

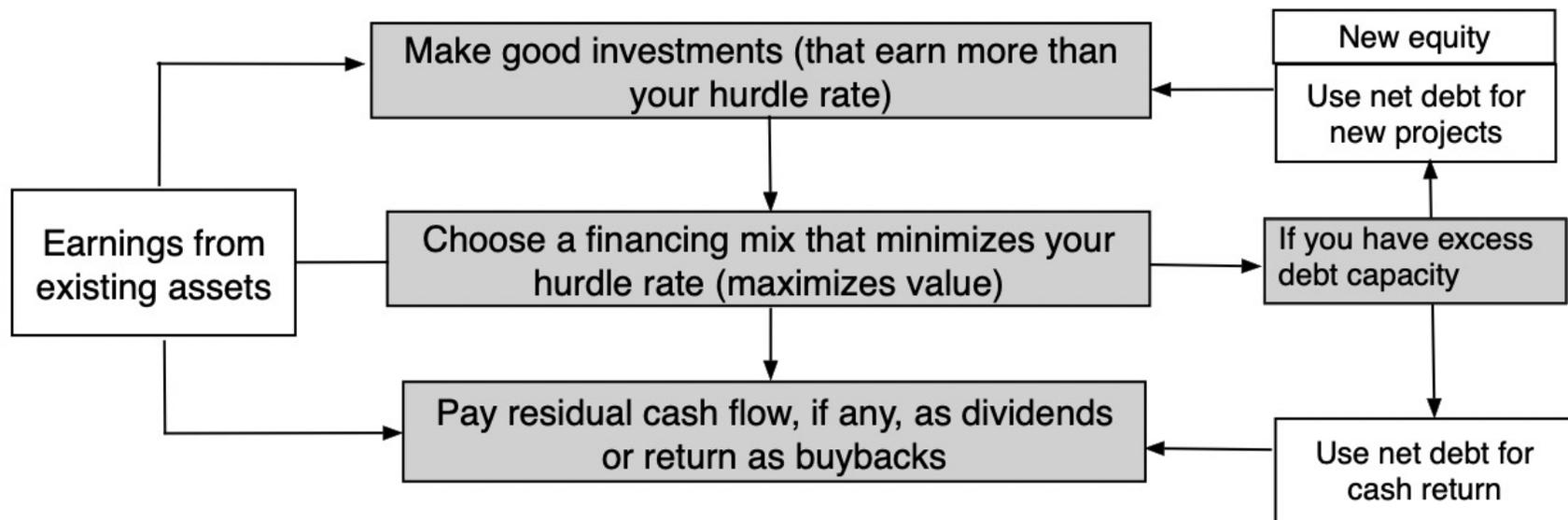
DATA UPDATE 8 FOR 2026: DIVIDENDS AND STOCK BUYBACKS!

Cash returns as investment harvest!

TIME FOR A HARVEST!

- In the data update sessions this year, I have wended my way from the macro (equities collectives, the bond market and other asset classes) to the micro, starting with hurdle rates and returns in posts five and six and the debt/equity choice in my seventh post.
- In this session, I will look at the **decision by businesses on how much cash to return to their owners**, and in what form (dividends or buybacks), and how that decision played out globally in 2025.
- I will argue that **dividend policy, more than any other aspect of corporate finance, is dysfunctional** both on the sides of the firms that choose to return the cash and the investors who receive that cash.
- It is also telling that there are many who seem to view the very act of **returning cash as a sign of failure** on the part of firms that do so, even though it is the end game for every successful business.

DIVIDENDS AS RESIDUAL CASH FLOWS

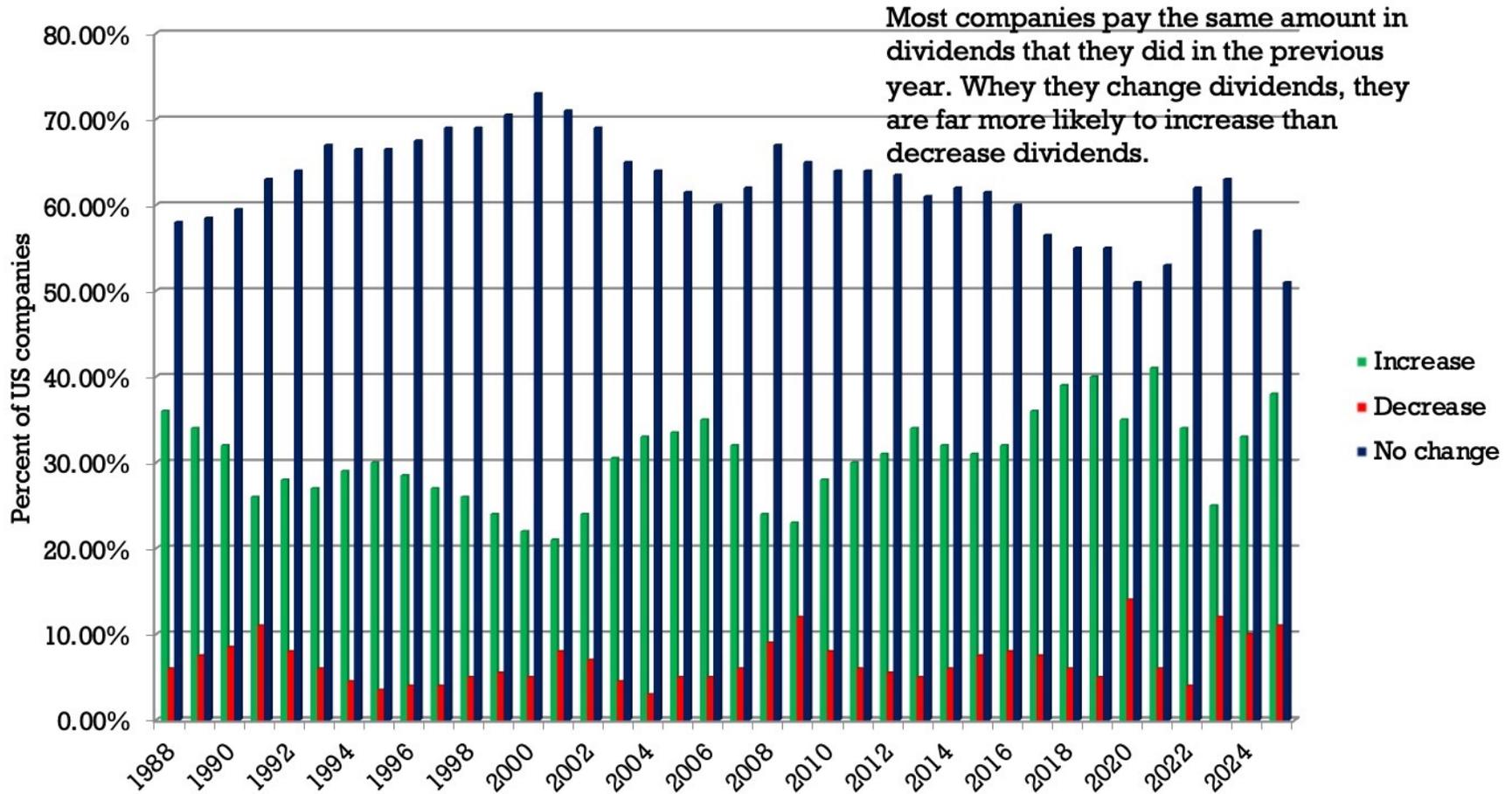


THE BIGGEST DRIVERS OF DIVIDENDS

- Inertia: In many companies, dividend policy is set on auto pilot, with dividends this year set equal to dividends in the last year. It is for that reason that **the word I would use to describe dividend policy, at least when it comes to conventional dividends, is 'sticky'**.
- Me-tooism: In most companies, **managers look to peer group dividend policy** for guidance on how much, if any, to pay in dividends. Thus, if you are a bank or a utility, it is likely that you will pay high dividends, because everyone else in the sector does so as well, whereas technology companies will pay no or low dividends, because that is industry practice.

