

Share Buybacks: The Other Dividend

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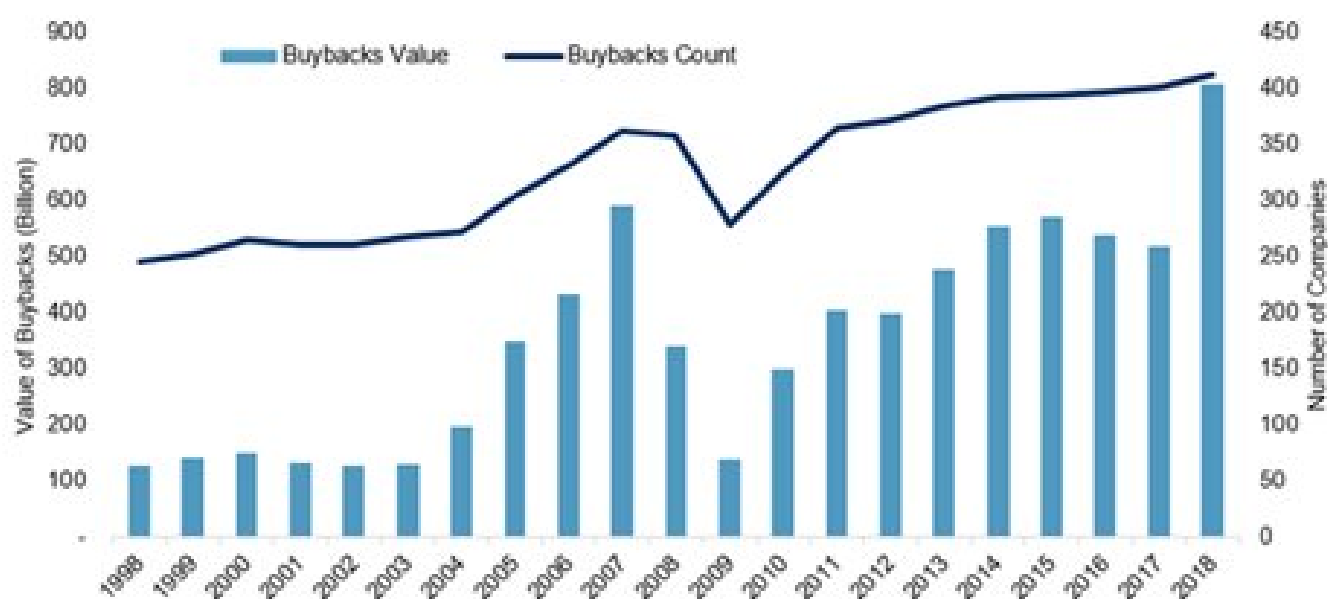
Jeff Weniger, CFA

Head of Equity Strategy

You have a business, and your cash on hand is growing. What do you do? If you park it in T-bills, the income generated will probably be negligible. You believe it's time to move it off the balance sheet either as a dividend, which is often a taxable event, or by repurchasing shares, where taxes can be more easily managed (some shareholders will opt to sell, while others can sit tight).

Look at this writ large: Share buybacks have become the *other* dividend. According to Qing Li at S&P Dow Jones Indices, [S&P 500 Index](#) companies purchased \$806 billion worth of shares last year (figure 1). For context, the total value of the S&P is \$26 trillion.

Figure 1: S&P 500 Buyback Trends



Source: S&P Dow Jones Indices Indexology Blog by Qing Li, 4/17/19. Past performance is not indicative of future results. You cannot invest directly in an index.

Figure 2 shows the logic using a hypothetical business worth \$1,000 with \$200 in cash. Say it only needs half the cash to operate. If management buys back stock, look what happens to earnings per share and

return on equity (ROE). This isn't rocket science, but on paper, the management looks like a bunch of geniuses.

Figure 2: Implementing a \$100 Buyback

Stock Profile		Before Buyback		After \$100 Buyback	
A	Market	\$1,000	Given	\$900	45 Shares Remained and Stock Price Unchanged
B	Cash	\$200	Given	\$100	Used \$100 to Buy Shares
C	Other Assets	\$800	A Minus B	\$800	A Minus B
D	Shares Outstanding	50	Given	45	New Shares Outstanding
E	Stock Price	\$20	A Divided by D	\$20	Unchanged Stock Price
F	Earnings	\$100	Given	\$100	Nothing Changes Here
G	Earnings Per Share	\$2.00	F Divided by D	\$2.22	F Divided by D
H	Price/Earnings	10.0	E Divided by G	9.0	E Divided by G
I	Return on Equity	10.0%	F Divided by A	11.1%	F Divided by A

Source: WisdomTree.

