumptions give Microsoft every benefit of the doubt. Sustaining 15% annual growth for a full decade is something very few companies of this size have ever achieved.

### The Calculation

| Year | Projected Revenue (15% growth) | Projected Earnings (15% growth) | Present Value (8% discount rate) |
|---|---|---|---|
| **1** | $338 billion | $121 billion | $112 billion |
| **2** | $389 billion | $139 billion | $119 billion |
| **3** | $447 billion | $160 billion | $127 billion |
| **4** | $514 billion | $183 billion | $135 billion |
| **5** | $591 billion | $211 billion | $144 billion |
| **6** | $680 billion | $243 billion | $153 billion |
| **7** | $782 billion | $279 billion | $163 billion |
| **8** | $899 billion | $321 billion | $173 billion |
| **9** | $1,034 billion | $369 billion | $185 billion |
| **10** | $1,189 billion | $424 billion | $197 billion |
| **Total NPV** | — | — | **$1.506 trillion** |

### The Gap

| Metric | Value |
|---|---|
| **10-Year NPV of Earnings** | $1.506 trillion |
| **Terminal Value: 1x year-10 revenue** | $1.189 trillion |
| **NPV of Terminal Value** | $604 billion |
| **Total Net Present Value** | $2.110 trillion ($1.506 T + $604 B) |
| **Market Cap at October 2025 Peak** | $4.029 trillion |
| **Gap** | $1.919 trillion |
| **Multiple of NPV** | **1.91×** |

Investors were paying approximately 1.91× the NPV of a decade of optimistic earnings projections. To justify this price, Microsoft would need to grow faster than 15% annually for a decade (unprecedented at this size), discount rates would need to remain near zero indefinitely, or investors would need to pay extreme multiples permanently. Each assumption requires speculation, not investment.

**Under no reasonable set of assumptions does a 10-year NPV analysis support a $3–4 trillion market capitalization.** When a company's market cap is 1.91× the NPV of optimistic projections, investors are buying hope, not earnings.

## A.7 The Five Pillars of Valuation Collapse

Microsoft's October 2025 valuation was structurally vulnerable to five distinct forces, any one of which could trigger significant losses. Together, they made decline virtually inevitable.

### Pillar 1: Multiple Compression

At 38× earnings, the stock price was basically assuming Microsoft would keep doing *amazingly well* for a long time. For perspective, on February 4, 2016, the ten most profitable U.S. companies averaged about 14× earnings—so 38× is more than double, almost triple.

That setup isn't great for a buyer: if Microsoft does a little better than expected, there may not be much extra upside because the stock is already expensive. But if it just does "fine," or has even a small stumble, the stock may decline very significantly because investors stop paying such high valuations.

### Pillar 2: The Law of Large Numbers

At $4 trillion, Microsoft was larger than the GDP of every country except the United States, China, Germany, and Japan. Sustaining 15–20% growth would require the company to become larger than entire economies within a decade:

| Year | MSFT's Revenue at 20% Growth | Context |
|---|---|---|
| **2025** | $294 billion | Current |
| **2030** | $732 billion | Larger than Saudi Arabia's GDP |
| **2035** | $1.82 trillion | Larger than Canada's GDP |
| **2040** | $4.53 trillion | About equal to Germany's GDP |

### Pillar 3: Competitor Entry

The bull case centered on AI and cloud computing, but Microsoft's largest customers were becoming its largest competitors. Google (Gemini, cloud infrastructure), Amazon (custom AI silicon, expanding AWS), Apple (on-device AI reducing cloud reliance), and Meta (open-sourcing AI models) were all eroding the "moat" that justified premium valuations.

### Pillar 4: Margin Erosion

Microsoft's profit margins were near all-time highs, and the valuation assumed they would persist indefinitely. History shows margins revert to the mean as competition drives prices down, labor costs rise, reinvestment is required, and regulatory pressure increases on dominant companies. No company has maintained peak margins permanently.

### Pillar 5: Median Gravity

The S&P 500's long-term average P/E is approximately 16–18×. Virtually every dominant company gravitates toward this median: IBM (40× → ~15×), Cisco (200× → ~15×), GE (50× → removed from Dow), Intel (50× → ~15×). Microsoft at 38× was priced as if it would be an eternal exception. History offers no such exceptions.

### The Cumulative Effect

Any one of these pillars could trigger a decline of 30% or far more. The presence of all five made significant loss virtually inevitable. If a fiduciary had ERS's technology, they may have come to a very different conclusion than recommending Microsoft at a $4 trillion market cap.

