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The Rise of Share Buyback Investing: A Literature Review

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Abstract

This paper investigates the strategic role and financial implications of share buybacks, a practice that has evolved from an infrequent capital allocation tool to a significant component of corporate finance. Through an extensive review of theoretical frameworks, empirical literature, and detailed historical and contemporary case studies—including the early approaches of Henry Singleton at Teledyne, and later practices used by Warren Buffett at Berkshire Hathaway, and the consistent capital allocation at AutoZone—it assesses the effectiveness of buybacks in enhancing shareholder value. The findings underline that buybacks have evolved as an integrated practice in corporate finance and when executed with rigorous valuation discipline, strategic timing, have been associated with outperformance relative to broader benchmarks. Moreover, the paper evaluates the recent emergence of buyback-focused exchange-traded funds (ETFs), highlighting their distinct methodology to capture returns from companies with strong buyback programs. This synthesis discusses motivations for corporate buybacks, advocating for a nuanced understanding of their effectiveness as strategic financial instruments.

Keywords: Share Buybacks, Intrinsic Value, Signaling Theory, Capital Allocation Strategy, Warren Buffett, Henry Singleton, Buyback ETFs

Introduction

In recent decades, buybacks have emerged not just as a corporate finance tactic but as a strategic investment signal for shareholders and fund managers alike. A buyback is when a company buys back its own stock. In contemporary corporate finance, few mechanisms have influenced capital allocation and shareholder value as share repurchase programs. Once a marginal and infrequently deployed tactic, share buybacks have evolved into a central component of financial strategy for publicly traded corporations. Their ascent from obscurity to prominence marks a significant transformation in how firms manage excess capital [1-5].

More than mere accounting tools, buybacks now serve as deliberate expressions of managerial confidence, efficient capital allocation, and long-term value creation. Why can buybacks be value-creating for shareholders? Because when a corporation buys back shares, "its future earnings, dividends and assets concentrate in the hands of an ever-shrinking shareholder base," as fund manager and author Christopher Mayer puts it in his book, 100 Baggers[1].

This corporate finance evolution was catalyzed by regulatory shifts, most notably the implementation of SEC Rule 10b-18 in 1982, which provided a legal safe harbor and operational clarity for repurchase activity, thereby legitimizing and encouraging its adoption across corporate America[2].

This paper examines the historical evolution, economic rationale, and strategic implications of stock buybacks by analyzing Henry Singleton of Teledyne and Warren Buffett of Berkshire Hathaway, contemporary examples such as AutoZone (AZO), and the financial innovation of buyback-focused exchange-traded funds (ETFs). Through these cases, the study examines the

1. Mayer, Christopher W. "100 Baggers: Stocks That Return 100-to-1 and How to Find Them". Laissez Faire Books, 2015.
2. U.S. Securities and Exchange Commission. Purchases of Certain Equity Securities by the Issuer and Others (Rule 10b-18 Safe Harbor), 17 CFR Part 240, 10 Nov. 2003, www.sec.gov/rules/regulations/2003/11/purchases-certain-equity-securities-issuer-others.
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4. Yin, Robert K. "The case study method as a tool for doing evaluation." Current sociology 40.1 (1992): 121-137.
5. Mao, Y. "Impact of Stock Repurchase on the Capital Markets." ResearchGate, 2023.
6. Chen, Alvin, and Olga A. Obizhaeva. "Stock buyback motivations and consequences: A literature review." (2022).
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8. Mao, Y. "Impact of Stock Repurchase on the Capital Markets." ResearchGate, 2023.

role of buybacks not only as tools of value return but as instruments of corporate signaling, market perception management and capital allocation.

By exploring share buybacks through historical, theoretical and empirical lenses, this paper attempts to cast the net widely, and contribute to a broader understanding of a widely utilized financial practice in modern corporate finance.

Research Objectives

1. Explore why companies choose to buy back their own shares, both from a strategic and theoretical perspective, and examine how these decisions affect stock performance in the short and long term.
2. Review past and present case studies to understand the evolution of share buybacks, and how thoughtful, well-timed buybacks can influence a company's overall valuation [6-8].
3. Evaluate ETFs that focus on buyback strategies capture the financial advantages of investing in companies that actively repurchase their shares.

Research Questions

1. What are the key motivations—both theoretical and strategic—that drive corporate share buybacks, and how do they influence stock performance over different time horizons?
2. In what ways have disciplined buyback strategies, as seen in firms like Teledyne, Berkshire Hathaway, and AutoZone, contributed to shareholder value creation and corporate financial performance?
3. How do buyback-focused ETFs identify and track firms with high repurchase activity, and to what extent do they deliver superior returns compared to broader market indices?

Research Methodology

This study adopts a mixed-methods research design that integrates qualitative case analysis with theoretical framing and a review of empirical literature[3]. The methodology consists of three complementary pillars.