Some firms¹ opt to do the opposite, issuing shares to raise money because they are growing or, troublingly, because business is down. At latest count, the S&P 500's net buyback yield is 2.7%, found by netting out issuances from the volume of buybacks. Add the 1.9% dividend yield and the sum is the 4.6% shareholder yield.

Figure 3 breaks out by shareholder yield the 10-year equity returns for the major asset classes. The groups generally show green on the top and red on the bottom. The lone exception is U.S. large caps, where net equity issuers and non-payers got the better of fundamental value seekers. Time will tell if this can last.

Figure 3: 10-Year Performance by Shareholder Yield Quintiles

Grouping	U.S. Large Cap	U.S. Mid Cap	U.S. Small Cap	International Large Cap	International Mid Cap	International Small Cap	Emerging Markets	Emerging Markets Small Cap
	Russell 1000	Russell Mid Cap	Russell 2000	MSCI EAFE	MSCI EAFE Mid Cap	MSCI EAFE Small Cap	MSCI Emerging Markets	MSCI Emerging Markets Small Cap Index
Highest Shareholder Yield	14.01%	13.65%	11.80%	5.46%	9.09%	8.59%	2.24%	10.02%
2nd Quintile	13.32%	14.06%	12.95%	5.91%	7.11%	10.23%	1.91%	9.67%
3rd Quintile	12.21%	15.38%	12.01%	4.17%	4.77%	9.79%	-0.80%	6.67%
4th Quintile	15.21%	15.01%	13.14%	6.13%	7.13%	8.38%	-0.08%	6.87%
Lowest Shareholder Yield	10.55%	12.08%	11.24%	5.08%	5.40%	7.44%	1.60%	3.59%
Zero & Neg. Yield	16.49%	11.35%	10.89%	0.51%	3.09%	3.61%	-4.29%	-2.46%
Total	13.49%	13.48%	11.59%	5.00%	6.28%	7.68%	4.07%	3.81%

Sources: WisdomTree, Bloomberg, through 8/30/19. Past performance is not indicative of future results. You cannot invest directly in an index.

Our ETF that targets heavy ownership of companies in the high quintiles is the [WisdomTree U.S. Quality Shareholder Yield Fund \(QSY\)](#). Judging by the location of the red ink in the table above, I'm heartened that we only have 1.5% of the ETF's capital in the two "danger" quintiles.

Figure 4: Proportions of QSY in Each Quintile

Shareholder Yield Quintile	
1st Quintile (Highest Shld. Yield)	44.6%
2nd Quintile	33.8%
3rd Quintile	15.8%
4th Quintile	4.3%
5th Quintile (Lowest Shld. Yield)	0.8%
Zero & Neg. Yield	0.7%

Source: WisdomTree, as of 8/30/19.

Figure 5 shows the fundamentals for QSY. I also added the [WisdomTree U.S. Quality Dividend Growth ETF \(DGRW\)](#) in the second column for the reader's edification because it is one of our largest funds by assets under management, and it also has a shareholder yield that exceeds that of the broad market.

Figure 5: Fundamental Metrics

	WisdomTree U.S. Quality Shareholder Yield Fund	WisdomTree U.S. Quality Dividend Growth Fund	Russell 1000 Value Index	S&P 500 Index
Dividend Yield	2.2%	2.6%	2.6%	1.9%
Net Buyback Yield	5.9%	2.7%	2.2%	2.7%
Shareholder Yield	8.1%	5.4%	4.8%	4.6%
Est. Price/Earnings	13.5x	15.6x	14.4x	17.5x
Est. Earnings Yield	7.4%	6.4%	7.0%	5.7%
Earnings Growth Expectations	8.7%	9.3%	7.4%	10.7%
Dividend Yield/Est. Earnings Yield	29.5%	41.0%	37.6%	33.6%
Return on Assets	4.9%	5.3%	2.5%	3.7%
Return on Equity	20.7%	23.0%	11.6%	16.2%
ROE x Earnings Retention	14.6%	13.6%	7.2%	10.7%

Source: WisdomTree, as of 8/30/19.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted.

Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

For standardized performance of the Funds mentioned in the chart, please click their respective tickers: [QSY](#), [DGRW](#).

For definitions of terms in the chart, please visit our [glossary](#).

Unless otherwise stated, all data from Bloomberg, as of 9/12/19.

¹Source: WisdomTree, as of 8/30/19.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. While QSY is actively managed, the Fund's investment process is expected to be heavily dependent on quantitative models, and the models may not perform as intended. Please read each Fund's prospectus for specific details regarding the Fund's risk profile.