# Appendix B: ERS Analytical Platform — Detailed Output for Microsoft at Three Critical Dates

This appendix reproduces the complete analytical output generated by the Equity Risk Sciences Profit Map™ and What Must Happen™ platforms for Microsoft Corporation at each of the three critical dates examined in Part VI of this report.

These proprietary tools apply the **Scientific Standard of Demonstrable Evidence** described in Part VIII — quantifying the probability and magnitude of investment loss under documented valuation assumptions rather than relying on subjective judgment or market consensus.

The output is organized chronologically:

- Section B.1 presents the analysis as of December 27, 1999
- Section B.2 presents the analysis as of November 25, 2011
- Section B.3 presents the analysis as of October 29, 2025

Each section follows an identical analytical sequence — beginning with current financials, proceeding through growth assumptions and multi-year projections, and concluding with sensitivity analyses showing projected returns under a range of future valuation scenarios.

The methodology underlying these platforms is described in Part VI.

## B.0: Three-Date Overview

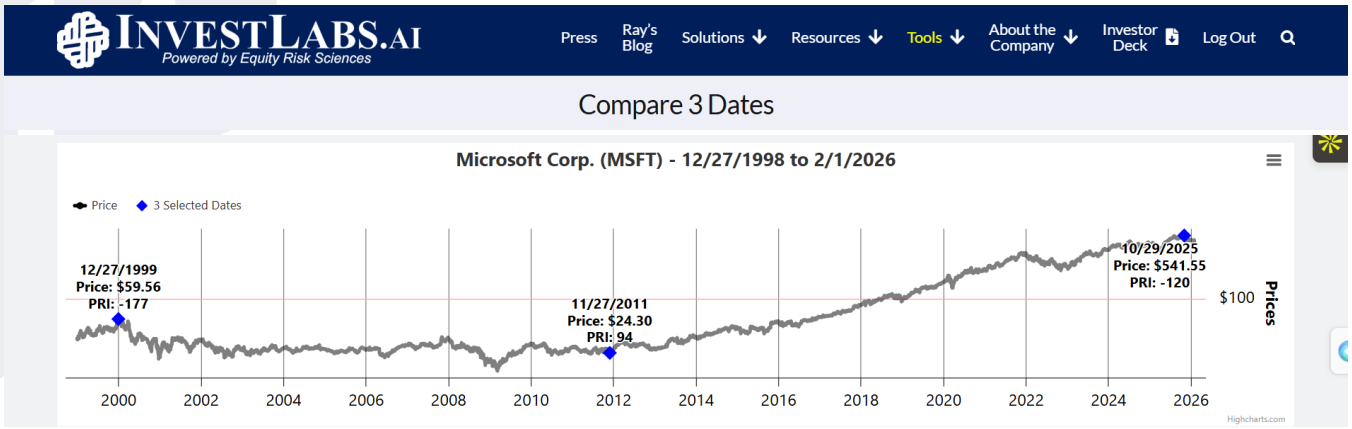
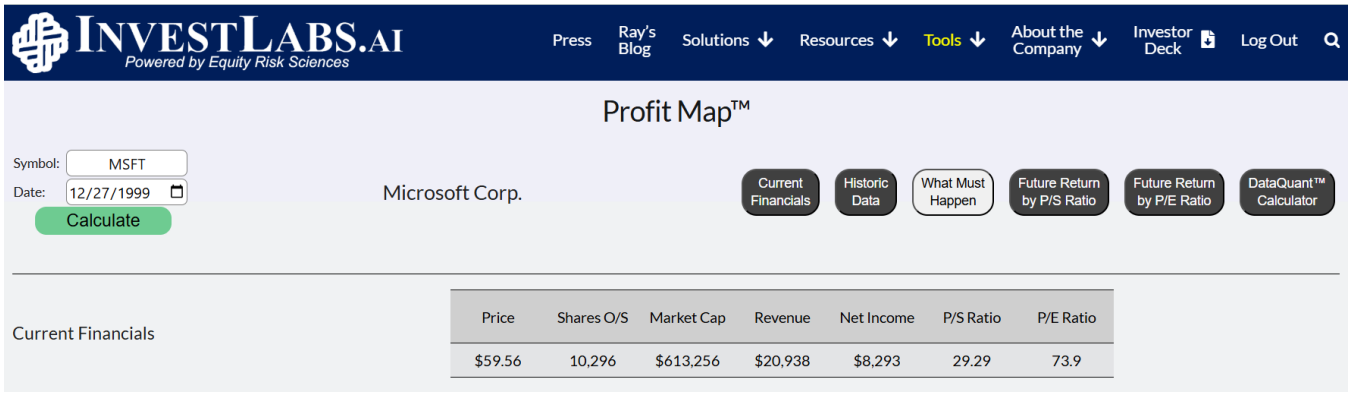



