Title: Will GameStop’s upcoming stock dividend increase the company's market cap? TL;DR: The answer is “MAYBE SO!” (Wait wut? How?? ■). Here’s a detailed discussion of how the split / dividend could increase GameStop's market cap and the $$ of your your portfolio. ■■■■■ Have fun taking my quiz and test!
Author: halfconceals
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This post is intended to put to rest a bad idea that I have seen floating around this forum and on SS, that the price of each GME share ***must*** go down when GameStop issues its upcoming stock dividend. This idea is expressed in a lot of ways, such as people saying that “the price will be adjusted automatically after the split” or “the price of each share will be divided by the split rate.” A lot of people seem to think (for instance) that if GME shares are trading at $140 on the day that there’s a 7/1 split, the price of each share must be only $20 after the split happens. I think a lot of people are fundamentally confused about "price" vs "value," as well as "who decides" the price of a GME share. To clarify these issues, I’m going to outline some really basic principles, and then discuss how this might apply to GME (and Tesla back in 2019).

SECTION ONE: BASIC PRINCIPLES

Principle #1: “Price” is not “value.”

The first thing to get straight in your mind is that “price” and “value” are distinct concepts. As [Warren Buffett](https://www.forbes.com/sites/forbesfinancecouncil/2018/01/04/the-important-differences-between-price-and-value/?sh=45c4d9a4237b) puts it,

>“Price is what you pay; value is what you get.”

The most important difference between price and value is that price is arbitrary (i.e., set by the seller), whereas value is fundamental (i.e., perceived by the relevant population). This is why it is possible to say that an asset is “overpriced,” “underpriced,” “undervalued” and “overvalued.”

Let’s consider price first:

* An asset is “underpriced” when someone is willing to pay more than what the seller is asking.
* An asset is “overpriced” when no one is willing to pay the seller’s asking price.

Now let’s look at value:

* An asset is “undervalued” when the relevant population will later perceive value that it does not yet perceive.
* An asset is “overvalued” when the relevant population will later abandon a perception of value that it perceives incorrectly.

Strictly speaking, we can only know if something was undervalued or overvalued in retrospect. When it comes to value, we can only make educated judgments about what the future will hold, and then find out later whether the relevant population now agrees with us.

Warren Buffett made his fortune by accurately perceiving the value of various companies before the general population caught up with his perception (i.e., the assets were undervalued), and by buying those assets while they were underpriced (i.e., all things being equal, he probably would have paid more than was asked, since he knew the true value).

Principle #2: The “market price” of a share is simply the most recent price at which a single share was sold.

According to [Investopedia](https://www.investopedia.com/terms/m/market-price.asp):

>“In regards to securities trading, the market price is the most recent price at which a security was traded.”

Take a moment to think about that. Market price is just a way of saying “here’s what happened last.” All that the most recent trade tells us is that two people or entities -- entirely unknown to each other -- reached an agreement to exchange a security for cash. In other words, the fact that a trade was successful means nothing except that the participants to the trade **agreed to a price.** It is entirely possible, and even likely, that the participants to the trade **disagreed about value**. (e.g. the buyer thought the share was worth more than the seller did).

Principle #3: The “Market capitalization” or "market cap" of a company is simply the number of shares outstanding times the market price.

Here’s [Investopedia](https://www.investopedia.com/terms/m/marketcapitalization.asp) again:

>“Market capitalization refers to the total dollar market value of a company's outstanding shares of stock. Commonly referred to as “market cap,” it's calculated by multiplying the total number of a company's outstanding shares by the current market price of one share.”

Let’s break that down by applying it to our favorite stonk, GME: GameStop currently has 76.35M shares outstanding. When I started writing this post, the last market price for GME was $129. This gave GameStop a market cap of roughly $9.85B. Let’s also suppose I have 100 shares of GME in my portfolio. Based on the last market price (the most recent sale), the broker says the GME in my portfolio is worth $12,900.

One moment later, some bastard sells a share of GME for $128. BOOM! The market cap for GameStop just dropped by $76.35 million (one dollar per share oustanding). The market cap for GameStop is now roughly $9.77B. I check my brokerage account, and it now says my GME portfolio is worth only $12,800 ($100 less than before).

SECTION TWO: POP QUIZ

Now let me ask some questions to make sure we’re all on the same page:

Question 1: When that bastard sold his share of GME for $128 a moment ago did the value of GameStop go down? Explain your answer.

Answer: >!NO. The value of GameStop did not go down. Only the market cap went down. Market cap is a function of price, and price is different than value. !<

Question 2: Did I just lose $100 thanks to that bastard? Explain your answer.

ANSWER: >!NO. I didn’t lose any money because I didn’t sell my shares. The only thing that changed was the nominal capitalization of my portfolio. This is calculated in basically the same way as market cap. The nominal capitalization of my portfolio = the number of GME shares owned * the last sale price.!<

Question 3: So … why didn’t you sell your GME shares for $128 today?

