THE Wealth REPORT

SPLITTING STOCKS

Investors get more shares for their money with a stock split.

Stock splits can be a good way for companies to lower share prices, making their stock more affordable for potential investors. Current shareholders can also benefit by getting more shares with the same total value.

Overview

Amazon. Shopify. Tesla. What do these companies have in common? They all underwent stock splits in 2022.

When well-known companies split stock, they tend to garner a lot of attention. However, even lower-profile stock splits can benefit both current and potential investors. But what exactly is a stock split, and how does it work?

2022 Stock Splits[1]

• Amazon	20-for-1
• Alphabet	20-for-1
• Shopify	10-for-1
• DexCom	4-for-1
• Tesla	3-for-1
• Palo Alto Networks	3-for-1

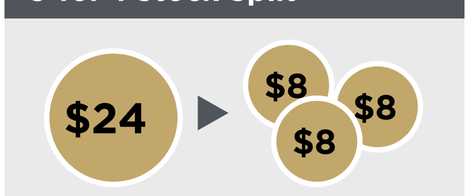
More Shares, Same Value

If a company splits its stock, it's usually because its share price has risen substantially. To make its stock more attractive to potential investors, the issuing company divides outstanding shares while keeping the total value of the outstanding shares the same. This reduces each share's price, providing more liquidity for the company while retaining the company's overall value.

Companies can choose to split stocks by whatever ratio they choose. For example, Amazon split its stock at a 20-for-1 ratio in 2022. Every outstanding share was split into 20 pieces, while the total value of the stock remained the same. Shopify investors received a 10-for-1 split.

The most common stock splits, however, are 2-for-1 or 3-for-1. For example, if you own one share worth $24, under a 2-for-1 split you would now own two shares, each worth $12. You would own three shares worth $8 with a 3-for-1 split.

3-for-1 Stock Split



example: 1 share for $24 = 3 shares for $8

The Pros and Cons of a Stock Split

Stock splits can benefit both current and potential investors. Current investors tend to like stock splits because they immediately increase the number of shares they own. And for potential investors, the company's stock becomes more affordable. A split may provide increased liquidity for companies because the lower price may make it easier for investors to buy and sell their shares.

However, there are drawbacks to stock splits, mostly for the issuing company. A stock split can be expensive and must conform to regulatory laws and rules. And because a split doesn't impact the company's market value, it can be a lot of work for little benefit to the stock issuer.

Companies must also guard against dropping share prices too low. The Nasdaq, for example, issues compliance warnings to companies whose stocks drop below $1 for 30 consecutive days.[2] If a company trades on the Nasdaq, it must be aware of this requirement and avoid issuing stock splits that could take share prices below $1.

Still, many companies find a stock split to be beneficial in the long run. Many often see their stock prices increase following a split. Apple, for example, split its shares in August 2020. Before the split, shares were trading at $540. A 4-for-1 split took share prices to $135.[3] As of late November 2022, Apple's stock was trading at $151.[4]

Reverse Stock Splits

Sometimes, companies want to bolster their share price by reducing the number of outstanding shares. In this case, they will perform a reverse stock split, in which a certain number of shares are consolidated into one. Like a regular stock split, the price of each share changes while the total overall value of outstanding shares remains the same.

For example: You own 10 shares of Company XYZ, worth $1,000. Each share is worth $100. The company decides to do a reverse stock split of 1-for-2. Following the reverse split, you now own five shares of Company XYZ, each worth $200.

Final Thoughts

While stock splits don't impact the company's market value or an investor's total holdings, they can be beneficial for long-term investors. Take Apple stockholders, for example. In addition to its 4-for-1 stock split in 2020, Apple split its stock in 1987 (2:1), 2000 (2:1), 2005 (2:1) and 2014 (7:1). Investors who owned one share of

Apple stock before the 1987 split and kept it through the 2020 split would have seen that one share turn into 224 shares.[5]

Should you consider investing in companies that have announced an upcoming stock split? It depends on a number of factors. It's always best practice to consult with your financial advisor before buying or selling shares. Your advisor can assist you with crafting a portfolio aligned with your specific long-term goals.

[1] Nicholas Rossolillo. The Motley Fool. Nov. 8, 2022. "Stock Splits in 2022." https://www.fool.com/investing/how-to-invest/stocks/stock-split/calendar/. Accessed Nov. 23, 2022.
[2] Cory Janssen. Investopedia. Sept. 13, 2022. "How To Avoid Getting Delisted From Nasdaq." https://www.investopedia.com/investing/the-dirt-on-delisted-stocks/. Accessed Nov. 23, 2022.
[3] Adam Hayes. Investopedia. June 7, 2022. "What a Stock Split Is and How It Works, With an Example." https://www.investopedia.com/terms/s/stocksplit.asp. Accessed Nov. 23, 2022.
[4] Yahoo! Finance. "Apple Inc. (AAPL)." https://finance.yahoo.com/quote/AAPL?p=AAPL&.tsrc=fin-srch. Accessed Nov. 23, 2022.
[5] Adam Hayes. Investopedia. June 7, 2022. "What a Stock Split Is and How It Works, With an Example." https://www.investopedia.com/terms/s/stocksplit.asp. Accessed Nov. 23, 2022.

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