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Repurchase Announcements, Lies and False Signals

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Beverly Kracher[1] & Robert R. Johnson[1]

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Abstract

Prior stock repurchase studies have found evidence that the announcement of a repurchase program sends a positive signal to the market. Firms engaging in open-market repurchase programs do not have to report how, when, and if they actually repurchased any shares. Evidence following the stock market crash of 1987 indicates that many firms announcing repurchase plans did not actually repurchase any share and, by their own admission, had no intention of repurchasing shares. Companies announcing plans and not following through are apparently within the letter of the law. However, we argue that companies announcing plans with no intention of repurchasing shares are guilty of either lying or sending false signals. These companies create distrust in the investment community and intentionally mislead the public in violation of the SEC's antifraud provisions. Changes in the reporting procedures concerning repurchase plans are ethically and legally warranted.

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Author information

Authors and Affiliations

College of Business, Creighton University, Omaha, Nebraska, U.S.A

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