

Dividends and Buybacks Drive Stock Returns

✘ The return of capital by companies to shareholders is a key contributor to long-term returns. A [forthcoming study](#) by Morningstar's Philip Straehl and Yale's Roger Ibbotson attributes more than two-thirds of the real (inflation-adjusted) return in stock prices for the period of 1871 through 2014 to total yield.

Return of capital includes both dividends and stock repurchases. Dividends, the distribution of cash to shareholders, have a longer history of driving historical stock returns. The increased prominence of buybacks—the repurchase of shares by companies—is attributed to a rule adopted by the Securities and Exchange Commission in 1982. Straehl and Ibbotson found a gradual substitution of buybacks for dividends starting in the early 1980s. They say this shift has resulted in buybacks surpassing dividend payments in eight out of the last 10 calendar years.

DOES HOW CAPITAL IS
RETURNED MATTER?

<u>ECONOMIC THEORY</u>	<u>REALITY</u>
NO!	YES! (FOR MANY INVESTORS)

Buybacks are not without controversy. Unlike dividends, there is rarely a penalty for a company not repurchasing all of the shares authorized by a buyback program. (CEOs, however, might face the ire of activist investors.) Stock buybacks also can inflate earnings per share growth by simply reducing the number of shares outstanding. Since buybacks increase the proportionate ownership of a company each share represents, earnings per share can increase even when net income is flat or declines slightly when a company reduces the number of shares outstanding. [Continue Reading »](#)

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Journal—our most popular benefit. Topics covered include financial planning, retirement issues, taxation, fund and stock selection, stock screening and a host of timely investment ideas and concepts that you're certain to benefit from.



Forbes Magazine says, "The *AAII Journal* is a thoughtful mix of investment professionals' views" and that "the \$29 a year it costs to belong to AAI is a bargain."

Free Guide—New Members are rushed a comprehensive guide that covers our popular library of Stock Screens in great detail.

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AAII Model Portfolio Update

Two stocks were sold from the Model Shadow Stock Portfolio and one stock was added. **An alert** detailing the transactions was issued yesterday after the close of trading. Members can receive the alerts by signing up for the **Model Portfolio Update email**.

More on AAI.com

- **"What Works": Key New Findings on Stock Selection** - Jim O'Shaughnessy discussed how he uses shareholder yield as part of a composite valuation measure.
- **Stock Buybacks: Misunderstood, Misanalysed and Misdiagnosed** - Aswath Damodaran explained how buybacks can be a positive or a negative event for shareholders.

Highlights from this month's *AII Journal*

- **Piotroski Price-to-Book Screen** - AAI President John Bajkowski shows how the F-Score, which analyzes a company's underlying financial strength, can be used for stocks with high and low valuations in the new June *AII Journal*.
 - **The Dual Personalities of Investors** - Turbulent markets often cause investors' personalities to move into a "dark zone."
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AAI Sentiment Survey

Optimism receded, falling to an unusually low level for the second time in three weeks. [More about this week's results.](#)

This week's results:

- Bullish: 26.9%, down 5.9 points
- Neutral: 41.5%, up 4.4 points
- Bearish: 31.5%, up 1.5 points

Historical averages:

- Bullish: 38.5%
- Neutral: 31.0%
- Bearish: 30.5%

Take the [Sentiment Survey.](#)

AAI Asset Allocation Survey

Fixed-income allocations fell to their lowest level in two years, but remain close to their long-term historical average. [More about the latest results.](#)

May AAI Asset Allocation Survey results:

- Stocks and stock funds: 67.4%, up 2.1 percentage points
- Bonds and bond funds: 15.5%, down 2.5 percentage points
- Cash: 17.2%, up 0.4 percentage points

May AAI Asset Allocation Details:

- Stocks: 34.7%, up 0.4 percentage points
- Stock Funds: 32.7%, up 1.7 percentage points
- Bonds: 4.1%, down 1.6 percentage points
- Bond Funds: 11.4%, down 1.0 percentage points

Take the [Asset Allocation Survey](#).

The Week Ahead

AAII President John Bajkowski will give our [Rochester, NY, chapter](#) suggestions on how to find a winning stock on Wednesday.

Just two members of the S&P 500 are scheduled to report earnings: Brown-Forman Corporation (**BF.B**) on Wednesday and J.M. Smucker Co. (**SJM**) on Thursday.

The week's first economic reports will be revised first-quarter productivity, April factory orders and the May ISM non-manufacturing index, all of which will be released on Monday. Tuesday will feature the Labor Department's April job openings and labor turnover survey (JOLTS).

Local Chapter Meetings

AAII Local Chapter Meetings offer you a variety of presentations from expert speakers who will give you their view on the world of investing. A bonus of attending a Chapter Meeting near you is the opportunity to meet other AAI members who share your interest and enthusiasm for investing. You can even share the Chapter experience with your family and friends by inviting them to attend Chapter Meetings with you!

[Upcoming Meetings »](#)

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