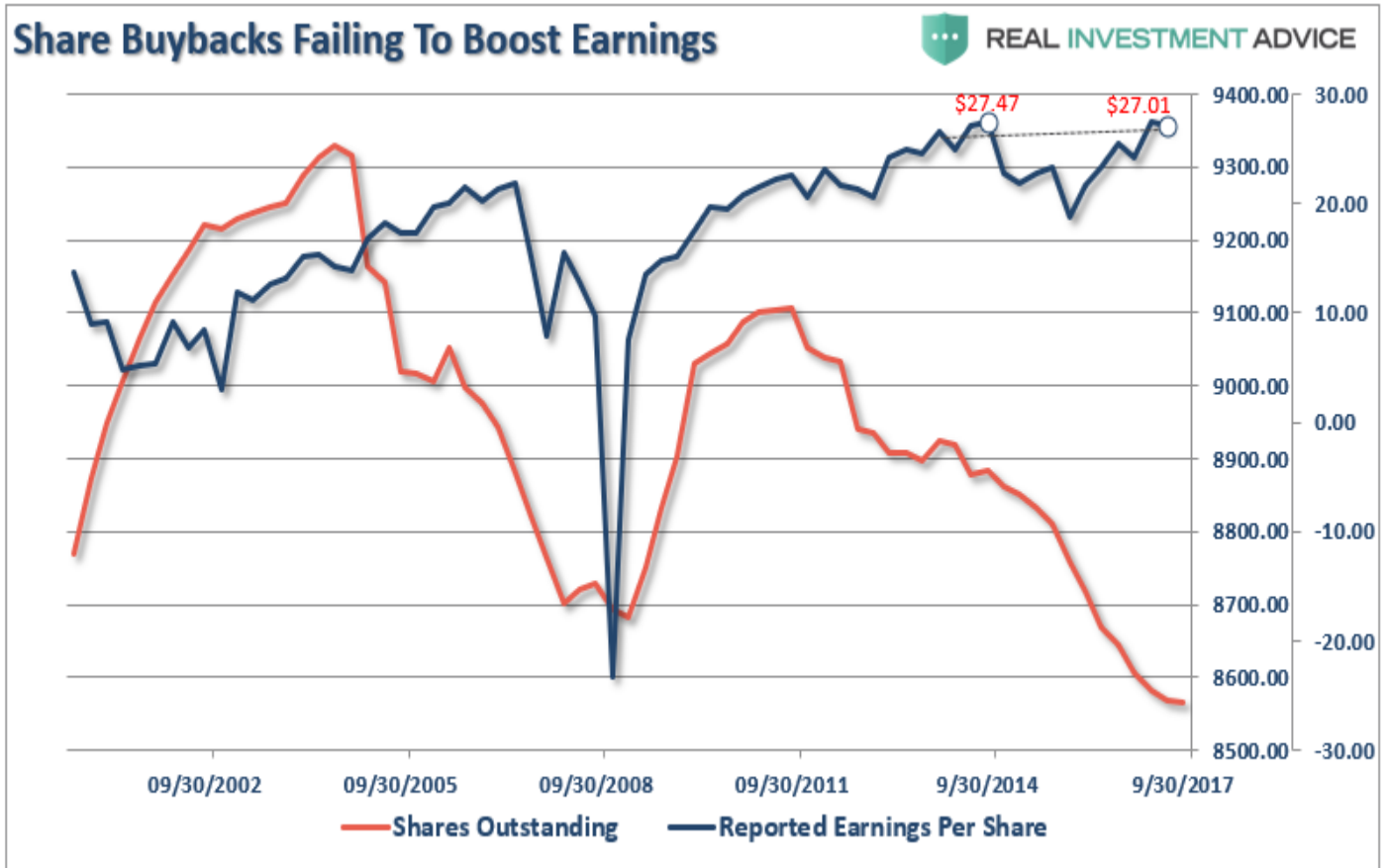


Weekend Reading: \$7 Trillion To Manipulate Prices

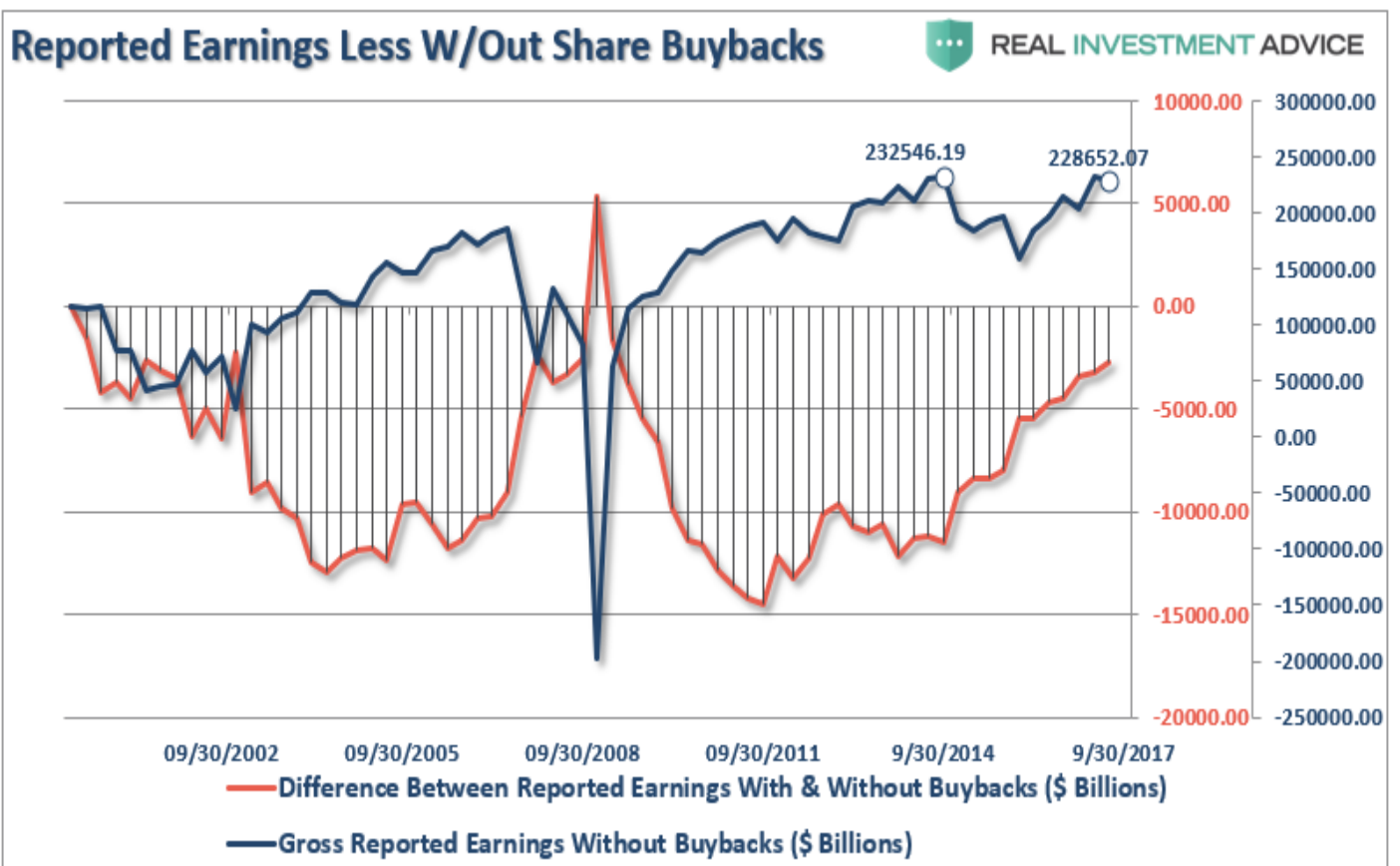


As the stock market continues to press new highs, the level of optimism climbs with it. [I discussed yesterday](#) Richard Thaler's, a recent recipient of the Nobel Prize in Economics, comments about not understanding the current *"irrationality of investors relating to their investing behavior."* **What is interesting is that Thaler's received his Nobel Prize for his pioneering work in establishing that people are predictably irrational ? that they consistently behave in ways that defy economic theory.** For example, people will refuse to pay more for an umbrella during a rainstorm; they will use the savings from lower gas prices to buy premium gasoline; they will offer to buy a coffee mug for \$3 and refuse to sell it for \$6. The fact that a man who studies the *"irrationality of individuals"* is stumped by current investor behavior should be alarming at the least. But as earnings season gets underway we once again return to quarterly Wall Street *"beat the estimate game,"* in which companies are rewarded by beating continually lowered estimates. Of course, the

