

ANNEX BULLETIN

Annex Bulletin 2007-23

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Analysis of Stock Buyback Trends in Corporate America

Are We in "Buyback Bubble?"

S&P 500 Companies Flooding the Market, Turning Nearly All Their Earnings to Wall Street

\$2 Trillion+ of New Buybacks Hit the Street since 2001

*To be, or not to be: that is the question:
Whether 'tis nobler in the mind to suffer
The slings and arrows of outrageous fortune,
Or to take arms against a sea of troubles,
And by opposing end them?*

[William Shakespeare](#) - To be, or not to be (from Hamlet 3/1)

SCOTTSDALE, May 23 - An erstwhile laggard, the S&P 500 index, set a new all-time high this morning (1532.27 as we write this), surpassing the previous record (1,527.46), set on March 24, 2000, the same month the dot-com bubble burst. The narrower Dow Jones index is also at a record high (13,637, reached May 21).

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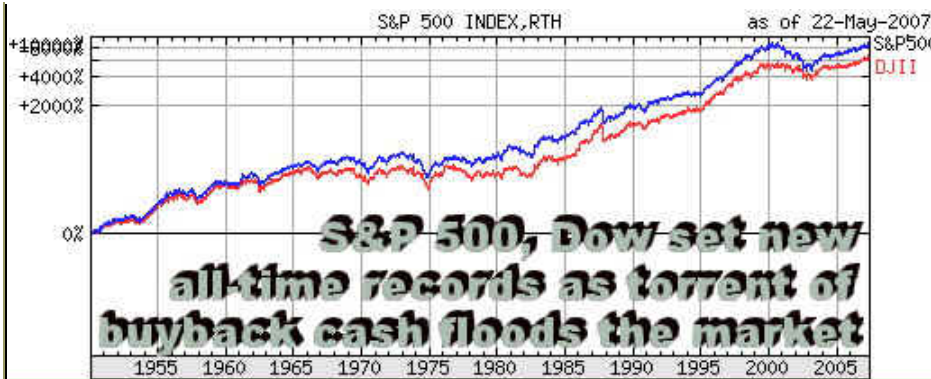
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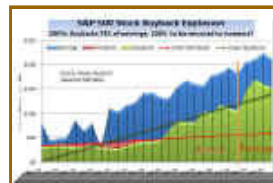


**A "Buyback Bubble" in the Making?
\$2T plowed into buybacks since 2001**

Time to rejoice and buy some more? Reason to sell and retreat?

The answer depends on what you think is driving this bull market. And we think it's the stock buyback boom, especially among the S&P 500 companies. We have been saying for years that the investment cash flows, not corporate business fundamentals, are driving the stock prices. And the nation's largest corporations have been flooding the market with massive amounts of cash (over \$2 trillion of new money into the market since 2001), the S&P data shows.

In fact, they have been turning nearly all of their earnings to Wall Street in the form of buybacks and dividends (\$3.3 trillion, or 96% of their \$3.7 trillion earnings in 2001-2006 time frame). And if the current trends continue, this year the S&P 500 companies may indeed turn all of them and then some, as they did in 2002, for example (click on right thumbnail to enlarge; [click here to see detailed S&P table](#)).



And the trend is accelerating (see "[To Buy \(back shares\) or Not to Buy?](#)", Apr 2007). Less than a week ago, IBM's CFO told us, for example, that IBM intends to buy back another \$40 billion-worth of its shares by 2010, on top of the \$80 billion the company has already spent on stock buybacks since 1995 (see left thumbnail). Big Blue has been spending about \$100 million a day on buybacks, Mark Loughridge said. And that's just one

S&P company!

Just to put things in perspective, the amount of money the S&P 500 have been spending on share repurchases is bigger than the total global direct investments in all developing countries, for example (see the right thumbnail chart). And they include China, Russia, India and Brazil (the so-called [BRIC countries](#)).



The amount of money the S&P 500 have been spending on stock buybacks is bigger than the entire U.S. healthcare expenses, S&P pointed out in its Mar 15 report. It dwarfs the cost of Iraq war. It

[HPS, Caggemini Tie for "Gold" - Results of Octathlon 2007 \[Annex clients click here\]](#)

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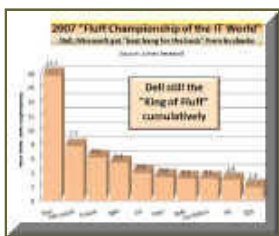
boggles the mind...

