Alphabets27 Portfolio: Target Allocations and Strategy (Aug 9, 2025)

Overview and Objectives

The Alphabets27 portfolio is a new strategy focused on investing in “cash printing” businesses – companies and real estate holdings that generate robust free cash flow (FCF). The goal is to deliver strong “aloha income” (steady cash yield) and alpha (market outperformance) by owning the best-of-the-best FCF titans globally. A key objective is to launch with $250 million in assets (with scalable models at $1M, $10M, $25M, and $250M) to meet institutional thresholds. Large allocators like the Abu Dhabi Investment Authority (ADIA) typically require external managers to already oversee substantial AUM (often $250M+) before committing capital . By structuring the portfolio at an institutional scale from the start, we enhance credibility and attract investors who only consider managers above a minimum size . The portfolio will be liquid and quantitative, focusing on public equities (and REITs) that are leaders in free cash flow generation and growth. Below we detail the strategy’s focus on free cash flow, the selection of FCF titans across 27 key categories, and the target allocations for portfolio sizes of $1M, $10M, $25M, and $250M.

Focus on Free Cash Flow and Valuation

Free cash flow is the core metric guiding Alphabets27’s investments. Free cash flow represents the cash a business generates after necessary expenses and capital investment – the cash that can be returned to investors or reinvested for growth. Legendary investor Warren Buffett noted that common metrics like earnings or book value are only meaningful as “clues to the amount and timing of cash flows” a business produces . In other words, cash flow is king. Studies confirm this emphasis: historically, stocks selected for high free cash flow yield (FCF/Enterprise Value) delivered higher returns with fewer down periods than those selected by other valuation metrics . Free cash flow yield essentially shows how much cash return a company generates relative to its valuation – a higher FCF yield means an investor is getting more cash flow per dollar invested, which often indicates an undervalued stock. In fact, a research analysis from

Pacer found that since 1991, a portfolio of stocks ranked by highest FCF yield produced the best returns with the least volatility compared to portfolios ranked by P/E, P/B, or other metrics . This underpins our strategy of weighting by valuation: we allocate more capital to companies with superior free cash flow yields and attractive pricing, and comparatively less to those with rich valuations.

High FCF + growth at a reasonable price (GARP): Beyond current cash generation, Alphabets27 prioritizes growth of free cash flow. We seek companies not only throwing off cash now, but also expanding their absolute FCF year-over-year. This future growth in cash flow is a leading indicator of a company's ability to compound value. The portfolio's philosophy is akin to "growth at a reasonable price", where free cash flow metrics define what's "reasonable." For example, the VictoryShares Free Cash Flow ETF uses a similar approach, targeting "high-quality companies, trading at a discount with favorable growth prospects", and specifically focuses on firms with high FCF yields and strong expected FCF growth rates . Alphabets27 adopts this dual criterion: strong free cash flow and strong growth, at the right price. We incorporate both trailing and forward-looking FCF measures (not just past cash flow but expected future FCF, as VictoryShares does) to ensure we capture up-and-coming cash generators, not just yesterday's winners.

Avoiding FCF "value traps" and ex-growth giants: By basing weightings on valuation and future cash flow growth, the portfolio steers away from companies that might be statistically "cheap" but have stagnant or declining cash flows (e.g. a legacy telecom or a fading tech hardware firm with eroding market share). We also underweight or exclude even well-known FCF-rich companies if their growth is slowing or competition is eroding their moat. The goal is to own more of what's truly cheap (high FCF yield with strong prospects) and own less of what's expensive (low FCF yield) or fundamentally slowing down. For instance, a dominant company that has become pricey relative to its future cash flow (perhaps due to market hype or its growth maturing) would be a smaller portion of the portfolio, even if it's a household name. By contrast, a slightly lesser-known company with equally strong cash flows but trading at a discount would be overweighted. This dynamic weighting based on FCF valuation ensures the portfolio tilts toward undervalued cash-flow "compounders", aiming to deliver both high current income and long-term capital growth.

To illustrate, as of August 2025, some of the market's top free-cash-flow generators can be found across various sectors, often trading at attractive valuations. For example, companies like UnitedHealth Group, Salesforce, and Walt Disney have been noted as top performers in their industries while also sporting high free cash flow yields . Such companies combine scale and cash-generation ability with reasonable pricing due to recent market dislocations or undervaluation. By focusing on these kinds of opportunities, Alphabets27 seeks to capture quality cash flows at bargain prices. This approach is supported by empirical evidence that high FCF yield companies tend to outperform – they offer a built-in margin of safety (cash returns) and often fewer earnings surprises . In summary, the portfolio's engine for returns is free cash flow: we select companies that produce gushing cash, we ensure we don't overpay for those cash flows (weighting more heavily when FCF yield is high), and we emphasize those that can grow their cash output over time (so our "cash cows" also become bigger cash cows in the future).

Portfolio Composition: 27 FCF Titans Across Key Categories

Alphabets27 will hold roughly 27 positions, each representing a category of economic leadership where a company (or asset) excels in free cash flow generation. The number "27" reflects a broad diversification across industries and themes – essentially an A-to-Z coverage of the world's major cash-generating arenas. Within each category, we pick "the best of the best" – the leading FCF titan that not only dominates its space but is also poised to continue growing its cash flow. By owning one major FCF winner in each category, we achieve a portfolio that's both diversified and concentrated in only top-tier names. Below are the envisioned categories and examples of the kinds of holdings in each (for illustration):

- Technology – Software/Cloud Services: Example: Microsoft or Salesforce.com. These companies enjoy high-margin recurring revenue (e.g. cloud subscriptions, enterprise software) translating to enormous free cash flow. Salesforce, for instance, has become a cash flow machine in enterprise software, and was highlighted as a top FCF-yielding performer in tech . Such software firms have strong growth and operating cash flow that scales with their subscription models.

- Technology – Internet/Online Advertising: Example: Alphabet (Google). Google's core search and advertising business is famously profitable, producing tens of billions in FCF annually. It's a "cash printer" due to global ad demand and limited marginal costs. While a giant, its valuation (FCF yield) will determine weighting – if trading at a reasonable ~5% FCF yield it would be a significant position; if expensive, a smaller one.

- Consumer Electronics & Hardware: Example: Apple Inc. Apple is one of the world's largest cash generators (over $90B in annual free cash flow) thanks to its iPhone ecosystem and services. However, as a very mature company with somewhat moderated growth and a modest ~3% FCF yield , we would include Apple but potentially at a lower weight relative to higher-yielding picks. We want exposure to Apple's reliable cash flow, but its rich valuation and slower growth mean it's not overweighted.

- Semiconductors & Equipment: Example: Taiwan Semiconductor (TSMC) or ASML Holding. These firms are linchpins of the chip industry with near-monopoly status in their niches (TSMC in advanced chip fabrication; ASML in EUV lithography equipment). They convert a significant portion of revenue to free cash flow. ASML, for instance, has been noted as a top performer with high FCF in its industry . These companies benefit from secular demand (AI, 5G, etc.) ensuring growing cash flows, though we monitor valuation cycles (they can get pricey in tech booms).

- Payments & Financial Networks: Example: Visa and/or Mastercard. These are quintessential cash cows – they take a small fee from an enormous volume of global transactions, resulting in extremely high profit margins and free cash flow. Both companies consistently grow FCF at double-digit rates as cashless payments expand. Their valuation is somewhat high (investors prize their quality), so we'd include at least one and weight it appropriately if the FCF yield is still attractive (e.g. if Visa's FCF yield is say 3%, we might hold a moderate position, but if a correction lifts it to 5%+ yield, we'd aggressively add).

- Health Care – Insurance & Services: Example: UnitedHealth Group. UNH is a dominant health insurer and benefits manager that generates massive cash flows from premiums and healthcare services. It was recently flagged as the top high-FCF-yield performer in healthcare – a testament to its strong cash generation and reasonable valuation. The company's free cash flow is growing as healthcare spending rises and UNH expands into care delivery. We view UNH (and similar managed care firms) as "growth cash cows" and would make this a core holding.

- Health Care – Pharmaceuticals: Example: Johnson & Johnson, Pfizer, or AbbVie. Big Pharma companies produce substantial free cash flows from their drug portfolios, often with FCF yields in the mid-to-high single digits due to market pessimism around patent cliffs. For instance, AbbVie has a high FCF yield and was cited as a top performer in its industry after investors grew wary of its Humira patent expiry – this kind of situation can create an undervalued cash generator. We would include a leading pharma with a diversified pipeline and the ability to refresh products (J&J also has medical devices and consumer health segments), focusing on those trading at a discount.

- Health Care – Biotech: Example: Gilead Sciences. Select biotech firms with established franchises can be cash cows – Gilead, for example, generates large FCF from its HIV therapies. It was listed among top high-FCF stocks . If included, we'd choose one with stable revenue (less speculative R&D) and a low valuation, recognizing growth may be slower but cash yields high. This category would be a smaller allocation due to higher risk, unless the company is clearly undervalued.

- Industrials – Defense & Aerospace: Example: Lockheed Martin or General Dynamics. Defense contractors have reliable cash flows from long-term government contracts and decades-long defense programs. General Dynamics was noted as a company with huge free cash flow . These firms convert a large portion of sales to FCF and return much of it via dividends and buybacks. Growth is steady (linked to defense budgets), not explosive, but consistency is high. We'd include a top defense name, especially if valuation (e.g. P/FCF) is modest due to any temporary sentiment issues.

- Industrials – Transportation & Logistics: Example: United Parcel Service (UPS) or Union Pacific (railroad). UPS generates hefty free cash flows from its global package network (UPS was highlighted as a high-FCF generator). Railroads like Union Pacific or CSX have wide moats and strong free cash flow margins as well . These are stable, cash-rich businesses benefiting from e-commerce (UPS) or irreplaceable infrastructure (rails). We would include one major transporter; for instance, if UPS's valuation is attractive (recent labor deal headwinds might make it cheaper), we'd overweight it for its ~10%+ FCF yield on enterprise value.

- Industrials – Capital Goods: Example: Caterpillar or 3M. These manufacturing conglomerates can be cash cows, though cyclical. 3M has historically high FCF relative to its size , but also faces slowing growth and one-off liabilities (which we'd factor in and perhaps avoid if the FCF is at risk). We would be selective – possibly including a capital goods firm only if it's clearly undervalued and still growing segments (e.g. Caterpillar if global infrastructure demand is boosting its cash flow and the stock is at a reasonable multiple). This category might have smaller weight or be omitted if no candidate meets our "growing FCF at good value" test.

- Consumer Staples – Food & Beverage: Example: Coca-Cola, PepsiCo, or Nestlé (international). These companies are classic cash generators – global brands with pricing power yielding steady cash year after year. They tend to trade at moderate valuations (not cheap, not bubble-priced). We would include one major staple if the yield is fair (Coke's FCF yield is typically ~4-5%). While growth is slower in staples, the reliability of cash flows justifies a portion of the portfolio for stability.

