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Two prominent technology companies have been in the news recently for something known as a share "split". A few months ago, Google underwent a two-for-one share split and, more recently, Apple completed a seven for one split. Each had different rationales behind the move – and I thought it worth a comment to high-light this feature of the equity markets.

First Apple – which undertook a more "conventional" split (although a seven for one split is a bit unusual).

Companies typically split their stock after their share prices have had a strong run and the share price is perceived to be "expensive" in the market. I have found that when it comes to Canadian stocks, a lot of investors perceive the price of "the company" to be expensive if its share price is over $100 – even though share price has absolutely nothing to do with value (a company can be cheap with a share price of $1000 or expensive with a share price of $1). In the U.S., that number seems to be $200 per share for some reason. So, when companies hit those benchmarks, they typically double the number of their shares outstanding, which cuts the share price in half. Voila – more attractive shares!

Apple recently completed a seven for one split to, I believe, move their share price back below psychologically important level of $100. An investor with 10 shares of Apple at $650 before the split wound up with 70 shares of Apple at about $93 post split. The shares seemed to react positively.

Note: For those of you who own Apple, new shares typically take a few days to hit your accounts. This can be very disconcerting if you check your account holdings each day because the share price changes instantly i.e. - for a few days, the above investor's account would show 10 shares of Apple (not 70) at a price of $93 – a drop in supposed value of some 80%.

Google's share split was more controversial. At well over $1000 per share pre-split, you would think Google would have split their stock about ten to one. Instead Google only split their stock two for one. The reason here, however, was not to "move" Google's share price to a more attractive price point – it was to give Google founders Sergey Brin and Larry Page greater voting control over the company.

With Google's share "split", investors were issued new, non-voting shares by way of a share dividend for each old voting share they had. So, Google investors wound up with two classes of shares, one voting, one not – with each class of shares trading at roughly half the old Google share price.

Needless-to-say, Google's voting rights dilution wasn't met with a lot of enthusiasm by the investment community and the share price suffered as result. Still, I suspect that most investors value a company's earning potential above that of voting rights - and these will both continue to be attractive businesses to own. Feel free to contact me if you have any questions on this topic.

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