Why Buy into Share Buybacks?

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A share buyback, also known as a share repurchase, is a corporate action whereby a company goes into the open market and purchases its own outstanding shares. While the mechanics of a stock buyback are relatively simple, the reasons for why a company would choose to conduct a buyback are many. For example, a repurchase announcement could signal a company's confidence in its future. If the company feels its stock is undervalued at the current price, shares could presumably be bought at a discount. For the company and its shareholders, buybacks reduce the total number of shares outstanding, thereby increasing the likelihood that future earnings-per-share (EPS) could be higher, which could translate into a more valuable company (i.e. higher stock price). Lastly, buy backs are a more flexible way to return cash to shareholders than an increase in a dividend, since companies generally do not like to cut dividends, and buyback programs can be halted relatively easily.

Please keep in mind that while share buyback programs are often a positive for shareholders, there can also be drawbacks including overpaying for shares if the intrinsic value is, in fact, not higher than the current share price; buybacks reduce cash on balance sheets; buybacks can be funded with debt, which may or may not be in the best interests of the company over the long-term; and buybacks utilize capital that could be reinvested into the business.

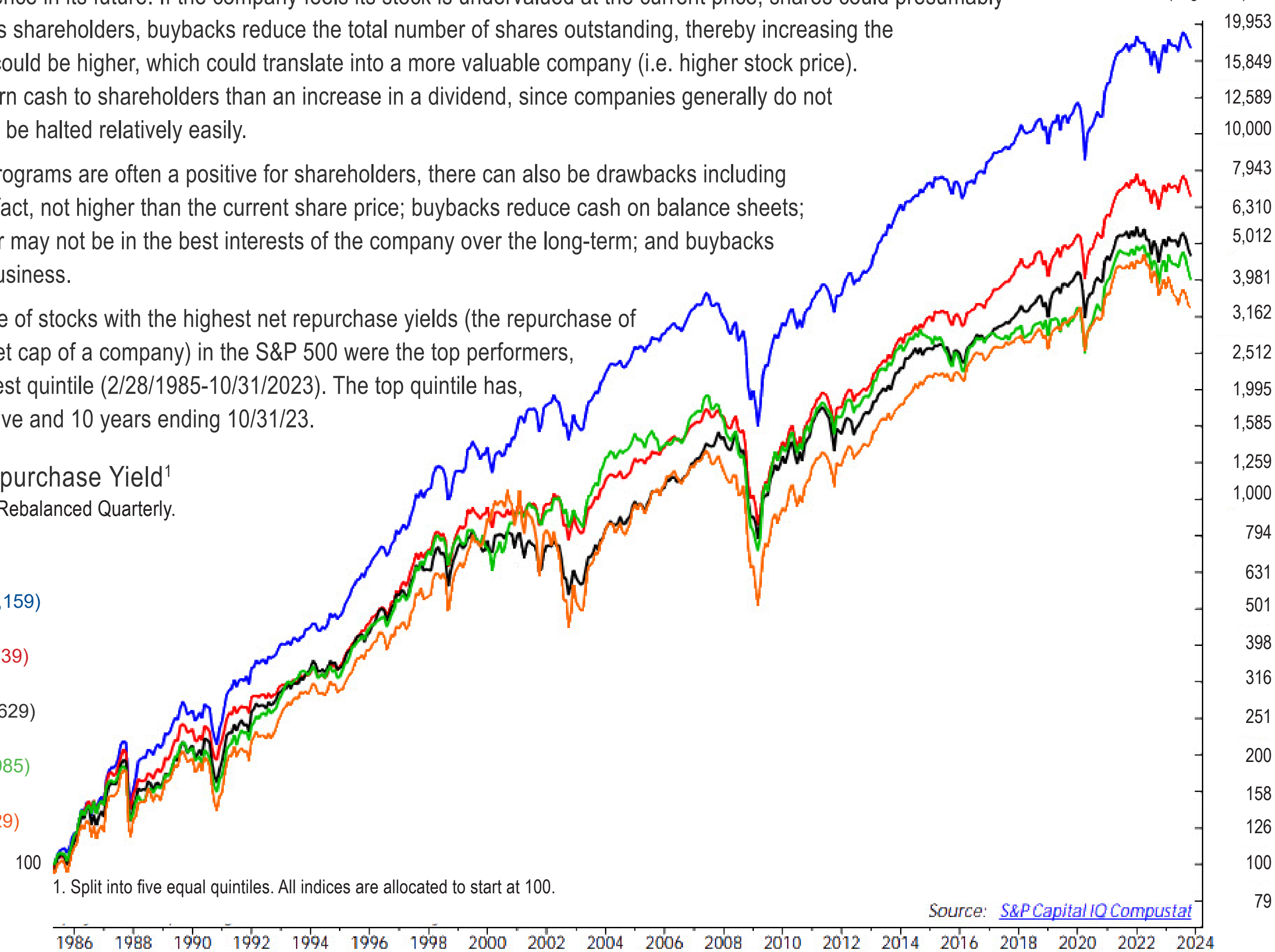
As illustrated in the graph to the right, the quintile of stocks with the highest net repurchase yields (the repurchase of outstanding shares divided by the existing market cap of a company) in the S&P 500 were the top performers, gaining 14.2% annually versus 9.5% for the lowest quintile (2/28/1985-10/31/2023). The top quintile has, in fact, outperformed for the trailing one, three, five and 10 years ending 10/31/23.

