Majestic Oak Financial
A Registered Investment Advisor

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Please don't forget to forward me your tax returns after they have been prepared. Knowing your individual tax situation can help me help you plan for the future and take advantage of various tax-savings strategies. But I can't do that if I'm not in the know!

Do Stock Splits Matter?

While all the geopolitical turmoil of the world on top of inflation spikes on top of covid are making a huge mess of things in the real world, the financial markets, although certainly impacted, are quietly just doing their thing, reacting to the news of the day here and there, but mostly trying to plod along in the background. Some of the interesting market news getting lost in the shouting is the announcement of stock splits by some of the largest US companies – Amazon, Alphabet (a.k.a. Google), and Tesla. What does it mean to split a stock and does it even matter?

Let's start with chocolate. You have a chocolate bar. Let's also say that this chocolate bar is the type that you can easily break up into smaller, equal sized pieces. If you break up each chocolate bar into 10 pieces each, you now have 10 smaller pieces of chocolate but it's still just 1 chocolate bar. By breaking it up, you don't have MORE chocolate, just smaller pieces equal to the same amount. Which is never really enough chocolate, but that's a subject for another day!

A stock split is the same exact concept. When a company announces a stock split, say a 10-for-1 split, each share you own gets swapped for 10 shares. If you had 1 share before, you have 10 shares after. "Awesome!" you say. "I have 10 times more shares so I must be 10 times richer!" Sadly, no. Just like the chocolate bar, you had the same total amount of chocolate before and after you broke the bar up into smaller pieces. Now, you have the same value of stock before and after as well. At the same time the number of shares of the stock are increasing, the price per share decreases. If before the split, stock X had a price of $100/share, after the 10-for-1 split, each share has a new price of $10/share. Before the split, you had 1 share at $100/share = $100. After the split, you have 10 shares worth $10/share. 10 shares * $10/share equals the same $100.

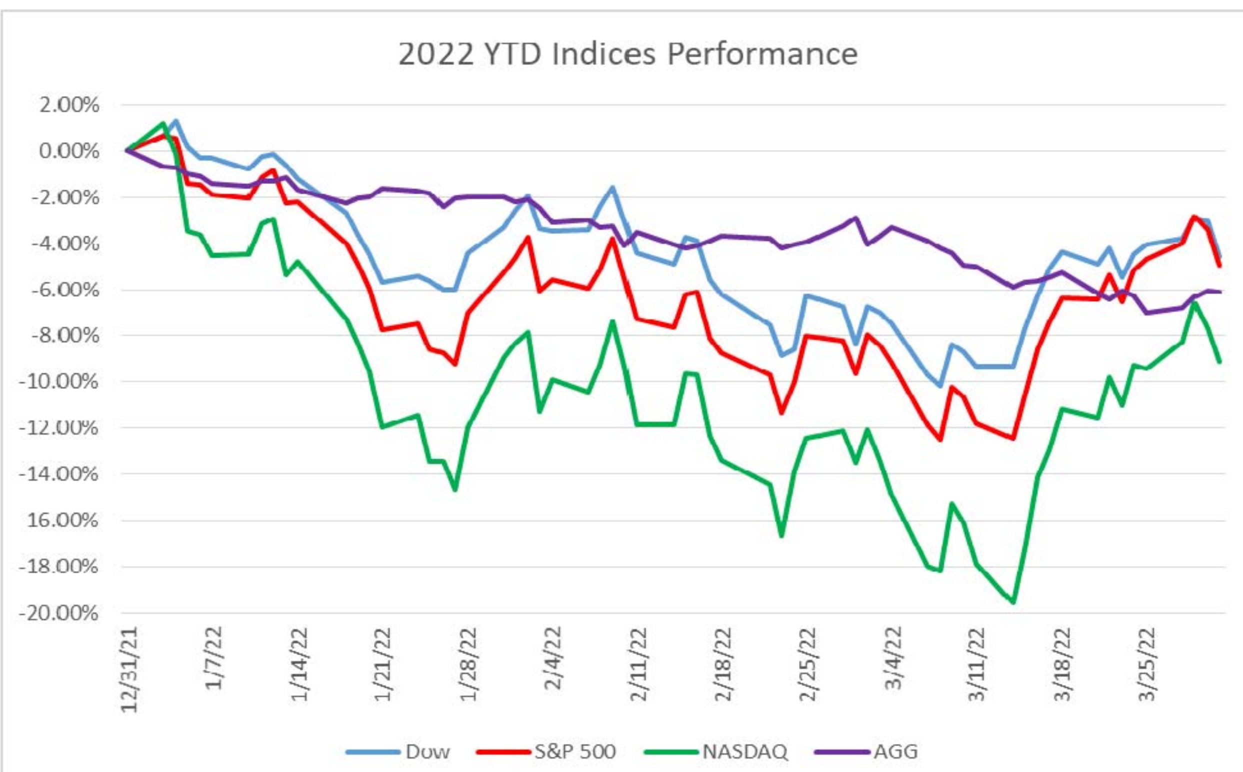
If my wealth is the same, why do it? Excellent question! Let's go back to our chocolate bars and think of those middle school kids all over the US who sell those pretty bad chocolate bars as school fundraisers. Last year, they sold each chocolate bar for $1 – easily affordable for most people to buy. But after an insane inflation on chocolate, each bar now costs $10. These poor middle schoolers dragging their boxes of chocolate from door to door probably won't be very successful in unloading all that chocolate. So one enterprising young student breaks each chocolate bar up in 10 pieces and sells them for $1 each. Chocoholics in the neighborhood are excited because they can buy chocolate for $1! Because it's a fundraiser, the non-chocolate loving in the neighborhood are willing to shell out the $1 for a little piece of chocolate. At the end of the day, it's the same amount of chocolate sold but because it's less expensive to buy a piece, our entrepreneur has more customers.

