Including share buybacks is important when considering total return of capital to shareholders

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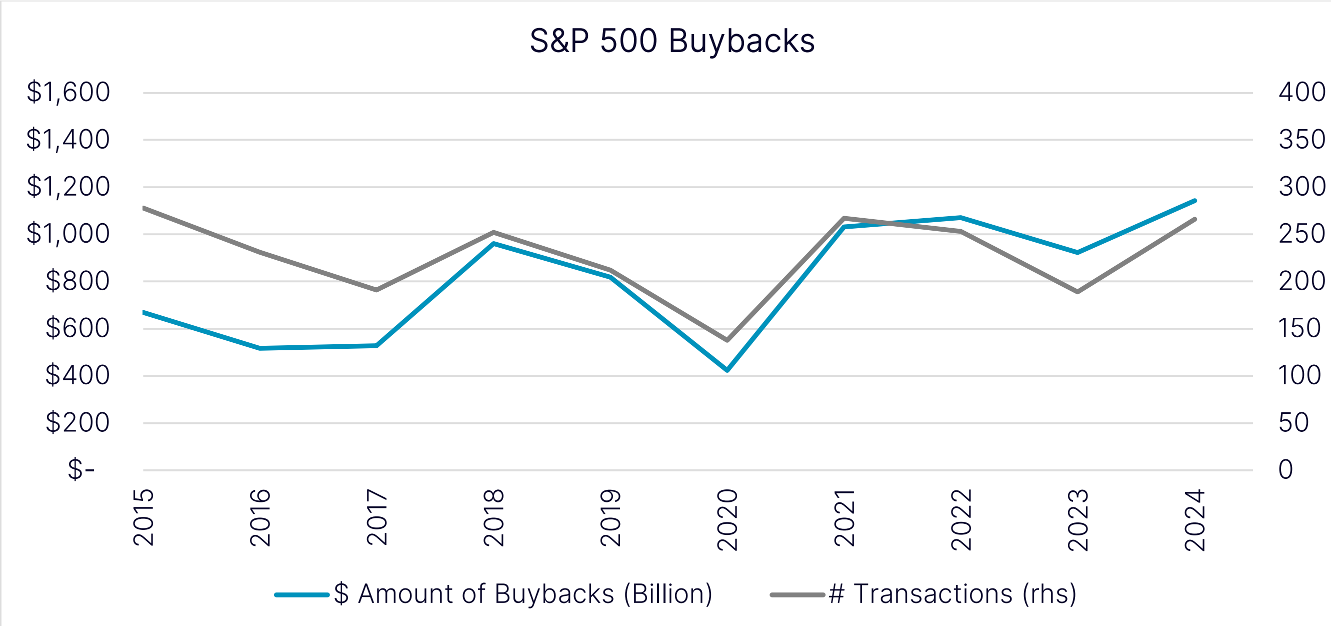
Corporations that generate cash as part of their operations have many options for deploying that cash. They may use the cash to pursue growth opportunities either organically by funding projects for future growth or inorganically through acquisitions. They may also choose to return the cash to shareholders through dividend payments or share buybacks. A more thorough review of share buybacks can be found here.

For investors looking for a more complete capture of the total return to shareholders, share buybacks are an important consideration. Failing to include buybacks may leave investors with only a portion of the benefits from owning companies that generate excess cash.

The Nasdaq US Buyback Achievers Total Return™ Index (DRBTR™) is an index designed to capture the benefits of share buybacks by owning a diversified portfolio of companies that have reduced their net share count by at least 5% over the previous year. Looking at only share repurchases in isolation may be misleading as some companies may issue stock as part of a long-term incentive compensation plan. If they subsequently repurchase those shares, the net effect may be zero change in shares outstanding but if the investor only looks at share repurchases, they may be misled to believe that the company was reducing the shares. Thus, the focus on net share reduction is critical to an effective buyback investment strategy.

While the number of share buybacks has been fairly steady over the last 10 years, the magnitude (in $ terms) has been increasing.

