



STRATEGIES

The Flip Side of Stock Buybacks

More companies are buying back their shares, but it's not always the best move for investors.

T'S BEEN OUT OF FAVOR for nearly two years, but corporate America is starting to step up to the plate again on a closely watched indicator of its health: corporate buybacks. But just how much investors should care is another matter.

According to the most recently available figures, companies in the Standard & Poor's 500 stock index spent nearly \$35 billion on share repurchases in the third quarter of 2009, a 44 percent increase from the second quarter. Companies in the Russell 2000 index, which tracks smaller firms, saw a 23 percent increase in the same period, according to InsiderScore, which follows such purchases. The stock buybacks are still well below their bull market peak, but some on Wall Street say it's another sign of recovery. "We see a positive in the form of investable dollars entering the market," Goldman Sachs told clients.

Companies that buy back their shares often say it's a vote of confidence in themselves. But while no one is about to argue that buybacks are bad news, some

experts say they're not all they're cracked up to be, either. For one thing, some buyback announcements amount to a head fake—companies don't follow up with purchases. And those that do buy their shares might be sacrificing future opportunities. "It takes resources away from what they could be investing in—innovation and growth," says Rita Gunther McGrath, an associate professor at Columbia Business School.

But perhaps the biggest problem is corporate decision makers often have terrible timing, buying back shares when stock prices are high and suspending programs when stock prices are low. Indeed, the amount of money spent on buybacks fell sharply in the first half of 2009—after stocks had been hammered in the bear market. "When times get tough is when you should be buying your shares back to show confidence," says Cliff Remily, cofounder of the \$4 billion Thornburg Investment Income Builder fund.

Buybacks can, of course, help highlight companies with strong balance sheets. But some experts say a better indicator of a promising stock is insider buying—executives stepping up to buy shares for themselves. "When you see reasonably large purchases by insiders that already have a decent amount of capital tied up in a business, that's a pretty strong statement," says Christian Andreach, managing director of investment firm Manning & Napier.

—Deborah L. Cohen

ON THE REBOUND



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