What's that got to do with stock? I'll tell you! When I was a little kid, I remember my dad calling his stock broker, Bruce, to get stock quotes (back at ¼ point increments!). Back then, if you didn't buy and sell stock in round lots of 100 shares, it cost you even more than the $250+ transaction cost (yikes!). If Amazon existed and cost $3,100/share back then, ideally, you would buy 100 shares which would have cost you $310,000 – for just one stock! There were very few investors who could come up with that kind of money, which means a smaller market for the stock, which means less demand, less trading volume, and a falling or stagnant share price. So, when the share price got too high, companies would do a stock split to make the share price more affordable for the little investors. When a good stock became affordable to the regular people (and remember, the stock price got high because it was increasing and therefore deemed a good investment), there was generally an immediate demand for the shares after the split and the price would pop. Everyone saw that and rule of thumb was that there was quick money to be made in buying a stock that was going to split.

But today, you can buy fractional shares of a stock and the trading costs are zero, so why does this matter anymore? Astute observation! Perception. It's all about perception. Splits are a bullish signal on the company's future growth. After all, the price didn't climb so high by being a terrible company. Like everything else in the market, a stock split is not a guarantee of future performance in any way. It's really more the rule of thumb that will not die even though is initial purpose is now completely irrelevant.

1st Quarter 2022 Market Performance

Index	*03/31/2022 Ending Value*	*1Q 2022 Performance*
Dow Jones	**34,678.35**	**<4.57%>**
S&P 500	**4,530.41**	**<4.95%>**
NASDAQ	**14,220.52**	**<9.10%>**
Lehman Aggregate Bond	**107.10**	**<6.12%>**



Your Individual Investment Reports

The following reports for 1st Quarter 2022 are provided for your review:

- ***1st Quarter 2022 Portfolio Performance*** – Compares the 1st Quarter 2022 percentage performances of the S&P 500 & Lehman Aggregate Bond Index with your portfolio performance.
- ***1st Quarter 2022 Portfolio Performance vs. Inflation*** – Performance of your investment portfolio compared to the rate of inflation as measured by the Consumer Price Index (CPI) for both the since inception period of your accounts and 1st Quarter 2022.
- ***Account Summary*** **–** Current market value of each asset within your accounts as of 03/31/2022
- ***Investment Billing Statement*** for the 2nd Quarter 2022**: Investment advisory fees for the period of 04/01/2022 through 07/31/2022 (based on 03/31/2022 values). *This is an informational billing only.* Your account is automatically debited unless other arrangements have been made.

Please remember that this investment reporting is for informational purposes only. You should also refer to the monthly account statements you receive from TD Ameritrade Institutional.

And as always, please do not hesitate to contact me if you have any questions about your reports or wish to discuss any other financial matters.

Sincerely,

Anna

Anna M. Popke, CFP®, RICP®

*Index performance is provided as a benchmark only. The performance of your individual investment portfolio will vary from that of any one index. Past performance of an index is never a guarantee of future results.

*****PLEASE NOTE:*** Clients who hold "cash reserves" within their brokerage accounts will have slightly different portfolio balances depicted on the Statement of Assets Summary and the Billing Statement. This is because "cash reserves" are excluded from the advisory fee. However, cash held awaiting investment in the upcoming quarter *will* be subject to the normal quarterly fee.

Investment Advisory Fee Calculations:
Fees are paid in advance on the 7th (or prior closest business day) of the month following the end of the quarter. The amount due is calculated by applying the prorated annual fee percentage to the previous quarter-end account value(s). Fees are further prorated for accounts opened after the beginning of a new quarter. Fees may be paid directly from the investment account(s) or consolidated and paid from a specified account. Money market/cash reserves are excluded from totals. Statements have been prepared by Majestic Oak Financial from information provided by TDAmeritrade and while deemed reliable, are not guaranteed.