

Timing stock repurchases pays

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Can companies buying back their own stock time the market to get a better price? This was an unanswered question in corporate finance until now.

New research from University of Michigan finance professor Amy Dittmar indicates that some companies do time their repurchases to buy

at a low price. It's a way companies can make a shareholder-friendly move and a positive return on an investment.

"Stock repurchases get a bad rap sometimes," Dittmar said. "Some people argue that it's spending money that should be invested in workers and facilities. But if managers can make a positive return over and above the risk they assume, it can be good for the firm."

Dittmar and co-author Laura Field of Penn State University analyzed monthly repurchase data from companies that bought shares on the open [market](#) from 2004 to 2011. Using new data and methods, the average firm buying its stock on the open market pays 2 percent less than the average investor, their study found.

They also discovered companies that repurchase shares infrequently time the market even better, paying 6 percent to 8 percent less than the average price. That's because it's more difficult for firms that buy back shares frequently to time the market. A [company](#)'s shares aren't going to be undervalued that often, and these frequent repurchasers likely have other reasons to repurchase.

The higher returns get even better when insiders like executives buy stock on their own account in the same month, an indication those repurchases are driven by market timing.

"I believe in market efficiency, so I was kind of skeptical of the idea that firms could time the market," Dittmar said. "But the data gave us a peek inside a black box we've never seen before and shed some light on a big question in finance."

Companies buy back [stock](#) for a number of reasons—to use available cash, to give shareholders a benefit in lieu of a dividend, or to improve ratios. Whatever the reason, the new research suggests that companies

can time the market, especially if the buybacks aren't a frequent event.

More information: Can Managers Time the Market? Evidence Using Repurchase Price Data, *Journal of Financial Economics* (JFE), Forthcoming Ross School of Business Paper No. 1234 : [papers.ssrn.com/sol3/papers.cfm ... ?abstract_id=2423344](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2423344)

Provided by University of Michigan

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