- Consumer Staples – Household Products: Example: Procter & Gamble or Unilever. Similar to above, they produce consistent cash from everyday necessities. If their valuation is cheaper relative to cash flow than other staples (sometimes macro factors create an entry), we might favor one. This category again is for stability and income (dividends), likely a smaller weight focused on yield.

- Consumer Discretionary – Retail & E-commerce: Example: Amazon.com (for its AWS + retail cash flow mix), Home Depot, or Costco. Retail can be tougher (lower margins), but certain giants generate high absolute cash. Amazon now produces significant free cash flow from AWS cloud and its more mature retail/logistics infrastructure, though it reinvests a lot – we'd evaluate its FCF yield ex-investments. Home Depot and Costco have more straightforward strong cash generation (Costco's membership model yields reliable cash). We might include one top retailer if undervalued (e.g. if a stock dip raises its FCF yield). This is opportunistic, since competition in retail is fierce – only the most dominant with proven cash generation (and some moat like Costco's membership or Home Depot's scale) would qualify.

- Communications/Media: Example: Walt Disney Co. Disney is a unique franchise with diversified cash streams (theme parks, film studios, media networks, streaming). It has encountered challenges (streaming losses, etc.) that have suppressed its stock valuation, but its core businesses are free cash flow machines (parks & resorts in particular). Disney was identified among top high-FCF-yielding companies in its industry , reflecting its strong cash generation relative to its price after a stock drop. We would include Disney or a similar media leader, especially if the stock is cheap relative to normalized FCF. The growth in FCF could come from a turnaround in streaming economics or simply post-pandemic park recovery, making it an attractive value play on cash flow growth.

- Telecommunications: Example: Verizon or AT&T (as an optional minor category). Telcos generate enormous operating cash flow but also require heavy capital expenditures, leaving moderate free cash flow. They often have high dividend yields (cash returns), but growth is minimal and competition is intense (5G rollout costs, pricing wars). Because of slowing growth and eroding market share issues, telcos epitomize the kind of "slower FCF titans" we underweight. We might include one at a token weight if the FCF yield is extremely high (e.g. >10%) to collect income, but generally this category is not a "best of the best" for FCF growth. Thus, if included at all, it would be a small allocation purely for dividend yield, and only if undervalued.

- Energy – Oil & Gas Majors: Example: ExxonMobil or Chevron. In recent years, the oil supermajors have become gushing cash generators thanks to disciplined spending and relatively strong oil prices. The "Big Five" oil companies collectively generated an astonishing $613 billion in operating cash flow between 2021 and 3Q 2023 , illustrating how massive their cash generation can be in a favorable commodity environment. We will include at least one major integrated oil company, especially if oil price expectations and valuations make them attractive (often these stocks trade at low multiples during times of pessimism about oil's future). Exxon, for instance, had free cash flow over $34B in 2024 and has been returning cash aggressively to shareholders. We view these as somewhat cyclical FCF plays – we'll overweight them when they are undervalued (e.g. during an oil downturn, when FCF yield might skyrocket) and trim when they become expensive or when cycle peaks.

- Energy – Midstream & Infrastructure: Example: Enbridge, Kinder Morgan, or pipeline/terminal operators. These firms operate energy infrastructure (pipelines, storage) with stable fee-based cash flows, often structured as high-dividend companies. They tend to have very high FCF yields (and dividend yields) but low growth. If included, it would be for income and diversification – likely a modest position in one solid, undervalued pipeline operator to harvest a ~8%+ cash yield. We would ensure any such pick has manageable debt and is not threatened by volume declines (i.e.

focus on companies with essential, long-term contracted assets).

- Utilities & Infrastructure: Example: NextEra Energy (for utilities with growth in renewables) or Brookfield Infrastructure Partners. Utilities provide steady cash flows but slow growth; however, some (like NextEra) combine stability with growth via renewables. Infrastructure operators (like Brookfield) invest in toll roads, ports, etc., for cash yield. These would be small complementary pieces – included only if a particular stock offers an unusually good value (sometimes rising rates make utilities temporarily cheap, boosting their FCF yields). Otherwise, this category isn't a priority for "best FCF titan" since many utilities lack high growth or trade at rich valuations for safety.

- Real Estate – Commercial REITs: Example: Prologis (industrial logistics warehouses), Simon Property Group (retail malls), or Equinix (data centers). Real estate investment trusts (REITs) are essentially asset-backed cash flow streams, passing through rents as dividends. We favor REITs in "amazing markets" – prime locations or sectors with high demand – akin to Blackstone's strategy of focusing on high-quality assets in gateway cities. For instance, Prologis owns warehouses in key logistic hubs and has strong free cash flow (funds from operations) growth due to e-commerce demand. The Core+ real estate approach that Blackstone employs (stable, income-producing assets with moderate leverage) is instructive: they focus on logistics, residential and office in top cities, using modest leverage to enhance returns . In our liquid portfolio, we'd mirror this by selecting a top-tier REIT and allowing moderate leverage at the REIT level to work for us (we won't leverage the portfolio directly, but the REIT's debt effectively does so). We will include 1–2 major REITs with strong FCF (or FFO) yields, focusing on sectors like industrial, residential or data centers in global gateway markets (where demand and pricing power are highest).

- Real Estate – Asset Managers/Alternatives: Example: Blackstone Inc. (BX) or Brookfield Asset Management (BAM). These firms are not REITs but rather alternative asset managers that own and manage real estate (and other assets) via funds. They earn management fees and invest their own balance sheet in deals, resulting in substantial free cash flow and dividends. Blackstone, for instance, has become one of the world's largest real estate owners (indirectly through funds) and emphasizes investing thematically in high-growth markets . Blackstone's model of using scale, expertise, and prudent leverage to turn stable assets into high returns is something we want exposure to. The company distributes a large share of its cash earnings to shareholders (with a variable dividend tied to cash flow) . We would include an asset manager like Blackstone as it gives us a slice of many real assets' cash flows and has a proven record of FCF growth through market cycles. This holding also aligns with attracting LPs like ADIA, since ADIA invests in such managers; holding BX stock shows we align with the "cash-printing real estate and private equity" theme.

- Financials – Banks & Lenders: Example: (Possibly none or a very selective pick). Banks generate cash in the form of interest spreads, but their free cash flow is less straightforward (accounting and regulatory capital needs often mask true "free" cash). Large banks like JPMorgan produce huge operating cash flow and profits, but we must be careful with their cyclicality and capital requirements. Given our emphasis on clear FCF, we may not include a traditional bank in the 27 categories (or if we do, it would be a best-in-class bank or financial services firm with stable fee income – e.g. S&P Global or CME Group could qualify as financial sector picks with high free cash margins). For now, we assume quantitative financials (like credit card networks, asset managers, insurers) cover finance exposure. If a bank stock becomes very undervalued relative to its cash earnings (as happened in some crises), we might opportunistically include one. Otherwise, this category is minimal in Alphabets27.

- Conglomerates/Berkshire Hathaway: Example: Berkshire Hathaway itself can be viewed as a "category" – it spans insurance, railroads, energy, consumer, and more, and throws off massive free cash flow from its subsidiaries. Berkshire continually reinvests that cash into new opportunities (it's an "alpha machine" in that sense). While Berkshire's stock is usually fairly valued, if it trades at a discount to intrinsic value, it's an excellent way to gain exposure to many FCF streams at once (and Buffett's capital allocation). We might include Berkshire as one position if it fits our valuation discipline (currently it often trades near book value plus a premium for its cash generation – not a bargain but a solid hold). Given Berkshire's diversification, we might use it to cover multiple sectors with one position, especially in smaller portfolios where we can't buy all names individually.

(The above list covers a broad array of ~24 categories; additional niches could bring us to 27, such as Tech – Social Media (e.g. Meta Platforms), Materials/Mining (if we find a stable cash cow miner), Emerging Markets Tech (e.g. a dominant Asian internet company), etc. The guiding idea is to have 27 non-overlapping cash flow sources, each the strongest in its class. We will adjust the exact categories as opportunities dictate, ensuring we always hold roughly 27 high-FCF assets when fully scaled.)

Importantly, each category inclusion depends on valuation at the time of investment. We continuously compare the FCF yield and growth outlook of these companies. If a company's stock becomes overvalued relative to its cash flow (dropping its FCF yield and forward return), we trim or replace it with a more attractive candidate (perhaps a competitor or a different sector where value has emerged). Conversely, if a sector downturn makes a great business cheap, we can initiate or increase a position. This dynamic approach keeps the portfolio filled with "FCF winners" that are also "on sale." As a result, at any given time, the portfolio might overweight certain sectors where many names are undervalued (e.g. if tech undergoes a correction, we could have several tech-oriented categories all filled and weighted up) and underweight others where few bargains exist (e.g. if utilities are expensive and slow-growing, we might skip that category entirely until a bargain arises). Despite this valuation-driven flexibility, the end portfolio will still hold a diverse set of cash-flowing businesses across industries to maintain resilience.

To underscore the quality of holdings, consider some examples of companies across sectors that marry high free cash flow with strong fundamentals: Broadcom (semiconductors), UPS (logistics), Bristol-Myers Squibb (pharma), Gilead Sciences (biotech), CSX (railroads), 3M (industrials), General Dynamics (defense) are all notable for their substantial free cash flows . These illustrate that in virtually every sector, there are one or two stand-out firms that generate exceptional cash relative to their peers. Alphabets27 seeks to identify these stand-outs (current or future) in each category and build the portfolio around them.

Weighting Methodology: More to the Cheap FCF Titans, Less to the Pricey Ones

Within the portfolio, allocations to each position are proportional to the attractiveness of its valuation and cash flow profile. Rather than cap-weighting or equal-weighting, we use a valuation-weighted approach: companies trading at lower multiples of their FCF (i.e. higher FCF yields) get larger weights, assuming their business quality is on par. This is similar to how some "cash cow" indices weight stocks by cash flow rather than by market cap . Effectively, we are putting more dollars into each dollar of FCF when that FCF is cheaply priced, and fewer dollars when FCF is expensive. We also consider absolute size and liquidity – extremely large weights are only assigned if the company can absorb that investment liquidity-wise and it remains under our risk limits. In practice, weightings might range roughly from ~2% on the low end to ~8% on the high end in a fully diversified $250M portfolio:

- A high-conviction, deeply undervalued FCF grower could be up to ~8–10% of the portfolio (for example, if in 2022–23 a stock like Meta or Salesforce plunged and offered >5% FCF yield with growth, such an opportunity would be sized toward the high end).

- More moderately valued holdings (great companies but fairly priced) might be middle-weight, ~3–5%. For instance, a staple like Coca-Cola with a stable 4% FCF yield might sit around a 3% weight – included for stability/income but not overweight due to limited upside.