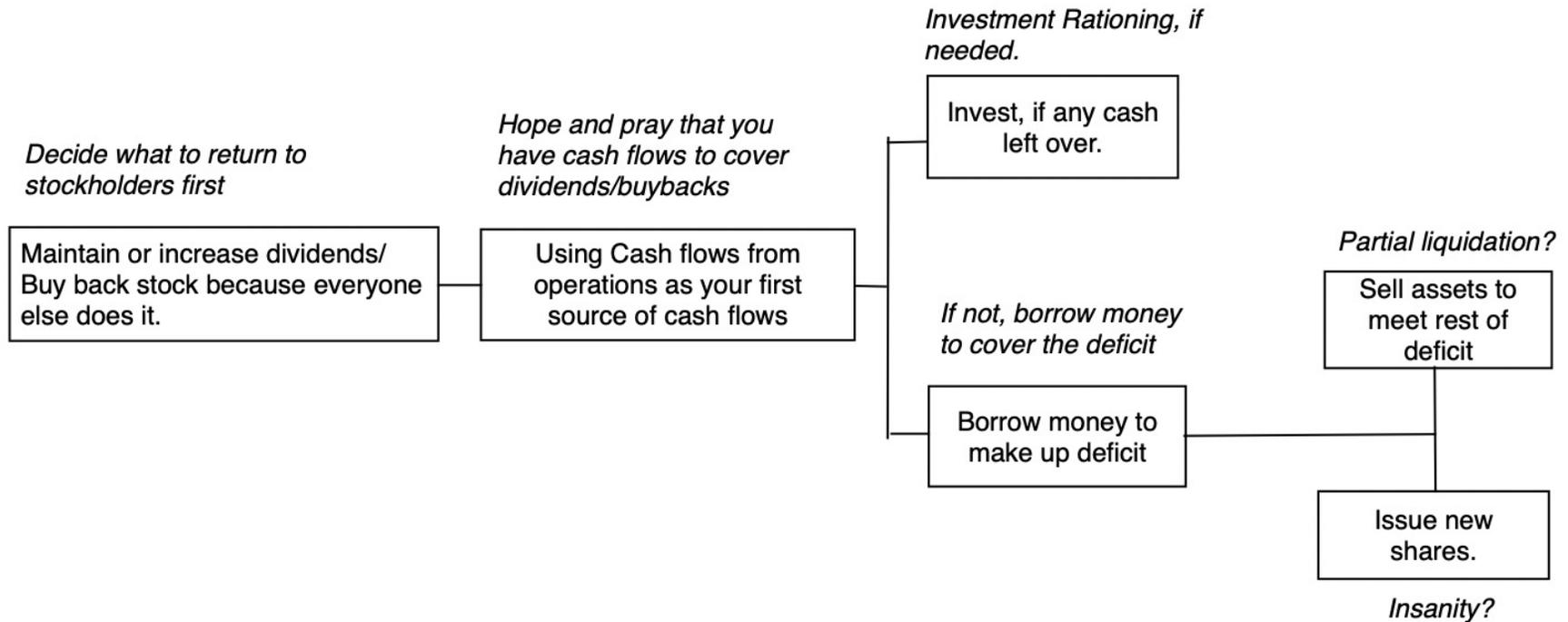
STICKY DIVIDENDS...

Dividend Changes at US companies



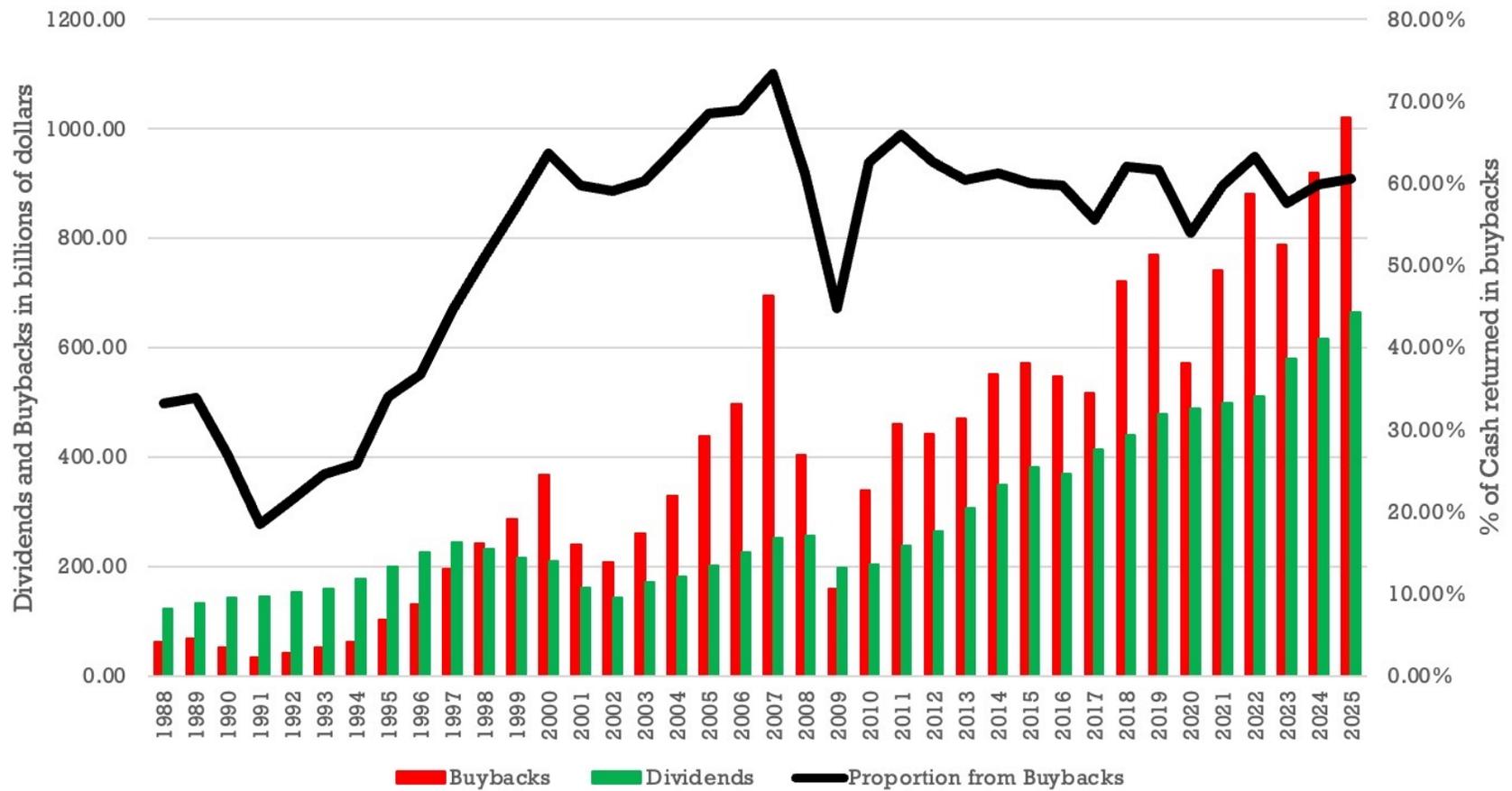
WHEN DIVIDENDS DRIVE BUSINESSES...

