

Stock Buybacks Can Battle the Bear

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Jeff Weniger, CFA

Head of Equity Strategy

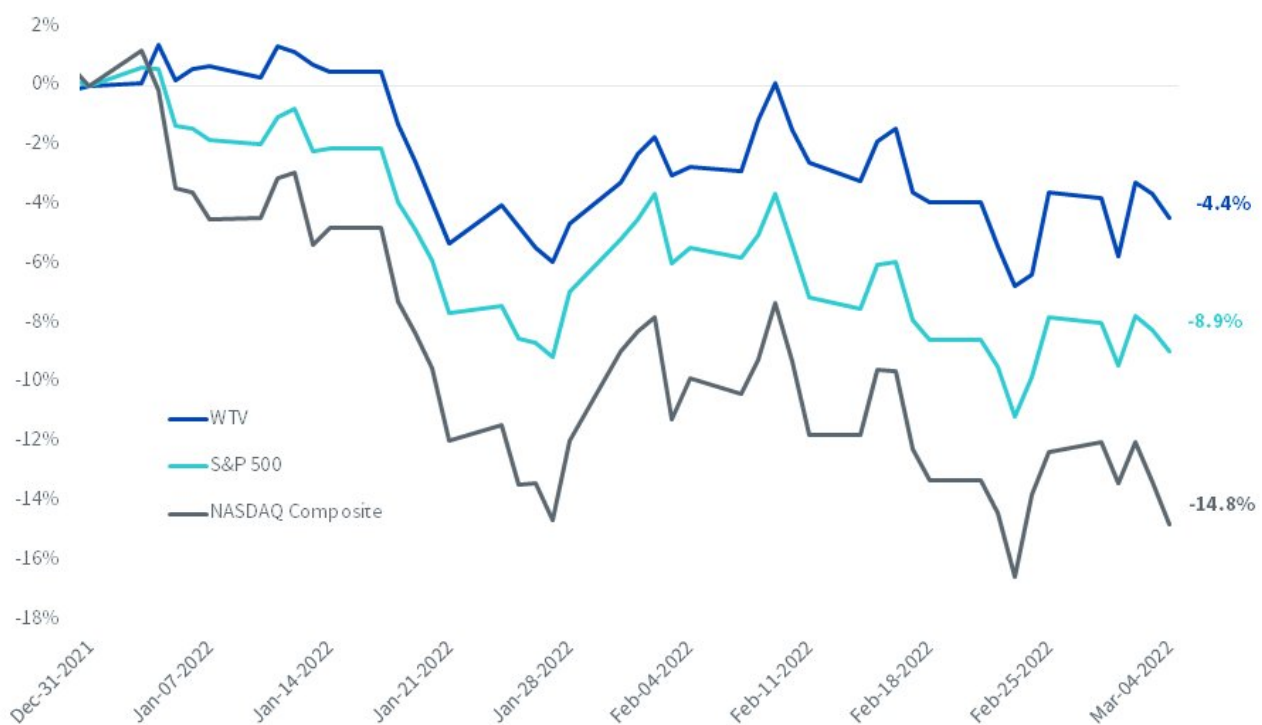
The true investment challenge is to perform well in difficult times.

—Seth Klarman

Navigating 2022 has been an exercise in managing volatility.

On top of ugly market action late last year, the pain has continued in this year's first two months. Anything with a whiff of speculative flavor has a target on its back. While the NASDAQ Composite Index is off 14.8% YTD, and the S&P 500 has fallen 8.9%, our buyback-focused concept—the [WisdomTree U.S. Value Fund \(WTV\)](#)—has only given back 4.4% at NAV.

