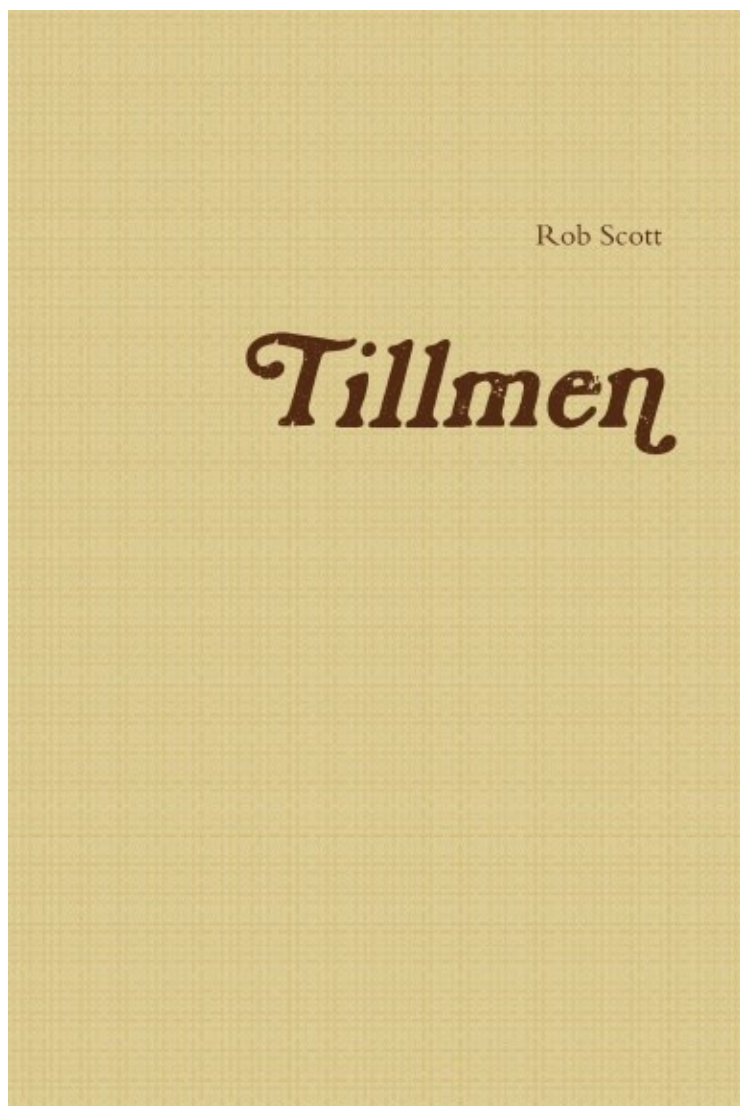




The following are the first few pages of “Tillmen”
by Rob Scott

Chapter 1: The Rub

“Okay, so it is legal stealing, so what. What does that have anything to do with you?” Tom Prichard said to Steve. Tom is a financial analyst for Deutsche Bank USA in Houston, Texas. He has been friends with Steve Bates since Junior High School.

“Because it is indicative of the whole stock market, it is all a scam!”

“But it is only seventy companies out of eight thousand, which is not a large enough sample to prove anything. You do understand there are eight thousand publicly traded companies that make up

the major indices and form the basis of the stock market don't you?"

"Tom, look, 937 companies or twelve percent of all publicly traded companies between 2011 and 2016 spent almost all their available cash reserves to buy back stock. Three trillion dollars were wasted! These idiots at the helms of these companies spent it to look good to shareholders on paper that they were going to do something to reduce shares outstanding and make earnings per share increase. But that is not what they did at all!"

"Then what did they do Steve?"

“They stole the three trillion dollars, blew it in the stock market and collected pennies per share purchased upon shares as stock option rewards.”
Said Steve.

“And you are absolutely sure of this?”

“I can prove it.”

