

HQ Asset Management

Stock selection with artificial intelligence HQAM factor of the month: free cash flow April 2021

April's HQAM factor is free cash flow.

The key figure

Free cash flow is a key parameter in company valuation. It is calculated from the cash flow from operating activities minus investments in property, plant and equipment. The key figure thus quantifies the free funds available to a company. These can be used, for example, to distribute dividends, retain profits or pay interest and repayments.

The problem

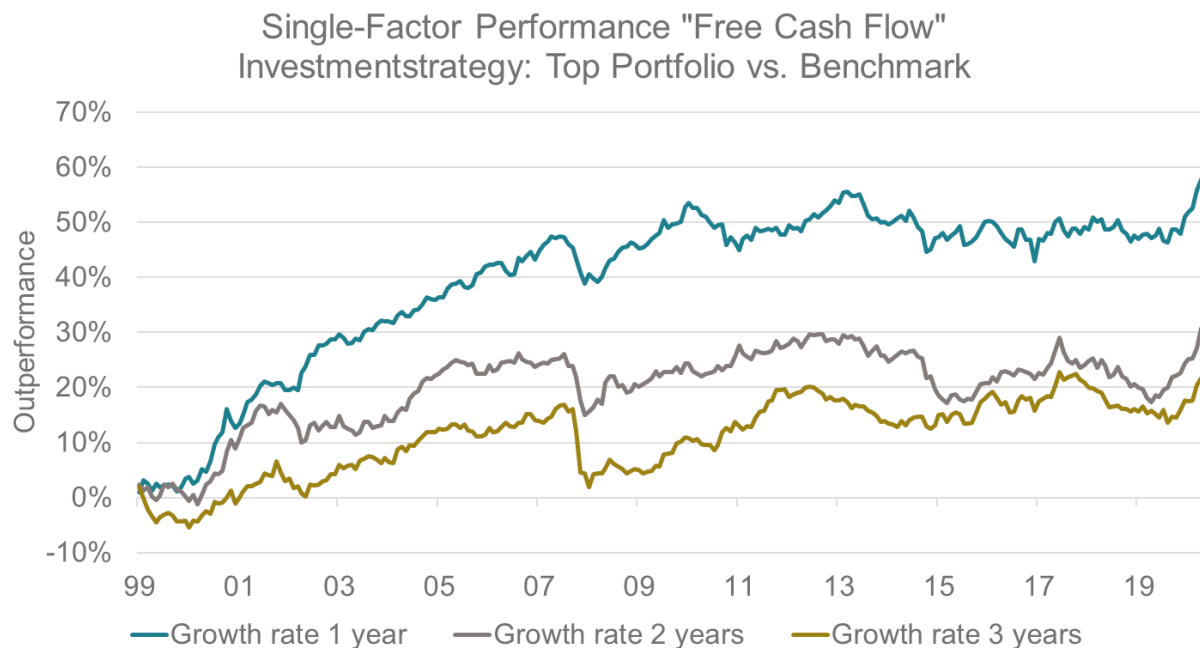
The free cash flow can be subject to strong fluctuations, for example due to investment cycles. If investors calculate the growth rates of the free cash flow over different periods of time, they must weigh up the optimal period between "current, but susceptible to fluctuations" (for example: 1 year) and "rather out of date, but not dependent on fluctuations" (for example: 3 or more years). Which should the investor choose?

The solution

- Artificial intelligence (AI) methods can solve such challenges. You consider all information for each individual factor - and also the interaction with other factors.
- The highlight: Investors don't even have to decide on one of the three growth rates. All three recently achieved a significant outperformance.
- However, if investors rely on artificial intelligence, all three strategies can even be used.
- In our European stock selection strategy, we rely on methods from the field of artificial intelligence. The factor analysis is carried out on a monthly basis. All three growth rates currently play an equally important role.

This is how the AI works

- Artificial intelligence divides companies into portfolios with potentially rising and falling prices.
- The division according to the decision rules is hierarchical - one could also speak of a decision tree.
- For each decision, the factor that fits best in the respective hierarchy is chosen.
- In this way, all factors are used - the importance of the factor determines the artificial intelligence.



Sources: HQAM, Refinitive. The analysis refers to the European equity universe (MSCI Europe excluding financials); The factor is calculated monthly based on each company's free cash flow growth rate; The top portfolio is defined as the 20% companies with the highest growth; The factor is calculated on a monthly basis, adjusted for sector effects; The calculation period runs from November 30, 1999 to March 31, 2021. The companies in the portfolios are equally weighted; The excess return is calculated against the equally weighted universe of stocks. The figures are annualized.

To the background:

It's no secret that favorites change on the stock exchange - sometimes stocks with a low P / E ratio are in demand, sometimes with high dividends, sometimes small and sometimes large caps. HQ Asset Management (HQAM) deals very intensively with such factors. As part of the research process, HQAM uses artificial intelligence to analyze around 200 factors every month and determine which have been able to best explain the price development of the individual stocks recently - and should continue to do so.

The research team analyzes one of these factors under the heading "HQAM factor of the month". The experts at HQ Asset Management explain the background and context and point out special features that can support investors in putting their portfolio together.

To HQAM:

HQAM is one of the financial service providers of the Harald Quandt family. The company offers a clear focus on quantitative asset management for institutional and semi-institutional investors. As the next generation asset manager, HQAM relies on the use of modern technology, alternative data and methods of artificial intelligence when making investment decisions.

Please note:

Investing assets in the capital markets is associated with risks and in extreme cases can lead to the loss of all of the capital invested. Past performance is not an indicator of future performance. Forecasts are also not reliable in terms of future performance. The representation is not investment, legal and / or tax advice. All content on our website is for informational purposes only.



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