The Dividend Monster



THE RISE OF BUYBACKS

Dividends and Buybacks on S&P 500: 1988- 2025



A RATIONAL CASH RETURN POLICY...

Start with equity earnings

Net Income

plus

Add back non-cash expenses

Depreciation & Amortization

minus

Net out capital expenditures

Capital Expenditures & Acquisitions

minus

Net out working capital needs

Change in Non-cash Working Capital

plus

Add (subtract) debt issued (repaid)

(New Borrowings – Debt Repaid)

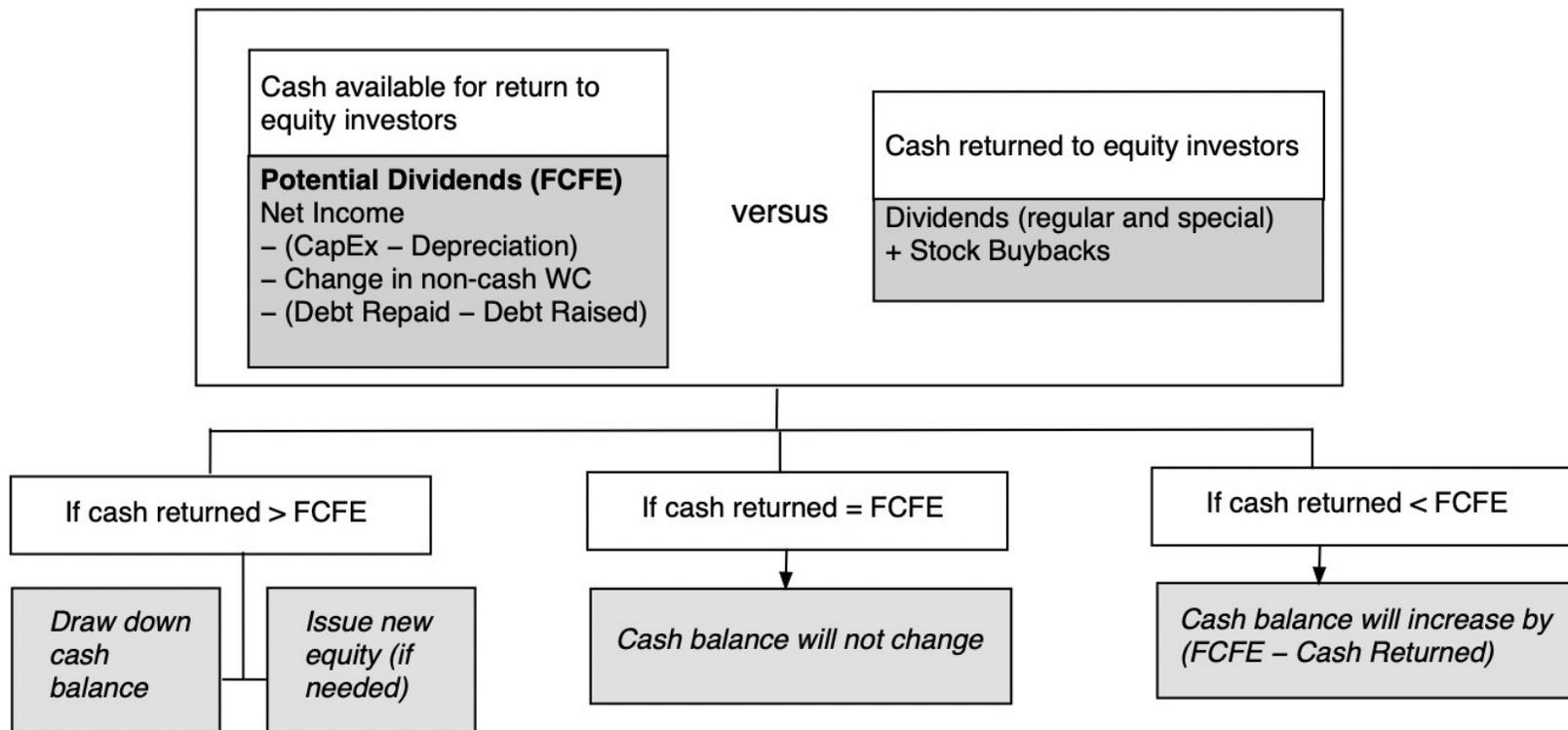
equals

Gives you cash that can be returned

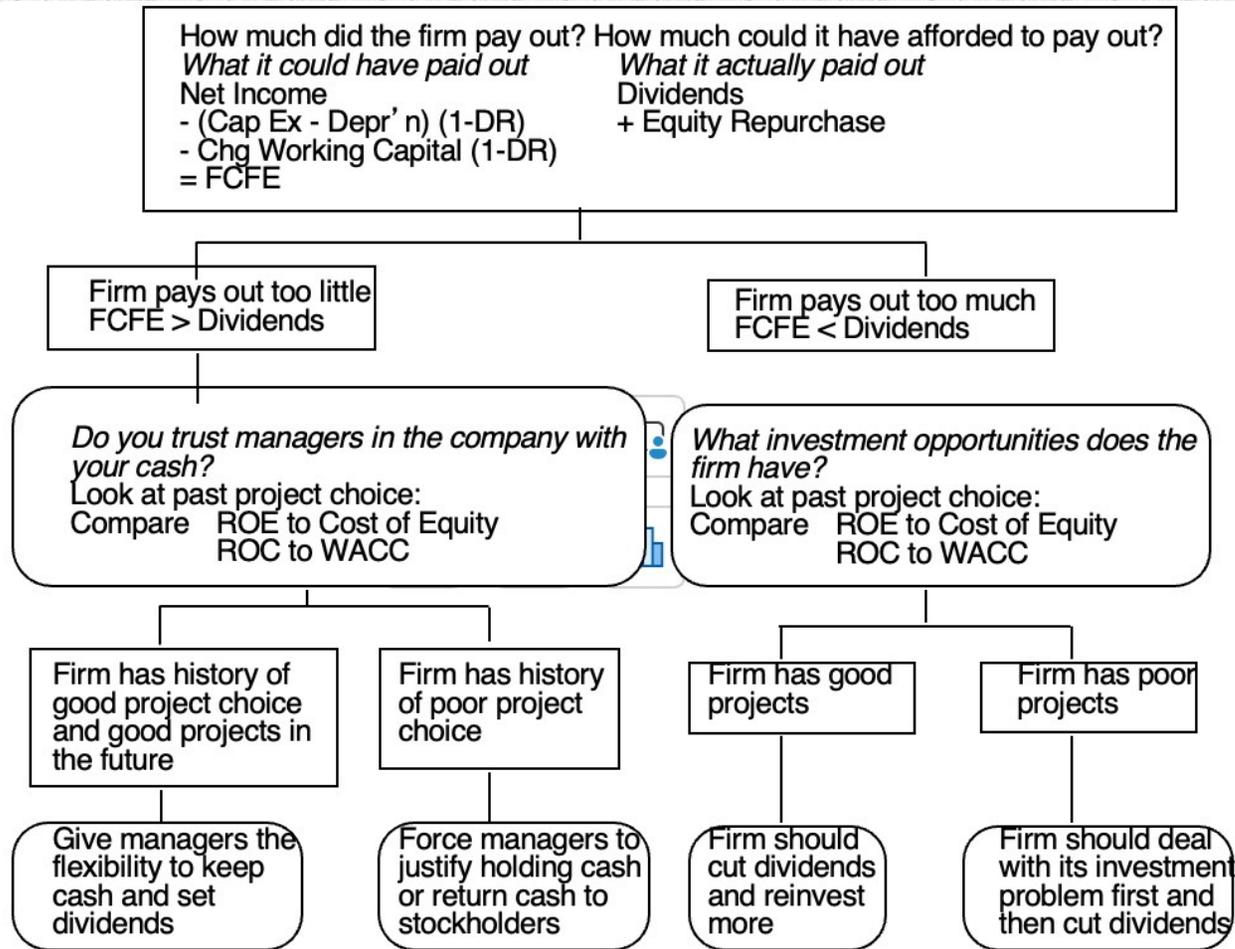
Free Cash Flow to Equity (Potential Dividend)