*Figure B.0: Microsoft stock price with ERS **Price Risk Indicator**™ (PRI) at three critical dates. Negative PRI values indicate elevated risk; positive values indicate favorable risk/reward.*

## B.1: December 27, 1999 — The Bubble (Figures B.1.1 through B.1.7)




| Price | Shares O/S | Market Cap | Revenue | Net Income | P/S Ratio | P/E Ratio |
|---|---|---|---|---|---|---|
| $59.56 | 10,296 | $613,256 | $20,938 | $8,293 | 29.29 | 73.9 |

*Figure B.1.1: Microsoft Current Financials as of 12/27/1999.*

Your Investment Assumptions

| Desired Annual Return (%) | Years Later | Annual Revenue Growth (%) | Future Profit Margin (%) | Annual Dilution Rate (%) | Projected Future P/S | Projected Future P/E |
|---|---|---|---|---|---|---|
| 15 | 3 | 30 | 30 | 2 | 5.88 | 22.92 |

*Figure B.1.2 — What Must Happen™: Growth and Return Assumptions*

Projections from Current Assumptions

Hide Details

| Years From Now | Price | Shares O/S | Market Cap | Revenue | Net Income | P/S Ratio | P/E Ratio |
|---|---|---|---|---|---|---|---|
| 0 | $59.56 | 10,296 | $613,256 | $20,938 | $8,293 | 29.29 | 73.9 |
| 1 | $68.49 | 10,502 | $719,349 | $27,219 | $8,166 | 26.43 | 88.1 |
| 2 | $78.77 | 10,712 | $843,797 | $35,385 | $10,616 | 23.85 | 79.5 |
| 3 | $90.58 | 10,927 | $989,774 | $46,001 | $13,800 | **21.52** | **71.7** |

*Figure B.1.3 — What Must Happen™: 3-Year Revenue and Valuation Projections*

| | | | |
|---|---|---|---|
| P/S Projection Rating | Projected P/S: 21.52 | 20-Yr Median P/S: 5.87 | Rating: F |
| P/E Projection Rating | Projected P/E: 71.72 | 20-Yr Median P/S: 22.93 | Rating: F |

*Figure B.1.4 — What Must Happen™: Projection Ratings Summary*

Regression to the 20-Year Median from Current Assumptions →

Show Details

| Model | Future P/S Ratio | Future P/E Ratio | Future Price | Gain (Loss) |
|---|---|---|---|---|
| If Future P/S Becomes the 20-Year Median P/S | 5.88 | – | $24.74 | **-58.5%** |
| If Future P/E Becomes the 20-Year Median P/E | – | 22.9 | $28.95 | **-51.4%** |

*Figure B.1.5 — What Must Happen™: Regression to 20-Year Median Valuations*

Future Returns Based on Projected P/S Ratios

| | Future P/S | Revenue Growth | Future Revenue | Future Market Cap | **Future Price** | **Gain (Loss)** |
|---|---|---|---|---|---|---|
| -50% Below Projected P/S | 2.94 | 30% | $46,001 | $135,012 | $12.36 | **-79.3%** |
| -25% Below Projected P/S | 4.40 | 30% | $46,001 | $202,518 | $18.54 | **-68.9%** |
| Projected P/S | 5.87 | 30% | $46,001 | $270,025 | $24.71 | **-58.5%** |
| 25% Above Projected P/S | 7.34 | 30% | $46,001 | $337,531 | $30.89 | **-48.1%** |
| 50% Above Projected P/S | 8.80 | 30% | $46,001 | $405,037 | $37.07 | **-37.8%** |

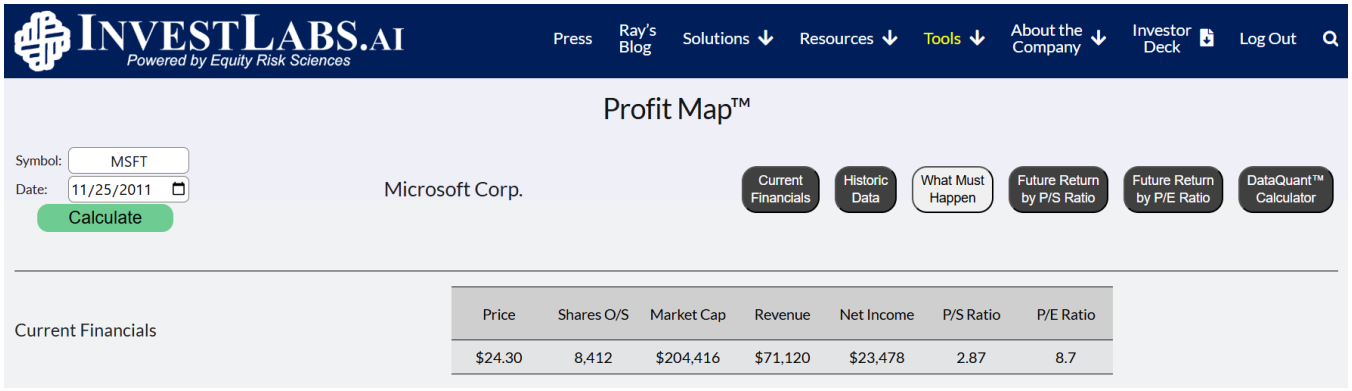
*Figure B.1.6 — What Must Happen™: Projected Returns Under P/S Scenarios*

Future Returns Based on Projected P/E Ratios

| | Future P/E | Revenue Growth | Future Revenue | Future Profit Margin | Future Net Income | Future Market Cap | **Future Price** | **Gain (Loss)** |
|---|---|---|---|---|---|---|---|---|
| -50% Below Projected P/E | 11.46 | 30% | $46,001 | 30% | $13,800 | $158,220 | $14.48 | **-75.7%** |
| -25% Below Projected P/E | 17.20 | 30% | $46,001 | 30% | $13,800 | $237,330 | $21.72 | **-63.5%** |
| Projected P/E | 22.93 | 30% | $46,001 | 30% | $13,800 | $316,439 | $28.96 | **-51.4%** |
| 25% Above Projected P/E | 28.66 | 30% | $46,001 | 30% | $13,800 | $395,549 | $36.20 | **-39.2%** |
| 50% Above Projected P/E | 34.39 | 30% | $46,001 | 30% | $13,800 | $474,659 | $43.44 | **-27.1%** |

*Figure B.1.7 — What Must Happen™: Projected Returns Under P/E Scenarios*

## B.2: November 25, 2011 — The Opportunity (Figures B.2.1 through B.2.7)




| Price | Shares O/S | Market Cap | Revenue | Net Income | P/S Ratio | P/E Ratio |
|---|---|---|---|---|---|---|
| $24.30 | 8,412 | $204,416 | $71,120 | $23,478 | 2.87 | 8.7 |

*Figure B.2.1: Microsoft Current Financials as of 11/25/2011.*


*Figure B.2.2 — What Must Happen™: Growth and Return Assumptions*

Projections from Current Assumptions

Hide Details

| Years From Now | Price | Shares O/S | Market Cap | Revenue | Net Income | P/S Ratio | P/E Ratio |
|---|---|---|---|---|---|---|---|
| 0 | $24.30 | 8,412 | $204,416 | $71,120 | $23,478 | 2.87 | 8.7 |
| 1 | $29.16 | 8,580 | $250,205 | $76,810 | $19,202 | 3.26 | 13.0 |
| 2 | $34.99 | 8,752 | $306,251 | $82,954 | $20,739 | 3.69 | 14.8 |
| 3 | $41.99 | 8,927 | $374,851 | $89,591 | $22,398 | **4.18** | **16.7** |

*Figure B.2.3 — What Must Happen™: 3-Year Revenue and Valuation Projections*

| | | | |
|---|---|---|---|
| P/S Projection Rating | Projected P/S: 4.18 | 20-Yr Median P/S: 5.87 | Rating: A |
| P/E Projection Rating | Projected P/E: 16.74 | 20-Yr Median P/S: 22.93 | Rating: A |

*Figure B.2.4 — What Must Happen™: Projection Ratings Summary*

Regression to the 20-Year Median from Current Assumptions →

Show Details

| Model | Future P/S Ratio | Future P/E Ratio | Future Price | Gain (Loss) |
|---|---|---|---|---|
| If Future P/S Becomes the 20-Year Median P/S | 5.87 | – | $58.93 | **142.5%** |
| If Future P/E Becomes the 20-Year Median P/E | – | 22.9 | $57.54 | **136.8%** |

