

Find winners with free-cash-flow yield

Free cash flow (FCF) is arguably the best gauge of a company's growth prospects and financial flexibility. FCF equals cash provided by operations (from the statement of cash flows) minus capital spending and dividends.

Among the more than 100 variables used in our Quadrix® stock-rating system, few are more effective than the price/free-cash-flow ratio. Alternatively, you can flip the P/FCF ratio on its head and look at FCF/P, the free-cash-flow yield. The higher the free-cash-flow yield, the more cash a company generates relative to its stock price.

At the end of the day, you want to own companies that generate plenty of free cash flow.