Mullooly Asset Show Episode 45 Transcript

Tom Mullooly: In Episode 45 we're going to answer the eternal question, "What's better, two 5s or a 10?"

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is Episode 45. Where do we get these great questions that we cover in these videos? We get them from you. We get them from our clients. We get them from our viewers. So, if you've got a question, you're probably not the only person who's thinking the same thing. Get in touch with us. You may find your question is going to be the topic of an upcoming video.

Tim, what's the question that we want to talk about today?

Tim: "Amazon's stock price just hit $1,000. Do you think they'll split their stock?"

Tom Mullooly: That's a great question. Now that Amazon is up at $1,000 a share, that's something that we never saw before. Priceline, I think, had hit $1,000 a year ago; but, prior to that, really, there weren't too many other companies that got up to those kind of stock prices. Of course, the fluke, which we'll get to in a minute, is Berkshire Hathaway, Warren Buffett's company.

We just don't see stock splits anymore, I think the reason being is, when you go through the actual math of a stock split, you're basically coming down to the question of, What's better, two 5s in your pocket or a $10 bill? Nothing's changed with a stock split. Back in the '50s, '60s, and even into the '70s, a lot of management and a lot of Wall Street firms believed that one way to get more stock into the hands of America is to keep the prices of their shares low.

Just go back 20 years. There was 93 stock splits 23 years ago. A year ago there were only six, six stock splits. That's it. So, going back, again, 25 years ago, the average S&P 500 stock traded between $25 and $50 a share. That was pretty normal to see. Today the average stock price on the S&P 500 is almost $100. It's $98 a share. So, there's been a pretty much of a sea change in the sense that stock splits just don't seem to be that important anymore.

You look at all these companies that used to split their stock, and it was great. Whether it was a two-for-one, or a three-for-two, or all these crazy splits, the math really never changed. I mean, I think investors felt good having more shares in their account. Of course, more shares when the stock's going up, that's a great thing.

How do you answer the question, though, of Warren Buffett? I mean, people have asked him over the years, like, "How come you've never split your stock?" I don't know if you're aware, but Warren Buffett's company, Berkshire Hathaway, trades for $247,000 a share, give or take a couple hundred bucks a share. I mean, one share is the cost of an average house in Monmouth County, New Jersey. It's out of control. Almost $250,000, a quarter of a million dollars, for one share of stock.

So, Buffett has been asked many, many times over the years, "Why don't you split your stock?" He came up with a great answer. He said, "I don't want anybody buying Berkshire Hathaway stock because it's going to split or because they think they're going to make a lot of money fast in this stock." That goes exactly against everything that Buffett is about. He's a long-term investor, which is the approach that you ought to have as well, and look how well that stock has done over the years. Don't buy stocks just because they're going to split. There's really no magic in something like that.

That's a great question, and it's something that's not really that complicated. These are the type of questions that we get all the time. Don't be shy. Get in touch with us when you've got questions. Thanks again for sending in that question to us, and we will see you on Episode #46. Thanks again.