primary catalyst used to beat those estimates was not a rise in actual revenue, or even reported earnings, but rather ongoing accounting gimmickry and stock buybacks. **As shown below, through the second quarter of this year, reported EPS, which includes "all the bad stuff," actually declined in the latest quarter and has remained virtually unchanged since 2014.** (*But, even that is an illusion as shares have been aggressively bought back in order to sustain that same level of EPS.*)



The difference between reported earnings with and without the benefit of share repurchases is substantial. The chart below shows the net difference between gross reported earnings with and without the buyback impact. **Importantly, the net effect of buybacks is having less impact which, as was the case in 2007, was a precursor to the crash.**

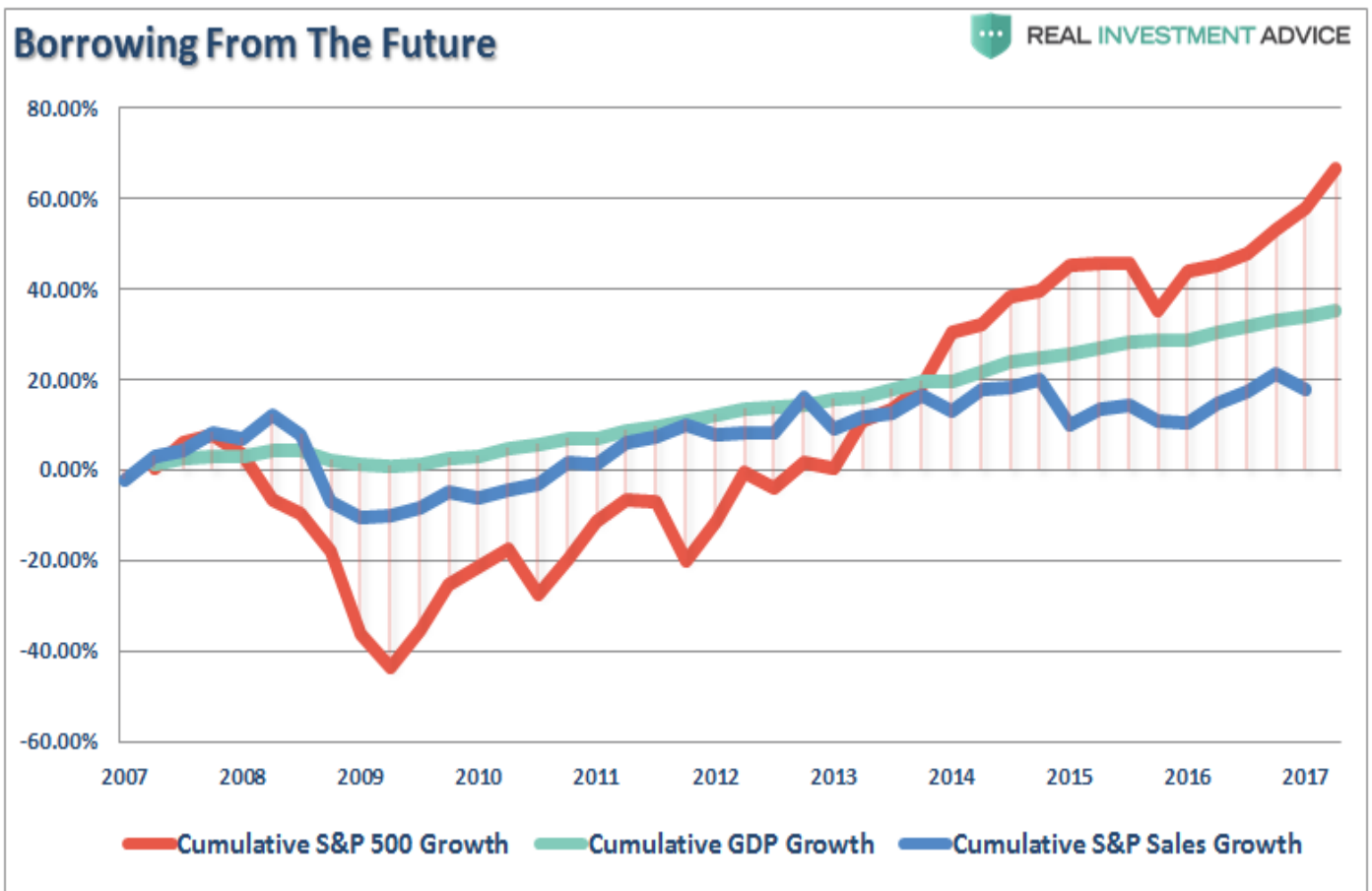


Ralph Nader just recently did an in-depth expose on the problems with share repurchases. [To wit:](#)

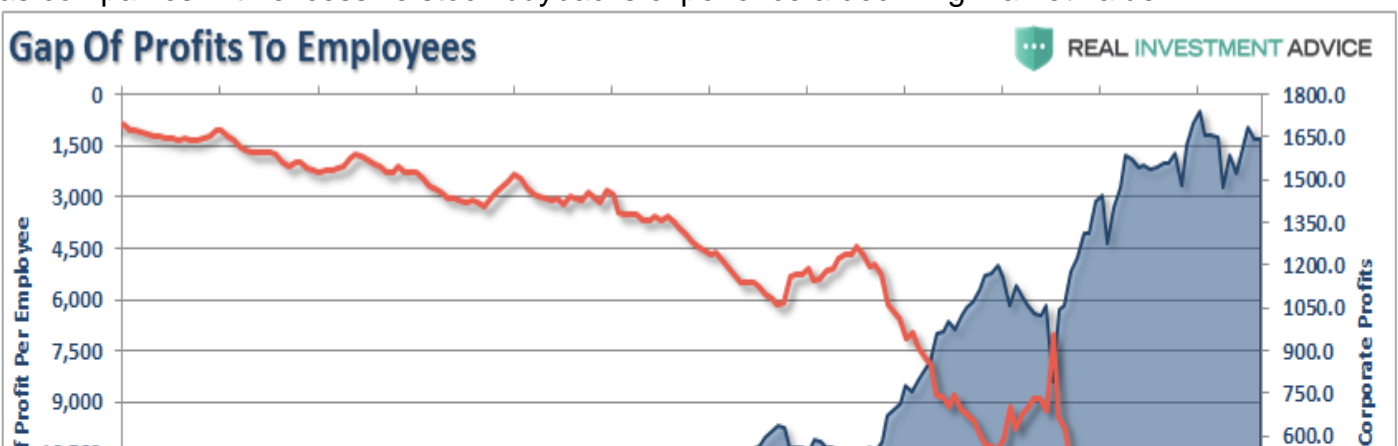
"The monster of economic waste?over \$7 trillion of dictated stock buybacks since 2003 by the self-enriching CEOs of large corporations?started with a little-noticed change in 1982 by the Securities and Exchange Commission (SEC) under President Ronald Reagan. That was when SEC Chairman John Shad, a former Wall Street CEO, redefined unlawful ?stock manipulation? to exclude stock buybacks."

Yep, stock buybacks used to be considered stock manipulation, yet today, it is widely accepted by investors as "just the right measure to boost earnings in the ongoing "beat the estimate" game. As Ralph Nader points out - there is a problem.

"The stock buyback mania was unleashed. Its core was not to benefit shareholders (other than perhaps hedge fund speculators) by improving the earnings per share ratio. Its real motivation was to increase CEO pay no matter how badly such burning out of shareholder dollars hurt the company, its workers and the overall pace of economic growth."



The bottom line is that while companies take trillions of dollars and buyback shares, it only benefits the executives of the company **at the expense of both workers and, ultimately, shareholders** as companies with excessive stock buybacks experience a declining market value.



The interview is worth watching, and [read the article](#), and think about it. Here's your reading list to for the weekend.

