From a theoretical standpoint, stock splits should have no impact on portfolios (UBS).

Explaining stock splits... and why they shouldn’t matter to you

11 June 2024, 1:58 pm CEST, written by UBS Editorial Team

Stock splits are once again making headlines. This past Monday (10 June), NVIDIA shares rose following Friday’s 10-for-1 stock split. Yet, finance textbooks suggest that a share split should not change the value of a company at all.

The market value of a firm should represent the net present value of all future expected cash flows. Whether this value is split between 10 shares or 10 billion shares, it should be irrelevant.

Theoretically, in NVIDIA's case, while the share price should have declined 90% once the split was completed, investors ended with ten times more shares. Hence, the value of an investor's holding was left unchanged.
But it seems that's not always how things work in the real world. Sometimes stocks move up on share split announcements on the notion that a lower share price makes the stock more appealing to smaller investors. That may have been true a while back, but these days many brokerage firms offer the opportunity to buy fractional shares. Thus, high-priced stocks are not out of reach for the retail buyer.

We ran the numbers on the stock split phenomenon. Interestingly, stocks do tend to outperform—by 2% on average—after a split announcement. However, this is not fully conclusive. Companies often announce share splits in conjunction with other positive news, such as a favorable earnings report. This is exactly what NVIDIA did on 22 May.

Did NVIDIA's shares rally by 30% over the past few weeks because of the positive earnings report or the share split announcement? We would place much more emphasis on the fact that NVIDIA is the AI sector leader posting strong revenue growth, along with hefty operating margins. These results, coupled with solid forward guidance, are more than likely responsible for the recently strong share price performance, with the stock split contributing marginally, if at all.

In our view, the average investor should ignore all the noise about stock splits; that's more talk than action. Focus on fundamentals, and not so much on the never-ending headline stream.

Main contributor: Alberto Rojas

See original report: **Much ado about stock splits**, first published 19 Aug 2020.