Tesla Inc

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Tesla: what is the significance of its stock split?

Stock splits are back, with Tesla Inc (NASDAQ:TSLA) following Apple Inc (NASDAQ:AAPL) in announcing plans for its own similar manoeuvre.

Reading the runes, this has led some long-in-the-tooth stock market observers to caution that such moves could be a warning flag.

Tesla said it was "**to make stock ownership more accessible to employees and investors**".

Apple's management said goal is "to make our stock more accessible to a broader base of investors".

What is a stock split?

In Tesla's case the shares will be split five-for-one on August 28, meaning for every one that an investor owns, they will have five after the split.

In Apple's case it is a four for one split.

"The simple idea is to make the shares more marketable, and usually with the retail investor in mind," says Richard Hunter, head of markets at Interactive Investor.

Reducing the price of each share is purported to make them easier for small shareholders to buy, as well as a sign of management's confidence in future market gains.

"The stock split does nothing to the value of the company - for example, if you held 10 shares at a price of £1,000, after a 100 for 1 split the price would be amended so that you might now own 1000 shares at the new price of £10," says Hunter.

"It is therefore seen as a psychological move, helping investors get more 'bang for their buck', although nothing has changed."

It is only the price that changes not the value of your total shareholding nor the value of the business as a whole. And no new money is raised.

In Hunter's above example, an investor with £10,000 to invest would be buying 1,000 shares post-split, as opposed to just 10 shares pre-split.

With a surge to almost $1,500 in early trading for Tesla on Wednesday, buying a single the electric car manufacturer's shares would still set you back close to US$300 after the five-for-one split.

Apple's stock trades for not far off US$450, so will move to below US$115 after the stock split.

The other side of the coin, so to speak is the reverse stock split, or share consolidation, which London-listed

Price: 621.44

Market Cap: $589.42 billion

1 Year Share Price Graph

Share Information

Code:		TSLA
Listing:		NASDAQ
52 week	**High**	**Low**
	900.265	**70.102**
Sector:		**Manufacturing & engineering**
Website:		**www.tesla.com**

Company Synopsis:
Tesla Inc. was founded in 2003 by a group of Silicon Valley engineers who set out to develop a new electric vehicle company. Tesla Inc. uses proprietary technology, world-class design and state-of-the-art manufacturing processes to create a new generation of highway capable electric vehicles. We utilize an innovative distribution model based on company-owned sales and service centers.

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Hammerson PLC (LON:HMSO) is planning.

This, like the name implies, will reduce the number of shares and therefore lift the share price, but again, not change the valuation.

Hammerson, an embattled shopping centre developer, is planning the manoeuvre in conjunction with a rescue rights issue, with the consolidation resulting in "a more appropriate issue price".

Just window, dressing, in other words.

Why now?

Before the turn of the millennium, it was common for companies to split their shares whenever they rose above US$100.

But stock splits by big US companies tailed off after the dotcom bubble burst in 2000.

"There is a view," says Russ Mould, investment director at AJ Bell, "that you tend to see more stock splits as we near the top of a bull run, as companies look to find incremental buyers for their shares by cutting the price (but not the valuation) with what is really nothing more than a bit of an optical illusion or window-dressing."

Talking of bull runs, the Nasdaq Composite is up 20% in the year to date, despite economies going into recession around the world due to the coronavirus pandemic.

Intriguingly, Mould points to another simultaneous trend that old-timers will point to.

"A potential warning sign is also becoming more prevalent at the same time, namely the rise of SPACS in the USA."

Special-purpose acquisition companies, so-called 'blank-cheque' acquisition vehicles, have raised $23.9bn so far in 2020, already 70% higher than the prior record of 2019, or one in every five dollars raised by IPO this year, according to data from Refinitiv.

Says Mould: "That investors are willing to give cash to management teams to invest without knowing what they are going to buy would suggest confidence is high and animal spirits are running - just the sort of conditions which can see poor allocation of capital (wrong target, wrong price or both), which is in turn often an early sign that trouble is going to be brewing somewhere down the line."

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