The Dollar Repatration Conjob

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The Amendment for Jobs Creation Act is a classic misnomer, a fraud, nothing but a sweet corporate welfare conjob. The only job in this scheme is "conjob" for sure. Few if any new jobs were created, as over $200 billion have been repatriated to date. Planned to generate new jobs and create new business, the legislation has instead been a bonanza for big corporations to bring home vast sums of money. The record shows the bulk of foreign funds having been devoted to stock buybacks, sure to reinforce executive stock options. The bill is also known as the Homeland Investment Act, a more appropriate name, since homebound funds have been invested for sure, just not for business purposes. They have largely gone toward financial securities in one form or another.

Absence of depreciation writeoffs

Numerous big names can be cited among companies committed to large scale stock buybacks, led by Intel at $25 billion, Time Warner at $12.5 billion, DuPont at $5 billion, and Honeywell at $3 billion. In stark complement to this fund repatriation is the absence of fixed business investment, which has led to big corporate cash increases in corporate balance sheets. Take note, that since the end of 3Q2004 through 3Q2005, capital depreciation among non-financial firms has gone down a shocking 22%, from $830 billion to $648 billion. Where did the money go? Stock buybacks have soared by 51% over 2004 to $346 billion. In all, buybacks, dividends, and cash mergers have grown by 49% since 2004. Of S&P firms, 59% have hiked dividends, for a 12% total increase since 2004. Major questions arise about whether such practices are the best usage of company cash. Where is the job hiring?

Thomson Financial says 2005 marks the largest year for corporate stock buybacks since the frothy days of the late 1990 decade. Therein lies the fraud regarding the intent and spirit of the legislation to create jobs. Well, perhaps the executive stock options will result in some brisk trade among brokers for second homes, luxury boats, and vacations to the Caribbean! The end effect is for a false lift to stock prices from liquidity alone, not value. A notable reduction in capital investment by US corporations is the main reason for the vast accumulation of corporate cash. Attractive investments with strong potential for profit are few. Shareholders are increasingly vocal to improve stock prices. Executive stock options are surely pleasing to corporate officers. Buybacks are happening in most industries, not only among technology firms.

Bond revenge

To the dismay of bondholders, brisk corporate stock buybacks are likely to continue. For example, DuPont saw its credit ratings cut two notches immediately after it announced plans to buy back $5 billion in stock. A JPMorgan research report claims that marked increase in the pace and scale of shareholder initiatives have had "negative consequences for credit investors... More companies are seeking to offset the ill-will engendered by their poor share price performances by cozying up to their disgruntled shareholders."

According to an institutional shareholder advisory firm, the wave of buybacks today is being driven by the large amount of cash on company balance sheets and by activist hedge funds demanding returned capital to investors. "Hedge funds want to see an instant boost in the valuation, and the quickest way to accomplish that is buybacks. A lot of companies are doing larger than normal buyback programs in order to please hedge funds." One must attribute a colossal shortfall in fixed business investment, the above cited 22% comedown in the last four quarters for capital depreciation, as the primary impetus behind balance sheet health, not operational profitability!!! The less equipment they purchase, the less they depreciate, the higher the unprotected earnings and profits. Here is the trend laid out. In inflation adjusted terms, fixed business investment fell by 4.2% in 2002, fell by 9.2% in 2003, and grows only by 1.3% in 2004. Another point to consider is that flush corporate balance sheets could have been used in part to purchase US Treasurys, adding to the conundrum. The major point to emphasize is that the extra money is going to financial securities, not plant & equipment, and certainly not R&D. They are not investing in the future of their companies, but rather are pumping up the value of their companies. This huge distinction highlights the phenomenon at work for some time. The financial sector tail is wagging the economic dog.

Broadly played game

In early November, Intel stunned the markets with an announced $25 billion repurchase program in planned stock buybacks and a 25% dividend lift. Target also cited plans to buy back $2 billion. In October, Honeywell ($3 billion), DuPont ($5 billion), and Burlington Resources ($1 billion) all announced plans to buy back stock. In the first week of November, Time Warner said it would more than double the size of its stock buyback program to $12.5 billion from the $5 billion figure previously announced. Retailer Bed Bath & Beyond and home builder Pulte Homes have also joined the parade. Time Warner agreed to double its stock buyback program at a time when it faced pressure from financier Carl Icahn to increase the value of the stock.

Negative ramifications over the long haul are painfully clear, but hardly recognized. Steven Clark, an assistant professor at the University of North Carolina at Charlotte, says that companies may opt to buy back stock rather than construct more industrial plants, make acquisitions or spend on Research & Development because of concerns about chances of a slowing economy. "It is arguably a less risky use of cash." Clark said.

The open door for nearly tax-free return of big money to the USA fatherland ends Dec 31st. Yet another positive effect for the USDollar is soon to end. When the US Federal Reserve stops its measured rate hikes, a big incentive to own USDollars will also end. If gold has indeed decoupled from the USDollar, but that USDollar does turn down, then some serious upward momentum for gold could be upon us to behold.

HOUSEHOLDS SHOULD HEDGE WITH MINING & ENERGY STOCKS. INVESTING IN CANADIAN STOCKS RIDES THE ENERGY TRADEWINDS. THE HAT TRICK LETTER COMBINES MACRO ANALYSIS WITH INVESTMENTS.

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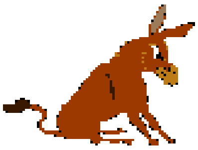

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