Avoiding Value traps: Nike case study

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Key Takeaways

- Share buybacks are not always a sign of good company health and a robust risk management approach is required to segregate Value opportunities from Value traps.
- WisdomTree applies a Composite Risk Score (CRS) to help avoid Value traps by screening companies with deteriorating fundamentals and poor price trends.
- Nike's case study on buybacks is an important reminder of the necessity of a robust risk management approach to avoid Value traps when building Value and dividend portfolios.

Whether a company believes its shares are undervalued or simply wants to return extra cash to shareholders, share buybacks are a mechanism increasingly used by management, particularly after strong growth cycles.

While straightforward and generally well perceived by the market, Nike's recent share-repurchase programme is a useful reminder that buybacks are not automatically value-enhancing and that investors need a disciplined approach when assessing companies undertaking them.

Behind Nike's share repurchase programme

Under the $18 billion share repurchase programme first authorised in June 2022 and reapproved in June 2026, Nike has repurchased 124.4 million shares for approximately $12.1 billion, at an average price of $97.57 per share1.

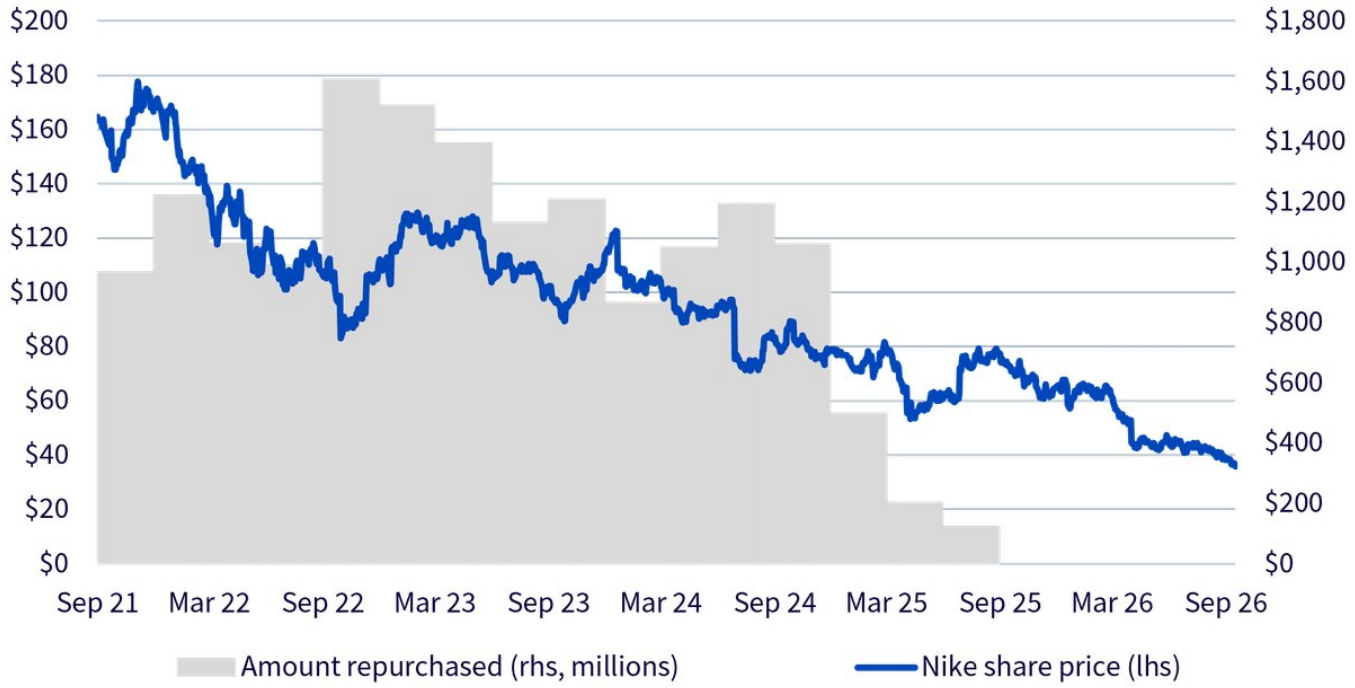
On September 16, 2026, Nike shares closed at approximately $35.78, down almost 80% since their peak in November 2021. Valuing the same 124.4 million shares at that price produces an equivalent value of approximately $4.45 billion: about $7.6 billion below the amount Nike spent1.

For illustration, at the 16 September 2026 closing price of $35.78, $12.1 billion would be equivalent to approximately 338 million shares, around 2.7 times the number repurchased under the programme.

The contrast in repurchase activity is striking: Nike spent heavily on buybacks when its average purchase prices were substantially higher. Yet in fiscal 2026 it repurchased only 1.8 million shares for $122.4 million,

at an average price of $67.63, before stopping repurchases during the first quarter because of lower operating cash flow. The programme remains authorised and may be resumed1.

Figure 1: Nike's share price and repurchases since share price peak in 2021



Source: WisdomTree, Factset, data as of 16.09.2026 (latest available data). **Historical performance is not an indication of future performance, and any investment may go down in value.**

The example illustrates that buybacks may be more likely to create shareholder value when shares are repurchased below their estimated intrinsic value, while the company retains sufficient financial flexibility and continues to invest in the business.