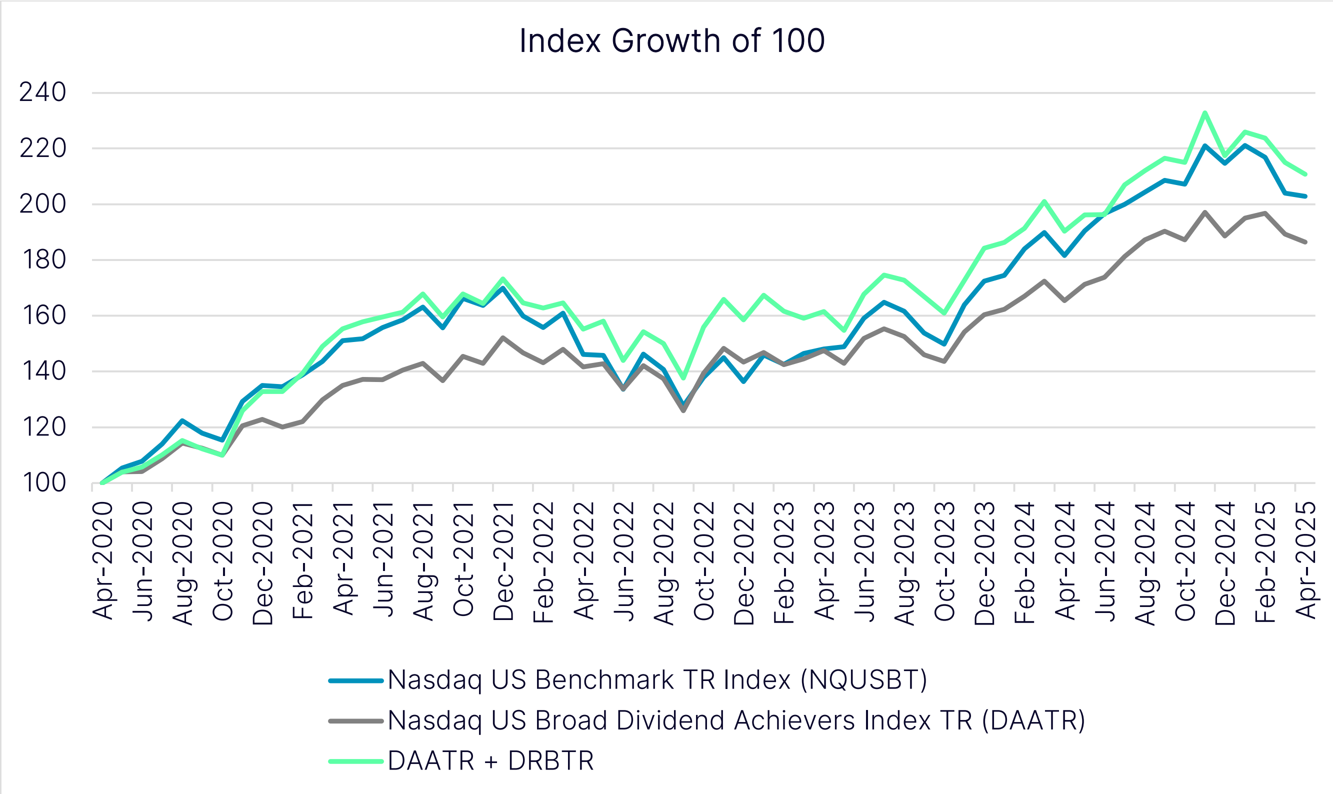


Source: Bloomberg, Nasdaq Global Indexes

Combining a buyback strategy with a dividend strategy may be beneficial to the investor. Consider a simple portfolio that includes a dividend paying strategy such as the Nasdaq US Broad Dividend Achievers Total Return™ Index (DAATR™) and DRBTR. Over the last 5 years, creating a portfolio that is 70% DRBTA and 30% DAATR would have improved the efficiency as shown by its higher Sharpe Ratio of .80 vs. a portfolio that was either 100% DAATR or 100% DRBTR. This came from a positive trade-off of higher return vs. DAATR and lower risk than DRBTR. The Sharpe ratio for the combined portfolio would have exceeded the Nasdaq US Benchmark TR™ (NQUSBT™), a broad measure of the U.S. equity market.

Data from 4/30/2020 to 4/30/2025	Nasdaq US Benchmark TR Index (NQUSBT)	Nasdaq US BuyBack Achievers Index TR (DRBTR)	Nasdaq US Broad Dividend Achievers Index TR (DAATR)	70% DRBTR + 30% DAATR	X/S vs 100% DAATR
Annualized Return	15.19%	17.20%	13.26%	16.08%	2.82%
Standard Deviation (annualized)	16.61%	18.77%	14.11%	17.08%	2.98%
Sharpe Ratio	0.77	0.79	0.76	0.80	0.04
Beta	1.00	1.01	0.78	0.94	0.16
Systematic Return	15.57%	15.76%	12.21%	14.69%	2.48%
Alpha	0.00%	1.92%	1.27%	1.73%	0.45%
Yield	1.30%	1.47%	2.12%	1.67%	-0.45%

The return for the combined portfolio would have exceeded the return for DAATR and NQUSBT.



The excess return vs. DAATR was accomplished through a combination of higher beta and more alpha than DAATR. Approximately 85% of the additional return came from a higher beta leading to more systematic exposure to an increasing market. Importantly, 15% of the additional return came from alpha.

While the yield of the combined portfolio (1.67%) would be lower than DAATR (2.12%), it would still be above the level of NQUSBT (1.30%).

There is no guarantee that the next five years will be the same as the last five years. However, the evidence shows that combining dividend paying stocks with stocks of companies that have executed net share reductions would have provided a more efficient portfolio than either strategy alone by giving a more fulsome exposure to companies returning capital to their shareholders through by dividends and share buybacks.

Products currently tracking DAATR and DRBTR include the Invesco Dividend Achievers ETF (Nasdaq: PFM) and the Invesco BuyBack Achievers ETF (Nasdaq: PKW) respectively.

Source: Nasdaq Global Indexes

Disclaimer: