

TrimTabs Free Cash Flow Investment Research

Inverted Yield Curve Analysis

A Note From Our Research Desk | May 2019

Free Cash Flow Investing



TRIMTABS
Asset Management

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A key indicator of previous economic recessions recently flashed a warning sign, as the slope of the U.S. Treasury security yield curve between 3-month and 10-year rates recently inverted for the second time this year, after the short inversion event in late March. As of May 23rd, the yield on the shorter maturity bill rose above 10-year yields to trade at 2.35% while 10-year rates slipped to 2.31%.

While the yield curve spread has been a past predictor of economic recessions, the stock market's reaction might not be what you would think during the inversion. In 2006-2007, companies in the S&P 1500 Index had an average gain of 25.32% during the yield curve inversion.

At TrimTabs, we focus on interpreting a company's Free Cash Flow condition to examine its fundamental strength. In our previous research and White Papers, we studied the relationship between our proprietary Free Cash Flow Strength indicator and stock returns across the global equity market. Here we studied the performance of US companies with high or low Free Cash Flow strength during the last yield curve inversion period.

Our study suggests that for investors who are concerned about an inverted yield curve, a focus on Free Cash Flow might help differentiate investment opportunities. During the last yield curve inversion period from July 31st, 2006 to May 30th 2007, the average total return of S&P 1500 companies with high Free Cash Flow Strength was 27.91%, outperforming the average S&P 1500 companies by 2.59% and, more importantly, outperforming companies with low Free Cash Flow Strength exposure by 4.98%.

Our mission is to provide investors with Free Cash Flow-based investment products and services to contribute to their long-term investment success.

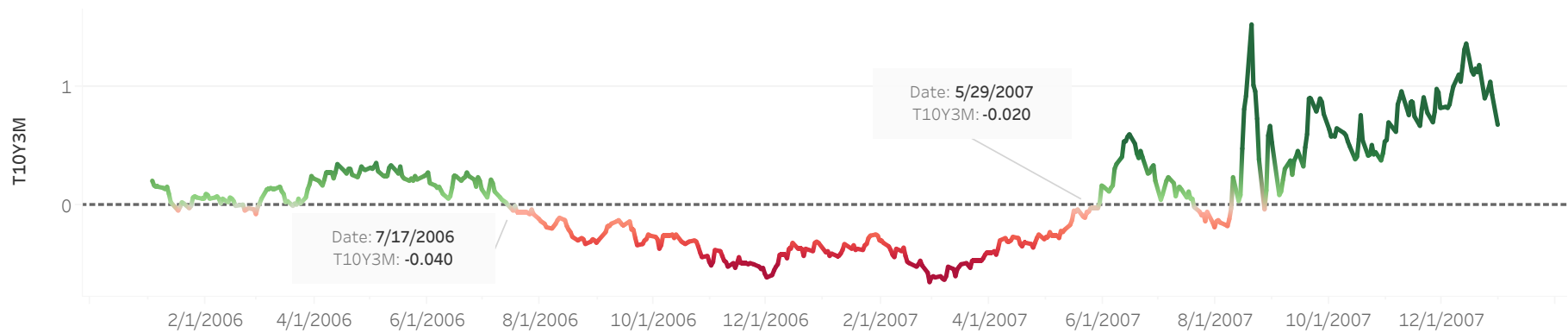
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What happens if you invested in companies with high Free Cash Flow strength during the last yield curve inversion?



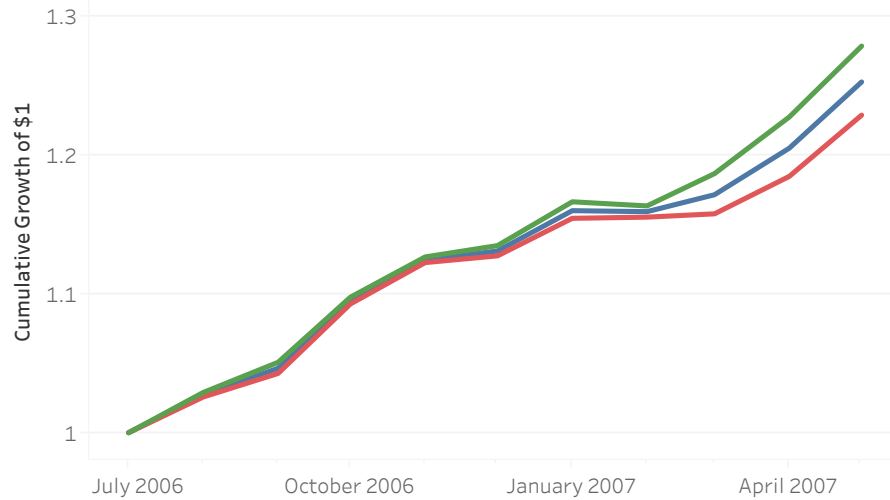
10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity (T10Y3M)

