



Vanguard Marketing Corporation Distributor ©2005 The Vanguard Group, Inc.

Click



To print: Select File and Then Print in your browser pull-down menus.

[Back to story](#)

THE GURU'S CORNER

Dow buying spree

Commentary: Buybacks bode well for the Dow Industrials

By David R. Fried, *The Buyback*

Letter

Last Update: 11:43 AM ET Dec.
20, 2005

PACIFIC PALISADES, Calif. ([BuybackLetter](#)) -- Investors nervous about the health of the economy as the year draws to a close need look no further than one stealth indicator: stock buybacks by the country's biggest companies are coming fast and furious.

A whopping 80% -- an extraordinary number -- of the companies in the Dow Jones Industrial Average ([INDU](#): 10,959.31, **+77.16, +0.7%**) are repurchasing their own stock, and thus returning excess cash to shareholders. When the biggest companies are buying back, it means they know their stock is undervalued, and represents a bargain relative to where they expect it to be in the future.

You can see the gritty details for yourself on the chart below, but let me point out a couple of things. The largest repurchaser, DuPont ([DD](#): 42.92, **+0.18, +0.4%**), decreased its shares outstanding by nearly 15% this year. That's an amazing feat for a company that size, and a real statement by the board of directors at DuPont that not only is the stock seriously undervalued, but the future looks promising.

Among the 20% of companies in the Dow that are not repurchasing, only Altria ([MO](#): 75.95, **+0.62, +0.8%**) has issued more than 1% (1.5% to be exact) of additional stock over the prior 12-month period through November. And Altria, which had been keeping money in reserve pending the outcome of lawsuits, got a huge boost Friday when Philip Morris USA won in an overturned \$10 billion verdict over claims it deceptively marketed "light" cigarettes. Presumably some of that money held in reserve will be eligible to be used for buybacks now.

In this chart, you'll see that 24 of the 30 stocks (80%) have decreased their shares outstanding this year. But consider this -- even some of those final six on the list are still doing at least a modest amount of buying back simply to keep up with stock dilution.

In other words, realize that even those six companies on the list that do not have negative share counts year over year, have ONLY a negligible 0% or 0.1% or 0.2% increase in shares. The average Dow stock decreased its shares outstanding 2.2% during the 12-month period ending Nov. 30 vs. an increase of 0.7% in shares outstanding for the Standard & Poor's 500 Index. (This increase would be even larger if you removed the Dow 30 from the S&P calculation.)

Company	Ticker	Share Reduction
DUPONT	DD	-14.9
PROCTER + GAMBLE	PG	-6.3
HEWLETT-PACKARD	HPQ	-5.1
INTL BUS MACH	IBM	-5.1
INTEL	INTC	-4.6
BOEING	BA	-3.8
EXXON MOBIL	XOM	-3.5
HOME DEPOT	HD	-2.5
CITIGROUP	C	-2.5
3M COMPANY	MMM	-2.4
PFIZER	PFE	-2.1
MICROSOFT	MSFT	-2.1
HONEYWELL INTL	HON	-2
WAL-MART STORES	WMT	-1.7
COCA-COLA	KO	-1.7
DISNEY WALT	DIS	-1.6
J P MORGAN CHASE	JPM	-1.4
MERCK	MRK	-1.4
AMER EXPRESS	AXP	-1.1
AT+T INC	T	-1
CATERPILLAR	CAT	-0.3
AMER INTL GROUP	AIG	-0.3
GEN ELECTRIC	GE	-0.1
VERIZON COMMUNIC	VZ	-0.1
ALCOA	AA	0
MCDONALDS	MCD	0.1
GEN MOTORS	GM	0.1
JOHNSON JOHNSON	JNJ	0.2
UNITED TECH	UTX	0.3
ALTRIA GROUP	MO	1.5

This extraordinary repurchasing by our country's biggest companies comes during an equally extraordinary, record-setting buyback year.

This year so far, nearly 60 companies in the S&P 500 ([SPX](#): 1,285.45, [+11.97](#), [+0.9%](#)) have cut their number of shares outstanding by at least 4% through buybacks, according to S&P. And in the first nine

months of 2005, S&P 500 companies spent \$231 billion on buybacks -- and the year isn't over yet. An equity market analyst at S&P estimated buybacks will surpass \$300 billion for 2005, well above the \$197 billion for 2004 and the \$131 billion for 2003.

The fact that companies awash in cash due to record corporate profits are opening their coffers and returning it to shareholders through repurchasing shares is the best gift we could imagine.

David R. Fried edits The Buyback Letter, which focuses on companies that repurchase their own stock. His firm, Fried Asset Management, offers separate investor advisory and money management services based on the Buyback strategy. Fried doesn't currently have positions in DuPont or Altria, but does own shares of HD, AXP, WMT, IBM, XOM, GM and MRK. (buybackletter.com)

Content found in The Guru's Corner is subject to the terms and conditions found in the Disclaimer and does not represent a recommendation of investment advice. Investors should seek the advice of a qualified investment professional prior to making any investment decisions. ([Disclaimer](#))

Copyright © 2006 MarketWatch, Inc. All rights reserved.
By using this site, you agree to the [Terms of Service](#) and [Privacy Policy](#) (updated 4/3/03).

Intraday data provided by [Comstock](#), a division of Interactive Data Corp. and subject to [terms of use](#).
Historical and current end-of-day data provided by [FT Interactive Data](#).

Intraday data delayed 15 minutes for Nasdaq, and 20 minutes for other exchanges.
Dow Jones IndexesSM from Dow Jones & Company, Inc.
SEHK intraday data is provided by Comstock and is at least 60-minutes delayed.
All quotes are in local exchange time.