

Time to Prepare Your Portfolio for a Major Market Rotation

In March 2022, the Federal Reserve launched an aggressive campaign of 11 interest-rate hikes that raised rates further and faster than at any time in decades.

But now, the Fed is widely expected to begin cutting interest rates at some point this year. That means you must prepare your investment strategy for an entirely new environment.

Currently, Fed funds futures pricing implies the first in a series of rate cuts could come as soon as the Fed's March policy meeting. And the Fed's own summary projections indicate at least three quarter-point interest-rate reductions this year.

In other words, we're nine weeks away from a climate of falling interest rates, not rising rates. And higher-yielding investments tend to outperform in a climate of falling rates.

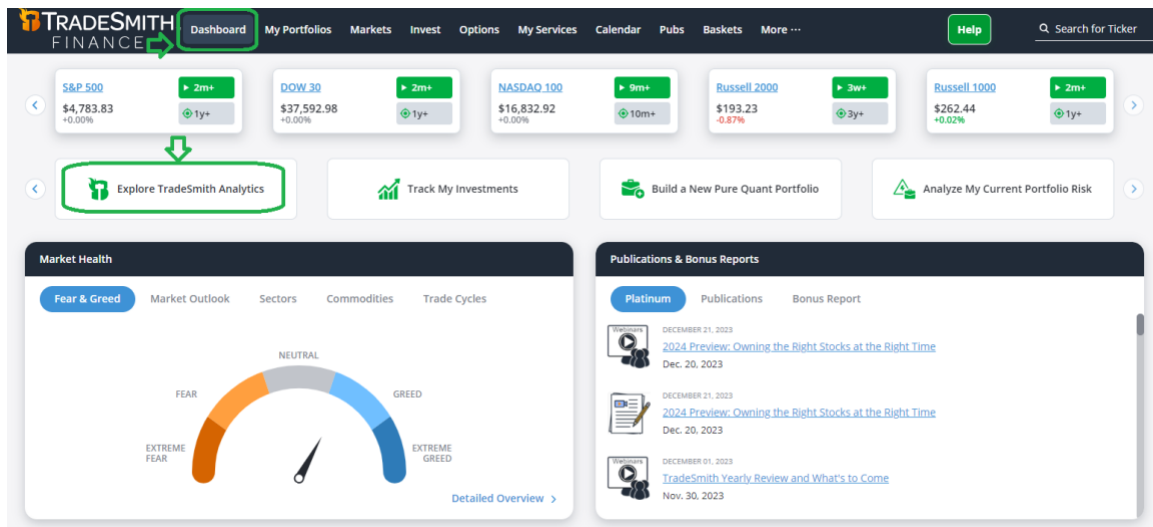
That's because investors see money market and bond rates falling, so they naturally seek to lock in higher yields while they last. This brings back into favor some of the most-neglected investments in the past two years, including preferred stocks, real estate investment trusts (REITs), and utility stocks.

But for my money the best all-weather investment — even if rates are rising but especially when they are falling — are quality stocks with high free cash flow (FCF) yields.

And *TradeSmith Finance* gives you a super-easy way to scan for those stocks at a glance. Here's how.

Check out the “Trinity Stocks” in *TradeSmith*

Be sure you're logged in to *TradeSmith Finance* on the main **Dashboard** page, then click on **Explore TradeSmith Analytics**, as shown below.



That takes you to our new **Analytics Data** page. Our software development team worked overtime to post several dynamically updated stock scans on the page.

At top you'll find the most overbought and oversold sector ETFs based on the Relative Strength Index (RSI), which I've written about previously.

Analytics Data

Market Data

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Analytics data

Most overbought Sectors (based on RSI)

Ticker	Name	RSI	Latest Close
PPH	VanEck Pharma	78.93	\$85.58
XLV	Sec SPDR Health-SBI	74.88	\$140.52
URA	GLOBAL X URANIUM	74.42	\$31.48
HACK	ETFMG Prm Cyber Sec	72.14	\$62.08
IHI	iSh US Med Dev	69.59	\$55.24
IAK	iSh US Insurance	68.74	\$102.52
XLC	COMMUN SVC SS SP...	67.15	\$73.81

Most oversold sectors (based on RSI)

Ticker	Name	RSI	Latest Close
TAN	INVESCO SOLAR	39.88	\$46.45
XES	SPDR S&P OilGas Eqp	40.27	\$79.31
JETS	US GLOBAL JETS ETF	45.14	\$18.16
BJK	VanEck Gaming ETF	45.23	\$40.66
MOO	VanEck Agribusiness	45.44	\$73.80
XLE	S&P 500 Energy	45.47	\$82.68
IBUY	Amp Online Retail	46.71	\$50.94

Scroll down and next you'll find lists of top-rated stocks according to our exclusive **Business Quality Score (BQS)** and to the right, our list of **Trinity Stocks**.