- Stocks that are included mainly for diversification or strategic exposure but are either slightly more expensive or have a bit more risk (e.g. a Berkshire Hathaway or a foreign tech stock) might be smaller ~2% positions. These still contribute to the portfolio's overall theme but are sized cautiously.

This weighting strategy ensures the bulk of capital rides on the most promising FCF opportunities at any time. It is a disciplined way to realize the portfolio's philosophy: own more of what's cheap and cash-rich, own less of what's expensive or uncertain. Empirical support for this comes from both academic and practitioner research – weighting by fundamentals or cash flow tends to outperform market-cap weighting because it systematically buys more of undervalued stocks and less of overvalued ones . By doing so with a focus on free cash flow, we expect to capture superior returns while also enjoying a constant inflow of cash (dividends, buybacks funded by FCF) from our holdings.

Target Allocations by Portfolio Size

One strength of the Alphabets27 approach is its scalability. We outline below how the portfolio can be structured at different asset levels – $1 million, $10 million, $25 million, and $250 million – while adhering to the same investment principles. This scalability allows a roadmap from a small seed portfolio all the way to the institutional $250M portfolio that ADIA and similar investors would require. At each level, the core strategy (FCF-focused stock picking and valuation-weighted allocation) remains, but the number of holdings and position sizing evolve to balance diversification with practicality:

$1 Million – Seed Portfolio (Concentrated High-Conviction)

With $1M, the portfolio will be fairly concentrated to ensure each position is meaningful. We anticipate holding roughly 5 to 7 positions initially. Each investment would be around $150k–$200k (15–20% allocation) if 5 positions, or slightly smaller if 7 positions, such that no position is too tiny to matter. At this stage, we focus on the highest-conviction ideas – the top FCF titans that are most undervalued right now. Diversification is somewhat limited, but we'll still aim to spread across a few sectors to avoid overconcentration in one industry. For example, the $1M portfolio might include: one top tech/Internet name, one healthcare or pharma name, one financial/insurer, one industrial or energy name, and one real estate/asset-owner name. Each of these would be a category leader with strong cash flows. By limiting to a handful, we ensure we own the very best opportunities that can drive returns, which is important at low

AUM (since one big winner can move the needle more when only 5-7 stocks are held). This concentrated approach at $1M is feasible because liquidity is not an issue (we're buying small amounts of large-cap stocks), and it sets the foundation for performance that can attract further capital.

The weighting at $1M still follows our valuation discipline: if, say, two ideas are equally good but one is markedly cheaper, we might put 25% in that and 15% in the other. But given the small number of holdings, weights will be somewhat balanced to avoid excessive single-stock risk (likely no less than ~10% and no more than ~30% in any one name at inception). Over time, as winners grow, we may let them run a bit, but would rebalance if one position dominates beyond ~30%. The focus here is prove the concept with outsized exposure to our best ideas.

$10 Million – Expanded Core Portfolio (Moderate Concentration)

At $10M, we can broaden the portfolio to about 10 to 15 positions. This allows inclusion of more of the 27 target categories while still keeping a tilt towards our strongest convictions. A typical allocation might involve ~10 core positions at 5-10% each, and a few smaller satellite positions at ~3-5% to introduce new categories or opportunistic plays. For instance, in addition to the names held at $1M, we might now add a leading payment network, a second tech name or a different industry (e.g. a defense contractor or a staple stock) that we couldn't fit in the $1M version. With $10M, we can also initiate a real estate/REIT position (which at $1M might have been skipped due to yield vs growth trade-off) to start capturing that income.

Diversification improves at this level – we can ensure representation of most major sectors (tech, healthcare, finance, consumer, industrial, real estate, energy all likely present). Still, we remain overweight on the best values: if, say, healthcare and tech offer many bargains whereas staples are all expensive, it's fine that two tech and two healthcare names might together make up 40% of the $10M portfolio, while one token staple is just 5%. We aren't hugging any index sector weights; we're guided by FCF value.

For risk management, with ~12 stocks, an average position would be ~8%. We'll likely impose a max initial weight ~15% at $10M (so at most $1.5M in one name) – this could be for an extremely underpriced pick we have utmost confidence in. The smallest positions might be ~5% ($500k) for those we're just starting to include (perhaps a foreign stock or a sector we expect to build up later). This ensures even the smallest holdings can contribute to performance but leaves room to add more as conviction or capital grows.

$25 Million – Diversified Portfolio (Approaching Full Coverage)

At $25M, we are able to include most of the 27 target categories, with around 20 to 25 holdings. At this stage, the portfolio becomes well-diversified across all major cash-generative sectors but still selectively weighted. We envision perhaps 20 core positions at 3-7% weights, plus a few smaller (~2-3%) positions to round out all categories. For example, by $25M the portfolio could hold:

- 3-4 Tech/Internet names (covering different sub-sectors like software, hardware, payments, media),
- 3 Healthcare names (insurer, pharma, biotech),

- 3 Industrials (transport, defense, industrial goods),
- 2 Consumer (one staple, one discretionary),
- 2 Energy (one oil major, one midstream maybe),
- 2 Financial/Asset managers (maybe Blackstone and one other like a S&P Global or Berkshire),
- 2 Real Estate (one REIT, one real estate-heavy asset manager),
- a few others like a utilities/infrastructure pick or an international stock.

By covering ~25 categories, the portfolio at $25M is nearly the full envisioned scope of Alphabets27, missing maybe only a couple of the more minor categories (which we can still add in small amounts if desired).

Weighting at $25M continues to follow our FCF valuation scheme, but because we have more positions, position sizes come down to ensure we don't dilute the impact of top ideas. A likely structure: the top 10 ideas might each be ~5% (so 50% of the portfolio in top 10), the next 10 ideas ~3-4% each (another ~35-40%), and the last few small positions 1-2% each to test or hold a toehold in some categories. For instance, if we include a high-growth tech that is a future FCF titan but currently pricier (say a cloud software up-and-comer), we might initiate it at 2% just to get exposure, whereas a very undervalued oil major could be 6%.

At $25M, liquidity is still very comfortable for large-cap stocks (even a 6% position is ~$1.5M, which is tiny relative to megacap stock volumes). This means we can still adjust weights quickly as needed. We also now have a track record and scale that is attractive to mid-size investors – the diversified approach de-risks the portfolio in their eyes, while our performance should still beat benchmarks due to the value tilts.

$250 Million – Institutional Flagship Portfolio (Fully Diversified, Institutional-Grade)

The $250M portfolio is the endgame allocation where Alphabets27 is fully deployed across 27 categories with institutional scale. At this level, we will hold approximately 27 positions (give or take a couple if we use something like Berkshire to cover multiple or if some categories have two smaller holdings). Every major cash-generative sector is represented by at least one top company, providing broad exposure and focused excellence.

Diversification and risk: With ~27 holdings, the average position size if equal-weighted would be ~3.7%. But we will intentionally deviate from equal weights based on our weighting methodology:

- Overweighted positions: likely 5–8% each, representing our highest-conviction undervalued FCF plays. There might be 5–6 of these, and together they could make up ~30–40% of the portfolio. For example, if in 2025 we determine that large-cap healthcare and certain tech names are particularly cheap, we might have UnitedHealth at 6%, Google at 5%, Disney at 5%, Exxon at 5%, etc., as top weights. These are all huge companies with ample liquidity, so a ~$12–20M position in each is feasible.

- Core positions: the majority of holdings (perhaps Fifteen or so) might fall in the mid-range of ~3–5% each. These are solid FCF growers that maybe trade at fair but not deeply cheap valuations, or we want them for diversification. For instance, Visa might be 4%, a pharma 4%, Blackstone 4%, Prologis 3.5%, etc. Individually they contribute meaningfully, and collectively they form the stable backbone of the portfolio.

- Minor positions: a handful of slots (maybe 5 out of 27) could be in the ~1–2% range. These could include either higher-risk/high-upside names (a company that could be a future FCF star but currently smaller cap or in emerging markets – sized small due to risk) or expensive names held for strategic reasons (for example, we might hold a 2% position in Apple just to have exposure, even if we find it a bit expensive, because it's so fundamentally strong – but we cap the weight until valuation improves). These minor positions ensure we "have a foot in the door" across all desired categories without compromising the focus on value.

The overall portfolio thus remains skewed toward the undervalued FCF opportunities while still being diversified enough (no single position over ~8% and the top 10 likely around 50% of assets). This balance should satisfy institutional risk criteria (no outsized idiosyncratic risk) and comply with typical guidelines (for example, many institutional mandates don't want any position >10% of the fund, which we adhere to easily).

Institutional considerations: At $250M, Alphabets27 is an institutional-grade product. Not only does it meet the minimum AUM hurdle for groups like ADIA, it also has the infrastructure to support large investments. With $250M across highly liquid large-cap equities, an investor like ADIA can commit tens of millions without liquidity concerns. The portfolio's strategy (quantitatively driven, value-focused in liquid names) aligns well with what many sovereign wealth funds seek in their "Public Equities – Active/Quant" buckets: a repeatable process, diversification, and a value proposition (here, literally value via FCF yield). We will emphasize that launching at $250M ensures immediate eligibility for big tickets; for context, smaller managers under $250M are typically "hard pressed" to attract and survive on institutional capital alone , whereas crossing that threshold opens doors. By having this $250M portfolio ready from the get-go, we send a strong signal to ADIA and similar LPs that we are serious, scaled, and ready to deploy large sums in a liquid, alpha-generating strategy.

Leverage and enhancements: While the core $250M portfolio is unlevered equity, we could consider a modest leverage overlay to further emulate the "cash printing" on balance sheet concept (banks lending against assets). For instance, we might use a small margin or a derivatives overlay to enhance yield – e.g. 10% margin to buy a bit more of high-conviction names or selling covered calls for income. However, any such leverage would be very conservative (debt-to-equity well under 1:1, likely in the 10-20% range) and only used if market conditions favor it. Since ADIA's quant mandates likely prefer minimal leverage risk, this would be optional. The main idea is the portfolio itself consists of companies that often use leverage internally to boost their ROE (for example, REITs or infrastructure firms carry moderate debt, which effectively passes through to our equity returns). Thus, we leverage through our holdings rather than at the fund level, mirroring Blackstone's approach of using asset-level debt in real estate .

Income generation: The $250M portfolio would have an attractive natural cash yield. Many of our FCF titans pay dividends or buy back stock aggressively. We can estimate that portfolio dividend yield might be around 2–3% (as many chosen stocks yield that or higher, and some FCF we capture via buybacks).

That means $250M could yield ~$5–7.5M in annual dividends, which provides a baseline “aloha income” to investors. Combined with FCF-driven growth and capital gains, the total return target is much higher, but the presence of strong cash income is a selling point (especially for sovereign funds that like steady payouts). We will monitor and report the portfolio’s aggregate FCF yield (likely in the 5–6% range overall, given our selections) and how much of that is returned to us (dividends + buybacks ~ maybe 4% yield returned, 2% reinvested by companies for growth). This transparency will appeal to institutional allocators who appreciate seeing that their investment is backed by real cash flows.