First, the paper conducts a theoretical review of key financial frameworks underpinning stock buyback activity, particularly signaling theory and free cash flow theory [9-12].

Second, the study undertakes brief historical case analysis of three benchmark firms—Teledyne, Berkshire Hathaway, and AutoZone[4]. These cases were selected for their long-term, valuation-driven repurchase programs and provide real-world evidence of how disciplined buyback strategies affect shareholder value. Primary sources include shareholder letters and annual reports, etc.

Third, the research evaluates buyback-focused ETFs to examine how these relatively new financial instruments institutionalize and operationalize corporate buyback strategies—effectively enabling investors to leverage buybacks as a deliberate approach to outperform the market.

The research paper takes a deliberately wide-ranging approach to the topic, covering multiple facets of buyback investing. While this breadth may sacrifice some depth in individual areas, it allows for a more holistic understanding of the practice. The analysis primarily relies on secondary data—including peer-reviewed journal articles, market reports, and financial databases—but also incorporates some primary material where relevant [13].

Limitations of the study include the lack of qualitative primary data, such as executive interviews, and the absence of backtesting on buyback programs from specific periods. Future research could address these gaps to deepen the understanding of the corporate motivations behind buybacks.

Together, these methods triangulate perspectives from theory, practice, and market developments to assess the value of share repurchases to investors.

The Rise of Share Buybacks and the Corporate Drivers Behind Them

Companies using surplus cash effectively tend to benefit more, while those funding repurchases through debt may incur greater risk[5]. A share buyback is the corporate action of repurchasing outstanding shares, reducing their availability on the open market. Buybacks typically occur via three primary mechanisms: open market repurchases, tender offers, and private negotiations[6]. Open market repurchases are the most common method, valued for their flexibility and simplicity. They allow companies to buy back shares gradually at prevailing market prices. Tender offers involve inviting shareholders to sell their shares at a set premium, typically within a limited timeframe [14-20].

Private negotiations usually target institutional investors or major shareholders, enabling large block repurchases without disrupting the market. Companies fund buybacks through cash reserves, retained earnings, or debt. Using debt is especially attractive during low-interest periods, boosting returns on equity. Buybacks also signal management's confidence in the company's outlook and stock valuation, often triggering a positive market response[7].

Buybacks can improve key financial performance indicators. Share buybacks enhance metrics such as Return on Equity (ROE) and Economic Value Added (EVA), making the firm more appealing to investors[8]. Additionally, a reduction in outstanding shares leads to higher Earnings Per Share (EPS), a major motivation for companies engaging in repurchases. This metric-driven boost strengthens the perception of the company's fundamentals. Buybacks may offer EPS gains and capital appreciation, especially in bull markets.

9. Manconi, Alberto, Urs Peyer, and Theo Vermaelen. "Are Buybacks Good for Long-Term Shareholder Value? Evidence from Buybacks Around the World." Journal of Financial and Quantitative Analysis, vol. 54, no. 6, 2019, pp. 2387–2410
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11. Mayer, Christopher W. "100 Baggers: Stocks That Return 100-to-1 and How to Find Them". Laissez Faire Books, 2015.
12. Keasler, Terrill, and Robin T. Byerly. "An Examination of Corporate Stock Buybacks: Do They Really Create Value?" Economics, Management, and Financial Markets, vol. 10, no. 4, 2015, pp. 11–28.
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The long-term value of buybacks remains debated, though some studies suggest excess returns are achievable over time, especially in efficient markets where undervaluation is identified[9]. The effectiveness of share buybacks depends on market and industry conditions. Firms operating in less resource-rich or industries may realize greater relative value from repurchase strategies[10].

The Long-Term Impact of Buybacks Is Complex

While buybacks can enhance shareholder value through immediate price appreciation and improved financial indicators, their long-term impact is more complex. Outcomes depend heavily on market efficiency, industry context, and corporate strategy. Managers should carefully weigh repurchase programs against alternative uses of capital to ensure alignment with sustainable value creation [21-25].

To what extent do share buybacks influence shareholder value, and what are the underlying mechanisms? Share buybacks can influence shareholder value, mainly through short-term stock price increases and improved financial metrics, particular better EPS growth, and "in a slow-to-no growth economy, this tactic is becoming a more important driver of earnings-per-share growth", as Mayer puts it in 100-baggers[11].

In fact, share buybacks often lead to positive abnormal returns in the short term. They signal to the market that management believes the stock is undervalued[12, 13]. In Vietnam, buybacks aimed at stabilizing stock prices have improved liquidity and reduced volatility. These effects contribute to short-term price increases and greater market confidence[14].

A study that analyzed over 9,000 buyback announcements from 31 non-U.S. countries, found that stock buyback programs are generally associated with significant positive short- and long-term excess returns. The magnitude of these returns depends on factors such as undervaluation likelihood and equity market efficiency and liquidity. Unlike findings in U.S. markets, the paper did not find that long-term excess returns are simply compensation for takeover risk or have diminished recently[15].

