Stock Buybacks and the Wall Street Sharktank: "A Whole Lotta Stealin' Goin' On"

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Let's say you lend your brother-in-law, Pauli, 5,000-bucks so he can get his fledgling construction business off-the-ground. Then, you find out a week later that 'good-old Pauli' has shot the wad playing the horses at Long-acres and buying cocktails for his loafer-friends at Matt's Mad Dog tavern? Would you feel like you'd been ripped off?

Sure you would. But when some slick corporate fraudster pulls the same scam, no one even raises an eyebrow.

What am I talking about?

I'm talking about the way that corporate bosses are allowed to take the hard-earned money from Mom and Pop investors and divide it among their freeloading shareholder friends via stock buybacks. You see, buybacks have been driving the market higher for the better part of six years, and every year the amount of cash diverted into this swindle gets bigger and bigger. According to Research Affiliates:

> "In 2013, S&P 500 companies....spent $521 billion on buybacks. In 2014 that amount rose to $634 billion and moved higher still to $696 billion when total repurchases by all publicly traded companies in the U.S. market are included." ("Are Buybacks an Oasis or a Mirage?", Research Affiliates)

And, here's more from an older article at the Wall Street Journal:

> "Last year, the corporations in the Russell 3000, a broad U.S. stock index, repurchased $567.6 billion worth of their own shares—a 21% increase over 2012, calculates Rob Leiphart, an analyst at Birinyi Associates, a research firm in Westport, Conn. That brings total buybacks since the beginning of 2005 to $4.21 trillion—or nearly one-fifth of the total value of all U.S. stocks today." ("Will Stock Buybacks Bite Back?", Wall Street Journal)

Whatever the exact figure may be, we're talking serious money here, something in the neighborhood of a half trillion dollars per year. And it's all being used for the sole purpose of jacking stock price so voracious CEOs and their shareholders can make a killing. Not one dime of this money is going into expanding operations, hiring more employees, Research and Development or improving productivity. The lone objective of this farce is to inflate stock prices to Hindenburg proportions in order to line the pockets of filthy-rich one percenters.

And that's just the half of it. The part I've left out is the part about how much debt these corporations are loading onto their balance sheets in order to feather their own nests. Take a look at this from *Bloomberg:*

> "It's official, using proceeds from debt sales to send cash to stockholders has never been more popular.
>
> Standard & Poor's 500 Index companies listed buybacks or dividends among the use of proceeds in $58 billion of bond deals in the past three months, the most on record, according to data compiled by Bloomberg and Sundial Capital Research Inc. More than $460 billion in repurchases were announced during the first five months of 2015, on pace to top last year's record." ("Debt Gone Wild" – Debt Funded Stock Buybacks Soar", Advisor Perspectives)

$58 billion here, $58 billion there. Pretty soon you're talking real money.

So let's do the math: $58 billion in three months translates into $232 billion per year, which means that a heckuva a lot of the money that's being given back to shareholders is being borrowed from–you guessed it– Mom and Pop, the suckers who'll be left holding the bag when the whole system goes bust again in the not-too-distant future.

And why have Mom and Pop been buying all these crappy corporate bonds that are just adding to executive compensation instead of building stronger companies for a brighter future??

Because of the damn Fed, that's why. The Fed has been holding rates underwater for seven years to keep the money flowing to Wall Street and to force smalltime investors (who have been trying to scrape by on their withering retirements) to look for a higher return on their savings then they're getting on their risk-free fixed-income investments. In other words, the Fed has put a gun to their heads and forced them back into the Wall Street sharktank.

It's all a question of incentives, right? If you keep rates low enough, long enough, "they will come"....and get fleeced again for that matter. Which is exactly the way the system is designed to work. Low rates mean more pigs to the slaughter. Period. Now check this out from the*Fiscal Times:*

> "Not only are investors willing to buy more debt, they're also attaching fewer conditions. Rating service Moody's tracks covenant quality, essentially a measure of standards that bond issuers must meet, and reported Thursday that the latest reading remains near record highs, which indicates weak restrictions."
>
> ("Why Corporate Debt Is Hitting Record Levels", The Fiscal Times)

"Weak restrictions", you say?

Well, that's just great.

