DOW THEORY
FORECASTS

Bring on the buybacks

Companies in the S&P 500 Index spent more than $550 billion on share repurchases in 2014, up 16% from 2013 and more than triple the recession-stunted level in 2009.

While 2014 buybacks did not match the $589 billion spent in 2007, they reflect a decades-long trend toward repurchases becoming companies' preferred way to share their excess capital with stockholders.

S&P 500 companies spent about 55% more on buybacks than on dividends last year, and about 45% more over the last six years. The percentage of all U.S. stocks buying back shares reached 43% in 2013, up from 28% in 1980, while the percentage of dividend-payers fell to 40% from 78%.

From the corporate side, buybacks offer several advantages over dividends:

- Buybacks can signal that a company is optimistic about its own future, and in some cases bolster the argument that its shares represent a good value.

- The market often punishes companies for cutting dividends, which many investors view as promises of future payments. However, buybacks can ebb and flow from year to year with less blowback.

- For right or wrong, some investors associate dividends with stodgy, slow-growing companies. Buybacks carry no such stigma.

- Buybacks can reduce the share count, boosting profit growth on a per-share basis.

- Stock buybacks change investors' perception of a company's investment appeal. Academic studies suggest stocks tend to rise on buyback announcements. Those that actually repurchase shares average higher returns over the next four years, with value stocks seeing the biggest excess returns.

Buybacks alone don't make a stock worth buying. But, all else equal, we like to see a company willing to invest in its own shares.

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