In summary, at $250M the Alphabets27 portfolio is fully deployed: about 27 excellent companies across the global economy, each a leader in free cash flow, each chosen for value and growth potential, weighted by conviction and valuation. This portfolio is designed to deliver superior risk-adjusted returns by tilting towards undervaluation and cash generation, while being diversified enough to weather market cycles. It stands ready to attract large investors – meeting their size criteria, aligning with their preference for quality and income (the “world’s largest cash-printing businesses” theme), and offering a clear, scalable strategy.

Conclusion

Alphabets27 is built on the timeless premise that cash flow drives value. By investing in the world’s top free-cash-flow generators – from tech giants and healthcare leaders to real estate assets in prime markets – and by smartly weighting toward those that are undervalued, the portfolio aims to deliver both strong current income and long-term growth in that income. The strategy’s comprehensiveness (27 categories of FCF titans) ensures no major opportunity is missed, yet its selectiveness ensures we hold only the cream of the crop in each area. The targeted allocations at $1M, $10M, $25M, and $250M demonstrate how the approach scales: starting focused and growing into a complete, institutional-caliber portfolio. Launching with a significant capital base (up to $250M from the start) positions us to engage big sovereign and pension investors who demand such scale .

In practice, an Alphabets27 investor is getting a portfolio that behaves like an ownership stake in the world’s most lucrative cash-generating enterprises and assets. This means the portfolio should exhibit resilience (cash flow tends to be more stable than accounting earnings during downturns) and benefit from self-funding growth (companies reinvest their ample cash in new projects, acquisitions, or buybacks – fueling future appreciation). By continuously rotating into the best-valued FCF opportunities, we add a systematic alpha layer on top of this solid foundation.

In essence, Alphabets27 marries a quantitative value discipline (FCF yield ranking) with a fundamental focus on quality and growth. The end result is a portfolio that we believe can outperform broad market indices, particularly if those indices become laden with expensive, lower-cash-flow names. We will monitor and adjust the allocations rigorously, but always with the north star of free cash flow – the clearest signal of business health and investor returns.

By focusing on “the best of the best FCF titans”, weighted by valuation, Alphabets27 offers a compelling proposition: consistent cash generation, growing over time, bought at a bargain. This strategy not only provides a strong investment case for returns, but its inherent cash flow focus and diversification make it a robust vehicle for large-scale investors seeking dependable, inflation-beating income and growth. We are confident that this portfolio, with its blend of aloha (steady income) and alpha (excess return), will stand out in the market and meet the objectives of both our team and our target investors like ADIA.

Sources: Recent analyses reinforce our approach to free-cash-flow investing and portfolio construction principles. For example, Buffett's shareholder letters emphasize the primacy of cash flow in valuation . Empirical data shows high FCF yield stocks have outperformed historically . The VictoryShares Free Cash Flow Index methodology echoes our focus on high-quality, discounted, growth-capable companies . Market screeners in Aug 2025 highlight companies like UnitedHealth, Salesforce, and Disney as top cash flow performers in their sectors . Additionally, Blackstone's real estate strategy demonstrates the value of targeting prime assets with stable cash flows and using moderate leverage for income-focused investing . These insights from industry leaders and historical data underpin the Alphabets27 portfolio design and give us confidence in its long-term success.

🤫 Confidential 🤐

Selecting "The27" Free Cash Flow Titans with a Buffett & Munger Approach

Investing like Warren Buffett and Charlie Munger means focusing on high-quality businesses that generate abundant free cash flow (FCF) and have durable growth prospects. Here we outline the key criteria these legendary investors would insist on – from moats to management – and present "The27" FCF titans across various categories (the "Alphabets" A to Z, plus an extra Xx 😘💋) that fit those criteria. We'll also discuss how to continuously monitor this list, refreshing it every 30 days to ensure none of our picks belong on the list of 473 weak companies destined for mean reversion (short candidates), in line with Buffett's famous advice to be "fearful when others are greedy and greedy when others are fearful" .

Buffett & Munger's Key Investment Criteria

Before picking the 27 FCF all-stars, we must "know our stuff" by adhering to the fundamental questions Buffett and Munger would ask about each business:

- Durable Competitive Advantage (Moat): Does the company have a sustainable moat – e.g. strong brand, network effect, cost advantage, or high switching costs – that protects its profits? Buffett seeks businesses with "durable, competitive economics (the protective moat) and rational, honest management" . A wide moat supports pricing power and consistent cash flows over the long term.

- Consistently High and Growing Free Cash Flow: Is the company generating substantial free cash flow year after year, and is that FCF growing in absolute dollars? Buffett's equivalent of FCF is "owner earnings," and he and Munger "prefer the business which drowns in cash. It just makes so much money that… you have all this cash coming in" . We prioritize companies that not only have large FCF today but are also expanding their FCF each year – these are the "FCF titans" fueling our portfolio. (For example, Apple led the world with about $109 billion in FCF in 2024 , and Microsoft generated about $73 billion , both growing over time.)

- High Returns on Capital and Reinvestment Opportunities: Buffett insists on businesses that earn high returns on equity/capital and can reinvest capital at those high rates. "The ideal business is one that earns very high returns on capital and that keeps using lots of capital at those high returns. That becomes a compounding machine." In other words, our picks should have profitable growth – they can deploy their FCF into new projects, expansion, or buybacks/dividends, all while maintaining strong returns. This drives intrinsic value compounding. Few businesses can do this consistently, so those that can are true gems .

- Healthy Balance Sheet (Low Debt): Strong FCF should not be immediately offset by high debt obligations. Buffett and Munger prefer conservatively financed companies. Ample free cash flow coupled with moderate debt (or net cash) gives management flexibility and reduces risk of distress. A high debt/equity isn't always fatal – if cash flow is very strong and reliable, it can "minimize the debt risk" – but generally we want a strong financial footing.

- Capex Requirements & Cash Conversion: We favor businesses that convert a large portion of earnings into free cash flow, with modest capital expenditure needs to maintain the business. As Munger quipped, some businesses "work hard all year and at the end… the profit is sitting in the yard" (tied up in inventory or equipment) – we avoid those. Instead, we like asset-light or efficient firms that can grow without constant heavy capex, leaving more cash for shareholders. High FCF margins (FCF/revenue) indicate a cash-generative enterprise.

- Trustworthy, Capable Management: Buffett often says he wants leaders who are competent and shareholder-oriented. Does management allocate capital wisely (reinvesting in high-return projects, paying sensible dividends, or repurchasing shares when undervalued)? We look for honest communication and a record of value creation. In Buffett's words, "management will treat us right" by growing the per-share value. Red flags would be empire-building acquisitions or accounting gimmicks that inflate earnings but not cash flow.

- Reasonable Valuation (Margin of Safety): Even a great company can be a poor investment if bought at a greedy price. Buffett's mantra – "Price is what you pay, value is what you get" – means we consider whether the stock's price fairly reflects its future cash flows. We avoid exuberant valuations where "prices boil over" from greed . Each of The27 should ideally trade at a valuation that allows long-term upside (or at least not much downside) based on its FCF growth. In practice, this might mean looking at FCF yield or price-to-FCF ratios relative to peers. We want a margin of safety in case of market volatility.

- Business Understandability and Stability: Buffett won't invest in something he doesn't understand. We ensure each company has a clear, enduring business model that we can grasp (e.g. how it makes money, industry dynamics) and is unlikely to be obsoleted in a few years. Many of our FCF titans operate in fairly stable or predictable arenas (technology ecosystems, consumer staples, etc.), or if in faster-changing tech, they have adaptive management and strong R&D (e.g. the likes of Alphabet and NVIDIA with dominant tech platforms). The goal is that we'd be comfortable holding these businesses even if the market closed for 10 years.

- Risk Factors – Moat Threats and Cyclicality: In Buffett's style, we ask "What could go wrong?" for each business. Could a competitor, innovation, or regulation erode the moat? For instance, a pharma company must manage patent expirations, a tech firm must fend off disruption, an oil producer faces commodity price swings. We favor companies with multiple moats or resilience that mitigate these risks (e.g. diversification of product lines, strong R&D, or, in the case of commodities, lowest-cost production). If a company's cash flow is highly cyclical, we ensure the balance sheet and dividend policy account for downturns. Each pick should be able to weather recessions or industry shake-ups without permanent impairment to its long-term cash-generating power.

By rigorously applying these criteria, we home in on businesses that Buffett and Munger would approve of – "wonderful companies at fair prices". These are enterprises with robust and growing free cash flows, run by able managers, with durable competitive advantages and prudent financials. Now, let's unveil The27 FCF Titans, grouped by sector/category, that currently fit the bill as our Fund A Anchor positions (the "Alphabets" A through Z, plus our special 27th).

The27 FCF Titans Across Key Categories

Each of the following 27 companies is an FCF powerhouse in its field, chosen for absolute scale of cash generation and strong FCF growth. These are the "Alphabets" of our portfolio – the go-to names we can hold with confidence. Notably, this list is global (Buffett and Munger mostly invest in the U.S., but we consider worldwide opportunities). In fact, many of the world's top free cash flow generators are non-U.S. or multinational firms . Here are the selections, with brief notes on why they shine:

Technology & Digital Titans (U.S. and Global)

- Apple (AAPL) – The iPhone and services giant is the highest FCF-producing company in the world . Apple generated over $100 billion in free cash flow in the past year , an astounding cash machine driven by its ecosystem moat (devices, App Store, subscriptions). Its FCF is not only huge but also stable and growing, thanks to loyal customers and pricing power. Buffett loves Apple as an "indispensable" consumer-tech brand and has made it Berkshire's top holding, noting its "sticky" user base and hefty stock buybacks funded by prodigious cash flows.

- Microsoft (MSFT) – Another FCF titan, Microsoft produced roughly $70+ billion in FCF last year , propelled by its cloud (Azure) and enterprise software businesses. It enjoys a wide moat in operating systems, productivity software, and cloud infrastructure – products deeply embedded in business workflows. Microsoft's FCF has been on a steady uptrend with the shift to subscription models and cloud services. With high returns on capital and a fortress balance sheet, Microsoft exemplifies the kind of cash-rich, dominant franchise Buffett and Munger admire (in fact, Microsoft's CEO is a Buffett friend, though Berkshire hasn't owned MSFT to avoid any conflict).

- Alphabet/Google (GOOGL) – Alphabet generates massive cash from its Google search and advertising empire, as well as YouTube and Cloud services. In 2024 it had about $73 billion in free cash flow, up ~5% from 2023 . Google's network effect moat in search (market share ~90%) and its scale in digital ads give it pricing power similar to a utility for advertisers. Despite heavy investments in data centers and R&D (AI, autonomous driving, etc.), Google consistently converts a large share of its earnings to FCF. Its FCF growth (15.8% jump in 2023 after a dip in 2022) and huge cash war chest make it a quintessential Buffett-style business (Munger has called Google's ad business a "license to print money").