And just think... not a single S&P 500 product or a job is created as a result. Except, of course, on Wall Street.

In other words, a veritable mountain of money has been poured into the stock market. It is a financial gusher of unprecedented proportion. And that, in our opinion, is the main reason for the current bull market and the record S&P and Dow indices.

When Will "Buyback Bubble" Burst?

If you accept our theory that the stock buyback boom is underpinning of the bull market, then the question is - when will the boom turn to bust? When will the "buyback bubble" burst?

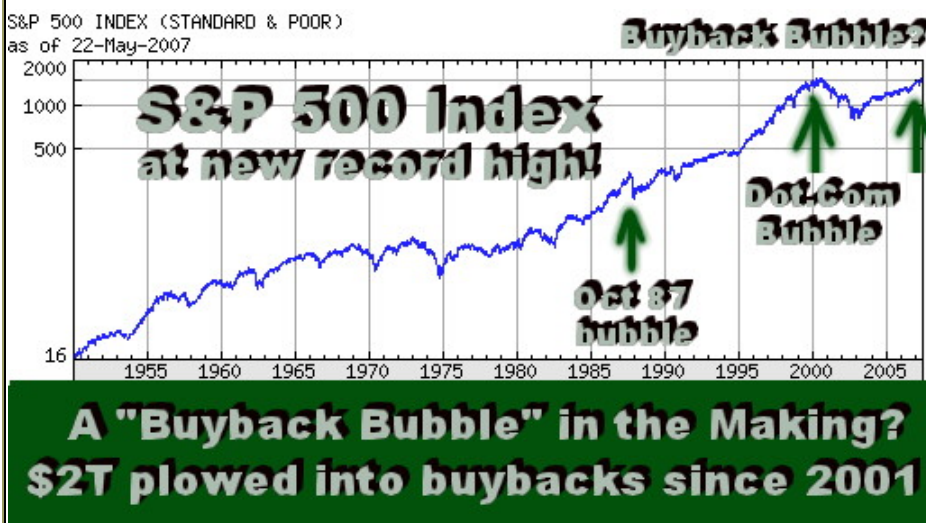


It will burst when corporate earnings hit a rough patch. Dell, for example, our "King of Fluff" for years (see the chart and "Cabbage Patch Dolls of the 1990s," Oct 1998), suspended its buybacks last September when earnings started to slow.

But this presupposes rational behavior on the part of S&P 500 executives. There is no guarantee of that. IBM, for example, said last month it would *borrow* money (!?) to buy some of its stock back. That's like a homeowner taking out a second mortgage to buy back some of his own property instead of investing in home improvements.

Which means that the stock buyback boom may be with us for some time to come, earnings or no earnings. And with it, the bull market, too.

Once the buybacks start abating, however, it may be time to look for greener pastures elsewhere. There is not much greenery around Wall Street anyway, except for the greenbacks, of course. :-)



Which is why it may be instructive to consider some messages from the above S&P 500 index chart. There have been many booms and bubbles that burst in the last 57 years,

[Happy Days Are Here Again](#)
(Analysis of Top 20 IT leaders' latest stock market and business performances)

["Excellenture" Excels Again](#)
(Analysis of Accenture's first quarter fiscal 2007 business results) [Annex clients click here]

[Hedging the Bets](#) (Analysis of latest institutional shareholdings of leading IT companies: IBM, HP, Accenture, EDS, CSC, BearingPoint, ACS, Perot) [Annex clients click here]

[Globalization Accelerates](#)
(Analysis of United Nation's annual survey of global investments)

[IBM: A \\$125-Stock?](#) (An update to "From Small Acorns Mighty Oaks Grow")

[Capgemini: Longest Sustained Stock Price Rise](#)
(An update to "By Leaps and Bounds")

[HP: New King of the Hill](#)
(Analysis of HP's fourth quarter business results)

[IBM: From Little Acorns Mighty Oaks Grow](#) (Analysis of IBM's "State of the Union")

[Capgemini: By Leaps and Bounds](#) (Analysis of Capgemini's preliminary third quarter business results)

[Fujitsu: Good Performance Gets Better, More Global](#)
(Analysis of Fujitsu's first half FY2007 business results)

[IBM: A Slam Dunk Quarter](#)
(Analysis of IBM third quarter business results)

[Accenture's Emphatic Year-end Accents](#) (Analysis of

as you can see. The March 2000 dot-com one was only the latest. The "buyback bubble" may be the next.