Joerg Osterrieder and Michael Seigne (2023) found that while share repurchase execution is critical, it remains an understudied subject. Their review reveals inconsistent practices, limited transparency in trading strategies, and a lack of standardized performance benchmarks. They call for more empirical work and advanced methods like AI to improve execution efficiency and evaluation[16].

Grullon and Michaely (2004) find that share repurchase announcements do not lead to improved operating performance but do reduce firms' systematic risk and cost of capital. The market reacts positively, especially for firms prone to overinvestment, interpreting buybacks as signals of reduced agency costs and better capital allocation[17].

Corporate Motivations

Corporate motivations for engaging in share buybacks are influenced by several key factors, which can significantly impact both short-term and long-term stock performance. Surplus cash is often returned via buybacks rather than held as idle funds, an idea explored further below[18].

Rahman (2024) finds that stable, low-growth firms tend to favor dividends, while high-growth firms prefer buybacks for flexibility and earnings-per-share management; and that dividends appeal to risk-averse investors seeking income, whereas buyback yield investing favors investors seeking capital gains. Corporate motivations include financial performance, tax efficiency, market conditions, and regulation[19].

Companies repurchase shares for both financial and strategic reasons such as influencing the stock market price. In The Power of Buybacks: Examining Actual Share Repurchases in Scandinavia, Hansen and Kokansky Andersen study how Scandinavian firms' buybacks from 2004 to 2021 affected short-term market reactions. They find buybacks often lead to significant abnormal returns, especially during a company's first repurchase, and that smaller firms see higher returns, likely due to greater information asymmetry [26-28].

Underleveraged firms benefit more when buybacks improve capital structure. These findings support agency and signaling theories, suggesting repurchases signal confidence and help align management with shareholder interests[20].

Another notable empirical contribution emerges from Matthew Gordon's (2023) investigation of share repurchases on the Johannesburg Stock Exchange in South Africa, covering an extended period from 2003 to 2021[21]. Gordon's analysis of 454 repurchase announcements reveals significant cumulative abnormal returns of 7.07% within 250 days and 22.70% within 720 days post-announcement, thus confirming the existence of a buyback anomaly in an emerging market, and providing robust empirical support for signaling theory.

In markets like the UK, buybacks are increasingly preferred over dividends due to their flexibility and favorable tax treatment[22, 23].

Additionally, Peyer and Vermaelen's Undervaluation Index effectively identified undervalued firms, with high-score com-

16. Osterrieder, Joerg, and Michael Seigne. "Examining share repurchase executions: insights and synthesis from the existing literature." Frontiers in Applied Mathematics and Statistics 9 (2023): 1265254.
17. Grullon, Gustavo, and Roni Michaely. "The Information Content of Share Repurchase Programs." The Journal of Finance, vol. 59, no. 2, 2004, pp. 651-680.
18. Jamadar, Yasmin, et al. "Why Do Companies Share Buybacks? Evidence from the UK." Risks, vol. 12, no. 10, Oct. 2024, p. 159, doi:10.3390/risks12100159.
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23. Agrawal, Anup, and Narayanan Jayaraman. "The Dividend Policies of All-Equity Firms: A Direct Test of the Free Cash Flow Theory." Managerial and Decision Economics, vol. 15, no. 2, 1994, pp. 139–148.
24. Gordon, M. 2023. The buyback anomaly and using the undervaluation index on the Johannesburg Stock Exchange. Faculty of Commerce, Department of Finance and Tax. http://hdl.handle.net/11427/39442
25. Dittmar, Amy K. "Why Do Firms Repurchase Stock?" The Journal of Business, vol. 73, no. 3, 2000, pp. 331-355.
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27. Bloomberg. "Record Stock Buybacks Are Just What Investors Need." Bloomberg, 10 Dec. 2024, www.bloomberg.com.
28. Palladino, Lenore, and William Lazonick. Regulating Stock Buybacks: The $6.3 Trillion Question. Roosevelt Institute, May 2021, https://rooseveltinstitute.org/publications/regulating-stock-buybacks-the-6-3-trillion-question/.

panies outperforming low-score peers by up to 9.47%[24]. Amy K. Dittmar's 2000 study identifies multiple motivations for corporate stock repurchases, including addressing undervaluation, distributing excess capital, adjusting capital structure, deterring takeovers, and mitigating stock option dilution[25]. Institutional investors significantly shape corporate payout strategies, often favoring share buybacks due to their flexibility and tax advantages compared to dividends[26].

To contextualize the evolution of share buybacks, consider the scale of activity across recent decades among S&P 500 companies [29].