Reinvestment for future growth

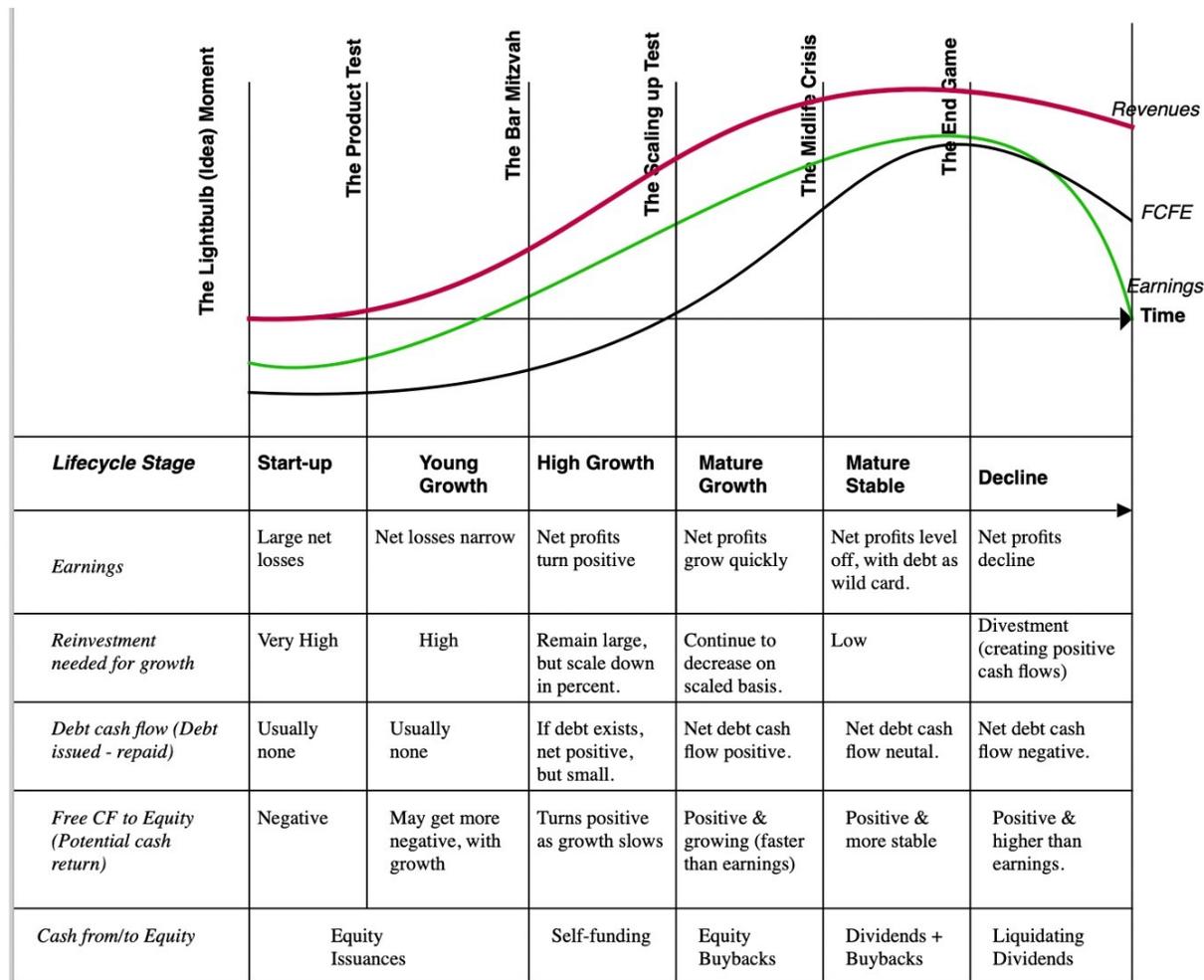
CASH RETURNED VS FCFE



THE TRUST ISSUE!

