

TEMPEWICK

WEALTH MANAGEMENT



Two high-profile companies—Apple and Tesla—have announced stock splits in the past few weeks, which makes it a great time to discuss what’s involved when a company announces a stock split.

Remember, any companies mentioned are for illustrative purposes only. It should not be considered a solicitation for the purchase or sale of the securities. Any investment should be consistent with your objectives, timeframe, and risk tolerance.

The Securities and Exchange Commission says, “Companies often split shares of their stock to try to make them more affordable to individual investors. Unlike an issuance of new shares, a stock split does not dilute the ownership interests of existing shareholders.”¹

Apple Inc. announced the 4-for-1 split of its common stock, and trading is expected to begin on a split-adjusted basis on August 31. Tesla Inc. plans a 5-for-1 split, which also is scheduled to begin trading on a split-adjusted basis on August 31.^{2,3}

When a company declares a stock split, a shareholder’s total market value will remain the same. For example, say you own 100 shares of a company that trades at \$200 per share. If the company declares a 2 for 1 stock split, you will own a total of 200 shares at \$100 per share immediately after the split. If the company pays a dividend, your dividends paid per share will also fall proportionately.⁴

There is also a “reverse stock split.” If a company declares a reverse split, it plans to reduce the number of outstanding shares, such as a 1 for 2 split. A reverse stock split tends to occur with companies that believe their stock price is too low to attract investors.⁵

Will more companies consider a stock split? That’s hard to say. Some companies prefer a higher stock price. Perhaps the best-known high-priced stock is Warren Buffett’s Berkshire Hathaway Inc. Its Class A shares trade for more than \$300,000 a share.⁶

In the days leading up to a stock split, you’re likely to hear a lot of opinions about the companies. Over the years, we have found that it’s best

to ignore that chatter and stick with an investment approach that's in line with your personal situation.

1. SEC.gov, 2020
2. Investor.Apple.com, July 30, 2020
3. ir.Tesla.com, August 11, 2020
4. Dividends can be stopped, increased, or decreased at any time by a company's board of directors.
5. FINRA.org, 2020
6. Investopedia.com, February 19, 2019

Investing involves risk, and the return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost. Past performance does not guarantee future results.

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