S&P 500 Share Buybacks by Decade (1980-2010's)

To contextualize the evolution of share buybacks, consider the scale of activity across recent decades. Following the regulatory catalyst provided by SEC Rule 10b-18 in 1982, the aggregate volume of S&P 500 buybacks surged significantly. In the 1980s, despite legalization, total buybacks remained modest at approximately $250 billion. The 1990s saw a notable increase to about $900 billion, fueled by rising corporate profitability and market expansions[27, 28].

The following decades marked exponential growth: the 2000s totaled around $2.75 trillion, driven by financial deregulation and recovery post-dot-com crash; the 2010s reached an unprecedented $6.3 trillion, spurred by favorable tax policies and historically low interest rates; and the current decade (2020s) projects an even faster pace, with anticipated buybacks exceeding $4.2 trillion by 2025 amid post-pandemic market volatility and inflationary pressures.

Table 1: Buyback Trends From 1980's to 2010's

Decade	Total Buybacks (USD Billion)	Key Trends
1980s	~$250B	SEC Rule 10b-18 (1982) legalized buybacks, but activity remained moderate
1990s	~$900B	Buybacks surged due to rising corporate profits and stock market expansion
2000s	~$2.75T	Dot-com boom, financial deregulation, and post-crisis recovery led to large-scale buybacks.
2010s	~$6.3T	Tax cuts, historically low interest rates, and strong corporate earnings drove record-breaking buybacks.

In 2024, S&P 500 companies returned a record $1.6 trillion to shareholders, with 60%—approximately $960 billion-allocated to stock buybacks[29, 30]. Whereas total buyback volume in the 1980s remained modest, recent decades have witnessed a substantial increase in repurchase activity. From 2020 to 2025, S&P 500 share buybacks surged, marking a dramatic increase in corporate repurchase activity. Beginning with $520 billion in 2020, buybacks rose sharply to nearly $882 billion in 2021 and exceeded $920 billion in 2022[31].

Though slightly lower in 2023, activity rebounded in 2024, hitting a record $942.5 billion[32, 33]. The U.S. bank Citi projects that S&P 500 share buybacks could reach $1 trillion in 2025, up 11% from 2024 levels[34]. This anticipated increase reflects companies' strategic use of repurchases to support stock prices amid economic uncertainty and lower valuations.

With this rise, cumulative buybacks in the U.S. from 2020 to 2025 are set to exceed $5 trillion, highlighting the central role of buybacks in corporate capital allocation during the decade. This figure reflects a broader trend in how firms prioritize shareholder returns and manage financial resources. It signals a shift in corporate behavior toward more flexible and dynamic capital return strategies, especially in response to evolving market conditions and investor expectations [30-32].

Also in the UK, firms increasingly use buybacks as an efficient alternative to dividends due to their flexibility and favorable tax implications. This trend parallels developments in the U.S., suggesting a broader, cross-market adoption of buybacks as a strategic financial tool. The appeal lies in their discretionary nature, allowing companies to adjust payouts based on performance without the long-term commitment associated with dividends[35, 36].

In their 2024 chapter "Share Repurchases" in the Handbook of Corporate Finance, Alice Bonaimé and Kathleen Kahle analyze the surge in share repurchases, which reached nearly $1 trillion in 2018, surpassing dividends as firms' primary payout method for the first time. They explore traditional motives—dividend substitution, agency costs, signaling, and taxes—highlighting the complexity and interplay of these factors[37] [33-36].

This notable increase in buybacks underscores the greater integration of buybacks into financial practices, particularly in periods characterized by limited organic growth opportunities, elevated cash reserves, and investor preference for flexible capital return mechanisms over fixed dividends.

29. Statista. "Total Volume of Stock Buybacks by S&P 500 Companies." Statista Reports, 2024, www.statista.com.
30. Nasdaq. "Annual S&P 500 Buybacks vs. Dividends." Nasdaq Reports, 28 Mar. 2023, www.nasdaq.com.
31. S&P Dow Jones Indices. "S&P 500 Buybacks Set Quarterly and Annual Record." Nasdaq, 21 Dec. 2021, https://www.nasdaq.com/press-release/sp-500-buybacks-set-a-record-high-2021-12-21.
32. S&P Dow Jones Indices. "S&P 500 Q4 2023 Buybacks Increase 18.0% Compared to Q3, Full Year 2023 Totals $795.1 Billion." NYU Stern School of Business, https://pages.stern.nyu.edu/~adamodar/pc/blog/S%26P500Buybacks.pdf.
33. S&P Dow Jones Indices. "S&P 500 Q4 2024 Buybacks Increase 7.4% and 2024 Expenditure Sets New Record by Increasing 18.5%." Stock Titan, https://www.stocktitan.net/news/SPGI/s-p-500-q4-2024-buybacks-increase-7-4-and-2024-expenditure-sets-new-j8d50bvf4ri5.html.
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36. Dedman, Elisabeth, Thanamas Kungwal, and Andrew W. Stark. "The Information Content of Regular Dividends and Share Buybacks for Market Value and Future Earnings in the UK." SSRN Electronic Journal, 2022.
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Financial Metric Optimization

Companies also pursue buybacks to strategically improve financial metrics critical to investor valuation models. Reducing the number of shares outstanding directly enhances earnings per share (EPS), a key indicator of profitability often used by investors and analysts to assess firm performance. Improved EPS typically translates into higher stock valuations, as the market perceives enhanced profitability and operational efficiency. Additionally, buybacks positively impact other important metrics such as Return on Equity (ROE), Return on Assets (ROA), and Price-to-Earnings (P/E) ratios, each of which makes the company's stock more attractive in competitive investment environments[38].