“How is it that a lowly shipping clerk can prove this and no one else has ever questioned it throughout the history of high finance? Henry Singleton is believed by most financial professionals to be the father of stock repurchases. He built and ran Teledyne, a scientific and technical instruments company. In the ‘bear’ market of the early 1970s,

Teledyne stock fell from about \$40 to less than \$8; Singleton saw this as an opportunity to buy back Teledyne stock. In buybacks from October 1972 to February 1976, 22 million shares were repurchased at \$14 to \$40 – well above the market price. This raised the value of Teledyne stock, eventually increasing to near \$175 at the end of the decade. In this period, annual income increased by 89 percent and net income by 315 percent. Stockholders who had remained through the buyback achieved a phenomenal gain of about 3,000 percent. Warren Buffett, is quoted as saying that ‘Henry Singleton of Teledyne has the best operating and capital deployment record in American business.’ And you think he was a quack?”

“Stock buybacks is the very last thing you do when a company has excess money that it has nothing better to do with it! Singleton is a fluke, and everybody following in his footsteps are misguided fools!” yelled Steve.

“So Steve, what should these companies be doing in your investment portfolio professional opinion?”

“The very first thing a company has a fiduciary obligation to fulfill is to grow and improve the financial receipts of organization, which entails for the most part research, development, marketing and sales. If you are IBM spending \$60 billion to retire 200 million shares with the anticipation that earnings

per share will increase, you are absolutely a moron and should be relieved of your duties as an IBM executive. Now what is really going on is 200 million stock options need to be cashed in by the IBM executives and the only way to release them is to do so under stock buyback market conditions and so options expiration and stock buyback timing is synchronized.”

“And you can prove that how?” asked Tom.

“It’s all published information, anyone can secure it from SEC filings. I track all eight thousand publicly traded companies for buyback announcements, and then correlate them to stock

option awards, and they magically reconcile themselves.”

“So you are saying they are all doing it, maliciously, all basically stealing the shareholders’ cash and buying back the options they cash in on the market?”

“Well maybe a couple are genuine but pretty much it is all a scam. Of the seventy companies responsible for sixty percent of all \$3 trillion buybacks over the past six years, only seven did so correctly where the end result was number of repurchased shares exactly met the money paid for each share and no additional shares like stock options were released. They were Illinois Tool

Works, Lockheed Martin, Lowe's, Northrop Grumman, PepsiCo, Pfizer, and Travelers Companies. Everyone else suffered unconscionable results from their shenanigans.”

“So when you look at more companies, does the genuine versus non-genuine equation still hold true at ten percent?” asked Tom.

“Of the next group of companies – the ‘Medium Buyback Group of \$10 billion to \$1 billion in buybacks over the same six year period’ there are 352 in the group buying back \$1 trillion and 44 of them are genuinely accomplishing identical results or good results. The rest are again producing shenanigans. And in the ‘Small Buyback Group’ of

515 in the group buying back less than \$1 billion over same period, they resulted in 37 out of 515 or seven percent genuine.”

“So Steve, instead of buying back stock, what would you be doing with the money at these companies?”

“So if I were Lockheed Martin or Northrop Grumman I would use the \$33 billion dollars spent securing 125 million shares to develop the next most destructive technological advancement the US Military had ever seen before – so I could improve future profitability streams and ensure my shareholders had a secure future with the company. At Lowe’s, I would spend the \$15 billion building my

own line of tools, perhaps buying Black and Decker-Stanley before they bought Craftsman tool line from Sears.”

“Okay, I get it, use your excess cash to invest in the most profitable lines of business you know.”

“Exactly Tom, use the money with a specific purposeful plan of action, really do something with it, and not squander it on propping up your feeble EPS ratio, or worse, timing the buybacks to coincide with cashing out stock options.”

“So in your opinion, none are really good if they buyback any shares.”

“Correct, they are all idiots, none should squander a single penny buying back shares and should instead invest every penny back into running the business they set out to run.”

“So knowing what you know, who is the worst of the worst?”

