



Ticker's Tales

"Bananas & Splits"

Anna looked at the banana she was about to put on her breakfast cereal. She was wondering about stock splits because she had run into the term while playing The Stock Market Game. Bananas are experts in splits, she thought. Too bad they can't talk.

"Hi, Anna," said the banana.

Anna jumped. "I must be daydreaming," she said. "Bananas can't talk!"

"I can," said the banana. "And beneath my rind are nutrients for your mind."

"Can you tell me about stock splits?" asked Anna.

"A fruitful subject," said the banana. "Do you have any money with you?"

Anna put a dollar bill on the table. The banana then replaced it with four quarters. "Do you have more money now than you did before?"

"Of course not," answered Anna. "A dollar bill is worth the same as four quarters."

"Exactly," said the banana, "even though I've split your dollar into four parts. It's the same with stocks. Take Microsoft as an illustration. In February 2003, the company had a two-for-one stock split. Before the split the stock had traded at \$48 per share. The company then swapped each share worth \$48 for two shares, each worth \$24. No pain, no gain," said the amazing banana.

"How can I find companies that have stock splits?" asked Anna.

"Check a newspaper's stock table and look for a tiny "s" following a company's abbreviated name. That little letter means the stock has split sometime during the last 52 weeks.

"Are stock splits always two for one?" asked Anna.

"They come in all flavors," answered the banana. "In May of 2002, for instance, Best Buy had a 3 for 2 stock split. So the company's stockholders got three lower-priced shares in place of two higher-priced ones. But the split didn't change the total value of their investment."

"So why do companies have stock splits?" asked Anna.

"With more shares at lower prices, companies hope to make their stocks easier to trade."

Write Now

1) Use a newspaper to identify a stock split in the New York Stock Exchange and one in The Nasdaq Stock Market.

2) In December 2002, Pacific Sunwear had a 3 for 2 stock split. The stock sold for \$27 a share just before the split and \$18 immediately after. If you had owned the stock at that time, would you have lost money? Explain.