

## Opinions split on stock splits

On the surface, a stock split is nothing more than accounting sleight of hand — it leaves investors no better or worse off. But companies argue that by reducing per-share prices, stock splits make shares more attractive to individual investors. And splitters often claim that a higher share count allows for more trading liquidity and greater institutional ownership. Finally, some investors argue that stock splits are bullish because of the positive signal they send about a company's prospects.

Academic researchers have mixed opinions on stock splits. One study supports the belief that stock splits help attract new investors and improve liquidity. More important, research suggests that stocks tend to outperform after split announcements.

One notable study between 1988 and 1997 found that shares of companies that split their stock outperformed stocks of similar size, style (value or growth), and liquidity by an average of nearly 9% in the year after the split. But another study contends that stock splits increase trading costs because of higher bid-ask spreads, which translate into more profits for market makers on the stock exchange.

Whatever side you take, our longstanding advice remains clear: Do not buy a stock based solely on a split. Investors should focus on reasonably valued, high-quality stocks with solid growth prospects.