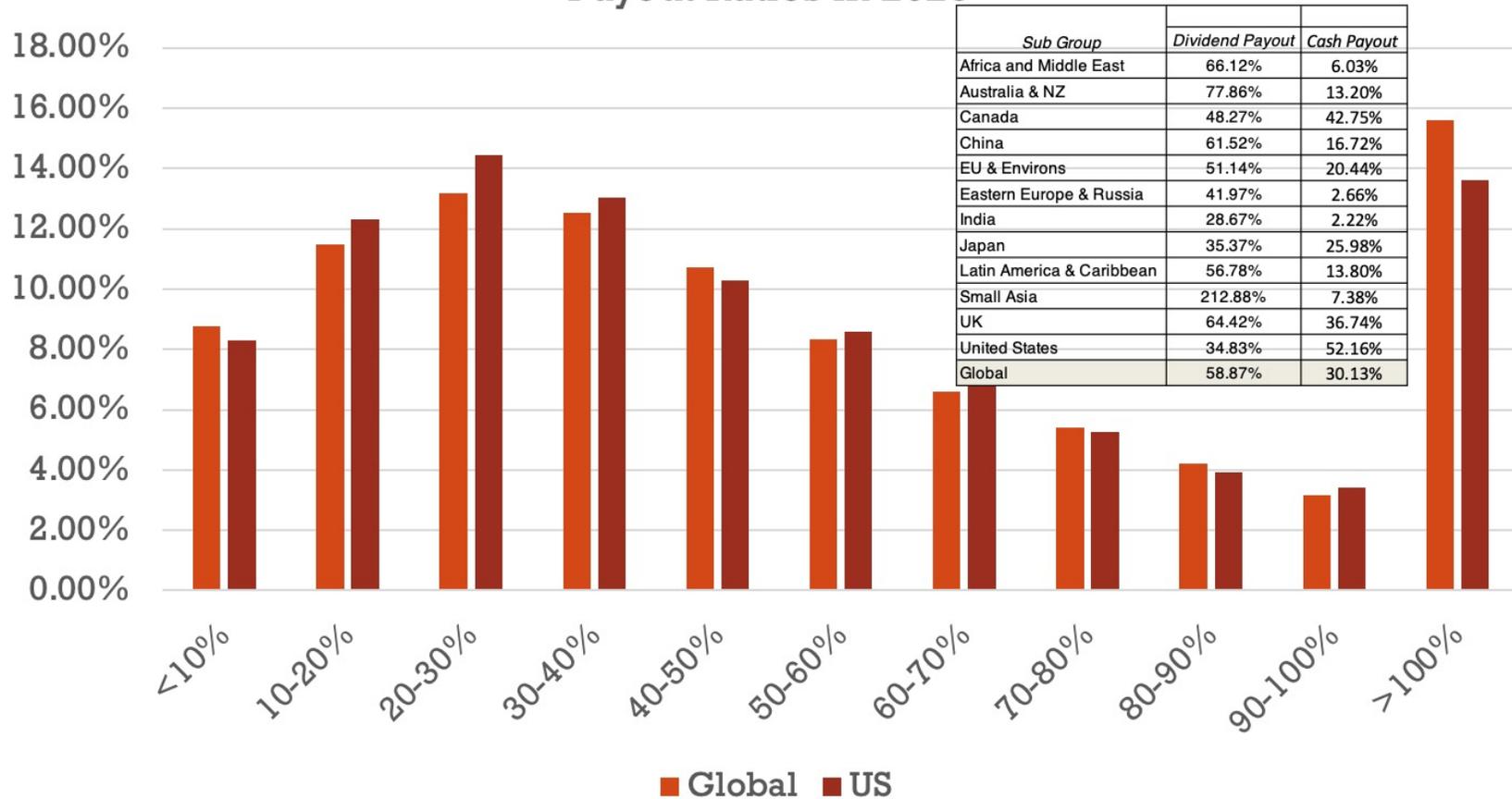


A LIFE CYCLE VIEW OF CASH RETURN



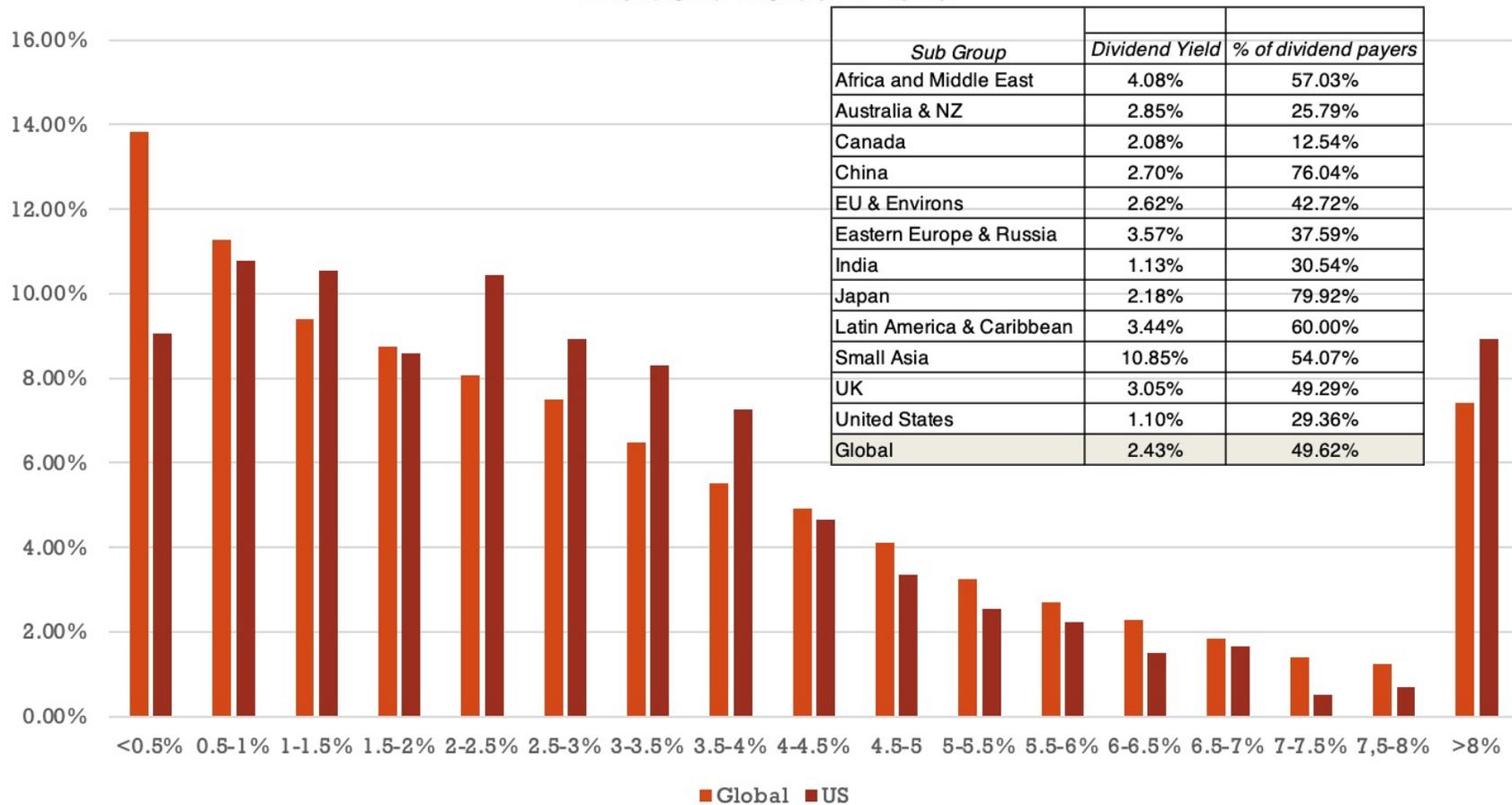
DIVIDENDS IN 2025: THE DIVIDEND PAYOUT RATIO

Payout Ratios in 2025



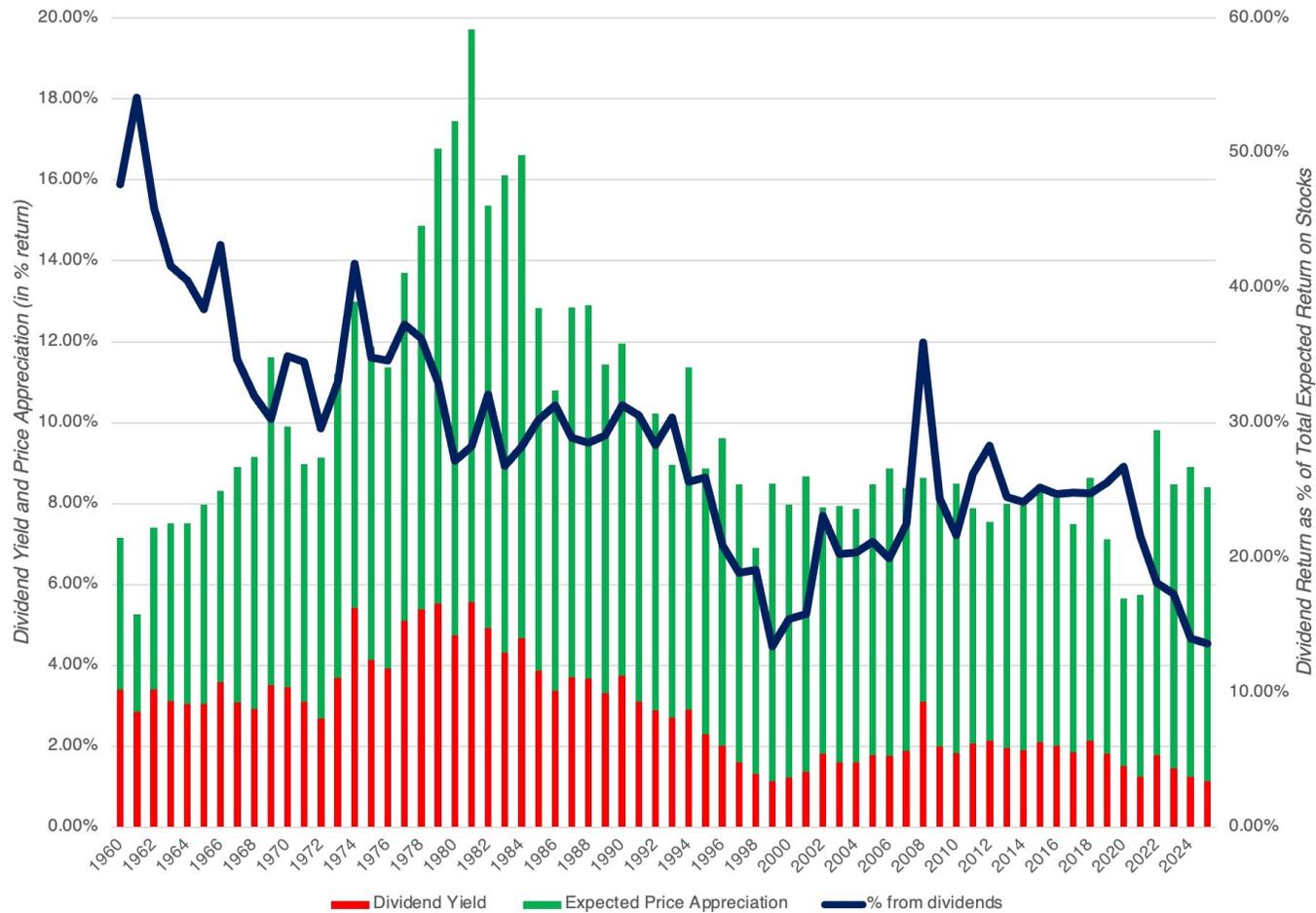
THE DIVIDEND YIELD IN 2025

Dividend Yields in 2025



DIVIDEND YIELD AND PRICE APPRECIATION OVER TIME...