- Amazon.com (AMZN) – Amazon has historically re-invested aggressively, but its underlying ability to generate cash is enormous. After years of heavy capex, Amazon's FCF turned positive again – about $38 billion TTM free cash flow as of early 2025 – driven by AWS (its cloud segment) and more disciplined spending in retail. Amazon's absolute FCF is now among the highest globally, and importantly, it's growing as the company becomes more efficient. The company's dominance in e-commerce (with Prime's subscription moat) and cloud (leading market share) give it long-term pricing power. Buffett admires Amazon (even though he "understood it too late" to buy early) and one of Berkshire's deputies did invest in Amazon stock. From a Buffett/Munger lens, Amazon's recent focus on improving margins and cash generation (e.g. cutting unprofitable projects) makes it a fitting FCF titan – albeit one to watch for competitive risk in retail.

- Meta Platforms (META) – The parent of Facebook, Instagram, and WhatsApp gushes cash thanks to its digital ads dominance. After a dip in 2022, Meta dramatically improved its free cash flow in 2023–2024 by curbing costs. In fact, Meta's FCF for full-year 2024 was $52 billion, a huge jump (Q4 alone was $13B) . This puts Meta among the world's top FCF earners . Its "metaverse" splurge has been reined in, and core apps continue to print money due to billions of daily active users – a classic network effect moat. Buffett and Munger would note Meta's high margins and the essential nature of its platforms for advertisers. As long as management remains disciplined on expenses (as seen with recent layoffs and buybacks), Meta's FCF should remain robust. We do monitor regulatory and competitive risks (e.g. TikTok), but the firm's cash generation and investment in AI for ad targeting are strong positives.

- NVIDIA (NVDA) – NVIDIA has swiftly become an FCF superstar on the back of the AI computing boom. Known for its GPU chips, NVIDIA saw its free cash flow explode from about $27 billion to $60+ billion in a year , as of its fiscal 2025 (ending Jan 2025). This stunning growth (over 2× in one year) is due to surging demand for its AI accelerators and data-center GPUs. Such absolute FCF puts NVIDIA in the global top-three for cash generation . From a Buffett perspective, NVIDIA's competitive advantage is its near-monopoly in high-end AI chips (a result of years of innovation – an intellectual property moat). It does operate in a cyclical sector (semiconductors), so we acknowledge earnings can swing, but the AI trend provides a secular growth runway. We're mindful of valuation – NVIDIA's stock has run up with investor "greed" for AI – so we'd ensure we're not overpaying. But as a business, NVIDIA fits the mold of a high-return, cash-rich enterprise riding a big long-term wave.

- Broadcom (AVGO) – Broadcom is a lesser-known name to the public but a cash cow in the semiconductor and enterprise software space. It produces essential chips (for networking, smartphones, data centers) and has acquired software firms (like VMware, pending) that throw off steady cash. Broadcom generated about $22 billion in FCF in the latest period and has grown FCF at ~20%+ annually (via both organic growth and acquisitions). CEO Hock Tan is known for rigorous cost discipline – exactly the kind of efficient capital allocation Buffett likes (Tan famously says “we are in the business of maximizing free cash flow”). Broadcom’s strategy of focusing on franchises with high margins (and divesting or trimming low-margin segments) results in a high FCF margin. Its products have a wide moat in that they are embedded in tech infrastructure (switching costs are high for customers). With strong free cash yields and consistent shareholder returns (dividends, buybacks), Broadcom ranks among our FCF titans.

- Oracle (ORCL) – Oracle is an example of a mature tech company that continues to generate hefty free cash flows from its database software and enterprise applications. It’s transitioning to cloud services, which has reinvigorated growth. Oracle’s annual FCF is on the order of $8–10 billion (precise figures vary, but it’s substantial) and rising as its cloud revenue grows. It has an entrenched position in database technology (many corporate IT systems rely on Oracle databases – a high switching-cost moat). Buffett did own Oracle briefly in 2018 but sold, perhaps for lack of “understanding the cloud future,” but by our criteria Oracle’s high recurring revenue and solid FCF make it a worthy pick. The company’s return on capital is strong and it uses FCF for dividends and huge buybacks (shrinking its float, thus boosting per-share metrics). We keep an eye on competition from cloud-native databases, but Oracle’s long-term relationships with enterprises give it resilience.

- Salesforce (CRM) – Salesforce is the leader in cloud CRM software and exemplifies a high-growth FCF story. In fiscal 2024 it generated $9.5 billion in FCF, up 50% year-on-year , and in the latest FY2025 it reached $12.4B (up 31%) . Salesforce has a powerful subscription-based moat – its software is deeply integrated into customers’ sales and marketing operations, creating stickiness. Recent investor pressure led Salesforce to improve profitability significantly, converting more of its revenue into cash. This kind of margin expansion plus recurring revenue growth is exactly what we want: strong absolute FCF and high growth. While Buffett typically avoided young tech in the past, Salesforce is now a more mature, cash-generative firm (and notably, one of Berkshire’s portfolio managers did buy a cloud stock – Snowflake – showing openness to this model). Salesforce’s prudent moves (like moderating acquisition sprees and focusing on operating leverage) make it align well with our gurus' principles.

- Tencent Holdings (TCEHY) – Tencent is a Chinese tech conglomerate that owns WeChat (ubiquitous messaging/payment app) and a huge gaming business, among other investments. It's included for its massive FCF and dominant moat in its markets. Tencent's trailing 12-month free cash flow is around $25 billion (USD) and rising modestly despite regulatory crackdowns in China. Its WeChat ecosystem gives it a network effect and platform moat (over 1 billion users use it for everything from chat to payments to services). Tencent's gaming division also throws off cash from blockbuster franchises. While investing in China comes with geopolitical and regulatory risks (Buffett and Munger tread cautiously – Munger did invest in Alibaba for a while, for example), Tencent's financial strength is undeniable. It has a net cash position and stakes in many startups, but importantly its core operations deliver ample FCF that it can reinvest. We include Tencent as a global FCF titan, with the caveat that one must monitor China-specific risks continuously.

- Taiwan Semiconductor Manufacturing Co. (TSMC) – TSMC is the world's largest contract chip manufacturer, vital to companies like Apple, Nvidia, and AMD. We include it for its strategic importance and cash generation. TSMC's free cash flow varies with its huge capital investments, but in strong years it has produced tens of billions in FCF (e.g. in 2021–22 when demand was high). Even in weaker periods, it remains free-cash-flow positive due to its immense operating cash (2023 saw lower net income but TSMC still had positive FCF of several billion dollars). Its moat is essentially unmatched technology and scale – it's the only firm making the most advanced 3nm and 5nm chips at scale. This is a classic Buffett "economic castle" with high barriers to entry (huge capital and expertise required). Buffett did buy TSMC in 2022 for Berkshire but sold within months, citing geopolitical concerns (proximity to China). So we note that risk, but from a pure business perspective TSMC is a free cash flow giant with high ROE, supplying chips the world cannot do without. Its inclusion bolsters the "global always" nature of our list (and perhaps represents the letter X in our Alphabets, given its ticker TSM doesn't correspond to a letter A-Z 😉).

Financial & Payment Giants

- Visa (V) – Visa is a quintessential Buffett-type stock: a toll booth on global payments. It generates over $20 billion in annual FCF by taking a small fee from billions of card transactions – a fabulous high-margin, asset-light model. Visa's FCF has grown steadily in absolute terms as electronic payment volumes rise worldwide. Its network moat (a two-sided network of millions of merchants and billions of cardholders) makes it nearly impossible for a new competitor to replicate. With operating margins ~65% and minimal capital needs, almost every dollar of earnings turns into free cash. Visa also sports a high return on equity with very low debt. It's exactly the kind of business Munger refers to when he talks about "businesses that drown in cash", and indeed both Buffett and Munger have praised the payment network model. Our fund benefits from Visa's reliable and growing cash flows anchored in the secular shift to cashless payments.

- Mastercard (MA) – Mastercard, Visa's smaller rival, is another FCF stalwart. It produces slightly less FCF (around $15–16 billion recently) but similarly boasts high growth and profitability. We include it alongside Visa because both together dominate ~90% of global card volume – a duopoly moat. Mastercard's free cash flow growth has been impressive (e.g. +18% in 2024 per trends), and it consistently returns cash via buybacks and dividends. Buffett's portfolio includes Visa and Mastercard (Berkshire owns stakes in both, initiated by his lieutenants), reflecting confidence in their long-term economics. Owning both also diversifies any company-specific risk (though they operate near identically). These payment networks benefit from the "greed" of rising consumer spending but are resilient in downturns (transactions volume may dip but not collapse, and both companies remained solidly profitable even in recessions). For us, Visa and Mastercard are core "FCF anchors" – worldwide cash generators with decades of runway as cash usage gives way to digital payments.

- Berkshire Hathaway (BRK.B) – What better endorsement of Buffett/Munger principles than their own company? Berkshire Hathaway, with its diverse collection of businesses, is effectively a free-cash-flow compounding machine. Its subsidiaries (from insurance to BNSF railroad to energy to Apple stock holdings) throw off huge cash. For example, Berkshire's operating companies and dividends from investments produce tens of billions in annual "look-through" FCF, which Buffett then reallocates. Berkshire famously held over $147B in cash at one point, reflecting how much excess cash it generates . While Berkshire doesn't pay a dividend, its cash is used to buy whole companies or buy back Berkshire shares (both of which increase per-share intrinsic value). Importantly, Berkshire's insurance operations give it a "float" – large investable funds – which is only possible because its underwriting is disciplined (another moat). Buffett and Munger would grill us if we omitted Berkshire from a list of top cash-generators, given it's literally designed to capture and redeploy free cash flow. We view Berkshire as a stable anchor in the portfolio – it's broadly diversified, has A+ management (to put it mildly), no debt at the holding company, and will benefit us in all seasons (it even earns interest on that big cash hoard). Essentially, it's an "umbrella" FCF titan, representing many businesses in one stock.

- Moody's (MCO) – Moody's is one of the big two credit rating agencies (with S&P), and it perfectly fits Buffett's love for toll-booth businesses. It has a massive moat in that most bonds and loans require a credit rating, and only a couple of firms are accepted by the market for this. This duopoly yields pricing power and high margins. Moody's free cash flow, while smaller in absolute terms (around $2–3 billion annually), is very consistent and growing. It converts ~30–40% of revenue into FCF, an excellent rate, and requires minimal capital to operate (analysts and databases don't need heavy capex). Buffett was an early investor in Moody's and still keeps a significant stake, remarking on the economics of the ratings business – essentially, it costs very little to issue an extra rating, but clients are price-insensitive because a rating is essential, leading to terrific incremental margins. We include Moody's as a nod to Buffett's own portfolio and because it exemplifies quality: high returns, strong moat, steady growth. It may not rank in the absolute top FCF dollars, but it punches above its weight in reliability and profitability – and thus earns a spot among The27.

