With Apple Inc.’s repurchases staking a claim as the most profitable on record, buybacks remain one of America’s most popular antidotes to bears.

The iPhone maker is up 25 percent since it spent $18 billion on its own shares between January and March and rallied 32 percent after a $16 billion buyback in 2013. Those are the highest four-month returns among the 20 biggest quarterly repurchases by any company since 1998, according to data compiled by Bloomberg and Standard & Poor’s. S&P 500 constituents have spent $211 billion on their own stock this year amid concern the five-year bull market is prone to selloffs such as last week’s 2.7 percent retreat.

Spurred on by zero-percent interest rates and the highest cash balances on record, companies are plowing capital into the equity market to curb supply and buttress per-share earnings. While Scott Wren of Wells Fargo Advisors LLC says there are usually better things to do with capital, companies with the most repurchases have beat the S&P 500 during the bull market.

“It’s a low-quality way to increase your earnings and obviously I’d much rather see companies grow the business through revenue,” Wren, the St. Louis-based senior equity strategist at Wells Fargo Advisors, said in a phone interview. “But when the economy’s growing at 2 to 2.5 percent, you have to do what you can to keep the ball rolling.”

$159 Billion

Indexes of U.S. and global equities fell in July, halting a five-month streak of gains amid speculation the threat of inflation is rising in the U.S. while Argentina defaulted on debt and Portugal’s Banco Espirito Santo SA was ordered to raise capital.

There were $159 billion of buybacks in the first quarter, the most active single three-month period since 2007, when companies spent $172 billion in the third quarter. Shares bought from April through June are on pace to reach about $130 billion, according to S&P.
Apple’s $18 billion repurchase in the first quarter and the $16 billion it spent between April and June of 2013 are the two biggest buybacks by any company in data compiled by S&P starting in 1998. They came as the stock advanced as much as 77 percent over 15 months after falling to a 16-month low in April 2013.

The return followed the weakest period for Apple shares in the last decade. After vaulting almost 900 percent from the end of 2005 through September 2012 and becoming the world’s largest company by market value, Apple plunged 44 percent in seven months amid concern about new products and competition.

**Impeccable Timing**

“Their timing was impeccable,” Todd Lowenstein, who helps manage $16 billion at Highmark Capital Management in Los Angeles, said in a July 31 phone interview. “They went in big, and it said to the market that they had confidence in their business plan and thought their stock was grossly undervalued. That’s worked out well for them.”

Companies spending the most on their own stock are outperforming the S&P 500. The 100 firms with biggest buybacks relative to market value have gained 5.5 percent this year, compared with a 4.9 percent increase in the benchmark index, according to data compiled by Bloomberg.

The record is mixed among the biggest repurchasers. Microsoft Corp., the world’s biggest software maker, is up 16 percent in 2014 after spending about $3 billion, while LyondellBasell Industries NV has climbed 35 percent after spending $3.1 billion. At the same time, Exxon Mobil Corp., Boeing Co. and EBay Inc. have seen their shares fall.

**Strategic Repurchase**

Timing repurchases for maximum return has proven challenging for American companies. A study of 5,498 companies by professors at the University of Kentucky updated in 2014 found that while the average annual return on buybacks was 7.7 percent, companies would have gotten gains of 2 percentage points more per year had they not tried to time the market and bought shares at a constant level quarter to quarter.

“Given their inside information and experience, managers should be able to add value through strategic repurchase timing, buying when share prices are low,” the authors, Alice A. Bonaime, Kristine W. Hankins and Bradford D. Jordan, wrote. “Yet, we find that companies are more likely to execute a repurchase in quarters when stock prices are higher.”
To investors such as Skip Aylesworth of Hennessy Funds and Bruce Bittles of RW Baird & Co., buybacks are a mixed blessing, taking stock out of the market while doing nothing to increase earnings before per-share calculations.

**Cash Rich**

“A lot of companies are cash rich, and if they don’t have a lot of investment options, they’ll continue to do buybacks of shares,” Aylesworth, a portfolio manager for Hennessy Funds, which oversees about $5 billion in Boston, said in a July 30 phone interview. “To a certain extent, that could be a bearish indicator for the future.”

Cash held by S&P 500 companies excluding financials, utilities or transportation firms totaled a record $1.30 trillion at the end of last year, according to S&P. It slipped to $1.23 trillion at the end of March. Apple had $164 billion of cash and liquid securities as of last quarter.

The ratio of Apple’s per-share profit growth to its overall earnings has increased due to buybacks. Per-share income climbed 19.6 percent last quarter from a year ago compared with a 12.3 percent rise in net income.

Twenty percent of companies reporting second-quarter results by July 31 received a “significant” boost in per-share earnings by buying stock, according to Howard Silverblatt, an analyst at S&P Dow Jones Indices.

**Jacked-up Earnings**

“It jacks up per-share earnings when you buy stock back, but it doesn’t jack up earnings,” Bittles, chief investment strategist at Milwaukee-based Baird, which oversees $110 billion, said in a July 31 phone interview. “There’s lots of cash on these balance sheets, but there’s also a lot more debt than there was in 2007 as well.”

In July, Bed Bath & Beyond Inc. paid a premium in the bond market to buy its shares as the retailer tries to stem a 23 percent plummet this year.

The seller of home furnishings, whose debt is rated Baa1 by Moody’s Investors Service and A- at Standard & Poor’s, issued $1.5 billion of bonds July 14, including $300 million of 10-year notes that yielded 3.75 percent. That was higher than the 3.58 percent average for bonds from U.S. retailers with similar credit grades and maturities.

Since reaching a record of $80.48 in January, Bed Bath & Beyond’s stock has fallen to $61.70.
Activist Investing

The decision by Bed Bath & Beyond to take out loans for a share purchase may have been a defensive move to ward off potential activist investors, according to Jaime Katz, an analyst at Morningstar Investment Services Inc.

“If you think about what a private-equity shareholder might do if they come in and get involved, debt already on the balance sheet may prohibit them from finding the business as attractive,” Chicago-based Katz said, via phone.

While companies are carrying out more repurchases than any time since the financial crisis, growth is slowing in plans for new ones. Announced buybacks so far this year total $298 billion, compared with $387 billion at this time last year, according to David Santschi, chief executive officer at TrimTabs Investment Research.

Shares with the most buybacks held up better than the broader market in last week’s selloff. The S&P Buyback Index of 100 companies doing the most repurchases fell 2.2 percent over the five sessions, compared with 2.7 percent in the S&P 500, according to data compiled by Bloomberg.

“It’s normally a bullish sign that companies are buying back their stock because they think it’s undervalued relative to where its potential is,” Jerry Braakman, chief investment officer of First American Trust in Santa Ana, California, said by phone. His firm oversees $1.1 billion. “It ultimately puts money back into investors’ hands, and they can redeploy it as they see fit.”

To contact the reporters on this story: Oliver Renick in New York at orenick2@bloomberg.net; Joseph Ciolli in New York at jciolli@bloomberg.net

To contact the editors responsible for this story: Lynn Thomasson at lthomasson@bloomberg.net Jeff Sutherland