Top stocks in terms of Business Quality Score (BQS) ?				Trinity Stocks ?				
Ticker	Name	Market Cap	1Y Change %	Ticker	Name	Market Cap	BQS ▼	P/E Ratio
MED	Medifast	\$659.2M	-48.79%	UFP	UFP INDUSTRIES	\$7.2B	97.8	13.04
NVR	NVR	\$23.0B	44.40%	EMR	Emerson Electric	\$54.2B	97.8	4.14
LULU	Lululemon Athl	\$60.6B	52.13%	RS	Reliance Steel &	\$16.2B	97.7	11.81
CMG	Chipotle Mexican	\$62.4B	49.02%	KBH	KB Home	\$4.8B	97.5	7.86
POOL	Pool	\$14.8B	10.73%	APAM	Artis Part Ass-A	\$2.9B	97.4	12.73
WSM	Williams-Sonoma	\$13.1B	62.92%	PXD	Pioneer Natural	\$52.3B	97.3	10.67
DECK	DECKERS OUTD...	\$18.2B	67.89%	AMG	Affiliated Manag	\$5.0B	97.3	5.49
FTNT	Fortinet	\$47.9B	22.77%	MPC	Marathon Petro	\$59.8B	97.0	5.89
JBT	John Bean Tech	\$3.0B	-7.41%	CEIX	CONSOL Energy	\$3.0B	97.0	4.79
SMLR	SEMLER SCIENTIFI	\$308.5M	15.78%	LNG	Cheniere Energy	\$39.3B	96.3	3.27

The Trinity scan uncovers stocks with three key attributes that are proven to produce investment success.

1. High-quality businesses
2. Trading for a reasonable price
3. In a confirmed uptrend

Quality, value, and a bullish trend. Those are three aces for stock investors.

Drill Down Once More for the Best Cash Flow

Last but not least, scroll down further to find our proprietary list of high **Free Cash Flow** yield stocks.

To calculate this powerful metric, we simply take a company's cash flow from operations and subtract capital expenses. That equals FCF.

Next, we calculate the company's enterprise value (EV), which is simply the total value of the company including stockholders' equity and debt.

Finally, we take the company's FCF over the past 12 months and divide it by EV. That's FCF yield. Here's a partial list of the highest FCF-yielding stocks, as of this morning.



Ticker	Name	Free Cash Flow Yield ▼
EG	Everest Group Ltd	▲ 26.55%
ZION	Zions Bancorp	▼ 24.74%
APA	APA	▲ 22.88%
USB	US Bancorp	▼ 22.52%
SYF	Synchrony Financ	▼ 22.23%
PFG	PRINCIPAL FINANC	▼ 22.08%
VLO	Valero Energy	▼ 21.86%
BEN	Franklin Resourc	▼ 21.41%
CTRA	Coterra Energy	▲ 21.32%
COF	Capital One Finl	▼ 20.19%

Studies have shown FCF yield is one of the very best predictors of alpha, or excess return of a stock over the market's return. And it's also an excellent measure of valuation as well. It's like the more well-known price/earnings ratio, only better.

Scroll down the list and you'll see S&P 500 stocks ranked by their FCF yield. Higher is better.

At the top of the list right now is **Everest Group (EG)**, a leading blue-chip reinsurance stock with a whopping 26.5% FCF yield. Insurance can be a lucrative business — just ask Warren Buffett.

In fact, many financial stocks made the list, but a few energy stocks are in the top 10 as well, including **Valero Energy (VLO)** and **Coterra Energy (CTRA)**.

If you scroll through the list in your *TradeSmith* account, you'll find stocks from just about every sector represented. Click on any ticker symbol for more financial and statistical details about the stocks.

Mike Burnick's Bottom Line: In a falling-interest-rate climate, high yields are king. And for my money, stocks with the highest free cash flow yields give you the best potential to outperform the market.

Good investing,

Mike Burnick

Senior Analyst, *TradeSmith*