BUY BACK OF SHARES????

NOWDAYS ALMOST EVERY LISTED COMPANY IN THE NSE & BSE ARE ANNOUNCING BUYBACK OF THEIR OWN SHARES.MOST INVESTORS SEE THIS AS A POSITIVE SIGN. IT'S STILL A COMMON BELIEF.THE STOCK BROKER TELLS A CLIENT, THE CLIENT TELLS A FRIEND, AND SO ON, UNTIL A STOCKPRICE BEGINS TO MOVE UPWARD.MANY OTHER INVESTORS WHO ALSO HEARD THE GOOD NEWS RUSH OUT TO PURCHASE MORE OF THE STOCK.THE PRICE CONTINUES TO RISE FOR THE NEXT FEW DAYS AND WEEKS.

BUT IS IT REALLY A GOOD SIGN WHEN A COMPANY ANNOUNCES A STOCK BUYBACK????????

THE ANSWER IS BOTH YES AND NO.

LET'S LOOK AT THE REASONS WHY?

ACTUALLY, COMPANY STOCK BUYBACKS ARE OFTEN A MIXEDBAG, WITH SOME GOOD AND SOME NOT SO GOOD EFFECTS.

- COMPANIES HAVE DIFFERENT MOTIVES FOR BUYING BACK THEIR OWN SHARES.WHEN EMPLOYEES EXERCISE OPTIONS, FOR EXAMPLE, EARNINGS PER SHARE (EPS) CAN QUICKLY BECOME DILUTED AS THE NUMBER OF A COMPANY'S SHARES OUTSTANDING GROWS.
- SOMETIMES A BUYBACK IS A SIGN THAT A COMPANY IS VERY BULLISH ABOUT ITS OWN PROSPECTS.
- AND WITH NIFTY & SENSEX STOCKS DOWN, ON AN AVERAGE 50 PERCENT SINCE LAST 1 YEAR, COMPANIES CAN BUY A LOT MORE SHARES FOR FEWER RUPEES, POTENTIALLY GIVING A BETTER BOOST TO EARNINGS PER SHARE (EPS).THEY WOULD NOT BUY IF THEY WERE TOO EXPENSIVE. RIGHT??
- COMPANIES ALSO USE BUYBACKS WHEN THEY HAVE BAD NEWS TO REPORT. OBVIOUSLY, THE WELL TIMED POSITIVE ANNOUNCEMENTS ARE INTENDED TO SOFTEN THE BLOW.IT'S THE "WE GOT GOOD NEWS AND BAD NEWS" SITUATION.
- "WE ARE GOING TO BUY 10 PERCENT OF OUR STOCK...AND, OH BY THE WAY; OUR EARNINGS ARE DOWN 5 PERCENT." THE COMPANY IS HOPEFUL THAT THE GOOD NEWS WILL OUTWEIGH THE BAD, AND THEREFORE THE PRICE IMPACT WILL BE NEUTRAL TO POSITIVE.
- SOMETIMES STOCK BUYBACKS ANNOUNCEMENTS ARE JUST ANNOUNCEMENTS.FOLLOWING THE ANNOUNCEMENT, EITHER THE BUYBACK NEVER OCCURS OR FEWER SHARES ARE REPURCHASED.

STOCK BUYBACK ANNOUNCEMENTS HAVE MANY IMPLICATIONS,IN SOME CASES IT IS A POSITIVE MOVE FOR THE COMPANY AND ITS SHAREHOLDERS, EVEN IF ONLY TEMPORARY.IT IMPROVES THE EARNINGS PER SHARE SINCE THERE ARE LESSER NUMBER OF SHARES OUTSTANDING.AND A STOCK PRICE WILL OFTEN RISE AFTER A BUYBACK ANNOUNCEMENT, ESPECIALLY IN A RISING MARKET.HOWEVER, THE PRICE CAN WEAKEN AND FALL IF NEGATIVE NEWS FOLLOWS.AN UNDERSTANDING OF THE COMPANY'S ANNOUNCEMENT AND THE CURRENT TRUE VALUE OF THE STOCK CAN HELP AN INVESTOR DECIDE WHETHER TO BUY OR SELL THE STOCK.

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SOURCE: FEW PARTS OF THIS ARTICLE HAVE BEEN EXTRACTED FROM STOCK MARKET RULES