

Ahead

**INTERVIEW** | When companies are bullish on their stocks, you should be, too.

## Buying into stock

### BUYBACKS

**D**avid Fried edits *The Buyback Letter* (\$195 per year; 888-289-2225). *The letter's model portfolio has returned 16% annualized since 1997, with less risk than the overall market.*

**Why do buybacks work?** The obvious reason is that when companies buy back their stock, they reduce the shares outstanding and increase earnings per share. What's less obvious is that companies typically buy back their shares at advantageous times; they know things that you or I may not. They're the ultimate insiders.

**The knock on buybacks is that they're for old or unimaginative companies with nothing better to do with their money.** That misses the point, which is that we can make money using buybacks as a selective tool. Besides, a

buyback doesn't mean that a company isn't growing. Buybacks can happen anytime in a company's life cycle. Last year, we bought Hewlett-Packard shares. That's an old company but a new one, too, as it restructures. We've made over 70%.

**What do you look for in buyback stocks?** We look beyond corporate cheerleading. We measure stock price in relation to earnings and the value of a company's assets minus its liabilities. We look at how big the share repurchase is, how big the market value of the company is and whether the company has a history of creating value with buybacks.

**What do you like now?** We like **Safeco** (symbol SAF, recent price \$62). It has bought back almost 14% of its shares over the past year and recently an-

nounced another buyback that'll take out another 12%. We think the company's worth more than double the current stock price. We also like **Ann Taylor** (ANN, \$35). The retailer recently reported a gain in sales when analysts expected a decline. It has purchased 14.6% of its stock over the past year.

**SkyWest** (SKYW, \$27), an independent air carrier, has a history of successful repurchases. We bought for the third time in June, after it authorized a buyback of about 8% of the shares outstanding.



JOE SCHMELZER

**630 STOCK BUYBACKS** worth \$369 billion have been announced so far this year. The biggest: Procter & Gamble's \$30-billion offer.

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