*Figure B.2.5 — What Must Happen™: Regression to 20-Year Median Valuations.*

Future Returns Based on Projected P/S Ratios

| | Future P/S | Revenue Growth | Future Revenue | Future Market Cap | **Future Price** | **Gain (Loss)** |
|---|---|---|---|---|---|---|
| -50% Below Projected P/S | 2.94 | 8% | $89,591 | $262,949 | $29.46 | **21.2%** |
| -25% Below Projected P/S | 4.40 | 8% | $89,591 | $394,423 | $44.18 | **81.8%** |
| Projected P/S | 5.87 | 8% | $89,591 | $525,898 | $58.91 | **142.4%** |
| 25% Above Projected P/S | 7.34 | 8% | $89,591 | $657,372 | $73.64 | **203.0%** |
| 50% Above Projected P/S | 8.80 | 8% | $89,591 | $788,846 | $88.37 | **263.7%** |

*Figure B.2.6 — What Must Happen™: Projected Returns Under P/S Scenarios.*

Future Returns Based on Projected P/E Ratios

| | Future P/E | Revenue Growth | Future Revenue | Future Profit Margin | Future Net Income | Future Market Cap | **Future Price** | **Gain (Loss)** |
|---|---|---|---|---|---|---|---|---|
| -50% Below Projected P/E | 11.46 | 8% | $89,591 | 25% | $22,398 | $256,789 | $28.77 | **18.4%** |
| -25% Below Projected P/E | 17.20 | 8% | $89,591 | 25% | $22,398 | $385,184 | $43.15 | **77.6%** |
| Projected P/E | 22.93 | 8% | $89,591 | 25% | $22,398 | $513,579 | $57.53 | **136.8%** |
| 25% Above Projected P/E | 28.66 | 8% | $89,591 | 25% | $22,398 | $641,973 | $71.91 | **195.9%** |
| 50% Above Projected P/E | 34.39 | 8% | $89,591 | 25% | $22,398 | $770,368 | $86.30 | **255.1%** |

*Figure B.2.7 — What Must Happen™: Projected Returns Under P/E Scenarios.*

## B.3: October 29, 2025 — The Recurrence (Figures B.3.1 through B.3.7)


| Price | Shares O/S | Market Cap | Revenue | Net Income | P/S Ratio | P/E Ratio |
|---|---|---|---|---|---|---|
| $541.55 | 7,433 | $4,025,389 | $293,812 | $104,912 | 13.70 | 38.4 |

*Figure B.3.1: Microsoft Current Financials as of 10/29/2025.*


*Figure B.3.2 — What Must Happen™: Growth and Return Assumptions*

Projections from Current Assumptions

Hide Details

| Years From Now | Price | Shares O/S | Market Cap | Revenue | Net Income | P/S Ratio | P/E Ratio |
|---|---|---|---|---|---|---|---|
| 0 | $541.55 | 7,433 | $4,025,389 | $293,812 | $104,912 | 13.70 | 38.4 |
| 1 | $622.78 | 7,582 | $4,721,781 | $324,486 | $92,543 | 14.55 | 51.0 |
| 2 | $716.20 | 7,733 | $5,538,649 | $358,362 | $102,205 | 15.46 | 54.2 |
| 3 | $823.63 | 7,888 | $6,496,836 | $395,775 | $112,875 | **16.42** | **57.6** |

*Figure B.3.3 — What Must Happen™: 3-Year Revenue and Valuation Projections*

| | | | |
|---|---|---|---|
| P/S Projection Rating | Projected P/S: 16.42 | 20-Yr Median P/S: 5.87 | Rating: F |
| P/E Projection Rating | Projected P/E: 57.56 | 20-Yr Median P/S: 22.93 | Rating: F |

*Figure B.3.4 — What Must Happen™: Projection Ratings Summary.*

Regression to the 20-Year Median from Current Assumptions →

Show Details

| Model | Future P/S Ratio | Future P/E Ratio | Future Price | Gain (Loss) |
|---|---|---|---|---|
| If Future P/S Becomes the 20-Year Median P/S | 5.87 | – | $294.62 | **-45.6%** |
| If Future P/E Becomes the 20-Year Median P/E | – | 22.9 | $328.19 | **-39.4%** |

*Figure B.3.5 — What Must Happen™: Regression to 20-Year Median Valuations*

Future Returns Based on Projected P/S Ratios

| | Future P/S | Revenue Growth | Future Revenue | Future Market Cap | **Future Price** | **Gain (Loss)** |
|---|---|---|---|---|---|---|
| -50% Below Projected P/S | 2.94 | 10.44% | $395,775 | $1,161,601 | $147.26 | **-72.8%** |
| -25% Below Projected P/S | 4.40 | 10.44% | $395,775 | $1,742,401 | $220.89 | **-59.2%** |
| Projected P/S | 5.87 | 10.44% | $395,775 | $2,323,201 | $294.53 | **-45.6%** |
| 25% Above Projected P/S | 7.34 | 10.44% | $395,775 | $2,904,002 | $368.16 | **-32.0%** |
| 50% Above Projected P/S | 8.80 | 10.44% | $395,775 | $3,484,802 | $441.79 | **-18.4%** |