Figure 1: Year-to-Date Returns

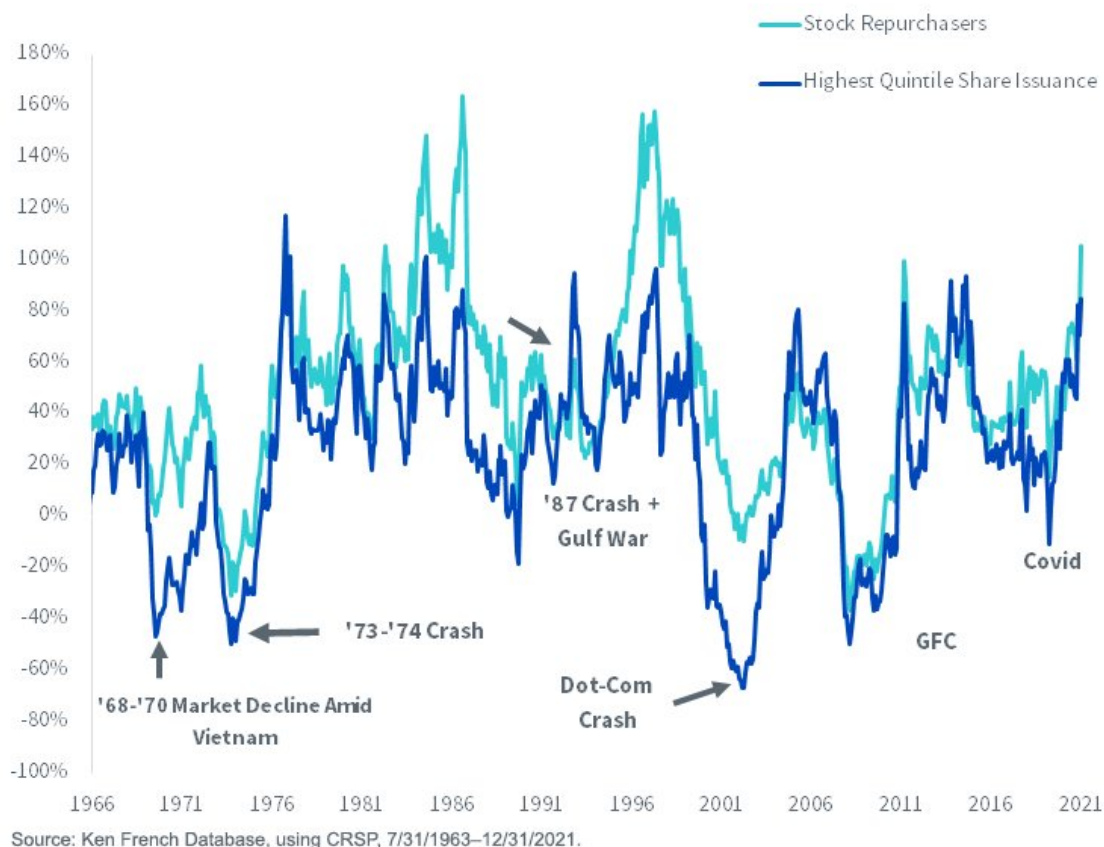


Source: Refinitiv, as of 3/1/22. Past performance is not indicative of future results. You cannot invest direct in an index. **Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.**

For the most recent month-end and standardized performance click [here](#).

That isn't surprising. The six major bear markets of the last half-century devastated companies that were heavy equity issuers, the kinds of stocks WTV's buyback screen tends to avoid. In crashes, the diluters plunged. While "nobody makes money in a bear market," owners of the "buybackers" lived to see another day.

Figure 2: Three-Year Cumulative Return by Share Issuance



For example, look at the 1968–1970 bear market. The heaviest shareholder diluters were halved. Then they caught a three-year rally, only to be halved again in the 1973–1974 bear market.

Or the dot-com wreck. The big diluters declined by two-thirds over three years. In all three of those bear markets—and in the others—the stock repurchasers remained standing.

The red-and-blue color scheme of figure 3 speaks for itself.

Figure 3: Stock Market Returns, 1963–2021, Ranked by Share Buybacks vs. Share Issuance

Decade	Stock Repurchasers	Neither Issuing Nor Buying	Lowest Quintile Share Issuance	2nd Quintile Share Issuance	3rd Quintile Share Issuance	4th Quintile Share Issuance	Highest Quintile Share Issuance
1960s	10.0%	8.5%	7.4%	9.1%	11.6%	9.0%	6.0%
1970s	10.2%	8.9%	6.0%	6.4%	6.4%	3.6%	1.6%
1980s	21.6%	18.6%	17.2%	16.7%	16.5%	14.8%	12.5%
1990s	18.7%	12.6%	15.5%	16.5%	21.0%	20.7%	13.5%
2000s	2.7%	9.2%	3.3%	2.2%	2.9%	-2.7%	-6.5%
2010s	14.3%	16.4%	13.0%	11.6%	16.3%	12.4%	9.8%
2020-2021	24.3%	32.6%	14.7%	20.8%	24.1%	36.7%	20.6%

Source: Ken French database, using CRSP, as of 12/31/2021. Data for the 1960s commences July 1963.

I'm thinking maybe we are in the first inning of a multiyear value cycle (figure 4). If I am right, the diluters are to be avoided.

