10 Things You Should Know About Stock Splits

For many companies, a stock split can reward existing shareholders and attract new investors.

1. **What are stock splits?** – Stock splits happen when a company increases its outstanding shares to make the stock more affordable to investors. For example, instead of a stock trading at $1,000 per share, a 10-for-1 stock split would allow it to trade for $100 per share **(FIGURE 1)** while the number of held shares would increase tenfold. This is also called a forward split.

2. **Benefits of forward splits** – Companies tend to implement forward stock splits when the outlook for continued growth and profitability is strongest. Making it easier for investors to buy shares at a lower share price also helps companies broaden their base of ownership. From time to time, stock splits are followed by a bump in stock performance—but not always.

3. **Is the split worth it?** – Stock splits have no tangible impact on a company's total value—they simply create more shares at more affordable prices. Nor does a split change the total value of an investor's portfolio holding per se. For companies, stock splits can be an expensive process requiring lots of legal oversight and adherence to regulatory rules.

4. **No taxes owed! –** Stock splits aren't a taxable event, but an investor's cost basis in a stock should be adjusted to reflect a split. For example, after a 2-for-1 stock split, the cost basis of each share owned after the split will be half of what it was before the split.

5. **Do mutual funds split like individual stocks?** – Yes. Mutual funds split the same way individual companies split, but it's much less common. These splits help to bring in new money and make the fund more marketable. Mutual fund investors can benefit when individual companies do stock splits if the fund they own holds those companies.

6. **Do stock splits benefit investors?** – It's nice to own more shares after a split, since the reduced per-share price might mean there's room for greater potential price growth. But investors shouldn't buy a stock simply because they hope it'll rise in price after a split. Over the long term, a company's value is determined by its earnings, not its stock price.

7. **A recent example** – In early 2022, the per-share price of Alphabet, Google's parent company, had soared to nearly $2,200—a high barrier for many ordinary investors. But, in February 2022, Alphabet announced a 20-for-1 stock split, effective July 14, 2022. That brought the share price down to a more affordable $113.

8. **What is the most common stock split ratio? –** A 2-for-1 stock split is the most common ratio. Three-for-two splits are also common, but fractional splits are not unheard of. In 2021, Rivian, the electric-truck maker, implemented an 8.52859-for-1 split.

9. **What's a reverse split?** – In a reverse stock split, a company decides to decrease the number of outstanding shares to make the stock more expensive to investors. For example, instead of a stock trading at $5 per share, a 10-for-1 reverse stock split would allow it to trade for $50 per share **(FIGURE 2)**. Shareholders end up with 10 fewer shares for each share formerly held.

10. **But isn't a cheaper share price better?** – Not always. A stock price might sink so low that a company's reputation can be put at risk. Other times, a price that dips below a certain threshold can cause the stock to be delisted from an exchange or dropped from some mutual-fund holdings. Reverse splits are rare and sometimes seen as a sign of company turmoil.

FIGURE 1

More Shares, Lower Prices

Recent forward stock splits that were designed to make share prices cheaper[1]

Company Name	Split Ratio	Pre-Split Price	Post-Split Price	Effective Date
Tesla (TSLA)	3-for-1	$875.00	$291.00	8/25/22
GameStop Corp. (GME)	4-for-1	$221.54	$55.39	7/22/22
Alphabet (GOOG)	20-for-1	$2,200.00	$113.00	7/18/22
Shopify Inc. (SHOP)	10-for-1	$300.00	$30.00	6/29/22
Amazon.com, Inc. (AMZN)	20-for-1	$2,000.00	$124.00	6/6/22

[1] Some well-known companies have split many times over the years. Example: Microsoft Corp. (MSFT) implemented nine forward stock splits between 1987 and 2003 (seven 2-for-1 splits and two 3-for-2 splits). Investors who bought 1,000 shares before 9/21/87 and held them through 2/18/03 would have seen their initial holdings grow to 288,000 shares after the ninth and final split. Source: Hartford Funds.

FIGURE 2

Fewer Shares, Higher Prices

Notable reverse stock splits that were designed to boost lagging share prices

Company Name	Reverse Split Ratio	Pre-Split Price	Post-Split Price	Effective Date
Xerox (XRX)	1-for-4	$7.34	$28.24	6/14/17
Alcoa Corp. (AA)	1-for-3	$9.08	$22.50	10/16/16
General Electric (GE)	1-for-8	$12.69	$100.00	8/1/12
Citigroup, Inc. (C)	1-for-10	$4.52	$40.00	6/6/11
AT&T, Inc. (T)	1-for-5	$13.51	$25.41*	11/18/02

* AT&T's post-split share price was calculated after subtracting the value of its AT&T Broadband cable-TV assets, which were sold off to Comcast Corp. at the time of the stock split. Source: Hartford Funds.

To learn more about how stock splits can impact your portfolio, talk to your financial professional.