

## STOCK BUYBACKS, APPLE AND WARREN BUFFETT

CRITICS ARE "EITHER AN ECONOMIC ILLITERATE OR A SILVER-TONGUED DEMAGOGUE"

In the world of finance and investing, stock buybacks have become a focal point for corporations aiming to maximize shareholder value. The recent surge in buyback programs, exemplified by Apple's monumental announcement of a \$110 billion repurchase plan, underscores the significance of this strategy in today's market landscape. Let's delve into what stock buybacks entail, their historical context, and why they are often viewed favorably by shareholders.

### WHAT IS A STOCK BUYBACK?

A stock buyback, also known as a share repurchase, is a corporate action in which a company purchases its own outstanding shares from the open market or directly from shareholders. This process effectively reduces the total number of outstanding shares, thereby boosting the ownership stake of the remaining shareholders in the company.

### HISTORY OF STOCK BUYBACKS

The practice of companies buying back their own shares has a storied history, dating back several decades. Initially popularized in the 1980s during the era of leveraged buyouts and corporate restructuring, stock buybacks gained traction as a means to enhance shareholder returns and streamline capital structures. Over time, buybacks evolved into a commonplace strategy deployed by companies across various sectors.

### BENEFITS FOR SHAREHOLDERS

Stock buybacks are often perceived as a favorable move for shareholders due to several reasons:

**EARNINGS PER SHARE ENHANCEMENT:** By reducing the number of outstanding shares, a company's earnings per share can increase, assuming profits remain constant. This can result in higher stock prices and improved shareholder value.

**RETURN OF EXCESS CASH:** Companies often initiate buyback programs to efficiently utilize excess cash reserves. Rather than hoarding cash, which can dilute returns on equity, buybacks allow firms to return capital to shareholders in a tax-efficient manner.

**SIGNAL OF CONFIDENCE:** A robust buyback program can signal management's confidence in the company's future prospects. This vote of confidence can boost investor sentiment and attract additional investment.

### CURRENT TRENDS AND INSIGHTS

The current enthusiasm surrounding stock buybacks is exemplified by Apple's recent announcement, propelling the tech giant's stock to its highest levels in years. Notably, Apple's buyback program is part of a broader trend, with numerous companies announcing

similar initiatives. According to data from Birinyi Associates, over 440 companies have unveiled buyback plans this year, reflecting a significant uptick from previous years.

### WARREN BUFFETT ON BUYBACKS

Renowned investor Warren Buffett has been a vocal advocate of stock buybacks, dismissing critics and emphasizing their benefits for shareholders. Buffett's endorsement underscores the belief that well executed buybacks, conducted at attractive valuations, can yield substantial returns for investors over the long term.

Buffett's sentiment towards buybacks is rooted in his appreciation for management teams that strategically deploy capital to intensify shareholder ownership. By applauding companies that choose to repurchase shares, Buffett signals his endorsement of prudent capital allocation strategies that can enhance long term shareholder value.

In a 1996 shareholder letter, Buffett expressed admiration for companies intensifying

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*"It's far  
better to buy  
a wonderful  
company at a  
fair price than  
a fair company  
at a wonderful  
price."*

- WARREN BUFFETT

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shareholder ownership through buybacks when he said that he has "enormous respect for the power of a really outstanding business. And we recognize how scarce they are. And if a management wishes to further intensify our ownership by repurchasing shares, we applaud."

And just recently, Buffett said critics of stock buybacks are "either an economic illiterate or a silver-tongued demagogue" or both, and all investors benefit from them as long as they are made at the right prices.

While debates persist regarding the optimal use of corporate funds, buybacks continue to be embraced by investors and corporate leaders alike, fostering a dynamic landscape where shareholder interests remain paramount.

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### SHAREHOLDER INTERESTS MATTER

Stock buybacks represent a pivotal strategy for corporations seeking to optimize capital allocation and drive shareholder value.

**OUR OFFICE WILL BE CLOSED WEDNESDAY, JUNE 19TH IN  
OBSERVANCE OF THE JUNETEENTH FEDERAL HOLIDAY AND  
THURSDAY, JULY 4TH FOR INDEPENDENCE DAY.**