Discipline in the investment process

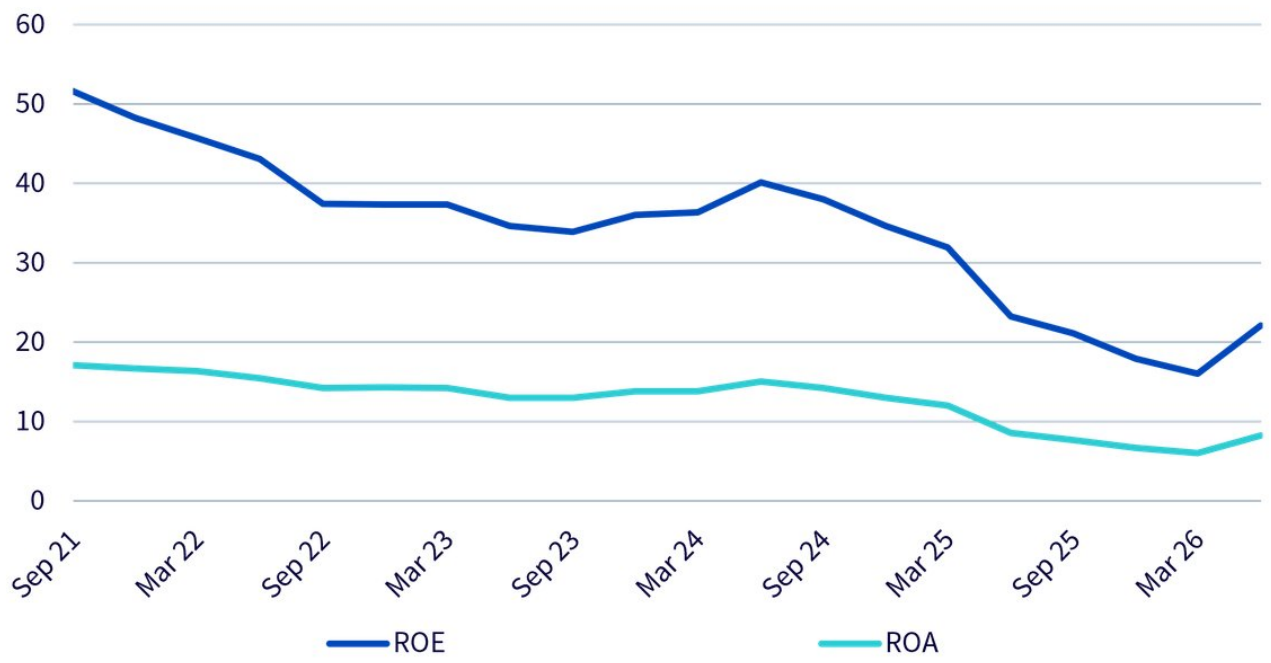
The outcome of Nike's share repurchase programme reflects both the prices at which shares were repurchased and the deterioration in the company's fundamentals over recent years.

Nike's share price has been going down since its peak in November 2021, losing almost 80% of its value in roughly 5 years. That, in itself, is already an indication of a company in poor health. Such a trend is well-captured by Momentum, using medium- to long-term risk-adjusted price trends.

Poor Momentum could be reversed if company fundamentals improve and investor confidence strengthens, which leads us to look into Quality indicators. Indeed, combining static and dynamic profitability metrics, such as return on equity (ROE) or return on assets (ROA), can provide an investor with a good understanding of the health of a company: is it good or bad given the last numbers, and most importantly, is it improving or deteriorating?

For most of Nike's history, the general trend for ROA and ROE has been upward, up until Nike's share price peak in 2021. Figure 2 displays the ROE and ROA for Nike since 2021, where both metrics started deteriorating consistently; hence the importance of looking at dynamic indicators alongside static ones.

Figure 2: Evolution of Nike's return on equity and return on assets since 2021



Source: WisdomTree, FactSet, data as of 16 September 2026 (latest available data). **Historical performance is not an indication of future performance and any investments may go down in value.**

WisdomTree Composite Risk Score (CRS)

Combining Quality and Momentum scores is the mechanism behind WisdomTree's Composite Risk Score (CRS), which is used in a number of WisdomTree strategies.

The rationale behind it is simple: strategies targeted towards Value and dividend stocks could select ones where the trend and fundamentals might not be supported. WisdomTree strategies aim to avoid Value traps by adding a risk management layer in the form of CRS.

The CRS score is equally weighted between the Quality and Momentum metrics.

The Quality bucket is made up of eight metrics, which are also equally weighted. It is split between static scores, where we look at the latest available data for ROE, ROA, Gross Profit Over Assets (GPOA) and Cash Flows Over Assets (CFOA); and dynamic scores, where we look at the trend in those same metrics.

Momentum is measured using risk-adjusted returns over the past six- and 12-month periods.

CRS is calculated at every rebalance for each stock and broken down into deciles. Stocks that rank poorly on CRS are excluded from the strategy.



Source: WisdomTree. 1. Quality score is an equal weight of the eight scores (at least 6 data points (3 and 3) are needed per stock to be included). Data is normalised with a cross-sectoral Z-score in each industry group. Trends are calculated as a 12-quarter historical Z-score in each industry group.

As with any systematic screening approach, CRS cannot identify all Value traps and may exclude companies whose fundamentals or share-price performance subsequently improve.

Conclusion

Nike ranked in the bottom decile by WisdomTree's CRS score and was therefore excluded from relevant dividend and Value-oriented strategies at previous rebalances. This highlights the importance of having a disciplined, consistent and forward-looking risk screen when building a fundamentals-based investment strategy: it gives one the ability to distinguish potentially undervalued companies from stocks whose low valuations may reflect deep underlying risks i.e., Value traps.

This process is particularly relevant for our Value, Quality Dividend Growth and High Dividend strategies.

1 Source: FactSet, as of September 2026.

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