Rahman (2024) identifies that stable, low-growth companies typically opt for dividends, whereas high-growth firms prefer share buybacks to maintain financial agility and manage earnings per share (EPS)[39]. Compared to dividends, share repurchases offer greater flexibility. They allow firms to adjust capital return strategies based on changing financial conditions, investment needs, or market volatility. This agility is critical during economic uncertainty, helping companies avoid unsustainable dividend commitments and preserve stability. Buybacks can also optimize capital structures by reducing equity, lowering the weighted average cost of capital (WACC), and thereby enhance shareholder value [37-42].

Calculating Buyback Yield

To quantify the impact of buybacks on firm performance, analysts often rely on specific metrics—one of the most commonly referenced being the buyback yield ratio.

Buyback yield measures the proportion of a company's market capitalization used to repurchase its own shares. It is calculated as the average cash flow from share buybacks over the past two years divided by the company's market cap[40]. Only annual report data is used, with restated figures preferred. Buybacks reduce the number of shares in circulation, often improving financial metrics like return on equity (ROE) and return on assets (ROA). The formula is:

Buyback Yield = (CashFlow_YR1 + CashFlow_YR2) / (2 × Company Market Cap)

As a forward-looking indicator, buyback yield reflects management's confidence in the firm's valuation and cash flow stability. Investors can use it to evaluate the strength and consistency of a company's repurchase program. It also serves as a comparative metric—useful for screening firms within a sector or building an investment case alongside key fundamental ratios. Tools such as Finbox offer screening capabilities that include buyback yield, supporting more data-driven investment analysis[41].

Free Cash Flow and Agency Theory: Aligning Management and Shareholder Interests

Another motivation for buybacks stems from agency theory, which explores the conflicts of interest between management (agents) and shareholders (principals). According to Jensen's (1986) "free cash flow hypothesis," excess cash reserves can tempt managers to pursue personal agendas—such as investing in low-return projects, making value-destructive acquisitions, or increasing executive perks—that do not align with shareholder interests. This misallocation of capital can erode long-term value and weaken corporate governance[42].

Share buybacks help mitigate these agency costs by reducing the pool of discretionary cash available to management, thereby limiting the scope for inefficient or self-serving decisions.

By returning excess capital directly to shareholders, buybacks impose financial discipline on management and encourage more prudent capital allocation. In doing so, they help resolve overinvestment concerns and foster stronger alignment between managerial actions and shareholder value creation[43, 44]. Ultimately, buybacks serve as a tool for reinforcing corporate governance while enhancing shareholder wealth [43-45].

Signaling Theory: Letting Markets Know the Stock Is Undervalued

Signaling theory suggests that share buybacks indicate insider confidence and address stock undervaluation. Managers use buybacks to signal that the stock is worth more than the market believes[45]. Empirical studies show that buyback announcements often lead to positive abnormal returns, confirming their signaling power. Repurchases can also correct undervaluation and counteract negative market sentiment. They emphasize long-term corporate health and signal confidence in future profitability. When executive compensation aligns with stock price, buybacks are viewed as more credible signals.

Can the market tell when management believes in the business? Yes—investors respond quickly to these cues, often pushing up the stock price. Some firms even repurchase shares at a premium to amplify this message. These actions not only address undervaluation but also counteract negative sentiment and highlight long-term corporate strength.

The credibility of the signal matters. Buybacks have stronger effects when executive compensation is linked to share performance, reinforcing management's belief in the company's value. In short, signaling theory is a key explanation for buybacks. It strengthens the link between what managers know internally and how markets react externally.

A 2016 study found that stock repurchases improve liquidity by reducing bid-ask spreads and increasing trading volume. The effect is stronger for firms with poor initial liquidity. Their study highlights that buybacks serve not only as capital distribution tools but also as mechanisms to enhance secondary market efficiency[46].

40. Morningstar. How Is Buyback Yield Calculated on Morningstar.com (USA)? Morningstar Community, 23 Aug. 2023, https://community.morningstar.com/s/article/How-is-Buy-back-Yield-is-calculated-on-Morningstar-com-USA.
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48. Jamadar, Y., Reyad, H. M., Alam, M. K., Thakur, O. A., & Mamun, S. A. (2024). Why Do Companies Share Buybacks? Evidence from the UK. Risks, 12(10), 159. https://doi.org/10.3390/risks12100159
49. Brav, Alon, John R. Graham, Campbell R. Harvey, and Roni Michaely. "Payout Policy in the 21st Century." Journal of Financial Economics, vol. 77, no. 3, 2005, pp. 483-527.

