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

Even many perma-bull institutions, such as Goldman Sachs and Morgan Stanley, have cautioned about the potential for a market pullback.

As speculation and risk-appetite start to fizzle away, the worst stocks will likely be the first ones to see corrections to their prices.

Investors should stay clear of these stocks at all costs, now more than ever.

For this reason, we created the Most Dangerous Stocks Model Portfolio. This Model Portfolio highlights the worst of the worst, the stocks with poor fundamentals and excessive valuations, so you can avoid them with confidence. To illustrate the level of risk these stocks present, we are featuring a stock from this Model Portfolio.

This free stock feature provides a summary of how we pick stocks for this Model Portfolio. It is not a full Danger Zone report, but it provides 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.

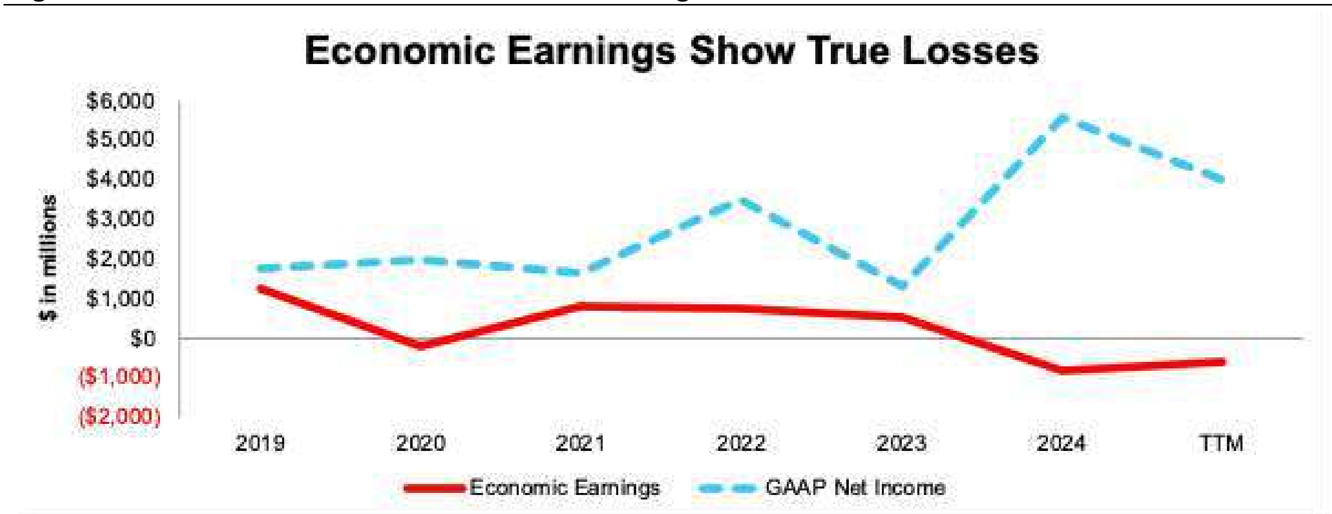
We update this Model Portfolio monthly. The latest Most Attractive and Most Dangerous stocks Model Portfolios were updated and published for clients on August 6, 2025.

Free Most Dangerous Stock Pick: Carrier Global Corp (CARR)

Carrier Global's (CARR: $66/share) net operating profit after tax (NOPAT) margin fell from 12% in 2019 to 10% in the TTM, while the company's invested capital turns fell from 1.0 to 0.7 over the same time. Falling NOPAT margins and invested capital turns drive Carrier Global's return on invested capital (ROIC) from 12% in 2019 to 7% in the TTM.

Carrier Global's economic earnings, the true cash flows of the business, fell from $1.3 billion in 2019 to -$577 million in the TTM. Meanwhile, the company's GAAP net income rose from $1.8 billion to $4.0 billion over the same time. Whenever GAAP earnings rise while economic earnings decline, investors should beware.

Figure 1: Carrier Global's Economic vs GAAP Earnings Since 2019



Sources: New Constructs, LLC and company filings

CARR Provides Poor Risk/Reward

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

To justify its current price of $66/share, Carrier Global must immediately improve its NOPAT margin to 15% (above company's record margin of 12% in 2019 and 10% in the TTM) and grow revenue by 8% compounded annually through 2034 (above five-year CAGR of 2%). In this scenario, Carrier Global's implied NOPAT would equal $7.0 billion in 2034, which is over 3x higher than the company's record NOPAT of $2.2 billion in 2019. Contact us for the math behind this reverse DCF scenario. We think these expectations look overly optimistic.

Even if Carrier Global improves its NOPAT margin to 12% (equal to company's record margin in 2019 compared to 10% in the TTM) and grows revenue 4% (above five-year CAGR of 2%) compounded annually through 2034, the stock would be worth no more than $35/share today – a 47% downside to the current stock price. Contact us for the math behind this reverse DCF scenario.

Each of these scenarios also assumes Carrier Global 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 Carrier Global's 10-K and 10-Q:

Income Statement: we made just under $6 billion in adjustments, with a net effect of removing under $4 billion in non-operating income. Professional members can see all adjustments made to the company's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made nearly $15 billion in adjustments to calculate invested capital with a net decrease of under $7 billion. One of the most notable adjustments was for other comprehensive income. Professional members can see all adjustments made to the company's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made over $13 billion in adjustments to shareholder value, with a net decrease of under $12 billion. The most notable adjustment to shareholder value was for total debt. Professional members can see all adjustments to the company's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on August 15, 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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