Booms always turn to busts, as you can see, before booming again. The art of circumnavigating the market ebbs and flows requires getting off before a ballooning market bursts. Today, that means tuning in to the S&P 500 action plans.

[Click here](#) for detailed stock buyback table of some top IT companies; [click here for a detailed S&P 500 table](#)

Happy bargain hunting!

Bob Djurdjevic

MARKET UPDATE

Buybacks Set New Record in First Quarter

S&P Companies Give 92% of Their Earnings to Wall Street

SCOTTSDALE, June 18 - Perhaps not surprisingly, [given our earlier reports](#), stock buybacks set a new record in the first quarter, the S&P 500 researchers reported last week. Share repurchases amounted to \$118 billion, up 18% from the \$100 billion recorded a year earlier. It was the sixth consecutive quarter of \$100 billion or more in stock buybacks.

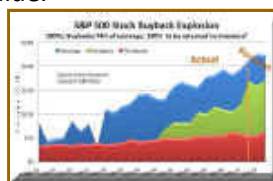
Over the past ten quarters, the S&P 500 issues have spent over \$965 billion on stock buybacks, with 58% of the issues posting fewer shares now than they did when the buyback trend began, the S&P report said.

"With today's higher share prices, the same buyback dollar doesn't buy as many shares and therefore doesn't reduce the share count by as much as it did in previous years," S&P noted.

In other words, they are not getting as big a "bang for the buck" as before.

IT companies continue to be the largest practitioners of share buybacks, disproportionately accounting for 23% of the total buybacks during the first quarter, while representing only 15% of the S&P market value. Consumer Discretionary companies also emerged as a major player in the buyback arena last quarter, accounting for 15% of stock buybacks and 10% of the market value.

The S&P data shows that America's largest companies continue to increase the buyback's share of shareholder returns over the dividends. In the latest quarter, dividends accounted for 30.4% of S&P earnings, while buybacks represented 61.4%, more than double of the 92% of net profit that S&P corporations gave to Wall Street, rather than deploy it themselves inside their own businesses (click on thumbnail to enlarge; [click here for a detailed 1Q07 S&P 500 table](#)).



[Accenture's fourth quarter results](#) [[Annex clients click here](#)]

[IBM: Services in a Box](#) (Analysis of IBM Global Services' Ground-shifting Announcements)

[Strong Comeback by IT Stocks in Third Quarter](#) (Analysis of top 20 IT companies' market and business trends)

[Stock Buybacks: A Fading Fad](#) (Dell, erstwhile "King of Fluff," suspends its stock buybacks)

[Capgemini: Growth Continues](#) (Revenues, net profit up in double digits, margins also improve)

[HP Firing on All Cylinders](#) (Stock sets new multi-year record following excellent third fiscal quarter results) [[Annex clients click here](#)]

[Power of Manpower](#) (While others move to India, Russia... AMD invests in New York, hailing "phenomenal" quality of its labor force)

[Ebb Tide Lowers Most Boats](#) (Analysis of EDS' and CSC's latest quarterly results)

[IBM Stock Grossly Undervalued?](#) (Analysis of stock market valuations of IBM and its major competitors) [[adds latest Fujitsu, Capgemini results](#)]

[IBM vs. HP: A Tale of Two Blues](#) (Both companies are doing well in business, but only HP is favored by Wall Street; Big Blue trying to change that now with its new "India Opus") [[Annex clients click here](#)]

Go East, Young Man! (A

As you have seen from our earlier report, if the current trends continue, S&P companies will be surrendering ALL of their earnings to Wall Street and then some. Which is an implicit admission of ineptitude and lack of creativity by the nation's largest enterprises.

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speech delivered in St. Petersburg, Russia, May 25, 2006; [click here for slides](#)

IBM 5-Yr Forecast: Steady As She Goes (Emphasis on quality continued) [[Annex clients click here](#)]

Octathlon 2006: Accenture Again Wins "Gold!" (HP gets "Silver," IBM "bronze") [[Annex clients click here](#)]



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