Returns of S&P 500 Stocks by Net Repurchase Yield[1]

Monthly data. Equity Lines are Equal-Weighted and Rebalanced Quarterly.

2/28/1985 – 10/31/2023

- Quintile 5 (Highest)
  Gain Per Annum = 14.2% (100 Grows To 17,159)
- Quintile 4
  Gain Per Annum = 11.5% (100 Grows To 6,739)
- Quintile 2
  Gain Per Annum = 10.4% (100 Grows To 4,629)
- Zeroes
  Gain Per Annum = 10.0% (100 Grows To 3,985)
- Quintile 1 (Lowest)
  Gain Per Annum = 9.5% (100 Grows To 3,329)



1. Split into five equal quintiles. All indices are allocated to start at 100.

Bottom Line

- Stock buybacks for S&P 500 companies have increased significantly including a record in 2022 of $923 billion according to Ned Davis Research. In fact, large US companies have spent over $3.9 trillion in the last five years on stock repurchases, according to S&P 500 Dow Jones Indices.*
- Companies in the S&P 500 with the highest net repurchase yields were the top performers over the long-term.
- With a standard deviation (volatility of returns) similar across all quintiles, those companies with the highest net purchase yields also had the highest risk-adjusted performance, as measured by the Sharpe Ratio.
- Strategies focused on companies that have conducted buybacks can complement your dividend-oriented allocations and provide another powerful source of potential shareholder return.

S&P 500 STOCKS BY NET REPURCHASE YIELD
(2/28/1985 to 10/31/2023)

	Gain Per Annum (%)	Sharpe Ratio	Standard Deviation
Quintile 5 (Highest)	14.22	0.62	17.70
Quintile 4	11.50	0.52	16.13
Quintile 2	10.42	0.42	17.25
Zeroes	9.99	0.39	17.62
Quintile 1 (Lowest)	9.48	0.31	20.28

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* Source: https://www.kiplinger.com/investing/stocks/what-is-a-stock-buyback, July 23, 2023.

All investments involve risk; principal loss is possible. An investment in common stocks should be made with an understanding of the various risks of owning common stock, such as an economic recession and the possible deterioration of either the financial condition of the issuers of the equity securities or the general condition of the stock market.

DEFINITIONS: Earnings-per-share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. **S&P 500 Index** is an unmanaged market capitalization weighted index used to measure 500 companies chosen for market size, liquidity and industry grouping, among other factors. **Sharpe Ratio** is a measure for calculating risk-adjusted returns. The Sharpe ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk. The higher the Sharpe ratio, the better the risk-adjusted performance. **Standard deviation** measures the volatility of an investment's returns. Higher deviation represents higher volatility.

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