In addition to correcting undervaluation, repurchases counteract negative market sentiments, emphasize long-term corporate health, and provide a clear message of managerial confidence in ongoing profitability and growth prospects[47, 48].

Tax Efficiency

Share buybacks are also favored due to their tax-efficient nature compared to dividend distributions. Typically, dividend payments are taxed as ordinary income, subjecting investors to potentially higher tax liabilities. Conversely, the gains from buybacks are generally realized as capital gains, which are often taxed at lower rates, particularly if the shares have been held for an extended period.

This tax advantage significantly increases the appeal of buybacks from a shareholder perspective, as it enhances net returns and overall shareholder value, influencing corporations to prefer buybacks as a capital distribution method over dividends[49]. Buybacks offer tax advantages and flexibility over dividends, which can be attractive in volatile markets. It may support investor preference for capital return mechanisms that preserve flexibility without locking companies into rigid payout commitments [46-48].

Criticism of Share Buybacks

Critics argue that stock buybacks artificially boost share prices and executive compensation, prioritizing short-term profits over investment, innovation, employee wages, and ultimately harming broader American economic prosperity[50].

Buybacks may come with significant opportunity costs, particularly in terms of capital allocation. Reducing capital available for innovation, R&D, or expansion can potentially undermine sustained shareholder value creation. While buybacks may provide short-term stock price support and appease investors, they divert resources away from long-term growth opportunities. By prioritizing repurchases over reinvestment into core business activities, companies might miss chances to enhance productivity, enter new markets, or develop innovative products. This shift in capital allocation can compromise a company's competitive advantage and overall financial health in the long run[51].

Recently, share buybacks have faced significant criticism. In The Attack on Share Buybacks, Harry DeAngelo argues that taxing buybacks reflects flawed financial reasoning. He contends that such policies could deter equity investment in growth firms and misallocate capital at mature firms. DeAngelo warns that this could stifle innovation and overall market efficiency. He advocates for incentive-based reforms that would better encourage long-term value creation, rather than punitive measures that may distort investment decisions[52].

From Singleton to ETFs: Empirical Case Studies of Share Buybacks Across Eras

Henry Singleton and Capital Allocation at Teledyne Inc. (NYSE: TDY)

Henry Singleton, the CEO and co-founder of Teledyne Inc., is recognized for initiating strategic share buybacks. Teledyne initially experienced rapid growth through numerous acquisitions during the bullish market conditions of the 1960s, significantly expanding its corporate portfolio and market capitalization. However, when market sentiment deteriorated sharply in the 1970s, Teledyne's stock became undervalued. Singleton then strategically shifted towards share repurchases, viewing this undervaluation as an investment opportunity.

Between 1972 and 1984, Singleton implemented an extensive repurchase program, acquiring approximately 90% of Teledyne's outstanding shares[53]. The buybacks were executed primarily at stock prices ranging from as low as $8 per share to approximately $40 per share. This approach effectively took advantage of Teledyne's strong cash flow, reducing the number of outstanding shares from approximately 88 million in 1972 to about 12 million in 1984. As a result, earnings per share (EPS) rose considerably, enhancing overall shareholder returns. Singleton notably preferred share repurchases to dividends, prioritizing efficient capital allocation and cash flow optimization[54].

Singleton's repurchase strategy at Teledyne is frequently cited as an instructive example of effective capital allocation, illustrating the advantages of buying back shares when they are trading below intrinsic value . This disciplined method has influenced other corporate strategies by emphasizing the timing and valuation assessments necessary for beneficial repurchases [49-52].

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Table 2: Teledyne and Henry Singleton: Strategic Buybacks

Description	Key Elements
From 1972 to 1984, Teledyne bought back ~90% of its shares, boosting EPS and increasing shareholder value.	~90% share repurchase (1972–84); EPS amplification; shareholder value surge
Singleton preferred buybacks over dividends, using capital strategically when the stock was undervalued.	Buybacks over dividends; contrarian strategy; capital discipline
Under Singleton, shares fell 60% (1967–77), returns hit 25–30% annually, and market cap grew over 600%.	60% share cut; 25–30% returns; 600% market cap increase
The 1970s recession hurt markets, but Singleton's buybacks proved effective in tough conditions.	1970s bear market; inflation; strategic financial management
Teledyne's stock dropped 80% in 1974 but rebounded strongly. Share count fell from 88.8M to 22.6M, EPS rose to $16.23, and stock exceeded previous highs.	80% stock fall to <$8; share count drop from 88.8M to 22.6M; EPS rise to $16.23; price peak >$150

The lasting financial results, such as Teledyne Technologies' consistent market outperformance post-1999 relisting, underscore the practical effectiveness of Singleton's approach to capital allocation and its continuing relevance in corporate finance[57].