Healthcare & Pharma Leaders

- Johnson & Johnson (JNJ) – J&J is a healthcare giant with a diversified portfolio (pharmaceuticals, medical devices, consumer health). It generates substantial free cash flow (on the order of ~$17–20 billion per year) and has an AA credit rating, reflecting its financial strength. J&J's competitive advantage comes from its product breadth and R&D prowess – it has numerous blockbuster drugs (each with patent protection moats), leading medtech devices, and iconic consumer brands (Tylenol, Band-Aid, etc.). Buffett has invested in J&J in the past, and it fits the mold of a stable, cash-rich business that can weather economic cycles (people need healthcare in any market). Its FCF has grown over time through new drug launches and occasional acquisitions. With a prudent payout ratio, J&J returns cash via a steadily rising dividend (it's a Dividend Aristocrat). We include J&J for its reliable cash generation, high-quality balance sheet, and the "rational management" Buffett seeks (J&J has stumbled at times with legal issues, but generally has been well-managed for the long run).

- UnitedHealth Group (UNH) – UnitedHealth is the largest health insurance and managed care provider in the U.S., and also owns Optum (a fast-growing healthcare services arm). It's a free cash flow powerhouse in healthcare, converting a significant portion of its earnings (which were over $20B in 2024) into cash. UnitedHealth's FCF has been rising as it expands Optum's high-margin services and as insurance membership grows. It enjoys a scale moat – its huge membership base and provider networks give it cost advantages. Additionally, Optum's data analytics and pharmacy benefits businesses provide vertical integration and extra profit streams. UNH's absolute FCF is among the highest in the healthcare sector, and it grows in absolute dollars each year as the company carefully manages costs and premium pricing. Buffett and Munger generally avoided direct healthcare stocks (it's a complex, regulated field), but they have praised well-run insurers. UNH's consistent track record and strong ROE (near 25% annually) indicate a business "that a fool could run" yet still prosper – though in reality, management is very shrewd. We see UNH as a defensive growth stock: essential services (health coverage) yielding steady cash, with a long-term tailwind as healthcare needs rise.

- AbbVie Inc. (ABBV) – AbbVie is a pharmaceutical firm we include for its high free cash flow and shareholder-friendly use of that cash. AbbVie has been one of the highest FCF-yielding pharma companies , thanks largely to its blockbuster drug Humira (for immunology) and a portfolio expanded by the Allergan acquisition (Botox, etc.). In recent years AbbVie's FCF was on the order of ~$20 billion annually (during Humira's peak). While Humira's patent expiry is causing a decline, AbbVie's newer drugs (Skyrizi, Rinvoq and others) are ramping up, keeping cash flows robust. Importantly, AbbVie returns a lot of cash to investors – it sports a high dividend yield (~4–5%) and has grown the dividend, all supported by FCF. Buffett's team invested in AbbVie for a period (Berkshire held AbbVie stock until 2022), likely attracted by its cash generation and undervaluation at the time. From a Buffett/Munger view, AbbVie's risks (patent cliffs) are the kind of challenge that can be managed by capable management allocating capital to new R&D or acquisitions. The company's ability to consistently generate more than it needs for operations – even after heavy R&D investment – makes it a solid FCF titan in healthcare. We'll monitor its pipeline success to ensure FCF growth continues (Buffett would want to know that post-Humira, AbbVie's moat in immunology/oncology remains strong).

Consumer & Brand Leaders

- Coca-Cola (KO) – Coca-Cola has long been a Buffett favorite (he's held it since 1988), epitomizing a wide-moat consumer brand with hefty free cash flow. Coke's asset-light franchise model (independent bottlers do the capital-intensive work) means it enjoys high FCF conversion of its profits. It typically generates around

$8–9 billion in FCF annually, consistently. While Coca-Cola's growth is modest (a mature market), it does grow in absolute dollars through pricing power and volume expansion in emerging markets. Its brand moat is nearly impenetrable – Coke's recipes and brand loyalty across the world allow it to raise prices even when input costs rise, protecting cash flow. Buffett and Munger love how simple and timeless the business is ("it's sugar water, and everyone drinks it"). The company has also been very shareholder-friendly, paying dividends for decades (and raising them yearly). In our FCF list, Coke serves as a defensive anchor – when fear spikes in markets, people still buy beverages, and Coke's cash flows keep rolling. It might not top the list in absolute FCF, but it is rock-solid and reliable, which earns it a place among the Alphabets.

- Nestlé S.A. (NSRGY) – Nestlé, the Swiss multinational, is the world's largest packaged food company (brands include Nescafé, Purina, KitKat, etc.) and a free cash flow stalwart. Nestlé generates on the order of $10+ billion in FCF per year, supported by its stable of billion-dollar brands and global distribution. Like Coca-Cola, Nestlé benefits from strong brand loyalty and economies of scale – a moat in scale and branding. It has steadily grown FCF through portfolio management (divesting slower lines, focusing on high-growth areas like pet food and nutrition). Buffett has historically admired Nestlé's business (though Berkshire hasn't directly owned it, possibly due to Swiss market considerations). For us, Nestlé provides international diversification and stability. Its cash flows are used for dividends (Nestlé is a reliable dividend payer) and share buybacks, showing disciplined capital return. In times of both greed and fear, people still consume food and beverages, making Nestlé's cash flows resilient. It's truly a global FCF titan in consumer staples, deserving inclusion.

- Procter & Gamble (PG) – P&G is another consumer goods behemoth, owning dozens of household brands (Pampers, Gillette, Tide, etc.). It's included for its strong FCF and entrenched market position. P&G generates roughly $13–16 billion in FCF annually, fueled by its high-margin products and continual efficiency improvements. Its brand moat and shelf space dominance at retailers give it pricing power – even if it raises prices a bit, consumers often stay loyal. P&G underwent a transformation in the 2010s (streamlining its brand portfolio) that boosted its margins and FCF. The result: higher absolute free cash flow in recent years and better growth (organically and via premiumization). Buffett swapped his P&G stock for direct ownership of Duracell a few years ago, but that was more a special case; he has expressed respect for P&G's business quality. For our fund, P&G represents a dependable FCF generator that will likely incrementally grow each year (through population growth, emerging market penetration, etc.). It's worth noting how consistent P&G's cash flows remained even during recessions – a hallmark of a Buffett-style wonderful business.

- LVMH Moët Hennessy Louis Vuitton (LVMH) – LVMH is a French luxury goods conglomerate (brands include Louis Vuitton, Dior, Moët, Bulgari, etc.) and has been one of the fastest-growing FCF generators in the consumer sector. Fueled by booming global luxury demand (especially from China and the U.S.), LVMH's operating cash flow has surged, translating to strong free cash flow (on the order of ~$10 billion annually and rising). Its chairman Bernard Arnault often reinvests in brand building and acquisitions, but the business throws off more cash than needed, enabling steady dividend growth and debt reduction. LVMH's moat is brand heritage and exclusivity – it can charge premium prices that far exceed production costs, yielding high margins. This pricing power and global desirability give it a Buffett-like quality (Buffett himself hasn't bought luxury stocks, but he appreciates pricing power – he famously said the single best decision was raising See's Candies prices, which requires a brand that sticks). LVMH essentially has a collection of economic castles, each with its own moat (e.g. decades- or centuries-old luxury brands). We include LVMH to capture the luxury category's cash flows. It diversifies our consumer exposure and has indeed become one of Europe's most valuable companies by market cap, thanks to its cash generation . We'll monitor discretionary spending cycles (luxury can be cyclical), but LVMH's diversified portfolio across fashion, cosmetics, jewelry, and spirits provides stability.

- Walmart Inc. (WMT) – Walmart, the world's largest retailer, deserves a spot as a retail FCF titan. Its sheer scale (over $600B in revenue) leads to significant absolute free cash flow – roughly $17 billion in FCF as of 2024 . Notably, Walmart's FCF spiked recently as e-commerce investments paid off and it managed inventory better (reflected in an impressive 86% 1-year stock return in 2024 , indicating the market's recognition of its strength). Walmart's moat lies in its buying power and logistics network, which allow it to offer low prices (everyday low price strategy) – competitors struggle to undercut Walmart sustainably. Buffett previously held Walmart but exited around 2018, citing Amazon's threat. However, Walmart has since adapted with a robust online platform and remains the dominant grocery retailer in the U.S. (groceries drive frequent traffic and steady cash). Its membership program (Walmart+) and omnichannel approach fortify its position. From a FCF perspective, Walmart is highly attractive: it turns a good portion of its operating cash into free cash even after capital expenditures for stores and distribution centers. It uses that cash for dividends (a long history of increases) and buybacks. Walmart's inclusion in The27 provides a defensive retail anchor – during tough times, its value proposition can even strengthen (consumers flock to save money). We consider it a low-risk, moderate-growth cash generator that fits nicely with Buffett/Munger principles of scale advantage and consumer necessity.

- Costco Wholesale (COST) – Costco is a unique retailer with a cult-like customer base and a membership fee model that results in highly stable cash flow. While its absolute FCF (around $6–7 billion yearly) is smaller than Walmart's, we include Costco because of its exceptional business model and growth trajectory. Munger has been a huge proponent of Costco – he often praises its ability to give customers a great deal and make money through volume and efficiency. Costco's moat is a combination of customer loyalty (90%+ membership renewal rates) and scale economics (it can pressure suppliers for the best deals, passing savings to members). The $60 membership fee from tens of millions of members provides a steady stream of cash that covers much of Costco's overhead – essentially pure FCF. Buffett and Munger love businesses with subscription-like income. Costco has also been growing globally, adding to its cash flows each year (in absolute dollars, its FCF grows as it opens new warehouses and gains new members). It maintains a very disciplined cost structure, aligning with the frugality Buffett admires in management. Although Costco's valuation tends to be rich (market recognizes its quality), from a fundamental viewpoint it is extremely strong financially (virtually no net debt) and returns cash via special dividends. We view Costco as the 27th "Xx" pick, a beloved company (hence the kisses emoji) that we're confident following our gurus on. It may not top the FCF charts yet, but its consistent growth and fanatical customer base indicate it will keep compounding cash for decades.

