

# Making Sense of Investing

BY JESSICA PERRONE

## Splitting Up Is A Good Thing?

### Question:

*Dear Jessica, I heard that Amazon's Stock is going through a 20-1 stock split. What does that mean for my shares? - Anna, Summit*

Hi Anna,  
Thanks for writing in!

It's true; on March 9, Amazon (NASDAQ:AMZN) announced a 20-for-1 stock split. I know that can be confusing — so let me start by translating the details.

#### The Details

- The Amazon 20-1 stock split is subject to shareholder approval at the annual meeting set for May 25.

*Jessica's Translation:* On May 25, the stock split will be approved at the annual meeting, and the result will then be announced to the public.

- It will provide shareholders of record (at the close on May 27) with 19 additional shares for each one held on or about June 3.

*Jessica's Translation:* Once approved, if you hold shares of Amazon through the close of markets on May 27. You will receive 19 additional shares on or about June 3. (Continue reading how the new price is established).

#### What Is A Stock Split?

*Imagine a Pizza, your favorite pie, whatever it may be. This Imaginary Pizza is not sliced yet. Technically, it's one big slice. (Bear with me; I have a point). That whole Pizza, sliced or unsliced, is \$24. Then you cut it in half, and you have two extra-large slices where each slice costs \$12. Cut it further into four portions; each piece would then cost \$6 and so on.*

The price of the overall Pizza does not change. But the cost per slice changes depending on how many slices you have. But the pie itself stays the same.

Now Imagine. There is a new trendy colossal Pizza that costs \$3,400 (*I know it must have come from The Short Hills Mall*), and your teen has 20 friends that want to chip in for a slice of that Pizza. The teens would cut the Pizza into 20 portions and then divide the price of the massive Pizza by 20 to figure out the amount each friend needed to chip in.

$$\$3400/20 = \$170/\text{slice.}$$

Each slice of that extra decadent \$3,400 Pizza (blessed by



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some social media celebrity) is now valued at \$170 and is much more cost-friendly to the trendy teens who want to try it but might not be able to afford a whole pie.

The most important point I am trying to get across is that the whole Pizza is still the same size and the same price. The pie has more pieces, and thus the cost-per-slice decreases. Similarly, a 20-1 stock split means that each share of Amazon on or around June 3 will turn into 20 shares, 1 existing one and 19 additional shares. Shareholders of record, holding 5 shares would own then 100 shares of Amazon following the stock split.

You may ask, "If my number of shares changes but the value does not, how could a stock-split potentially be good for me?"

- **More retail investors can afford a lower stock price.** Similar to the colossal pie, as of today, Amazon's 52-Week high was \$3773.08/share. Yes, that's a lot of Pizza! Many small or beginning investors start by investing in small amounts. If an investor

only has \$500 to invest, they would not be able to afford a share of Amazon (AMZN).

- **Securities with Stock Splits typically do well over the next several years.** In a study performed by David Ikenberry of Rice University, David found that Stock splits outperformed the market over both 1 and 3 year periods from the date of the split.

It can be fun and exciting to invest in the stock market. But there is also various levels of risk involved. As with all investments, it is essential to do your research, but understanding investment terminology is a great way to start! I hope I explained the Amazon stock split in an approachable manner. If you are interested in learning about investing, please join me for my free show — "Her Investing Coffee Talk," Thursdays at 10am, on Facebook & YouTube @HerFinIQ.

May The Markets Be In Your Favor,  
Jessica Perrone