*Figure B.3.6 — What Must Happen™: Projected Returns Under P/S Scenarios*

Future Returns Based on Projected P/E Ratios

| | Future P/E | Revenue Growth | Future Revenue | Future Profit Margin | Future Net Income | Future Market Cap | **Future Price** | **Gain (Loss)** |
|---|---|---|---|---|---|---|---|---|
| -50% Below Projected P/E | 11.46 | 10.44% | $395,775 | 28.52% | $112,875 | $1,294,113 | $164.06 | **-69.7%** |
| -25% Below Projected P/E | 17.20 | 10.44% | $395,775 | 28.52% | $112,875 | $1,941,170 | $246.09 | **-54.6%** |
| Projected P/E | 22.93 | 10.44% | $395,775 | 28.52% | $112,875 | $2,588,227 | $328.12 | **-39.4%** |
| 25% Above Projected P/E | 28.66 | 10.44% | $395,775 | 28.52% | $112,875 | $3,235,283 | $410.15 | **-24.3%** |
| 50% Above Projected P/E | 34.39 | 10.44% | $395,775 | 28.52% | $112,875 | $3,882,340 | $492.19 | **-9.1%** |

*Figure B.3.7 — What Must Happen™: Projected Returns Under P/E Scenarios*

# Appendix C: Valuation Risk Across Industries — Case Studies with ERS Rating Correspondence

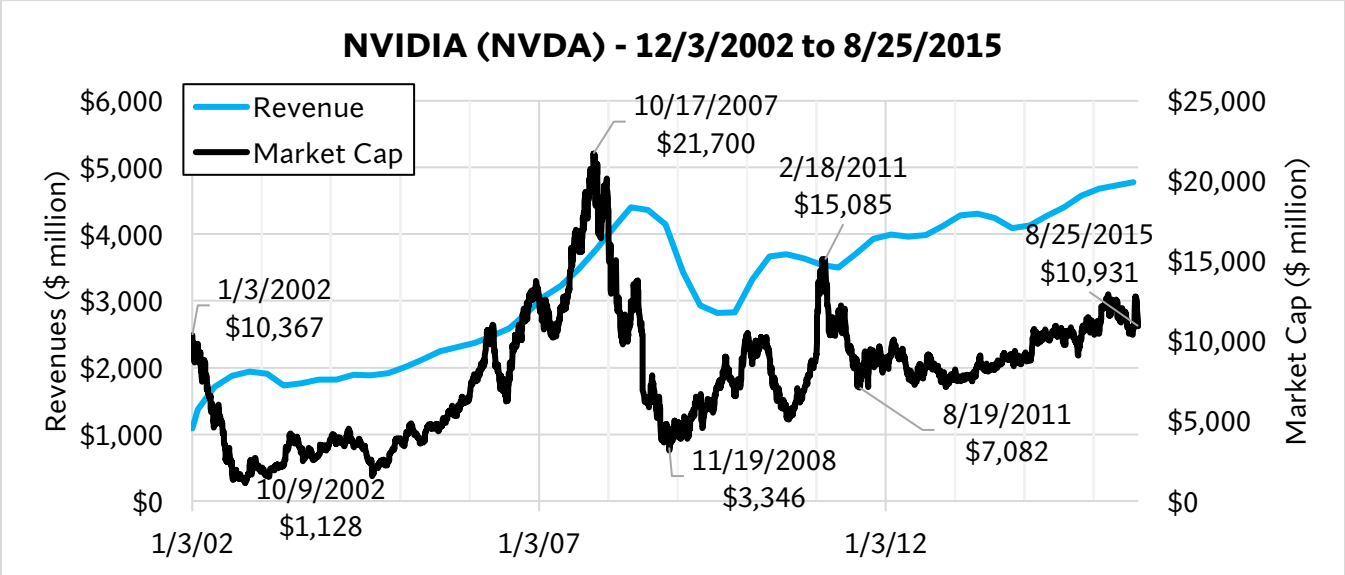
***The preceding case study demonstrated that Microsoft's losses were not caused by business failure but by valuation mathematics.*** A reasonable question follows: is Microsoft an exception, or does this pattern repeat? And do the proprietary risk ratings developed by Equity Risk Sciences correspond to the valuation conditions that produce these outcomes?