Dividends and Price Appreciation on S&P 500: 1960 to 2025



DIVIDEND YIELD AND PAYOUT IN 2025: BY SECTOR

Global													
		Dividend Payers?			Aggregate Dividends			Dividend Yield			Dividend Payout Ratio		
Primary Sector	# firms	Pay dividends	No dividends	dividend paye	Dividends (\$)	Dividend Yield	Dividend Payout	1st Quartile	Median	3rd Quartile	1st Quartile	Median	3rd Quartile
Communication Services	2,193	847	1346	38.62%	\$162,867	1.37%	34.88%	1.06%	2.71%	4.99%	27.29%	48.94%	81.70%
Consumer Discretionary	6,358	3278	3080	51.56%	\$204,543	1.37%	40.10%	1.06%	2.42%	4.57%	22.58%	42.74%	76.70%
Consumer Staples	3,202	1819	1383	56.81%	\$223,254	2.60%	66.23%	1.36%	2.61%	4.51%	25.73%	46.26%	80.51%
Energy	1,402	606	796	43.22%	\$1,099,301	15.75%	256.20%	2.27%	4.05%	6.84%	32.38%	60.67%	100.51%
Financials	5,278	2783	2495	52.73%	\$705,927	2.70%	35.12%	1.79%	3.26%	5.20%	21.31%	37.32%	61.71%
Health Care	4,452	1429	3023	32.10%	\$187,575	1.51%	60.91%	0.65%	1.67%	3.15%	23.11%	41.83%	70.96%
Industrials	9,007	5254	3753	58.33%	\$344,892	1.81%	46.25%	0.88%	2.11%	3.85%	23.51%	40.69%	69.93%
Information Technology	6,234	3040	3194	48.76%	\$228,059	0.70%	28.78%	0.56%	1.51%	3.20%	25.29%	46.38%	78.69%
Materials	6,457	2728	3729	42.25%	\$175,159	2.11%	68.22%	0.80%	1.93%	3.90%	21.62%	40.63%	75.27%
Real Estate	2,671	1481	1190	55.45%	\$136,101	3.71%	219.08%	2.06%	4.15%	6.54%	25.22%	56.08%	101.47%
Utilities	902	630	272	69.84%	\$151,536	3.45%	66.10%	2.36%	3.93%	5.95%	34.84%	57.46%	92.96%
Global	48,156	23895	24261	49.62%	\$3,619,213	2.43%	58.87%	0.99%	2.41%	4.41%	23.76%	43.51%	76.14%

US													
		Dividend Payers?			Aggregate Dividends			Dividend Yield			Dividend Payout Ratio		
Primary Sector	# firms	Pay dividends	No dividends	% dividend payers	Dividends (\$)	Dividend Yield	Dividend Payout	1st Quartile	Median	3rd Quartile	1st Quartile	Median	3rd Quartile
Communication Services	315	45	270	14.29%	\$50,632	0.67%	18.92%	0.92%	2.39%	5.38%	21.56%	34.04%	75.37%
Consumer Discretionary	581	170	411	29.26%	\$47,662	0.63%	23.91%	1.19%	2.23%	4.11%	21.92%	37.28%	78.61%
Consumer Staples	297	76	221	25.59%	\$79,127	2.24%	66.75%	1.89%	3.01%	4.41%	31.37%	55.27%	79.75%
Energy	282	99	183	35.11%	\$64,362	3.16%	58.65%	2.47%	3.68%	7.26%	32.27%	75.27%	117.44%
Financials	1,224	635	589	51.88%	\$146,510	1.48%	26.21%	1.63%	2.70%	3.81%	20.50%	31.65%	51.62%
Health Care	1,178	66	1112	5.60%	\$92,470	1.34%	64.01%	0.55%	1.29%	2.61%	20.89%	32.27%	48.70%
Industrials	796	259	537	32.54%	\$68,923	1.11%	37.38%	0.68%	1.31%	2.35%	15.49%	29.87%	49.55%
Information Technology	706	90	616	12.75%	\$99,843	0.46%	19.97%	0.55%	1.15%	2.25%	16.85%	28.62%	53.53%
Materials	273	89	184	32.60%	\$24,085	1.90%	84.79%	1.06%	1.99%	3.34%	22.91%	33.09%	51.01%
Real Estate	253	166	87	65.61%	\$56,758	3.70%	179.92%	3.58%	4.83%	6.92%	93.97%	#####	214.22%
Utilities	89	65	24	73.03%	\$39,939	2.67%	58.24%	2.53%	3.10%	3.75%	49.48%	58.83%	67.90%
All firms	5,994	1760	4246	29.30%	\$770,311	1.10%	34.83%	1.20%	2.53%	4.10%	21.86%	36.82%	69.92%

BUYOUTS AS FLEXIBLE DIVIDENDS

- As buybacks have soared in the United States, misconceptions and myths about buybacks have also surged.
- Some have used to back up the argument that buybacks are at the heart of every business problem in the US and should therefore be banned. They take issues with buybacks as:
 - They are a primarily a US phenomenon
 - Buybacks are wasteful and reduce corporate investment
 - Buybacks are debt-funded and are increasing distress risk
 - Buybacks are value-destroying, because companies buy back shares at prices that are too high.
- Others present it as the basis for a cannot-lose strategy to beat the market, because
 - Buybacks can be value creating, if they are the right price
 - Buybacks increase share prices, because they reduce share count