Warren Buffett and Berkshire Hathaway (NYSE: BRK.B)
Warren Buffett's strategy for share buybacks at Berkshire Hathaway reflects a rigorously disciplined and transparent approach to capital allocation. He consistently maintains that repurchases should only be conducted when the company's shares trade below intrinsic value, ensuring that buybacks create long-term shareholder value rather than short-term market buzz[58]. Buffett rejects the idea of buybacks as a tool for manipulating earnings per share, contrasting Berkshire's policy with the often-indiscriminate practices of other public corporations.

In 2020 and 2021, Berkshire repurchased over $50 billion of its own stock, decreasing its outstanding shares by roughly 5%[59].This move wasn't driven by pressure from Wall Street or media pundits, but by basic math and intrinsic value. Buffett argued in the 2020 letter in favor of buybacks; "The math of repurchases grinds away slowly, but can be powerful over time. The process offers a simple way for investors to own an ever-expanding portion of exceptional businesses"[60].

Buffett has repeatedly emphasized that share repurchases should never be automatic or formulaic. In his view, buybacks are only appropriate when a company has ample cash reserves, lacks superior internal or external investment opportunities, and—crucially—when its shares are trading below intrinsic value [53-56].

This disciplined approach underscores his broader philosophy of value investing, or as Buffett famously put it: "I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful"[61]. And in the context of buybacks, this means repurchasing shares only when they are a bargain—not when they are trading at all-time highs. His message is clear: without a careful assessment of intrinsic value, buybacks risk destroying rather than creating shareholder value.

As a value investor, Buffett does not overpay for acquisitions, often walking away from deals if they don't meet his intrinsic value standards. This valuation discipline underlies not just buybacks, but all of his capital deployment[62, 63].

AutoZone (NYSE: AZO)
Autozone represents one of the most consistent and effective long-term buyback strategies in corporate America. Over the past two decades, AutoZone has reduced its outstanding share count by more than 85%, largely by deploying free cash flow toward aggressive and sustained repurchase programs (AutoZone, 2022 Annual Report). This long-standing policy has significantly boosted earnings per share (EPS) and shareholder value, even as the company abstained from issuing dividends [57-60].

Unlike many companies that oscillate between dividends and repurchases based on market mood, AutoZone has made share buybacks a central feature of its capital return strategy. One key insight from AutoZone's filings is that repurchases are executed consistently, not just when stock prices fall. The company has developed a reputation for maintaining repurchase activity even during economic slowdowns—a testament to its robust cash generation model and operational discipline [61, 62].

In its 2022 shareholder letter, AutoZone stated that "since the inception of the repurchase program in 1998, the Board has authorized $33.7 billion in share repurchases", a testament to its commitment to the scale and long-term commitment of the company to its stock repurchase strategy[64]. AutoZone maintained a median buyback yield of 7.7% across fiscal years ending August 2020 through 2024. Over this five-year period, its buyback yield peaked at 10.3% in August 2022[65].

Moreover, management alignment has been central; top executives at AutoZone often hold significant equity stakes, meaning buybacks directly benefit leadership alongside shareholders—enhancing trust and accountability. Here, AutoZone's approach illustrates how a disciplined buyback strategy can deliver exceptional returns. Its long-term outperformance against both the S&P 500

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and industry peers validates the power of buybacks as a deliberate, value-creating mechanism [63, 64].

Disciplined buybacks—when aligned with intrinsic value and strong fundamentals—can significantly enhance shareholder returns, as demonstrated by Teledyne, Berkshire Hathaway, and AutoZone; all three cases underscore the importance of timing, valuation, and consistent capital discipline over mechanical repurchase programs.

Companies executing buybacks during periods of undervaluation or economic downturns, like Singleton during the 1970's or Berkshire Hathaway under Warren Buffett, tend to achieve stronger and more persistent long-term returns compared to firms repurchasing shares indiscriminately or primarily for short-term market effects.

One way to find companies that have strong buyback yields, is to examine buyback ETF's. The emergence of ETFs centered on share buyback strategies is fairly new, and notable for both financial innovation and the chance for investors to develop a targeted buyback investing strategy. To this the paper turns next.

Exchange-Traded Funds (ETFs) Targeting Share Buybacks

The emergence of ETFs centered on share buyback strategies is notable for both financial innovation and what it signals about investor priorities. In an era where passive investing dominates and capital efficiency is scrutinized, these ETFs reflect growing demand for exposure to firms with strong shareholder return disciplines.