07/31/2006 to 05/31/2007



Cumulative Growth of \$1 - High/Low FCF Strength Portfolios

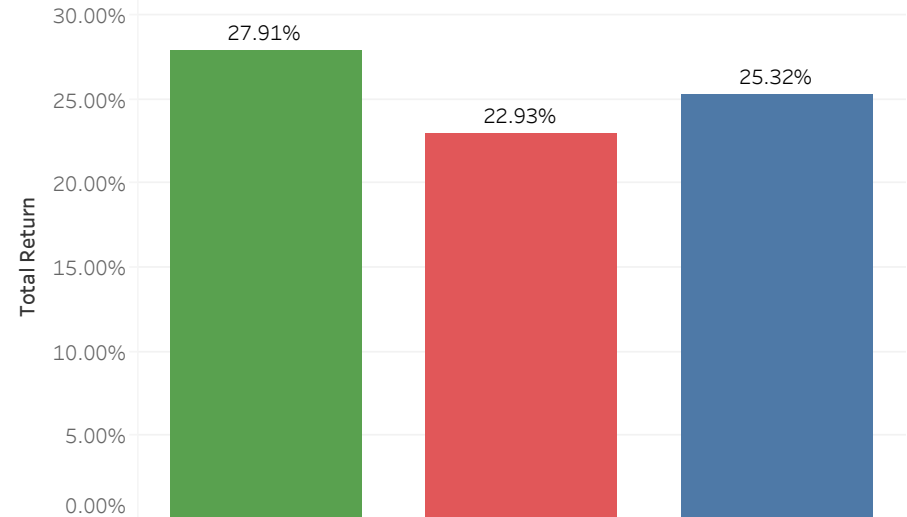
S&P 1500 Universe, 07/31/2006 to 05/31/2007



■ High Free Cash Flow Strength
 ■ Low Free Cash Flow Strength
 ■ Average S&P 1500 Companies

Average Stock Return - High/Low Free Cash Flow Strength Portfolios

S&P 1500 Universe, 07/31/2006 to 05/31/2007



Source: Federal Reserve Bank of St. Louis, TrimTabs Asset Management, FactSet, S&P Global

Free Cash Flow Strength is a proprietary indicator developed by TrimTabs Asset Management to measure a company's free cash flow conditions.

The hypothetical portfolios are constructed in an equally weighted, monthly rebalanced approach. They do not represent actual fund or portfolio performance.

Definitions, Risks and Disclosures

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 18006170004. Read it carefully before investing.

Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

Click [here](#) for TTAC Holdings and TTAI Holdings

Investing involves risk. Principal loss is possible. There is no guarantee that TTAC will achieve its investment objective. Investing involves risk, including the possible loss of principal. Because the Fund is an ETF (rather than a mutual fund), shares are bought and sold at market price (not NAV), may trade at a discount or premium to NAV, and are not individually redeemable. Owners of the shares may acquire those shares from the Fund and tender those shares for redemption to the Fund in Creation Unit aggregations only, consisting of 25,000 shares. Brokerage commissions will reduce returns. Investments in the Fund include risks associated with small and midcap securities, which involve limited liquidity and greater volatility than large-cap securities. Past performance does not guarantee future results. To obtain fund performance call 212-217-2514 or visit www.trimtabsfunds.com.

The TrimTabs All Cap US Free-Cash-Flow ETF is distributed by Quasar Distributors, LLC. Free Cash Flow (FCF) represents the cash that a company is able to generate after accounting for capital expenditures.

Standard deviation is a measure that is used to quantify the amount of variation or dispersion of a set of data values.