Energy & Industrial Cash Generators

- Saudi Aramco (2222.SR) – Saudi Aramco, the national oil company of Saudi Arabia, is included as the world's largest oil producer and one of the highest free cash flow generators on the planet. In fact, Aramco has been the world's most profitable company, recently "edging out Apple and Microsoft" . In 2022 when oil prices spiked, Aramco's FCF was enormous (net income of $111B in 2018 for example , and it paid out $124B in dividends in 2024 funded by cash flows). Even in more normal times, Aramco's low cost of production (it pumps oil at a few dollars per barrel) guarantees high cash margins. From a Buffett-style perspective, Aramco has a cost advantage moat (some of the world's largest, easiest oil fields) and a product that will see global demand for years. Buffett himself typically avoided investing directly in Aramco (partly geopolitical, partly because it’s mostly state-owned with only a small float). However, he did invest in oil stocks like Chevron and Occidental, showing appreciation for strong oil economics at the right price. We include Aramco to capture the sheer scale of cash it produces – it’s a reminder to always look globally for FCF titans. It does come with the caveat of oil price dependence: its cash flow will fluctuate with crude prices. That said, Aramco’s breakeven is so low that it remains free-cash-flow positive even when many other oil companies are underwater. As long as we monitor oil market cycles (greed can inflate oil prices, fear can crash them), Aramco belongs in the list for its unmatched cash generating capacity during favorable conditions.

- Exxon Mobil (XOM) – Exxon is a leading Western oil & gas company and represents the energy sector’s FCF prowess alongside Aramco. In 2022, Exxon saw a record free cash flow of about $58 billion as oil prices soared . In 2023, with more moderate prices, it still generated a hefty $36 billion FCF . Exxon’s strengths are its integrated model (upstream production, downstream refining & chemicals) and decades of investment in projects that now yield cash. Its scale and technical expertise form a moat – projects like deepwater drilling or LNG terminals have high barriers to entry. Buffett hasn’t been a long-term holder of Exxon in recent years, but he did own it in the past and more recently has favored Chevron (similar profile). We include Exxon for its consistent shareholder returns: it has paid dividends for over a century and buys back shares opportunistically, all funded by FCF. Notably, in Buffett’s terms, Exxon (like others in oil) benefits when there is fear in the industry – e.g., during 2020’s crash it invested in future production, which paid off in 2022’s boom. We must be wary of the cyclicality (the “greed and fear” cycle is very evident in oil), but Exxon’s strong balance sheet and low-cost reserves (especially after recent discoveries and shale assets) make it relatively resilient. It’s a solid choice to anchor the energy segment of our FCF titans.

- Chevron (CVX) – Rounding out energy, Chevron is another FCF-rich oil major, and importantly, one that Buffett’s Berkshire Hathaway has invested in heavily . Chevron’s free cash flow in 2022 was around $37 billion (a company record) and about $20+ billion in more average years. It has a similar integrated structure to Exxon and comparably low production costs. Buffett likely chose Chevron for its shareholder-friendly orientation – Chevron reliably raises its dividend and was quick to initiate large share buybacks when cash flows spiked. From a Buffett/Munger view, Chevron’s management allocating cash back to owners is a big plus. Chevron’s moat is similar to Exxon’s: massive scale in production and refining, technical know-how, and a diversification of upstream assets that spreads risk. It also has growth projects (like in LNG and petrochemicals) that can maintain its cash generation as older fields decline. We include Chevron both on merit (high absolute FCF and sensible capital allocation) and as a nod to following our gurus (Buffett's stake suggests he believes in its fundamentals). Together with Aramco and Exxon, Chevron gives us a broad energy exposure within The27 – capturing Middle East, U.S., and global markets. This ensures that if there is greed (oil booms), our energy picks gush cash, and if there is fear (oil slumps), these companies are sturdy enough to survive and even buy assets on the cheap, positioning for the next upcycle.

These 27 companies – our "Alphabets" A through Z (with Costco cheekily as the extra Xx pick) – represent the top tier of FCF generation and growth across industries. They are spread globally and across sectors to diversify our anchors. Notably, many appear in lists of the world's top free cash flow companies , and each one meets Buffett & Munger's stringent standards to a large degree. We can imagine Charlie Munger asking of each, "Does it drown in cash? Does it have a moat? Would we be happy owning this forever?" – and the answer being yes.

Continuous Monitoring and 30-Day Refresh

Picking The27 is not a one-and-done task. Prudent investors in the Buffett/Munger mold continuously monitor their holdings to ensure the original thesis holds and to avoid complacency. Every 30 days (and indeed on an ongoing basis) we refresh our analysis, asking:

- Are these companies still exhibiting growing or stable high FCF? We check the latest earnings and guidance. If a company's cash flow declines unexpectedly or its growth stalls, we investigate why. For example, if a top FCF generator like Meta or Oracle sees a dip, is it due to a one-time investment (acceptable) or a sign of a weakening moat (red flag)?

- Do they remain reasonably valued, or has exuberance ("greed") made them overpriced? One of Buffett's famous rules is to avoid getting caught up in market euphoria. If one of The27 sees its stock skyrocket far beyond fundamentals (e.g. a bubble in AI stocks might bid NVIDIA to extreme valuations), we might trim or remove it from the list until its price aligns with reality. This is crucial because greed can turn even a great company into a poor investment . We essentially ensure none of our 27 have migrated into the list of 473 overhyped companies that merit short consideration.

- Are any of The27 showing signs of deteriorating moats or emerging risks? We update our thesis with news: new competitors, regulatory changes, disruptive technologies, etc. For instance, if a regulatory change significantly threatened Visa/Mastercard's fees, that could warrant a review. Or if a drug in AbbVie's pipeline fails, affecting long-term FCF, we'd reassess. Buffett and Munger focus heavily on avoiding big mistakes, so we would act if a company's long-term prospects truly impaired.

- Does each company still pass the Buffett/Munger "quiz"? Imagine Warren and Charlie peppering us with questions each quarter: "What's the cash doing? Any foolish acquisitions? Is the debt up?" We verify that management isn't deviating into value-destructive moves. For example, if Salesforce returned to aggressive expensive acquisitions that hurt FCF, we'd be cautious. Our 30-day check includes reading transcripts and filings for any changes in capital allocation policy or strategy.

- Identify new candidates and swap if needed: The business world is dynamic – a company outside our list might rise to become an FCF titan (e.g. a new tech firm turning profitable), or one of the 27 might falter. Every refresh, we screen for any up-and-comers that exhibit superior FCF growth that could surpass a current member. We also watch the "473 short candidates" (presumably companies with weakening fundamentals or excessive valuations) to ensure none of our holdings should actually belong there. If one of our picks starts showing traits of the 473 (e.g. slowing cash flows combined with a skyrocketing stock due to hype – a classic mean-reversion setup), we won't hesitate to remove it and possibly even short it. In essence, we're continuously ranking companies by our combined indicators (absolute FCF and FCF growth) and re-prioritizing accordingly.

This disciplined refresh cycle leverages Buffett's advice about temperament: be bold when the market presents opportunity and cautious when it overheats. By checking our list against the broader market every 30 days, we apply a contrarian, value-driven lens. We trim greed and embrace fear. For instance, if a market panic hits a fundamentally strong company (say a temporary scandal or macro fear hitting J&J or Alphabet), its price may drop while its FCF outlook remains solid – our analysis might then add more of it (or keep it firmly in The27) to be "greedy when others are fearful" . Conversely, if irrational exuberance doubles a stock without FCF to back it, we grow fearful and might remove it.

In practical terms, we may maintain a watchlist of the next-best candidates and the current 27's metrics. We'll review FCF quarterly reports, analyst updates, and any warnings signs (like falling FCF margins or rising debt). We document any changes and decide if a swap is warranted. Fortunately, many of The27 are so well-established that 30-day intervals rarely bring radical change – but our vigilance ensures we catch inflections early. It's the Buffett approach of continuous learning about our businesses, combined with Munger's mandate to "invert, always invert" – looking for what could go wrong.

By refreshing the list this way, we ensure our portfolio remains composed of true FCF winners and not strays that belong on the "short" list. This dynamic approach directly applies market dynamics: when greed drives a stock far above its intrinsic value (mean), we consider shorting or at least removing it, expecting reversion to a sane price. When fear drives a quality stock below intrinsic value, we hold or add, expecting a rebound as mean reversion restores its valuation. This dual-long-short framework uses the opposing forces of greed and fear to our advantage, much like how Buffett did when he provided lifelines to good companies in panic (greedy then) and shunned hot stocks in bubbles (fearful then).

In summary, The27 FCF Titans are the elite companies we rely on as Fund A anchors, selected with our investing gurus' philosophy to the letter. They lead their industries in raw free cash flow and in expanding that cash flow, which are key predictors of long-term value creation. By rigorously checking that each pick retains its merits and by being willing to act (buy more, hold, trim, or short) based on valuation extremes, we ensure that our portfolio truly "knows its stuff." In the spirit of Buffett and Munger, we focus on owning outstanding businesses and continually ask ourselves the tough questions they would – this keeps us intellectually honest and aligned with our mentors' time-tested strategies.

Buffett once said, "All there is to investing is picking good stocks at the right time and staying with them as long as they remain good companies." We believe The27 are "good companies" by the highest standards, and with regular re-evaluation, we intend to stay with them as our core longs – while shorting or avoiding the rest (the mediocre 473) that don't meet those standards. This way, our fund marries the wisdom of Buffett and Munger with a proactive strategy to capitalize on the market's swings of greed and fear, aiming for superior, guru-approved results over the long run.

Sources: Buffett & Munger insights on preferring cash-rich businesses , high returns on capital for compounding , and contrarian stance on market sentiment ; Data on top global free-cash-flow companies (Apple, Aramco, NVIDIA, Microsoft, Alphabet, Meta, etc.) ; Examples of FCF figures – Apple $108.8B, Microsoft $72.7B ; Meta's $52B 2024

FCF ; Amazon's return to $38B FCF ; NVIDIA's surge to $60.7B FCF ; Tencent's ~$25B FCF ; Saudi Aramco's world-leading profits . These illustrate the scale and growth of cash flows for our selected companies and underpin their inclusion in The27.

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Adjusting Allocations: Undervalued Stocks vs. Overvalued Risks

Historic Market Overvaluation and Risks

Market valuation indicators show the S&P 500 at extreme highs relative to historical norms (percent above historical fair value). At the current market juncture, broad equity valuations are at or near record highs by multiple measures. For example, as of July 2025 the average of four major valuation metrics (e.g. Crestmont P/E, cyclically-adjusted P/E, Q ratio, etc.) indicated the market was 144% above its historical mean – the highest level ever recorded . Such stretched valuations imply a significant risk of overvaluation. In practical terms, investors allocating new money now could end up "unhedged bag holders" if they buy into the most overpriced stocks at what may prove to be the cycle's peak. Indeed, analysts warn that the overall market is overvalued by 111%–183% depending on the indicator used , which underscores the importance of avoiding assets at frothy prices. The goal is to reduce exposure to those risky, over-hyped names (the 473 stocks previously identified as high-risk) and rotate capital toward more reasonably valued, fundamentally strong companies.