Buyback ETFs align with the "coffee can portfolio" theory, which advocates buying and holding investments for the long term, allowing them to grow without interference. By focusing on companies with consistent buyback programs, these ETFs embody the philosophy of letting capital appreciation unfold naturally over time[66]. Buyback ETFs hold companies that consistently allocate substantial capital toward share repurchases, capitalizing on the financial and signaling advantages these buybacks offer [65].

Table 3: ETFs with a Buyback Strategy

ETF Name	Ticker	Buyback Threshold (Annual %)	Annualized Return (5-Year)	Expense Ratio	Assets Under Management (USD)
Invesco BuyBack Achievers ETF	PKW	≥5% of shares outstanding	12.3%	0.64%	$1.2 Billion
Invesco International BuyBack Achievers ETF	IPKW	≥5% of shares outstanding	9.7%	0.55%	$350 Million
Amundi S&P 500 Buyback UCITS ETF	BUYB	Highest buyback ratios in S&P 500	11.5%	0.15%	$600 Million

The screening methodology underpinning buyback-oriented ETFs selects issuers with persistent repurchase activity, ample free cash flow, and conservative balance-sheet leverage. Most funds impose a quantitative hurdle—typically cumulative repurchases ≥ 5 % of shares outstanding over the preceding twelve months—thereby excluding episodic or debt-financed programs.

The Invesco BuyBack Achievers ETF (PKW) replicates the NASDAQ US BuyBack Achievers Index, which currently holds roughly 100 domestic firms meeting the 5 % threshold. Its sister vehicle, Invesco International BuyBack Achievers ETF (IPKW), applies an identical screen to non-US equities, producing a comparably sized, regionally diversified basket; global dispersion limits idiosyncratic risk while preserving the factor.

Europe-domiciled investors can access the Amundi S&P 500 Buyback UCITS ETF. This fund re-weights S&P 500 constituents by trailing-twelve-month repurchase ratios and limits the portfolio to the top decile (≈ 100 names), concentrating exposure on issuers exhibiting sustained capital-return discipline.

The development of buyback ETFS such as PKW, IPKW, and Amundi BUYB operationalize the repurchase strategy, offering diversified portfolios systematic access to this corporate-action factor. These products highlight how financial markets now recognize buybacks as reliable indicators of sound capital allocation.

Conclusions

This paper evaluated motivations for share buybacks rooted in signaling theory, free cash flow use, while also considering their practical deployment in companies such as Teledyne, Berkshire Hathaway, and AutoZone. The analysis of buyback-focused

Value investing principles can guide corporate strategy, emphasizing long-term value creation and disciplined capital allocation. Singleton's buybacks reflected rationality by exploiting undervaluation, avoiding herd behavior, and prioritizing long-term shareholder returns over short-term market sentiment or growth-for-growth's-sake strategies. Singleton's bold repurchase strategy in the 1970s, which saw Teledyne retire approximately 90% of its shares over a decade, demonstrated how opportunistic buybacks conducted during periods of significant undervaluation can meaningfully amplify shareholder value. His approach was contrarian, patient, and anchored in long-term strategic thinking.

Warren Buffett supports buybacks when a company's stock trades below intrinsic value, warning against automatic or valuation-blind repurchases, highlighting a key theme: buybacks are tools—not inherently good or bad—and their impact depends on how they are used. Singleton and Buffett show that strategic execution, grounded in valuation insight and shareholder alignment, is crucial.

The paper explored buyback-focused ETFs that translate corporate repurchase behavior into investable strategies. These targeted instruments are ways that investors can steer towards companies that prefer buybacks as capital allocation, and the growth of

these ETFs underscores buybacks' rising status as a meaningful signal of financial strength and long-term shareholder value.
All in all, it may be reasonable to ask whether share buybacks are underappreciated? Despite their growing prevalence, they are often misunderstood or undervalued in policy and academic discussions. This stems partly from the persistent focus on their potential for manipulation, rather than on their role in responsible capital allocation. Unlike dividends, buybacks offer greater flexibility. They can be paused or adjusted without necessarily sending negative signals to the market. For instance, AutoZone suspended its repurchase program during the 2008 financial crisis and resumed it once cash flow stabilized—demonstrating how optionality can preserve balance sheet strength while continuing to grow per-share value over time.

Tax considerations further strengthen the case for buybacks. In most OECD countries, capital gains are taxed at lower rates than dividends, creating an after-tax advantage of 9 to 20 percentage points—an efficiency often overlooked in policy debates focused solely on distributional fairness.

The significance of this paper and its literature review lies in its timeliness. The year 2025 has started with a correction in the S&P 500 following the uncertainty around President Trump's tariff program, leading to high volatility in the stock market. In line with Henry Singleton's rational approach to capital allocation—prioritizing opportunistic use of free cash flow—current market conditions may present an ideal moment for companies to implement disciplined and value-enhancing buyback programs. And it is with the guidance from Singleton that the paper concludes that stock repurchases should be seen as conditional instruments, effective only with valuation discipline.

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