

Share Repurchase

- The opposite comes when a firm buys its own shares on the market.
- The value of the firm should go down by the amount they spent.
- I as a shareholder, however, now own a larger share of the company.
- If the firm repurchases shares instead of paying dividends, then my shares do not lose value, the company loses value but I have a bigger share in it.

Reasons for Share Repurchase

- Tax break for investors (obsolete in sense that tax rate on cap gains=that on dividends, but cap gains tax can be postponed).
- Firms' unwillingness to cut dividends, uncertainty that current earnings will continue.
- Price pop after a repurchase. Buybacks taken as a signal. But price pops are fading.
- Now investors sometimes view repurchase as a sign that firm is "old economy." NASDAQ firms less likely to repurchase shares, as if they think value is too high.