The Microsoft case study demonstrates that valuation mathematics — not business quality — determined investor returns. But a single company invites a natural objection: perhaps Microsoft was the exception. **It wasn't.** The pattern documented in the Microsoft analysis — extraordinary revenue growth, flat or negative stock returns, driven entirely by the compression of Price-to-Sales multiples and other valuation metrics — repeats across industries, eras, and company types.

The two cases that follow — NVIDIA and Walmart — were selected from the broader set of examples presented in the main report to demonstrate ERS's proprietary ratings at multiple points across each company's timeline. This allows the reader to observe not only the valuation pattern itself, but the degree to which ERS's quantitative ratings, such as the Price Risk Indicator™ (PRI), the Fiduciary Stock Navigator™ (FSN), and other ratings, tracked the underlying valuation conditions. In both cases, the ratings were negative when valuations were elevated and positive when they were compressed. The data tables accompanying each case study display these ratings alongside the valuation metrics, allowing the reader to assess the correspondence directly.

## C.1 NVIDIA (2002–2015): Revenue +339%. Stock +5%.



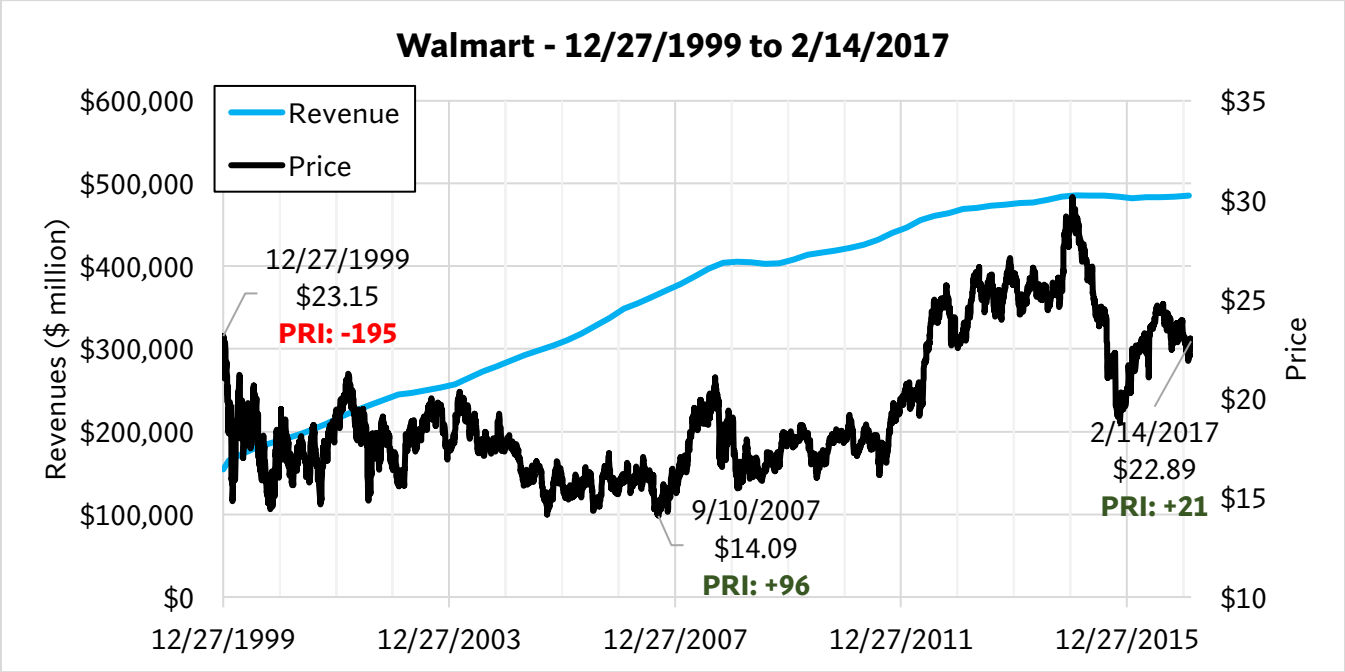

| | Market Cap | Revenue | P/S | PRI™ | V1 | 4D™ |
|---|---|---|---|---|---|---|
| 1/3/2002 | $10,367 | $1,090 | 9.51 | -138 | -202 | -149 |
| 10/9/2002 | $1,128 | $1,878 | 0.60 | 104 | 126 | 105 |
| 10/17/2007 | $21,700 | $3,479 | 6.24 | -80 | -125 | -95 |
| 11/19/2008 | $3,346 | $4,146 | 0.81 | 113 | 121 | 100 |
| 2/18/2011 | $15,085 | $3,543 | 4.26 | -172 | -50 | -104 |
| 8/19/2011 | $7,082 | $3,709 | 1.91 | -10 | 60 | -54 |
| 8/25/2015 | $10,931 | $4,780 | 2.29 | -21 | 17 | 23 |
| Change 1/3/02 to 8/25/15 | 5% | 339% | -76% | | | |

