Rodney's Take

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Amazon Won't Split, Because Bezos Doesn't Give a….

Apple (Nasdaq: AAPL) is splitting its stock on August 31, and Tesla (Nasdaq: TSLA) is doing the same. They don't need to. There's no market-based reason for companies with highly liquid shares to split. On a recent day, 36 million shares of Apple and 12 million shares of Tesla traded hands. These aren't companies desperate to scare up liquidity and get more people to buy their shares.

Which leaves only one reason these companies are choosing to split—they want gullible investors to buy more, driving up the share prices for no good reason. And, of course, they will get exactly what they want.

From a company's perspective, splitting the share price means nothing. The company doesn't bring in more revenue, book more earnings, or operate more efficiently. If anything, stock splits cost money because a company must deal with the paperwork and investor relations. But the people who run firms with high stock prices that are currently media darlings know something. They know that when their shares cost less, people buy more, even if the math tells the story that absolutely nothing about the company has changed.

On the face of it, this might not make sense. If the company doesn't benefit, then why would it go through the hassle? That's where we get to the interesting part. Company executives are not only employees, they're also shareholders. In a world where stock compensation plans far outstrip salaries and cash bonuses, corporate officers have extra motivation to make the share price go as high as possible, which makes stock splits attractive for the same reason they don't make sense.

Imagine a few people in the C-suites sitting around, wondering how to make more revenue. They're constrained by pesky factors like product development, marketing, competition, finite resources, and even the economic environment. Now imagine someone saying, "Hey, what if we just split the stock? That should add a few points!" Voilà! Without any of the hard work, the firm likely has increased its market value, made current shareholders a bit wealthier, and enriched itself. The only losers are the shorts and those who didn't buy in before the split.

This doesn't mean that only greedy corporate leaders split stock. Remember, the action typically helps current shareholders as well, at least in the short run.

Now, if this is such a good deal for everyone on the same side of the table, notably long investors and company execs, then you might ask, "With Amazon trading over $3,000, why isn't Bezos splitting shares?"

The likely answer, as Occam's razor suggests, is the simplest… He is the *richest man on the planet*. He's so rich he can buy countries, as in plural.

He can give away half his wealth, $95 billion, and still be in a tie for the third richest man on the planet.

It's possible he simply doesn't give a, well, you know.

This doesn't mean he won't agree to a stock split one day, it just means that it can't make any measurable difference in his life. His wealth passed that point long ago.

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Got a question or comment? You can reach us at info@hsdent.com.