Stock Splits: Separating Excitement from Real Value

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After several high-profile companies like Netflix and Chipotle announced major stock splits this year, many investors have started asking what a stock split really means. Does it signal growth ahead, or is it simply a psychological adjustment that creates temporary excitement?

Stock splits tend to attract attention because they make shares appear more affordable. But while accessibility can increase investor interest, history and data show that long-term performance always comes down to one thing: fundamentals.

Why Companies Split Their Stock

Companies usually execute a stock split after a strong run in share price. A high nominal share price can make a stock feel "expensive" to retail investors, even though its total market value hasn't changed. By lowering the price per share and increasing the number of shares outstanding, management hopes to broaden participation and improve trading activity.

In simple terms, a 10-for-1 split means each investor receives 10 shares for every one previously owned, but each share is worth one-tenth the price. The total value of your investment stays exactly the same.

Two of the main reasons companies split their stock are:

- **Perceived affordability:** A $100 stock simply feels more accessible than a $1,000 stock, which can encourage more investors to participate.
- **Improved liquidity:** More shares in circulation often mean tighter trading spreads and a more active market.

While these reasons make sense from a market structure standpoint, they don't change the company's actual worth.

Do Stock Splits Really Boost Performance?

Historically, the data shows mixed results. Some investors point to “momentum” after a split, where increased attention and trading push shares higher. But studies consistently show that these effects are temporary and largely driven by psychology, not fundamentals.

Short-term reactions can occur as new retail investors buy in or index funds adjust their holdings. Yet over time, performance tends to normalize once the market refocuses on earnings, growth, and cash flow.

In other words, a stock split doesn’t create new value; it just reshapes the same value in smaller pieces.

The Evidence: What History Shows

Looking back, we’ve seen several notable examples. Companies such as Amazon, Nvidia, and Tesla all conducted stock splits in recent years, which brought short-term attention and trading activity. However, research from sources including *Harvard Business Review* (2022) and *Nasdaq Market Insights* (2023) indicates that long-term stock performance after splits has more to do with earnings growth than the split itself.

Other companies, including Chipotle and O’Reilly Automotive, experienced modest short-term price increases following their split announcements, according to *Reuters* and *CNBC* coverage, but those moves generally stabilized once the market adjusted.

Academic research, such as a study published in *The Financial Review* (Fama et al., 2019) and summarized by *Morningstar* (2024), found that while there may be short-term excitement around stock splits, average long-term returns often converge back to the broader market trend once company fundamentals are accounted for.

(Sources: Harvard Business Review, “Why Companies Still Do Stock Splits,” 2022; Nasdaq Market Insights, “Stock Splits and Investor Behavior,” 2023; The Financial Review, 2019; Reuters and CNBC market archives.)

A Changing Market: Fractional Shares and Access

Stock splits were once an important way to make high-priced stocks more accessible to smaller investors. But today, with most investment platforms offering fractional shares, that barrier is disappearing.

An investor can now buy $100 worth of a $1,000 stock without needing a split. That means the traditional reason for splitting, affordability, carries less weight in modern markets. Going forward, splits may be more about optics than necessity.

The Takeaway

Stock splits can create short-term excitement and sometimes attract new investors, but they don't inherently increase a company's value. Over the long run, what drives stock performance is the same as always: strong earnings, healthy margins, and sustainable growth.

For long-term investors and retirees, the lesson is clear: focus on quality businesses and sound fundamentals, not short-term market psychology. Whether a company trades at $50 or $500 per share, the underlying value remains unchanged.

Innovation, efficiency, and profitability build wealth over time, not cosmetic changes to share counts.

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