Figure 4: S&P 500 Growth Relative to S&P 500 Value

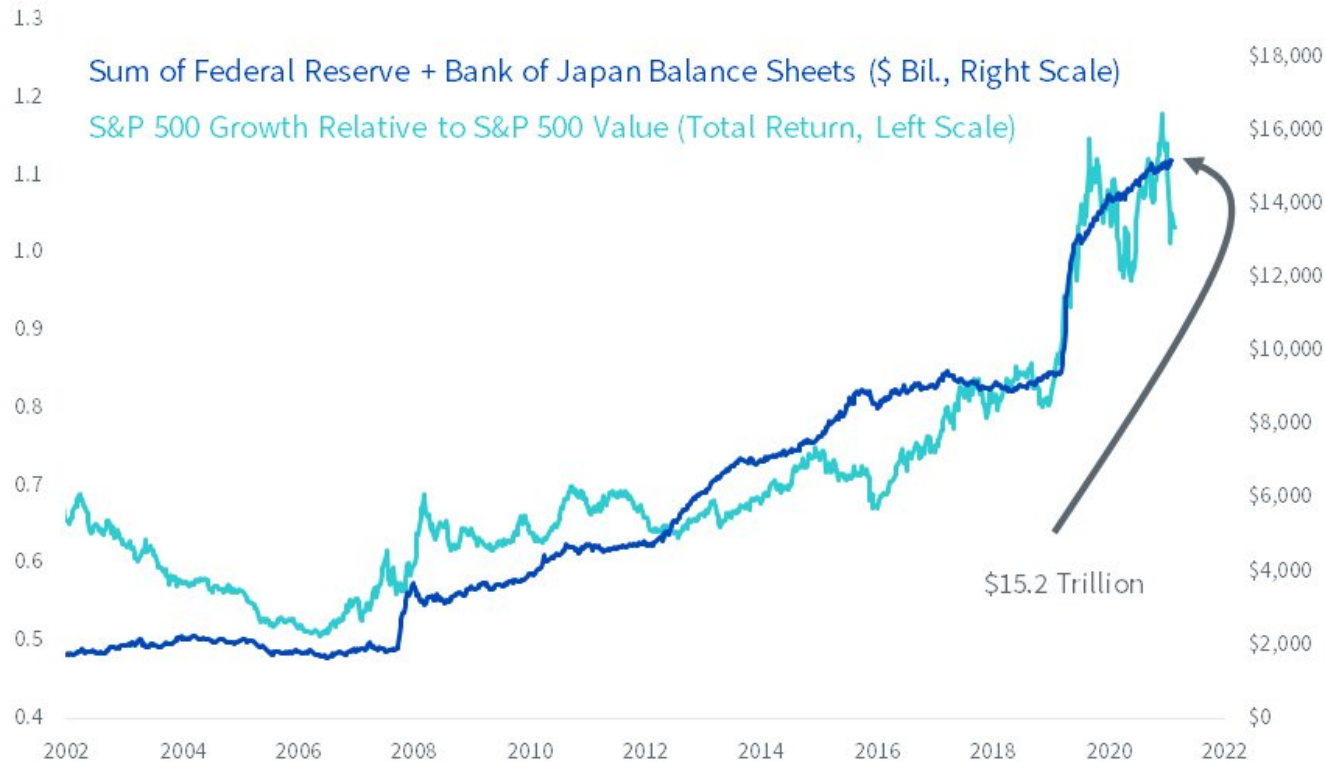


Source: Refinitiv, as of 3/1/22. Past performance is not indicative of future results. You cannot invest direct in an index.

Many market watchers, including myself, suspect figure 5 explains growth versus value since the global financial crisis. So long as the Fed and other central banks were expanding their balance sheets to maintain zero interest rates, the present value math on growth stocks' distant cash flows could justify big valuations

(figure 5). A few months ago, when investors came to realize the monetary regime was set to flip, the tables turned.

Figure 5: Growth vs. Value: Dependent on Central Banks' Bond Purchases



Sources: Refinitiv, Federal Reserve, Bank of Japan, as of 3/1/22.

We recently cut [WTV's](#) expense ratio to 0.12%.

It has a net buyback yield of 5.6%, which is akin to a \$10 billion market cap company buying back \$560 million worth of stock in a year. That is four times as high as the S&P 500's net buyback yield of 1.4%.

[WTV](#) has annually beaten both the S&P 500 Value and the Russell 1000 Value Indexes by more than a percentage point since its inception a generation ago through March 7, 2022. It has zero exposure to share diluters.

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 the Fund 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 the Fund's prospectus for specific details regarding the Fund's risk profile.