

TAKING STOCK: A Reverse Split Is No Green Light To Buy

By Tomi Kilgore

A DOW JONES NEWSWIRES COLUMN

777 words

19 March 2009

15:30

[Dow Jones News Service](#)

English

(c) 2009 Dow Jones & Company, Inc.

NEW YORK (Dow Jones)--Higher stock price or not, it still comes down to the fundamentals.

With the share prices of many well-known companies falling into single-digit territory, any success from Citigroup Inc.'s (C) reverse stock split may prompt others to do the same. But that's certainly not a given.

Ashfield Capital Partners portfolio manager Kelli Hill said it's unlikely the reverse split by itself will be a tailwind for Citigroup. She said it could become a potential catalyst if fundamentals eventually improve, as institutional investors that do have share-price restrictions would then be allowed to participate.

Citi shares were recently trading around \$2.70.

The key point is whether fundamentals improve. Paul Nolte, director of investors at Hinsdale Associates, said a reverse split "wouldn't necessarily change anybody's opinion" about Citi or any other company that chooses to enact one. "It's still about the fundamentals," he said.

How a stock might perform following a reverse split should be analyzed on a case-by-case basis, he added.

Ashfield Capital's Hill noted that when Sweden's Ericsson (ERIC) in early 2008 recalibrated the ratio of ordinary shares to the American depositary receipts that trade in the U.S. -- a similar move to a reverse stock split -- the ADRs became the best-performing shares in her portfolio in the next year.

After Palm Inc. (PALM) enacted a 1-for-20 reverse split in October 2002, the stock rallied enough for the company to turn around and announce a 2-for-1 stock split. But the stock soured again, and hit a low of \$1.14 in December, which would put it below even levels before the reverse split. The stock was last trading just below \$8.

Despite the potential benefits of a reverse split, it's by no means a green light to buy a stock. If anything, history suggests it may be closer to a red light.

A 2006 study by New York University, Emory University and the University of Florida examined more than 1,600 firms that conducted reverse stock splits over a 40-year period. The study determined stocks that underwent reverse splits produced

"statistically significant negative abnormal returns over the three-year period following the ex-split month."

The study also showed that the companies also experienced "poor operating performances over the same time."

Jennifer Tucker, assistant professor at the University of Florida, said that while there could be a perceived benefit from a reverse split, she warned that investors should not expect the company's performance to automatically pick up just because the stock is trading above a threshold that allows more investors to participate.

Tucker said if the companies were optimistic about their future, and their ability to lift their prices through improved fundamental performance, they wouldn't feel the need for a reverse split.

So don't expect every company that has seen its shares tumble over the last year to follow Citi's example.

Standard & Poor's equity research analyst Stuart Plesser said even though Bank of America Corp.'s (BAC) stock is in single-digit territory, "it's not in Citi's camp." He therefore doesn't expect the company to enact a reverse split.

Among Citi's other peers, Hinsdale's Nolte said, he wouldn't expect Wells Fargo & Co. (WFC) or JPMorgan Chase & Co. (JPM) to resort to a reverse split either, given that their share prices are still far enough away from single digits.

With regard to American International Group (AIG), which is trading near the \$1 level, a reverse split could make sense, given how much bad news has already been out and how far the stock has already fallen. But would a reverse split benefit the troubled insurer and the taxpayer who owns most of the company?

"It depends" on the fundamentals, Nolte said.

(Tomi Kilgore writes Taking Stock, a global column that gives insightful analysis about equity-related topics around the world. He can be reached 201-938-2429 or by email at tomi.kilgore@dowjones.com.)

(Geoff Rogow contributed to this column.)

(TALK BACK: We invite readers to send us comments on this or other financial news topics. Please email us at TalkbackAmericas@dowjones.com. Readers should include their full names, work or home addresses and telephone numbers for verification purposes. We reserve the right to edit and publish your comments along with your name; we reserve the right not to publish reader comments.) [03-19-09 1530ET]

70706

Document DJ00000020090319e53j000h7