

AAll Members Split on Importance of Stock Buybacks

This week's special question asked AAll members how important it is for a company to buy back its shares. Though the responses varied, one theme appeared regardless of a member's opinion about buybacks: Other uses of cash should be given priority before shares are repurchased. Nearly 17% of all respondents said dividends or growing the business should take precedence over buybacks.

In terms of how necessary it is for a company to buy back shares, 30% of respondents said share repurchases are not important. The second-largest group (23%) said stock buybacks are important or otherwise viewed them favorably. Several of these respondents said share repurchases show optimism on the part of management, while some others liked buybacks only if they reduced the number of shares outstanding or offset employee stock awards. Approximately 13% of respondents said their opinion depends on factors such as which other uses for cash are available or the reasons behind the buyback. Slightly more than 10% of respondents were against share buybacks. Some of them thought buybacks signal that there is not a better use for cash, while others wanted the money to go to raising dividends instead.

Here is a sampling of the responses:

- "Not important at all, though I would rather see a company use its money for dividends as opposed to buybacks."
- "Depends on what other things the company is doing. Generally, I look very favorably on companies that buy back their stock."
- "I believe it is a good thing if conditions such as valuation and free cash flow give merit."
- "They are a warning sign that management has not found better opportunities for growing the business."
- "Not important. I would rather see dividends or capital investment."
- "I am concerned that companies buy back stock when the price is high."