Trump, Economy & Fed

- **5-Reasons Trump Will & Won't Fire Yellen** [by Caroline Baum via MarketWatch](#)
 - **Economic Growth Really Matters** [by Simon Constable via Forbes](#)
 - **Market's Got It All Wrong** [by James Rickards via Daily Reckoning](#)
 - **Richard Thaler: Nobel Winner** [by Binyamin Appelbaum via NYT](#)
 - **Trump Finally Learns What SALT Is** [by Tyler Durden via Zero Hedge](#)
 - **Link Between Tax Cuts & Growth Is Tenuous** [by Kate Davidson via WSJ](#)
 - **Trump Tax Plan An Atrocity** [by Larry Summers via The Washington Post](#)
 - **Deja Voodoo** [by Joseph Stiglitz via Project Syndicate](#)
 - **Why Tax Cuts Won't Create Jobs** [by Marcus Ryu via NYT](#)
 - **Cohn & Mnuchin Risk Their Reputations** [by David Leonhardt via NYT](#)
 - **The GOP Has No Budget Plan** [by James Capretta via Real Clear Policy](#)
 - **The Long Road Ahead To Tax Reform** [by Betsy McCaughey via NY Post](#)
 - **3-Scenarios For The Global Economy** [by Nouriel Roubini via Project Syndicate](#)
 - **Unemployment Drop Had Nothing To Do With Harvey** [by John Crudele via New York Post](#)
 - **Detail On Who Pays What In Taxes** [via RIA](#)
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Markets

- **Bear Market Closer With Each New High** [by Michael Sincere via MarketWatch](#)
 - **JFK Sr. Used This Trick To Spot Market Bubbles** [by Jody Chudley via Daily Reckoning](#)
 - **What If High Stock Value Revert?** [by Haghani & White via Bloomberg](#)
 - **Putting Risk On A Budget** [by Patrick Nolan, CFA via BlackRock](#)
 - **Is This The Melt-Up Before The Melt-Down** [by Mark DeCambre via MarketWatch](#)
 - **The Are No Bears Left...Not One** [by Kevin Muir via The Macro Tourist](#)
 - **The Permian Boom Is Coming To An End** [by Nick Cunningham via OilPrice.com](#)
 - **The Hysteria Of An Overbought Market** [by Michael Kahn via Barron's](#)
 - **Newsletter Challenges Us To Re-Examine Investing** [by Mark Hulbert via MarketWatch](#)
 - **The Many Virtues Of Simplicity** [by David Merkel via Aleph Blog](#)
 - **Maximum Optimism Should Have You Worried** [by Joe Calhoun via Alhambra Partners](#)
 - **Kass: Probability Of A Flash Crash Grows Exponentially** [by Tyler Durden via ZeroHedge](#)
 - **What NOT To Buy In Today's Market** [by Vitaliy Katsenelson via RIA](#)
 - **The Dangers Of "Get It While You Can" Mentality** [by Doug Kass via RIA](#)
 - **Working Off The Froth** [by Liz Ann Sonders via Charles Schwab](#)
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Research / Interesting Reads

- **Is Bridgewater A Fraud?** [by Tyler Durden via Zero Hedge](#)
- **The Economist Who Realized How Crazy We Are** [by Michael Lewis via Bloomberg](#)
- **4-Fundamental Skills Of All Investing** [by Morgan Housel via Collaborative Fund](#)
- **Risk: Preparing Clients For An Uncertain Journey** [by Shane Shepherd via Research Affiliates](#)
- **It Doesn't Pay To Chase Returns** [by Jason Zweig via The Intelligent Investor](#)
- **Your Pension Is A Lie!** [by John Mauldin via Mauldin Economics](#)

- **Nobody Knows What Will Happen** [by Geisinger & Dittli via Finanz Und Wirtschaft](#)
 - **NO! Valuations Are NOT Justified By Low Rates** [by John Hussman via Hussman Funds](#)
 - **Can Stocks Avoid Unlucky (Year) 7** [by Dana Lyons via The Lyons Share](#)
 - **Popularity Of "Passive" Preludes Pleasant Outcome** by Jesse Felder via The Felder Report
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?Making it, and keeping it, are two different things." - Anonymous

Questions, comments, suggestions ? please [email me](#).