



# Portfolio Weighting, Free Cash Flow and Returns to the DOW

Sean Fitzmartin

Dr. Bob Dean and Dr. Trevor Collier

## Study Objectives:

- Determine if Free Cash Flow (FCFL) is a Priced in Factor in Dow 30 Returns

## Research Approach

- Develop Portfolio Weighting Model Based on FCFL
- Compare Performance of FCFL Portfolio Model to Price Weighted DOW
- Time Period: 2007-2013
- Portfolio Weighting Strategy  
Stocks with Higher FCFL  
Per Share get Higher Weights

## Hypothesis

- Portfolio of Dow Stocks Weighted by FCFL Per Share Outperform the Price Weighted Dow

## Yearly and Cumulative Returns

Year	FCFL Model	DOW	Alpha
2007	9.47%	6.43%	3.04%
2008	-28.28%	-33.84%	5.56%
2009	22.84%	18.82%	4.02%
2010	13.33%	11.02%	2.31%
2011	10.27%	5.53%	4.74%
2012	8.68%	7.26%	1.42%
2013	24.18%	26.50%	-2.32%
2014	2.08%	7.52%	-5.44%
2007-2015	66.05%	43.01%	23.04%

## Findings:

- Overall period FCFL generates alpha of 23.04%
- FCFL generates alpha 6 out of the 8 individual years
- During the recession of 2008 FCFL generated positive alpha of 5.56%
- FCFL had negative alpha in 2013 and 2014

## Conclusions:

- FCFL appears to be a priced in factor
- It also preserved capital on a relative basis in the 2008 recession