******for some reason, my post got switched to an old file with bad information… I apologize. I hadnt checked it again till just now…This isnt the most updated version, but at least its better.

Again I apologize ***********

Props to Microsoft for announcing a 3 dollar per share special dividend. It's not inconsequential that at about 32 billion dollars, it's the equivalent of $300 per USA household. It has the potential to have a definitive impact on the economy. That is if the money doesn't find itself in the pockets of fund managers.

In addition to the special dividend, which I love, Microsoft announced a stock buyback, which I hate. There is no better example of trying to manipulate earnings and stock prices than through the stock buyback, and there is no worse message to send to long term sharedholders than through the stock buyback.

To stock traders, the buyback makes perfect sense. If you buy stock in the open market, you help maintain the stock price. If you buy back shares of stock, you reduce the number of shares outstanding, which in turn increases the earnings per share.

This of course is completely contrary to every message that every company CEO, particularly Microsoft tries to send, that they are not trying to manage earnings or the stock price.

More importantly, it rewards the exact thing that should not be rewarded. It rewards people getting out of their investment, while not rewarding keeping the investment.

Sell the stock, you get paid. Keep the stock, you get nothing. Yes, I know that the stock price is supposed to go up for those who keep it, but there are no assurances that it will. The only certainty is that the seller has cash in the bank. The holder has the same amount of risk.

Shouldn't continuing shareholders be rewarded rather than the sellers?

That's why I am such a big fan of dividends. Dividends are the investors' best friend for several reasons:

- The obvious, it's cash in the bank
- It reduces your cost basis and rewards you for being a continuing shareholder
- It can put a cap on how much the company can dilute your holdings. When a company pays a dividend, it's much more expensive just to issue stock and options to insiders. They have to consider the cash implications of each additional share or option issued. That's a good thing. It keeps companies with legitimate dividends from going nuts.
- It creates a precedent of rewarding shareholders, hopefully with increasing dividends.

On the flipside, share buybacks are horrid for several reasons

- It allows companies to manipulate earnings per share. Buy back enough stock, and you will hit your Wall Street expectations.
- Companies will undertake risky cash management strategies to pay for the share buybacks. Since its one time, they can take greater risks
- Companies will undertake buybacks with CEO and management incentives and bonuses in mind. Hit those numbers, earn lots of stock and options.
- Companies will buyback stock so that they can re-issue it to themselves and employees. In essence they use the market as their personal and corporate piggybanks. They Buyback stock to push up earnings in hopes the stock goes up. Then they issue the stock to themselves. Then if the stock goes up, they sell the stock they awarded themselves to unsuspecting shareholders who have no idea the money they are paying for shares is going to insiders.

Stock buybacks are a very bad idea for investors and a very profitable idea for insiders and traders.

*****below is in response to some emails and comments this post has been getting********

You are assuming that once a buyback takes place everything else stops in time. It doesn't.

First in a buyback, you have no idea what price they are paying, or why they choose to sell at a certain price. All you know is that they cant sell at the end of the day. So they may try to prop up the price, unsuccessfully. They may pay any price but the best price, and most likely they will, given how difficult it is to get the best tick.

2nd. No one knows when the buyback takes place. So ifyou wanted to generate cash from a transaction, you have no idea if you are selling into the buyback or not. Which in turn means you are creating incremental transactions that impact supply and demand, and therefore the price of the stock

3rd. Cash is the most valuable asset a company has, when you give it to people exiting the stock, or selling a portion of their holdings, you are diminishing the most valuable asset available to the remaining stockholders. No other asset a company can intrinsically create more cash with zero risk

4th. You are using earnings as if it is a number that has real meaning , whether to the company or to investors. It has value to neither. Earnings is supposed to reflect the results of operations. They don't. Cash is the only variable that reflects the results of operations, and in giving it to people who are exiting the stock, you are rewarding the wrong people. Worse, if you think just because a company earned the same amount of money year over year, and there is a reduction in shares, you still have a very difficult time determining if the company's cash position increased. Still worse. There is a better than even chance that the company handed out stock and options to employees, so whatever benefit you thought you got from the buyback, has been diluted away. The shareholders who sold their stock, got cash. The insiders who sold their stock got cash. You got diluted back to where you were , at best, with no cash in hand.

5th. Still on the topic of earnings, you are assuming that stock price is a function of earnings. Its not. It's a function of the demand created for a stock. You could argue that stockbuybacks creates demand. I would argue its artificial demand that only reflects the inefficiencies of the market and the heard mentality of investors. Analogous to stocks going up after announcing a stock split.

How long that is sustained is a huge risk for a holder of stocks that has no dividends coming in. Just ask the holder of any Nasdaq tech stock the last 5 years.

Your position , prays that everyone follows the same investing rules in the same way so that everyone values stocks based on the same metrics. That works for spurts, but not over the longhaul. There are far more years in the historic database when stocks were valued as a multiple of dividends than as a multiple of earnings.

It also assumes that companies don't create continual dilution. They do.

Bottom line is that there would be far less need for buybacks if companies didn't dilute their shareholders with stock and options to insiders. Without this continual dilution, companies would only use buybacks to try to manipulate the stockprice, which, while not a good thing, would be far more obvious