MYTH 1.1: BUYBACKS ARE A US PHENOMENON

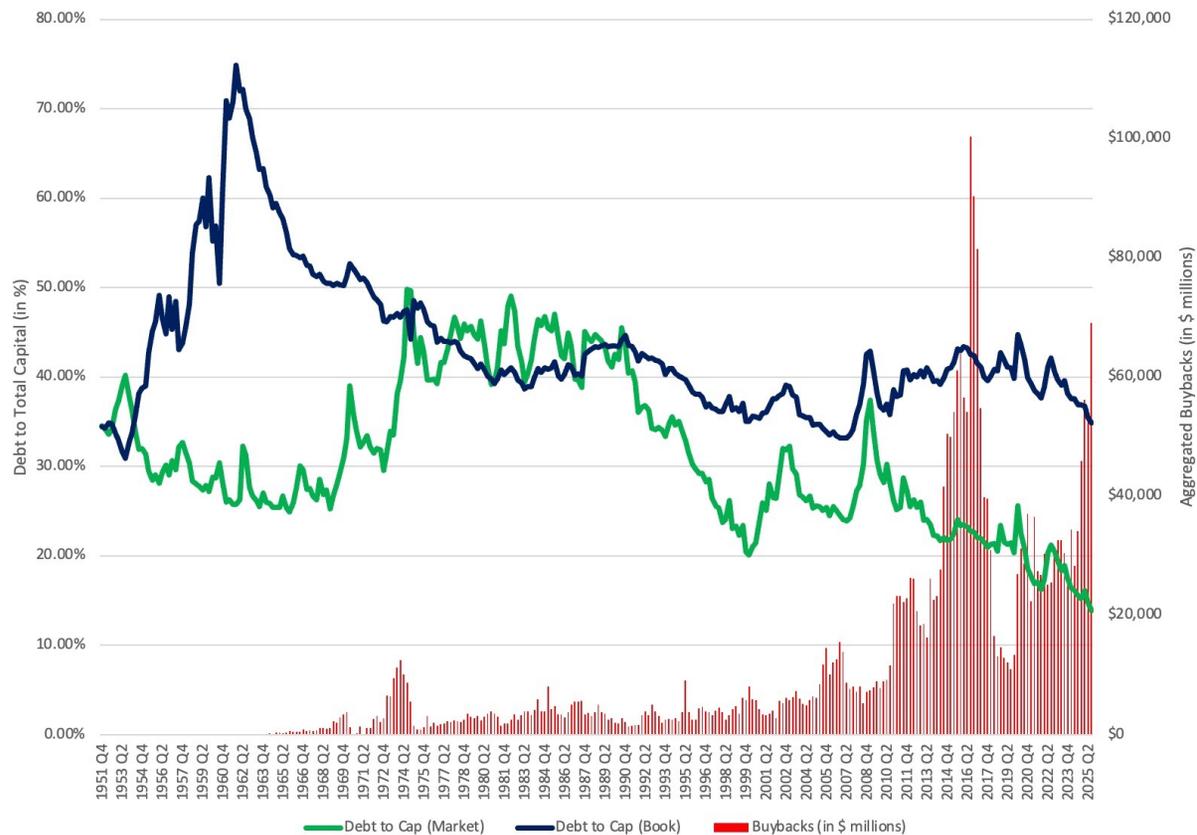
Region	Number of firms	Dividends			Buybacks		
		% of Payers	Dividends (\$ mil)	Dividend Yield	% of firms	Buybacks	% of Cash Return
Africa and Middle East	2,555	57.03%	\$224,913	4.08%	12.99%	\$20,524	8.36%
Australia & NZ	1,702	25.79%	\$56,271	2.85%	12.63%	\$9,543	14.50%
Canada	2,576	12.54%	\$80,249	2.08%	14.67%	\$71,068	46.97%
China	7,775	76.04%	\$555,702	2.70%	32.15%	\$151,014	21.37%
EU & Environs	5,649	42.72%	\$500,286	2.62%	23.21%	\$199,944	28.55%
Eastern Europe & Russia	439	37.59%	\$5,603	3.57%	9.34%	\$356	5.97%
India	5,170	30.54%	\$60,539	1.13%	3.83%	\$4,680	7.18%
Japan	3,965	79.92%	\$161,506	2.18%	32.94%	\$118,640	42.35%
Latin America & Caribbean	980	60.00%	\$74,392	3.44%	25.41%	\$18,084	19.56%
Small Asia	10,367	54.07%	\$1,006,618	10.85%	14.25%	\$34,909	3.35%
UK	984	49.29%	\$122,823	3.05%	35.67%	\$70,049	36.32%
United States	5,994	29.36%	\$770,311	1.10%	44.89%	\$1,153,573	59.96%
Global	48,156	49.62%	\$3,619,213	2.43%	22.94%	\$1,852,383	33.85%

MYTH 1.2: BUYBACKS ARE WASTEFUL AND REDUCE CORPORATE INVESTMENT

Global									
		Buyback or not?			Aggregate Cash Return			As %	
Primary Sector	# firms	Buy back stock	No Buybacks	% buying back	Buybacks	Dividends	Cash Returned	Of Net Income	Of Market Cap
Youngest	4,160	560	3600	13.46%	\$27,864	\$44,404	\$72,268	200.11%	1.92%
2nd decile	4,465	904	3561	20.25%	\$49,542	\$84,530	\$134,071	118.62%	2.34%
3rd decile	4,835	1101	3734	22.77%	\$116,182	\$889,511	\$1,005,693	456.08%	12.44%
4th decile	3,925	1007	2918	25.66%	\$42,826	\$102,846	\$145,672	88.13%	2.00%
5th decile	5,040	1230	3810	24.40%	\$182,411	\$261,508	\$443,919	68.18%	2.63%
6th decile	4,498	831	3667	18.47%	\$124,633	\$162,284	\$286,917	67.76%	2.14%
7th decile	4,957	943	4014	19.02%	\$148,869	\$258,623	\$407,492	72.81%	3.45%
8th decile	4,688	1005	3683	21.44%	\$240,454	\$260,225	\$500,679	72.38%	2.58%
9th decile	4,546	1202	3344	26.44%	\$226,625	\$361,985	\$588,609	68.64%	3.45%
Oldest	4,665	1981	2684	42.47%	\$685,414	\$1,164,118	\$1,849,533	77.01%	4.16%
Global	48,156	11049	37107	22.94%	\$1,852,383	\$3,619,213	\$5,471,596	89.01%	3.67%
US									
		Buyback or not?			Aggregate Cash Return			As %	
Age Decile	# firms	Buy back stock	No Buybacks	% buying back	Buybacks	Dividends	Cash Returned	Of Net Income	Of Market Cap
Youngest	526	114	412	21.67%	\$14,587	\$9,464	\$24,051	334.01%	2.35%
2nd decile	553	183	370	33.09%	\$13,119	\$12,306	\$25,425	-174.89%	2.26%
3rd decile	435	173	262	39.77%	\$26,459	\$20,118	\$46,576	237.73%	2.23%
4th decile	635	222	413	34.96%	\$75,324	\$15,357	\$90,681	145.24%	2.64%
5th decile	522	204	318	39.08%	\$101,867	\$27,110	\$128,976	53.59%	1.53%
6th decile	566	286	280	50.53%	\$136,577	\$42,577	\$179,154	66.26%	1.69%
7th decile	540	291	249	53.89%	\$97,603	\$89,050	\$186,653	104.32%	3.72%
8th decile	530	359	171	67.74%	\$278,266	\$154,875	\$433,141	78.68%	2.43%
9th decile	537	368	169	68.53%	\$124,358	\$126,634	\$250,993	80.41%	3.23%
Oldest	554	390	164	70.40%	\$280,190	\$268,845	\$549,035	92.80%	4.56%
All firms	98	2691	3315	44.81%	\$1,153,573	\$770,311	\$1,923,884	87.00%	2.76%

MYTH 1.3: BUYBACKS ARE FUNDED WITH DEBT

Debt to Capital Ratios and Buybacks at US companies (non-financial)



	Companies buying back stock	Companies not buying back stock
Debt/EBITDA	4.11	13.64
Debt/Capital	19.22%	49.00%

