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# Marc A. Hebert's 'Money $ense': Stock splits

May 22, 2021

Perhaps you have seen companies in the S&P 500 Index announcing plans for a stock split in the news recently. Stock splits usually do make the news, especially when it pertains to a well-known company.

Interestingly, fewer and fewer companies have been doing stock splits in recent years. In 1997, 102 companies split their stock while only seven did so in 2016.


Maybe you own a stock that is going to split its shares and have wondered how this action affects your portfolio. As can be seen, splitting shares is becoming less common, but it’s helpful to understand the reasons for the split when it does happen.

A stock split is a corporate action that the company’s board of directors has decided to undertake. A stock split can be used to lower the price of a share of the company’s stock. Each share of stock may now become more than one.

For example, in a 2-for-1 split, for every one share an investor owns there are now two shares. If you owned 100 shares, you now will have 200 shares. If your shares were worth $100 each, they would be worth $50 each after the split. Since you now own double the amount of shares, you are not losing any value by owning shares that have been split, even though the price per share has been halved.

The most common types of stock splits are the 2-for-1 and the 3-for-1. Once again, the total value of the shares, also called a company's market capitalization, does not change. Rather, the same amount of value is just spread over more shares.

What is the incentive for a company to do a stock split? Some companies want their shares to be more accessible to investors, so they will enact a stock split when the share price goes up. Once the price of a share reaches a certain height, the company might consider it less affordable for investors wanting to purchase a small amount of stock. To adjust the price, they can do a stock split. With the stock priced less per share, more investors can now afford to purchase it.

A stock is often easier to buy and sell at the lower price. This could increase the liquidity of the stock. Also, more investors being able to buy the stock may increase demand, which, in turn, may increase the stock price. A split could signal to potential investors that management is confident in the company, which could increase demand for the stock. It could also bring the stock price into line with the company's competitors.

A company might also undertake a reverse stock split, which is the opposite process. Instead of decreasing the price per share, a reverse stock split increases the price. This process will create one share from several.

One reason a company might decide to do this is to meet a stock exchange's minimum share price requirement. Sometimes, a publicly traded company may get delisted from a stock exchange if the price per share drops below a certain point. A greater price might also make the stock seem more valuable, and, as a result, attract more investors.

After reading this you might think stock splits lead to greater value in the stock holding. Remember that a stock's overall value remains the same after a split, and it is only the price of a share that will change. Stock returns generally change with business prospects and market conditions. A split may have little impact on a stock's fundamental value. It should also be noted that a stock's past performance is no guarantee of its future performance, so keep this in mind as you review any stocks in your portfolio undergoing a split.

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