RIA
Advice

Asset manager Cliff Asness recently wrote an op-ed piece in the *Wall Street Journal* wondering if those who decried companies buying back their stock didn?t suffer from *?buyback derangement syndrome.?* Asness allowed that net investment, normalized by total assets or total market capitalization, was recently lower for companies in the Russell 3000 Index than it was in the 1990s, *?but positive and much higher than during the 2008 financial crisis.?* **It seems strange to crow that investment is better now than during the financial crisis.** And Asness offers no opinion or interpretation on why investment should be lower now than in the 1990s, especially given that low interest rates after the financial crisis were supposed to stimulate investment. Granted, his purpose isn?t to comment on Federal Reserve policy, but one might think he?d have something to say about lower investment immediately after a financial crisis ? when investment is most needed. Asness also doesn?t say how much lower investment is now. That?s strange, given that he will conclude by asserting the buyback arguments amount to *?innumerate nonsense.?* Asness mentions that companies aren?t shrinking away by buying their stock, because they are also borrowing a lot of money. *?Think of this as a debt-for-equity swap,?* he says ? again neutrally or flatly. **Is it good or bad ? and for whom? -- that companies are exchanging equity for debt?**

Asness doesn?t say. Moreover, later Asness will defend the argument that buybacks are indeed a form of liquidation. Next, Asness argues that investors do not spend the money paid out in buybacks frivolously. Instead, investors buy other stocks and bonds with their buyback bounty, thereby shifting capital from companies that don?t need it to those that do. But that?s a little too neat. An investor buying stock on the secondary market isn?t giving money to a company in exchange for shares. Rather the investor is buying from another investor a claim to profits on capital already raised by a company previously. Then things get stranger in Asness?s article. He argues that there?s no way to tell how much buybacks have boosted stock market returns since the financial crisis. And returns have been prodigious ? around 15% annualized. But in making this argument Asness admits that it?s possible buybacks have boosted stock returns. Yet when turning to arguments about Apple ? that the firm is a scam fueled by buybacks ? he relies on the argument that buybacks are a form of liquidation that reduce market capitalization. **So do buybacks boost stock market returns or reduce market capitalization?** It?s hard to know what Asness thinks. Clearly reducing share count and elevating earnings-per-share ? the obvious immediate effects of buybacks -- should increase the share price. But Asness doesn?t say whether a higher share price should compensate for fewer shares precisely and keep market capitalization stable, or whether it should alter market capitalization.• He only says that it?s difficult to know if buybacks have boosted stock market returns, but also that it?s crazy to think Apple?s market capitalization shouldn?t be reduced instead of elevated by share buybacks. Perhaps Asness is consistent is asserting that buybacks probably haven?t boosted market returns and certainly haven?t boosted Apple?s market capitalization. But he doesn?t think it's impossible that buybacks have boosted stock returns, leaving himself vulnerable to the charge that he is confused about whether buybacks boost returns *(and market capitalization)* or amount to a liquidation and shrinkage of market capitalization. **Ultimately, Asness is upset that people are examining what corporations do with their profits when Americans have so many other things to debate.** But when profit margins are so persistently high and a higher percentage of profits are returned to capital, perhaps he shouldn?t be so na•ve to think a political debate wouldn?t commence about corporate profits and share buybacks. Moreover, despite calling the buyback arguments *?innumerate nonsense,?* it seems Asness has some thinking to do about whether buybacks boost market returns or are a form of liquidation.