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California Wildfires – How Prepared Are You?

Two "Hot" Companies Set to Split Their Stock

California Wildfires and Emergency Preparedness

The multiple wildfires raging in California, the hurricanes, and other natural disasters have in one way or another affected many people. The wildfires are adding additional anxiety to many California residents during an already stressful time. Our hearts go out to those families who have lost loved ones and those who have lost their homes. Many residents have lost their homes while others remain unable to return home due to evacuation orders. We cannot control Mother Nature, but we can control our ability to recover from disasters by planning ahead.

United Policyholders ("UP"), a non-profit 501(c)(3) organization and an advocacy group for consumers of insurance, provides great resources for disaster preparedness and recovery. You can find useful information to prepare for such a disaster on the UP website: https://www.uphelp.org/roadmap-preparedness. Larry became involved with UP in 1991 after the Oakland Hills Firestorm. The founders of UP held meetings with many of those covered by the same insurance company at specific events. Larry learned that many of his neighbors and clients who lost their homes were under-insured. Sadly, many of these fire victims relied upon coverage recommendations provided by their insurance company representative agent. These fire victims later found that they were not able to replicate the home they lost with the settlement proceeds. Larry joined the Board of Directors of UP shortly thereafter and continued to serve on their board for more than two decades. Larry helped provide clients and neighbors with advice on how to maximize their negotiations with their insurance companies so that they could receive fair settlements.

As we mentioned in a newsletter published June 25, 2020, it is important to make sure you have sufficient homeowners insurance to rebuild your home and replace your personal property in the event of a total loss. It is also important to be prepared to maximize your settlement with your insurance provider. We have often found that insurance companies typically do not voluntarily offer reimbursement for the full value of a fire victim's loss. Insurance companies often place the responsibility on the insured to provide proof of their belongings for reimbursement. UP provides a useful downloadable home inventory spreadsheet to list all your belongings at https://www.uphelp.org/library/resource/prepare-and-protect. Alternatively, if you do not have the time to create a detailed inventory, consider creating a video inventory by walking through your home and videotaping all your household items using your phone or other device.

It is also important to create an emergency “go bag” in the event you may need to evacuate in a moment’s notice and be sure to include your COVID-19 mask, disinfectant, and hygiene items. Your go bag may contain irreplaceable items such as pictures, family heirlooms, prescription medication, and important documents such as passports and birth certificates. Another suggestion would be to have your important documents scanned and saved in the cloud. A short list of important documents is also available at United Policyholder’s website: https://www.uphelp.org/library/resource/evacuation-check-list.

Plan Ahead! Preparing for a disaster will help you and your family rebuild and recover much sooner and help eliminate confusion and stress. This will support resuming your normal lives.

Some Stocks Have Been “on Fire” Too!

You may have noticed two high-profile companies recently announced their intention to split their respective stocks. Prior to these announcements, the year-to-date results of these two companies have been “on fire,” so to speak, due to the pandemic making the underlying companies more valuable. In the case of the first company, quarantining has increased utilization for on-demand video, at the expense of cable, and the shift to work-from-home and remote learning has increased demand for its electronic devices. The second company is benefiting from unencumbered electric car penetration due to a tough economy that has “kneecapped” its non-electric competitors. Both companies have stated that the intention of their respective four-for-one and five-for-one stock splits is to make their stocks more accessible to “a broader base of investors” and to “employees and investors.”

So what is a stock split? A stock split simply means a company will issue more shares to its shareholders. For example, a company that approved a four-for-one stock split will issue four shares for every one share now owned by its investors. While these investors will have three additional shares post the stock split, the value of their holdings remains the same. This is because the increase in shares is completely offset by the proportionate reduction in share price post-split. Continuing our previous example, if a company issues a four-for-one stock split and the company’s stock price closes at $100 per share on the day of the split (the “split date”), the stock price will downward adjust to $25 per share, or by the same proportion as the increase in shares (i.e. a 400% increase in shares would mean a 1/400% adjustment to the share price). Thus, if an investor owned 1,000 shares or $100,000 ($100 per share x 1,000 shares) of this company before the share split, this investor still owns $100,000 of this company post the stock split ($25 per share x 4,000 shares).

So why do companies split their stocks if it does not fundamentally change the value of their investors' holdings of the company? Simply said, it is all psychological. The companies want to create the perception among investors that their share price is cheaper by reducing the absolute value of the stock relative to its pre-split price (e.g. $25 per share appears a lot cheaper relative to $100 per share pre-split price). Stock splits also create the impression that demand is so high for a particular stock that the company of said stock is forced to issue more shares to meet this demand. Such a tactic tends to maintain the upward price momentum of a stock, which ultimately does benefit its shareholders. With that said, there is some honesty behind a company's desire to make their stock more accessible to investors. For example, if a stock price is $2,000 per share but an investor only has $1,000 to invest, he or she would not be able to purchase this stock. However, if the underlying company approved a two-for-one stock split (i.e. a 200% increase in shares outstanding), the share price would drop to $1,000 per share (1/200% x $2,000) thereby enabling the investor with $1,000 to buy one share of this company's stock. At the end of the day, no matter how many slices you cut the pie, the size of the pie remains the same.

Since we recommend professional institutional management of stocks in client portfolios, the women and men managing these funds are more likely to sell an asset when its price is high and buy it back when its price falls. They are not as susceptible to the "hype" around stock splits as are retail investors. Individual retail investors often make investment decisions based on emotion and/or speculation. Professional fund managers make targeted investment decisions based upon their fund objectives. The old adage of "Buy low and sell high" still applies and is often a result of using a disciplined long-term investment strategy.

This information was compiled by Ginsburg Financial Advisors.