So, Mom and Pop got into bonds thinking, "I don't trust stocks after the last crash, so I'll load up on bonds cuz they're safer", right? Only now they see they've been led into a minefield where they might not get out in one piece. Some bond funds have already suspended redemptions, which means investors can't withdraw their money. I'm dead serious. It's like the Hotel California, “You can check out, but you can’t leave.” Not with your money at least. So you can kiss that retirement “Goodbye” and start filling out that job app for Taco Time now before the spot is taken by some other struggling graybeard.

Don’t you think companies should have to sign an oath to investors that they will NOT use their investment to divvy up among their shareholders? I do. And, besides, if a CEO doesn’t have a plan for reinvesting profits in his own business, then he shouldn’t be the CEO, right?

No one buys a bond thinking some corporate jerkoff is going to use the money to goose stock prices. That’s just pulling the wool over people’s eyes. Like I said earlier, no one in their right mind is going to lend brother-in-law Pauli 5K so he can blow it at the races or the tavern. Nor are they going to hand over their paltry retirement-savings to some shifty CEO who wants to use it to buy a bigger yacht or install a fountain at his palatial vacation retreat in the Hamptons. That’s not why people invest money.

This whole stock buyback-thing shouldn’t even be an issue, mainly because we used to have rules that prohibited the practice before the Deregulator in Chief, Ronald Reagan, took office and everything went to hell in a handbasket. Check it out:

> “Prior to the Reagan era, executives avoided buybacks due to fears that they would be prosecuted for market manipulation. But under SEC Rule 10b-18, adopted in 1982, companies receive a “safe harbor” from market manipulation liability on stock buybacks if they adhere to four limitations.” (“SEC Admits It’s Not Monitoring Stock Buybacks to Prevent Market Manipulation“, Dave Dayen, Intercept)

Now, anything goes and the sky’s the limit. Wall Street basically tells its lackey Congressmen what they want and, BAM, Congress changes the rules like that. That’s basically how the system works.

As a result, Big Business keeps piling on more and more debt, creating more and more instability, and paving the way for another agonizing financial crisis.

Yes, I realize you’ve all heard that nonsense about “the strength of US corporations” and their “fortress balance sheets” that are bulging with $2 trillion in excess cash. Sorry to break the news to you, but it’s all baloney. Take a look at this from Bloomberg:

> “Corporate leverage is now at its highest level in a decade, according to a new analysis from Goldman Sachs….
>
> Years of low interest rates and eager investors have encouraged Corporate America to go on a shopping spree. On its list are share buybacks and dividend hikes to reward equity investors, as well as a series of merger and acquisition deals, all funded through a generous bond market. Since cash flow has not kept up with the boom in bond sales, the splurge has left Corporate America with its highest debt load in about 10 years, according to the bank…..
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> “The spectre of rising rates, potential global disinflation (dare we say ‘deflation’?), declining operating profits and wider credit spreads continues to create near-term consternation for weak balance sheet stocks,” the analysts conclude.” (“Goldman Sachs Says Corporate America Has Quietly Re-levered“, Bloomberg)

Talk about understatement! Corporate America didn't go on a "shopping spree". That's ridiculous. They went on a six year debt-bender offloading zillions in bonds to credulous investors who'll probably never see their money again. There's no reason to dignify that sort of chicanery as a "shopping spree."

And reread that last paragraph slowly and try to savor what the author is really saying. He's saying that everything has changed; the Fed is taking its foot off the gas, earnings are shrinking, credit is tightening and the whole rickety infrastructure that keeps this Ponzi house of cards upright is about to collapse. Not today. Not tomorrow. But soon.

Which brings us to our final point, which is that there's been no recovery. It's all a big fraud. There was no restructuring of debt, no rebuilding of household wealth, no rebound in wages, incomes or employment. (excluding shitty-paying, part-time, service-sector jobs.) The whole lie has been predicated on a failed monetary policy that has created gigantic, system-devouring asset bubbles in stocks, bonds, corporate debt, derivatives, ETFs, REITs... you-name-it, it's inflated. The Fed has created the same mess it created last time, and the time before that, and the time before that, and the time before that....

Anyway, you get the picture. What was that saying about "Old dogs and new tricks"?

That goes double for the Fed.

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