

## Abstract

This thesis examined the predictive power of different strategies for future stock returns. The analysis was conducted using a data sample of 3976 firms traded on the New York Stock Exchange (NYSE) and NASDAQ during a 29 year time horizon, from July 1986 to June 2015. Predictive powers of different strategies were also tested during three sub-periods and during bull and bear markets using both long-only and long/short portfolios to check whether the predictive power is robust. It was found that the FCF yield is a better indicator of future stock returns than the gross profitability. The difference between average monthly returns was significant during all tested time periods and market situations using both long-only and long/short portfolios. The newly introduced FCF profitable value strategy proved to be a better predictor of future stock returns than the profitable value strategy. The FCF profitable value strategy presents also an improvement over the FCF yield strategy. It was found that the FCF profitable value has a better predictive power for future stock returns than the FCF yield at least during some time periods or market situations.

<b>JEL Classification</b>	G11, G14, G15, G17
<b>Keywords</b>	value investing, quality investing, gross profitability, free cash flow yield
<b>Author's e-mail</b>	<a href="mailto:dopita.j@gmail.com">dopita.j@gmail.com</a>
<b>Supervisor's e-mail</b>	<a href="mailto:Iuliia.Brushko@cerge-ei.cz">Iuliia.Brushko@cerge-ei.cz</a>