“It really depends on the sector to pick a worst, but I would have to say General Electric and Apple are the worst offenders of common sense. Both are technology driven industry titans, meaning their future profit streams are heavily dependent upon their organization coming up with an idea, vetting it for applicability, then throwing all available resources at it to develop it, then market it and

accomplish sales upon it. This takes thousands of people and billions of dollars to do it well. These resources are very precious and the billions of dollars needed are scarce. So only an idiot would choose to spend \$319 billion at Apple to buyback one point two billion shares of stock instead of conserving those \$319 billion for future research and development expenses to be incurred. Likewise, at General Electric, morons at the helm there spend \$95 billion to buyback one point six billion shares of stock instead of research and development spending to come up with a better product for future profit streams. But the worst of all of them is Berkshire Hathaway. Warren Buffett makes a quarter of all the big ones buyback shares. He makes all the banks (Wells Fargo, Bank of America

and BNY Mellon), all of the Consumer goods (Coca-Cola, Johnson & Johnson, Mondelez), General Electric, all the financials (American Express, Mastercard and Visa), Wal-Mart, all the big tech firms (Apple and IBM) and UPS do it. Since these companies compete in broad spectrum of the stock market, so all their sector competitors do it also as a follow-the-leader motion. What is worse is that it is an accepted practice to align stock options awards with buybacks and to coordinate the expirations of them with repurchases so that when cashing in millions of stock options it does not affect the market price of the stock.”

“So you are calling Warren Buffett, whom others call the ‘greatest investor of all times’, a

buffoon? You really think he is the mastermind behind all the buybacks and that he is evil?” asked Tom.

“He is the Godfather of repurchases, he forces the companies he invests within to do it and he therefore leads the actions of all the others within those industries to do it. He is evil in the sense that he knowingly and wittingly sets up the compensation parameters of his companies to pay per performance on stock performance and allows millions of stock options to be placed into the hands of his executives such that billions of dollars of cash are necessary to exchange each and every year simply to compensate his executives and not disrupt the price of the stock. The money paid to executives

appears to be in the millions of dollars each and every year but the resources of billions of dollars is employed in this senseless act of shenanigans. The cash is diverted from Research, Development and Marketing to compensation of executives by way of stock option mechanics. He is the bane of the stock market, he is the most evil person I can think of alive today and allowed to be involved with stocks, finance and insurance.”

“Bane of the stock market? You really think he is the source of misery of the stock market?” asked Tom.

“He created this huge monster we all know today, his deformed interpretation of Henry

Singleton's endeavors, forcing his Berkshire Hathaway portfolio companies to do the same, and their competitors following suit makes the \$3 trillion spent over the past six years such a royal mess that it is teetering on failure if any part of the cash machine is disrupted! These companies are in so deep to having to spend all their available cash to cashing out the executives' stock options so the share price does not go down."

"So what if they stop spending all their cash on buybacks and the executives release their shares into the market, what happens then?" asked Tom.

"Armageddon. It all fails. Take one company for example and watch how it sets off a wildfire of

failures. Just GE alone. Take away buybacks and the executives release millions of shares into the market. The share price of GE diluted by stock options cashed in cannot sustain diluted Earnings Per Share that occurs.”

“So General Electric is a Ponzi scheme?”
asked Tom.

“Basically the whole stock market is. The behavior of executives is to bilk the investors for billions of shares of stock options. They achieve them, hold them until they are exercisable and then sell them when they are in the money. The stock option gives the executive some pennies on the dollar of the underlying stock value. But selling the

stock into the market places extreme pressure on earnings per share. Earnings per share dilutes, the stock price falls, the investors panic and start dumping and the rest is history.”

“So in essence the Earnings Per Share are being artificially elevated by buying back stock?”

“Yes, but it is really worse than that. The shares of stock being repurchased are converted to Treasury shares and from the Treasury shares they are doled out to executives as stock options. If you look closely at historical shares outstanding over the six past years that three billion dollars were wasted across, you will notice that not many companies actually accomplished much in the way of

meaningful reduction of shares at prices resembling close to market prices paid. For ninety percent of cases you will see they overpaid double and triple and sometimes multiples of dollars per share over the present stock market price per share. This means they were trying to buy stocks when stock options were being cashed out but were late, or unsuccessful or had no clue what they were to do to keep the market happy about their shenanigans.”

I hope you did enjoy reading the first few pages of “Tillmen” by Rob Scott. Please note all books can be located for sampling and purchase at:

<https://ereadery.com/lulu/index.html>