

What is a Stock Split?

A stock split is a corporate action where a company divides its existing shares into multiple shares, thereby increasing the total number of shares outstanding, while reducing the price of each share.



Example:

Suppose a company XYZ has 1 million shares outstanding, and its stock price is \$100 per share, giving it a market value of \$100 million. The company announces a 2-for-1 stock split, which means that for each existing share, shareholders will receive one additional share, and the stock price will be halved to \$50 per share.



Why stock split?

The goal of a stock split is to make shares more affordable for investors, thereby increasing liquidity and trading activity.



Impact on ownership

A stock split does not change the overall value of an investor's holdings in a company. The number of shares increases but the value remains same.



Impact on dividends

A stock split does not affect the total amount of dividends paid out by a company, but it may change the dividend per share.



For example, if a company pays a \$1 dividend per share and then announces a 2-for-1 split, the dividend per share will be halved to \$0.50



Impact on stock price

A stock split results in a lower price per share, some investors may see this as an opportunity to buy more shares at a lower price, making it easier to trade and potentially attracting more investors.



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was useful. Follow
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