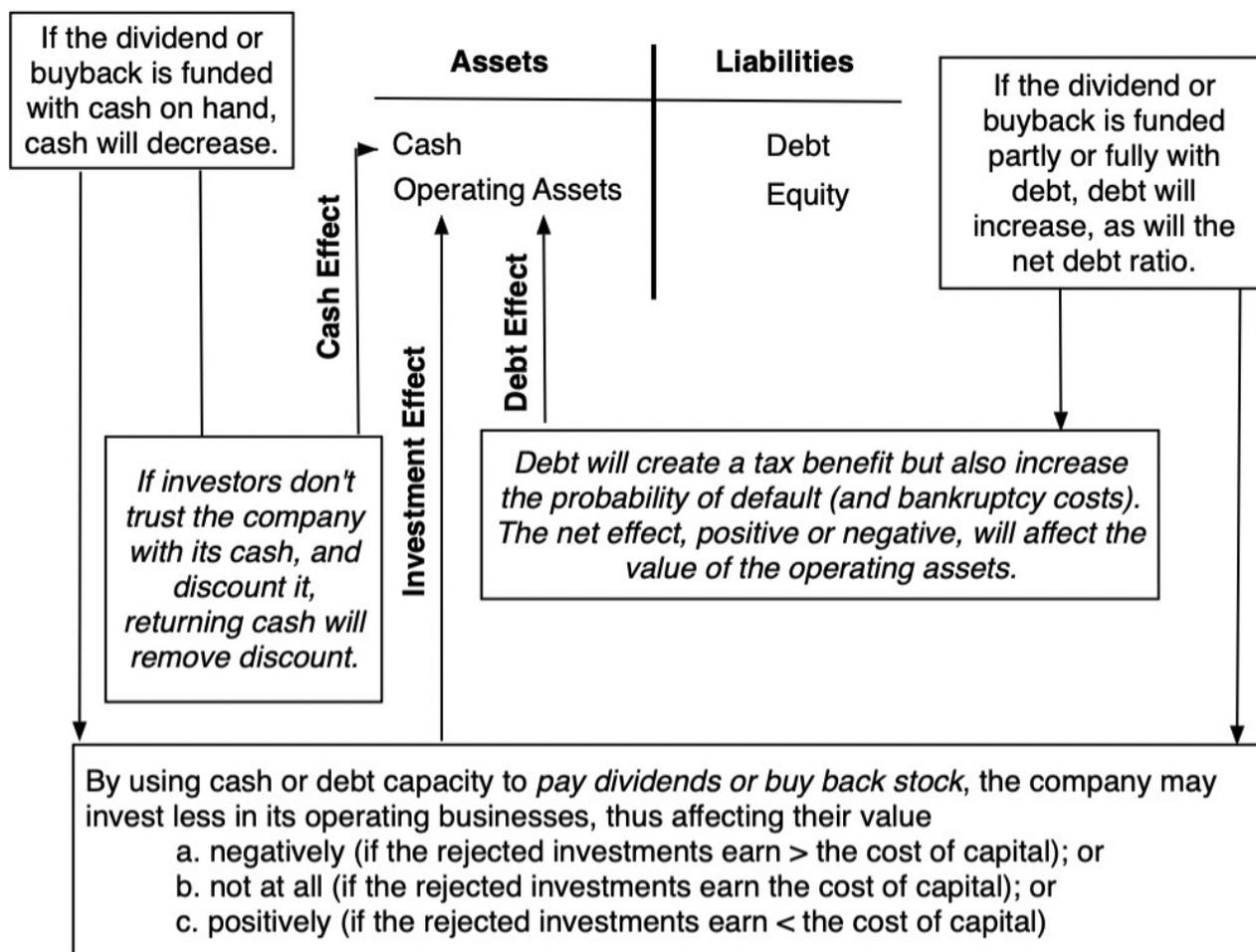
MYTH 1.4: BUYBACKS ARE VALUE DESTROYING, BECAUSE COMPANIES PAY PRICES THAT ARE TOO HIGH

- Warren Buffett was late to the buyback party, but when he initiated buybacks at Berkshire Hathaway, he introduced a constraint, which is that **he would do buybacks only if he believed that the company's stock price was less than intrinsic value.**
- That does seem like value destruction, but a **cash return can neither add nor destroy value, but it can transfer wealth.** In the case of stock buybacks at too high a price, wealth is **transferred from those who remain loyal shareholders in the firm to those who sell their shares.**
- While there is hand wringing about this, I have little sympathy for complaining shareholders, since **they had a choice, in a buyback, to sell or hold on,** and made the wrong choice.

MYTH 2.1: BUYBACKS CAN BE VALUE CREATING, IF THE BUYBACK IS AT A RIGHT (LOW) PRICE

- This is the inverse of the argument that buybacks are value destroying, and they are both **grounded in a misclassification of buybacks as projects**, rather than cash return, competing with investment projects for the company's dollars.
- The truth again is that a stock that buys back stock at lower than fair value is **transferring wealth from those who sell back to those who remain**, and here again, if you are on the wrong side of wealth transfer, it was your choice to sell back that made you the loser.

MYTH 2.2: BUYBACKS ARE GOOD FOR STOCK PRICES, BECAUSE THEY REDUCE SHARE COUNT



DYSFUNCTIONAL DIVIDENDS

Why money-losing firms sometimes continue to pay dividends:

1. Inertia: We have always paid dividends
2. Signalling worries: Investors may react badly to a dividend cut.
3. Hopes of a bounceback: Earnings are volatile, and will bounce back.
4. Peer group pressure: Everyone else pays dividends.

Why money-making firms sometimes don't pay dividends

1. Inertia: We have never paid dividends
2. Invest for growth: We need to invest earnings back, for growth
3. Earnings concerns: Earnings are volatile, and may drop
4. Bad signal: Markets may view dividend payment as a sign of slow growth.

DIVIDEND PAYING FIRMS AS % OF TOTAL

Sub Region	Africa and Middle East	Australia & NZ	Canada	China	EU & Environs	Eastern Europe & Russia	India	Japan	Latin America & Caribbean	Small Asia	UK	United States	Global
Net Income > 0	73.06%	69.00%	49.21%	88.27%	66.39%	59.60%	38.09%	86.38%	78.47%	72.16%	77.80%	59.76%	69.96%
Net Income < 0	13.16%	4.72%	2.14%	54.94%	12.26%	8.47%	7.21%	39.23%	22.77%	17.20%	16.41%	6.59%	17.79%

CASH RETURNING FIRMS AS % OF TOTAL

Sub Region	Africa and Middle East	Australia & NZ	Canada	China	EU & Environs	Eastern Europe & Russia	India	Japan	Latin America & Caribbean	Small Asia	UK	United States	Global
FCFE > 0	72.23%	66.95%	42.30%	88.27%	59.99%	54.17%	40.11%	83.40%	76.84%	70.03%	73.82%	60.33%	66.40%
FCFE < 0	37.82%	9.86%	5.14%	74.14%	26.07%	21.52%	22.12%	74.36%	44.98%	40.31%	30.71%	12.42%	37.17%

Why negative FCFE firms sometimes return cash:

1. Inertia: We have always returned cash
2. Hopes of a bounceback: FCFE are volatile, and will bounce back.
3. Increase leverage: Firm increasing leverage
4. Slow liquidation: In a bad business, and wants to shrink the firm

Why positive FCFE firms sometimes don't return cash:

1. Inertia: We have never returned cash
2. Worries of an earnings drop off: FCFE are volatile, and may become negative.
3. Decrease leverage: Firm has borrowed too much and wants to decrease debt ratio
4. Expansion plans: Wants to enter new businesses or markets

DIVIDEND BOTTOM LINE!

- There are a whole host of misalignments between **what companies return to their shareholders, either as dividends or in buybacks, and what they can, as potential dividends.**
- That suggests to me, and perhaps I am wrong, that **investment strategies that are built around cash return**, whether they be dividends or buybacks, are likely to go off the tracks.
 - Furthermore, **any strategy that is built entirely around dividends**, as is the case with strategies where you load up on high dividend yield stocks or buy a handful of heavy dividend payers, such as the Dow Dogs, misses the essence of equity investing.
 - A **stock is not a bond**, where dividends replace coupons, and you get some price appreciation on top, and treating it as such will only create disappointment.