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STOCK MARKET ARTICLE



ARE STOCK SPLITS GOOD FOR INVESTORS?

This article tries to answer what is stock split and is it beneficial for an investor.

First let us understand what is stock split. A stock split is fundamentally when a firm increases the number of shares. For example if a trader owns 50 shares of a particular company costing Rs.10 Per share and there was a 2-1 stock split, then the owner will own 100 shares worth Rs.5 each. Now everyone will have the doubt in mind that why do these companies issue splits if one still have the same amount of money.

The answer to this demand is simple. Some firms believe that their stock ought to be inexpensive so more people can buy it. This creates a circumstance where more

of the firm's stock is bought and sold. This is technically called as "increased liquidity". The difficulty in theory is that the enlarged movement will also leads to bigger gains and falls in the stock, making it more volatile.

A lot of investors believe splits are a good idea. This may be wrong under some circumstances. The stock is where it was there that each share now represents 50% of the equity in the company that it did earlier to the split. That means that each share is enabled to half the dividend, half the earning and half of the assets that it was once. A few corporations have been well-known for their non-splitting policies.

There are other splits such as 1-to-3 and 2-to-3; however 1-to-2 seems the most common. In terms of what holdings are valued, nothing changes. In terms of what the company is worth, there are no changes.

Now one can think that if there is no change in the current value of holders then why do companies go for Stock Split? This will be clear after reading the below points.

- Some corporations worry when per share rate gets too elevated that it will jolt off some stockholders, especially minor investors. Splitting the stock carries the per segment price down to an equitable level.

- **Liquidity** – If a stock's prices upsurge into the thousands of rupees per share then it may diminish the trading volume. Raising the number of outstanding shares at a lower per share value benefits liquidity.

The immense question: Is it excellent for Investors?

Various investors say a stock split is a symbol that a stock is doing well and it is considered as a green signal for buying a stock.

One should always look at the whole picture before making an investment decision. One can use stock splits as an indicator for stocks to ponder for further estimate that is a reasonable idea but do not stop there with the research.

CAUTION

One should watch out for one type of split as a possible danger. As there is a facility of Stock Split, there is also the reverse solution available called as Reverse Stock Split. The reverse split is carried when the cost of each share is less than the minimum value listed by a stock exchange. In a reverse split, the firm reduces the amount of exceptional shares and per share price rises consequently.

Consider an example if a corporation influence to perform a 1 for 2 reverse stock split, so it means for every two shares owned, the person would now own only one share and the per share value doubles.

A reverse stock split is frequently used to increase up a stock's price since the price upsurges on the split. Often a firm will do a reverse split to keep the stock rate from falling below the minimum required by the stock exchange where it is listed.

Clearly, this is a sign that roughly something is wrong if a firm can't keep its stock rate above the exchange's least listing price and attention is advised.

CONCLUSION

When the paid stockbrokers grounded on the number of shares bought, it made sense to buy a stock before it fragmented. However most negotiators now charge a flat fee so at buying before or after a split doesn't make much intelligence from that perspective. Stock splits may seem like a gift to some investors, but there is little evidence that benefits in any meaningful way when a company splits its stock.

Ultimately, one should buy a stock constructed on whether it meets the fundamental principles, as per the requirement and not on whether it will split or not. <http://www.goldennifty.com>

