

Getting Bullish on Stock Splits?

By Jonathan Caplan

August 31, 2020

Market Insights

Are Stock Splits a Compelling Reason to Get More Bullish?

There has been a recent phenomenon of investors and traders placing bets on stocks of companies that have declared, or are expected to declare, a stock split. There are a number of misconceptions regarding stock splits. One misconception I would like to dispel from the outset: Stock splits have absolutely no direct impact on a company's future prospects!

What is a stock split? When the price per share of a company's stock moves well into the triple-digits (like Apple) or even quadruple-digits (like Tesla), the board of directors will at times decide to make the shares more "affordable" for the small investor. They do so by issuing a multiple number of new shares for every share that investors own pre-split. For example, Apple's board declared a 4-for-1 stock split that took effect today. Shareholders will receive 4 new shares of Apple stock for each share that they owned pre-split. The stock

closed last Friday at about \$500 per share. Today the shares opened in the vicinity of \$125 per share, or about one fourth the price pre-split.

Fundamentally, nothing at all has changed for the company. Existing shareholders now own the exact percentage of the company that they owned pre-split. So why all the ballyhoo? Not so clear at all!



Famed former hedge fund manager Leon Cooperman put this phenomenon into perspective this morning in an interview on CNBC. A stock split can be compared to someone exchanging a \$5 bill for five single

dollar bills. Is that person better off? Not really. Or, more realistically, not at all.

Perhaps one could make the argument that a stock split is just a reflection of how well the company has been performing. The stock price has already responded to the fundamental performance of the company by adding a few digits to the share price, leading the company's board to approve the stock split. But clearly, the stock split, in of itself, is not a compelling reason for growing increasingly bullish.

The views presented are those of the authors and should not be construed as personal investment advice or a solicitation to purchase or sell securities referenced in this Market Commentary. The authors or clients may own stock or sectors discussed. All economic and performance information is historical and not indicative of future results. You should not assume that any discussion or information provided here serves as the receipt of, or as a substitute for, personalized investment advice. All information is obtained from sources believed to be reliable. However, we do not guarantee the accuracy, adequacy or completeness of any information and are not responsible for any errors or omissions or from the results obtained from the use of such information.