NVIDIA's case strips the argument down to its simplest form. Between 2002 and 2015, revenues surged from $1.1 billion to $4.8 billion — a 339% increase. The stock's total return over those thirteen and a half years: 5%. Not annually. Total. During that period, the stock doubled and collapsed multiple times, tracing violent swings around a flat trendline, only to finish almost exactly where it began. **Revenue grew 339%. The investor made nothing.**

The data table above displays ERS's proprietary ratings at each inflection point, and the correspondence to valuation conditions is consistent: at the January 2002 starting point, when the P/S ratio stood at 9.51x, the PRI™ registered –138 and the 4D™ registered –149, both indicating elevated risk. When the stock collapsed to a P/S of 0.60x by October 2002, the PRI reversed to +104 and the 4D to +105, indicating favorable conditions. This pattern repeated through the 2007 peak (P/S 6.24x, PRI –80) and the 2008 trough (P/S 0.81x, PRI +113). ERS's ratings tracked each swing in valuation, shifting from negative to positive as multiples compressed, and from positive to negative as multiples expanded.

NVIDIA was not a failing business. It was a growing business whose market capitalization had already priced in that growth and more. The result was over a decade of violent fluctuation around a flat trendline — the signature pattern of a stock oscillating around its net present value after starting above it. The ERS ratings did not predict these swings in any directional sense; they measured the valuation conditions that made each outcome more or less probable. The consistency of that correspondence — across seven distinct data points spanning thirteen years — suggests that quantitative risk assessment of this kind has measurable analytic value.

## C.2 Walmart (1999–2017): Revenue +214%. Stock –1%.




| Date | Price | Revenue | P/S Ratio | Metric V1 | PRI™ | FSN™ | eVal.™ |
|---|---|---|---|---|---|---|---|
| 12/27/1999 | $23.15 | $154,404 | 2.0 | -206 | -175 | -102 | -21 |
| 9/10/2007 | $14.09 | $362,904 | 0.5 | 124 | 96 | 58 | 143 |
| 2/14/2017 | $22.89 | $485,144 | 0.4 | 78 | 21 | 46 | 114 |
| Change 12/27/99 to 9/10/07 | -39% | 135% | -76% | +330 | +271 | +160 | +164 |
| Change 12/27/99 to 2/14/17 | -1% | 214% | -79% | +284 | +196 | +148 | +135 |

Walmart is the most instructive case precisely because its starting valuation was the most modest. On December 27, 1999, Walmart traded at $23.15 with revenues of $154 billion and a P/S ratio of just 2.0. That is not a bubble multiple. It is not a dot-com fantasy. By any conventional standard, 2.0× sales for the world's largest retailer looked reasonable. Yet ERS's PRI™ registered –175 and its FSN™ registered –102, both indicating materially elevated risk — a finding that might have seemed counterintuitive at the time, given the apparently modest P/S ratio.

The ratings proved consistent with subsequent outcomes. By February 2017, revenues had surged to $485 billion — a 214% increase. The stock sat at $22.89. Seventeen years of dominant business performance, and shareholders had less than they started with. **Revenue grew 214%. The investor made nothing.** By September 2007, when the P/S ratio had compressed to 0.5x, the PRI had reversed to +96 and the FSN to +58. By February 2017, with the P/S at 0.4x, both remained positive. The trajectory of the ratings mirrored the trajectory of the valuation.

The P/S ratio compressed from 2.0 to 0.4 — a 79% contraction. The most severe period came between 1999 and 2007, when the stock fell 39% while revenues climbed 135%.

Walmart matters because it eliminates the last refuge of the skeptic. If the argument were only about Cisco at 200× or Amazon at 36× sales, one could dismiss these as obvious bubbles. But Walmart at 2× sales was nobody's idea of a speculative excess — and it still produced 17 years of nothing. The threshold for "too high" is lower than most investors believe, and the correspondence between the ERS ratings and the valuation conditions held here as it did in the more extreme cases.

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