Identifying Undervalued Cash Generators

In this environment, our focus shifts to undervalued, cash-generative businesses where valuations are anchored by real earnings and free cash flow. Undervalued stocks are those trading below what objective analysis suggests they're worth. They often have solid underlying financials (strong balance sheets, robust free cash flows, stable profits), yet their share prices lag due to temporary market sentiment or sector rotation . A common indicator is a low price-to-earnings (P/E) ratio, which signals the stock price is low relative to the company's earnings. Stocks with lower P/E ratios (especially compared to peers or the market average) can indicate "valuable stock on sale," as one advisor notes . We also examine free cash flow yield (cash flow/price) and dividend yields to gauge value. The key is that these companies are "printing cash" – i.e. generating substantial earnings and cash flow – but are not trading at exorbitant multiples. By reallocating to such names (which are outside the list of 473 overvalued equities we flagged earlier), our limited partners can deploy new capital into assets with a margin of safety and avoid overpaying at "the highest of high points" in the market. Below we present a sorted list of recommended companies – spanning the S&P 500 and major global businesses – that fit this profile of reasonable valuation and strong fundamentals.

Undervalued U.S. Large-Cap Stocks (S&P 500)

The following stocks from the S&P 500 index trade at low earnings multiples and have solid business models, making them attractive for new allocations. (Sorted by ascending P/E ratio – lower P/E indicates more earnings for the price):

- Comcast Corp (CMCSA) – A major media and telecom conglomerate trading at a trailing P/E of only ~5.4 . This ultra-low multiple likely reflects market fears around cord-cutting and a one-time boost to earnings, but Comcast's steady profits from broadband, content (NBCUniversal), and theme parks suggest the stock is undervalued relative to its cash generation. Its underlying businesses remain cash-cow operations, making this valuation look disproportionately low.

- Centene Corp (CNC) – A leading health insurance provider (focused on managed care) with a P/E of ~6.4 . Centene's share price has been under pressure, possibly due to healthcare regulatory uncertainties, but the company has a history of consistent revenue and earnings growth. Such a single-digit P/E, despite Centene's solid balance sheet and stable cash flows, implies significant undervaluation if its Medicaid and Medicare plan businesses continue performing well.

- APA Corporation (APA) – An oil and gas exploration & production company (formerly Apache Corp) valued at a mere 6.6× earnings . APA benefits from high energy prices and has kept capital spending disciplined, resulting in strong free cash flow. Similarly, peer Devon Energy (DVN) trades around 7.3× earnings . These low multiples in the energy sector reflect cautious sentiment about future oil prices, yet companies like APA and DVN are minting cash at current commodity prices. Their robust cash flows (often returned via dividends and buybacks) make them attractive as value plays in an overpriced market.

- Delta Air Lines (DAL) – One of the largest U.S. airlines, trading at only about 7.5× trailing earnings . Travel demand has rebounded strongly, and Delta's latest results have been profitable, yet investor skepticism (perhaps memories of past cycles and debt levels) keeps the valuation depressed. At this P/E ~7–8, Delta is priced as if its earnings are unsustainable, but current cash flows are very strong (Delta's operating cash flow hit multi-year highs with post-pandemic travel). While airlines are cyclical and sensitive to fuel costs, Delta's low valuation provides a cushion – it represents an example of a cash-generative business being valued as if it's in distress, which presents opportunity if managed prudently.

- General Motors (GM) – The Detroit automaker is valued at about 8.3× earnings . GM is investing heavily in electric vehicles, which has dampened recent earnings, but it remains consistently profitable in its core auto business and is one of the largest U.S. automakers by revenue. An 8× P/E for a company of GM's scale (with ~$10B+ in annual profits in good years) signals that the market is very pessimistic on legacy auto. However, GM's strong brands and financing arm continue to generate cash. If it navigates the EV transition successfully (or even just maintains moderate profitability), the stock is significantly undervalued. Notably, many automakers globally trade at similarly low multiples – for example, Toyota is around 9× – reflecting cyclical fears that may be overdone in GM's case .

- Allstate Corp (ALL) – A major U.S. insurance company (property & casualty insurer) with a P/E of ~9.4 . Allstate's valuation has been weighed down by recent catastrophe losses and inflation in claim costs. However, the company has been raising premiums and has a long track record of underwriting profitability. Insurance businesses tend to be solid cash generators over time (premium float invested for income). Allstate's current multiple (under 10) is well below the market average, even though its core business remains sound and book value is growing. This suggests upside as pricing catches up with risk – and meanwhile Allstate pays a healthy dividend, rewarding investors for their patience.

- Qualcomm (QCOM) – (Honorable mention in tech) A leading semiconductor and wireless technology company trading at ~19× earnings . While not as deeply "cheap" as the names above, Qualcomm's multiple is modest relative to other tech giants. It boasts dominant chip market share in smartphones and a lucrative patent licensing division , yielding strong cash flows. The stock's valuation accounts for recent dips in handset demand, but Qualcomm remains a cash-rich, high-margin business. Compared to many hyper-growth tech stocks (often 30–40× earnings), Qualcomm looks reasonably valued – a cash-generative tech firm at a moderate price. This makes it a sensible overweight for investors rotating out of pricier mega-cap tech.

(The above U.S. stocks are not in our list of 473 overvalued names – instead, they represent pockets of value within the S&P 500 where earnings are strong but valuations remain low.)

Global Cash-Rich Giants (Beyond the S&P 500)

In addition to U.S. equities, some of the world's largest traded businesses outside the S&P 500 are also attractive for capital reallocation. These include international conglomerates and sector leaders that are "printing cash" in terms of earnings, yet their valuations are not excessive. For example, Emirates Airline (which is not publicly listed) just delivered a record profit of AED 19.1 billion (~$5.2 billion) in FY2024–25, making it the world's most profitable airline . Such performance illustrates how global enterprises are generating substantial cash flows. Below we highlight investable global giants with strong fundamentals and moderate valuations:

- HSBC Holdings (HSBA.L) – One of the world's largest banks, headquartered in London with extensive operations in Asia. HSBC trades around 8× earnings , reflecting investor caution toward banks. Yet it has benefited from rising interest rates (expanding net interest margins) and boasts global banking revenues in the tens of billions. HSBC's low P/E, despite solid profitability and dividends, indicates a value opportunity. In fact, an 8× multiple is a deep discount relative to market averages – the stock appears to price in an overly bearish outlook. As HSBC continues to churn out profits (recent quarterly net income has been robust), this valuation leaves room for upside as confidence in the banking sector normalizes.

- Toyota Motor Corp (TM) – The largest automaker globally, with a trailing P/E near 9 . Toyota is a cash-rich industrial powerhouse: it pioneered hybrid vehicles (Prius), has a sterling balance sheet, and consistently generates ~$20+ billion in operating profit annually . The stock's single-digit P/E likely stems from concerns about the auto cycle and competition in electric vehicles. However, Toyota's diversified lineup, strong emerging market presence, and massive scale give it resilience. The low valuation implies little growth expected, even as Toyota invests in EVs and autonomous tech for future expansion. For a company of Toyota's global dominance and cash flow, 9× earnings is quite low, suggesting significant long-term value if the company executes on new technologies.

- Saudi Aramco (2222.SR) – The Saudi Arabian oil giant (Saudi Aramco) is the world's most profitable company, yet its stock trades at only ~14.6× earnings . In the last twelve months Aramco earned an astounding $101 billion in net income , thanks to its low-cost production and high crude prices. The company also pays one of the largest annual dividends globally (around $75 billion), which equates to a ~4% yield at the current market cap. Despite these strengths, Aramco's valuation (mid-teens P/E) is modest – especially compared to Western oil majors at similar or higher multiples with lower production volumes. Aramco's inclusion offers our portfolio exposure to an enormous cash generator that is not overvalued by market standards. Its stable, state-backed operations and huge cash flows make it a relatively defensive asset in the global equity landscape .

- Reliance Industries (RELIANCE.NS) – India's largest traded company, a conglomerate spanning energy, petrochemicals, telecom (Jio), retail, and more. Reliance delivered a record ₹81,309 crore net profit in FY2025 (≈$9.6 billion) , yet its stock trades at roughly 20× earnings (in line with its 5-year average valuation). Given Reliance's mix of stable cash-cow businesses (oil refining & petrochemicals) and high-growth ventures (telecom and digital services), a 20× multiple is reasonable – if not modest – for this level of earnings power. The company's operating cash flow has grown dramatically (quadrupling over the past decade) , underscoring its cash generation. With Reliance continuing to expand its consumer and tech ventures, investors buying at ~20× are getting a well-diversified, cash-generative empire at a fair price. This is a stark contrast to many hyped tech stocks with similar multiples but far less proven profitability.

- Tata Consultancy Services (TCS) – A global IT services and consulting leader based in India (part of the Tata Group). TCS consistently produces high profit margins (~25%) and hefty free cash flows from its large base of enterprise clients. Despite its quality, TCS trades at a P/E of about 21.7 currently – a far cry from the 30–40× multiples seen in many software/SaaS firms. TCS has virtually zero debt, $5–6 billion in annual profit, and robust dividend payouts. Its valuation has historically hovered in the low-20s P/E, reflecting steady (if unspectacular) growth. For a business with recurring revenues, high return on equity, and strong cash conversion, paying ~22× earnings is quite attractive. TCS exemplifies a cash-printing tech company available at a reasonable valuation – it belongs to a category of global stocks that offer growth without the extreme price tag.

- SAP SE (SAP) – Europe's largest software company (enterprise software/ERP leader) known for its strong cash generation. SAP produced about $7.45 billion in free cash flow over the last 12 months and enjoys 18% net profit margins , highlighting its ability to "print cash." We include SAP as an example of a cash-rich global tech firm, though we note its stock has rallied and currently trades at a higher valuation (P/E 40+). Even so, SAP's cash flow and entrenched position in mission-critical business software make it a relatively defensive growth stock. Its inclusion underscores that not all big tech is wildly overvalued – some, like SAP, are backed by real earnings (albeit one should ideally watch for a better entry point given its recent price strength). Long-term investors may still favor SAP for its reliable cash flows and dividends, but compared to the other names on this list, SAP's valuation is on the richer side.

Note: The global companies above are outside our list of 473 overvalued stocks. They are chosen specifically because they combine large-scale earnings power with valuations that are not at extremes. By reallocating capital from overpriced holdings into names like these, our LPs can improve the risk/reward profile of the portfolio. In effect, we are tilting towards strong cash generators trading at reasonable multiples and away from stocks that are "priced for perfection." This strategy aims to protect the portfolio from the downside of a market correction (since undervalued stocks have valuation support), while still positioning us to benefit from the continued cash flow growth of these businesses. In summary, shifting allocations toward these recommended companies – and out of the overly rich names in the prior 473 list – should help us avoid being unhedged at the peak and ensure new capital is deployed in assets with robust fundamentals and attractive valuations. Each of the companies above stands on a solid earnings foundation, offering better odds of long-term value creation even if broader market multiples contract from today's highs .

Sources: Market valuation data from Advisor Perspectives ; S&P 500 low P/E stock list (August 2025) from NerdWallet/Finviz ; global company financials from CompaniesMarketCap, Reuters, and annual reports (see citations).