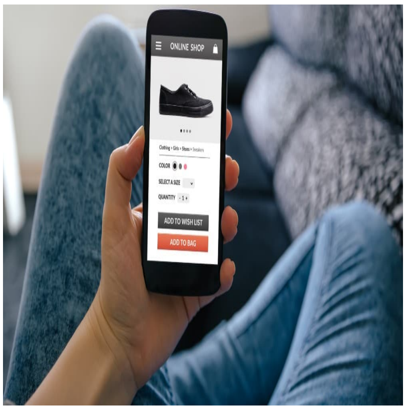

Is a Shopify (TSX:SHOP) Stock Split Next?

Description

In the past few weeks, stock splits have been all the rage, with major tech companies like **Apple** and **Telsa** splitting their shares. The stock splits came at a time when tech stocks were getting very expensive, putting them beyond the reach of many retail investors. Prior to the splits, AAPL and TSLA were both selling for over $1,000. The splits now make the shares more accessible to small time traders on apps like Robinhood.

Is **Shopify** (TSX:SHOP)(NYSE:SHOP) next?

Trading for $1,393 as of this writing, it's certainly looking expensive — so much so that it could be too costly for some. Today's retail investing landscape consists of many small time traders on no-fee apps like Robinhood, that trade in small lots of only a few hundred dollars. These investors' average account size is only $1,000 to $5,000. If SHOP split its shares, it may get some momentum going from these small-time investors buying in.

Why tech stocks are splitting their shares

Generally, companies split their shares to increase their marketability and liquidity. When a stock is overly expensive it leaves a lot of smaller investors out. If you split the stock, it could increase the share price because of more investors buying it.

With that said, the effect is generally minimal. According to *Pensions & Investments* magazine, institutions hold 80% of the equity markets. They generally buy in huge lots and can easily afford to buy expensive shares. These big investors have by far the largest impact on stock prices among all market participants.

However, small-time investors do influence stock price and liquidity to an extent. So, by splitting shares, you might modestly increase your market cap. After Apple and Tesla split their shares, their stock prices increased. It's possible — though not certain — that the splits played a role.

SHOP is in the exact same boat

As of September 2020, SHOP is in the exact same boat that AAPL and TSLA were in before they split. Trading for nearly $1,400, it's become a mighty-pricey stock. And it could be a perfect candidate for a split.

As a hyped-up tech stock, it's very similar to the top stocks on Robinhood. Yet it doesn't even make the list of the top 100 stocks held on that platform. Given the popularity of tech stocks on Robinhood, it's odd that Shopify isn't popular on it.

That could be because of the price. As previously mentioned, Robinhood investors generally have small account sizes, with $1,000 to $5,000 to invest in total. One single SHOP share would cost more than many of these traders have to invest. A 10-for-1 stock split could make SHOP shares more affordable for these investors, and potentially, increase SHOP's market cap.

Foolish takeaway

2020 might go down in history as the "year of the tech stock split." After blistering hot gains, many of the world's biggest tech companies have split their shares to make them more affordable to small players. SHOP seems like an obvious contender to join this club. Trading at $1,400, it could get a lot more retail investor interest if it split. That, in turn, might have a favourable impact on Shopify's returns.

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