ANSWER: >!Because I believe GameStop is undervalued by the market. In other words, I perceive value in GameStop that the market seems not to perceive yet. In my best judgment, based on my own DD, the market will eventually perceive what I (and the other Apes) see in this company. In fact, I was buying GME shares today and hodling; not selling. !<

Question 4: Is GME also underpriced?

ANSWER. >!YES. GME is underpriced because there’s a horde of Apes like me who would have bought shares at $250 or higher today. Someone was selling shares today for only $128, so I just bought at that price. (More on this in Section 4, below).!<

SECTION THREE: HOW A STOCK SPLIT / DIVIDEND AFFECTS SHARE PRICE IN A THEORETICAL MODEL OF THE MARKET

Now that we're on the same page with our basic principles and definitions, let’s talk about how a stock split would affect share price in a theoretical model of the stock market.

In an idealized or theoretical model of a stock market, supply (sellers) and demand (buyers) struggle back and forth so that, over time, the market cap of the company matches the company's true value.

Every participant has their own idea of what the company is worth (value), and their respective bids and asks (price) reflect their individual beliefs about value. If I believe that a company's real value is $4B, but its present market cap is only $2B, I’m probably going to buy shares today. Likewise, if I believe that the company's real value is $1B but its present market cap is $3B, I’m probably going to sell my shares today. *Every day, everyone in the market is making the same kinds of decisions that I’m making: they are buying, holding, or selling depending on whether they think the market cap is “right” (i.e., an accurate measure of value).*

Under these ideal circumstances, which I just described, an increase in the number of shares via a stock dividend to shareholders should make no difference to market cap because the participants in the market will "automatically" adjust the price of each share in order to maintain their belief regarding the value of the company. (Remember: market cap = market price * shares outstanding.) So, when the number of shares outstanding goes up due to the stock dividend, the price has to go down in order to maintain the same market cap.

I say this happens "automatically" in the theoretical stock market, but what I mean is something along the lines of Adam Smith's "invisible hand." Everyone knows instinctively that a stock split does not change the value of a company. Consequently, when existing shareholders receive their new shares, some of them are going to become sellers until the market cap reflects the market's aggretate belief about the true value of the company. **During a stock dividend, the theoretical stock market returns to equilibrium immediately as a result of shareholders becoming sellers, sellers lowering their asking price, and buyers lowering their bids, thereby lowering the market price.**

SECTION FOUR: NOW LET’S TALK ABOUT THE REAL STOCK MARKET INSTEAD OF A THEORETICAL ONE

Now let’s suppose that the market is not working like the ideal model I described above. Let’s suppose instead that we are talking about the real market for GameStop today (or, for that matter, the market for Tesla back in 2019). Let’s suppose that the “supply” (sellers) side of the market is artificially inflated due to short selling and other derivative fuckery, so that the price of GME does not reflect what the demand side (buyers) would pay for it (i.e., the stock is forcibly **underpriced**).

Let's also suppose there is a horde of "retarded" buyers (Apes) with essentially limitless demand for GME, but limited resources to buy it. They would buy -- and, indeed, have bought -- GME at $347 and higher, because THEY believe, individually and idiosyncratically, that GameStop is a "deep fucking value.” Let's suppose, for purposes of this example, that the apes think the true value of GameStop is not $9.77B, but rather $100B (or even $1T like Tesla's market cap is today).

If you have read this far, you are now ready for the final test:

SECTION FIVE: TEST (WHY SOME STONKS LIKE GAMESTOP (or TESLA in 2019) ARE DIFFERENT)

For purposes of this Test, we will use the background assumptions from Section Four, above.

Now GameStop comes along tomorrow and issues a 7-for-1 stock split in the form of a dividend to its existing shareholders. It does not sell the new shares directly into the market (dilution) or give the new shares to non-shareholders (such as short sellers). It only gives the new shares to existing shareholders, a

lot of whom are Apes.

Please answer the following questions:

Question 1: Has the value of the company changed as a result of the stock split / dividend? Why or why not?

Answer: >!NO. The value has not changed because number of shares outstanding does not affect value.!<

Question 2: Has the VALUE of each share of the company gone down as a result of the stock split / dividend? Why or why not?

Answer: >!YES. The VALUE of each share has decreased because the number of shares outstanding does not affect the value of the company. Each share is worth its new proportion of the company (i.e., total value of company / number of shares outstanding).!<

Question 3: Has the market cap gone up? Why or why not?

Answer: >!IT DEPENDS ON WHAT HAPPENS TO THE MARKET PRICE. Unless the market price goes down proportionately, the market cap will go up. (Remember, market cap = shares outstanding * market price). !<

Question 3: So, here's the million dollar question .... Will the MARKET PRICE of each share of GME go down as a result of the stock dividend? Explain your answer.

Answer: >!MAYBE NOT. ■ (Wait wut??)!<

>!Remember, in our hypothesis, the Apes think that the true value of GameStop is $100B or more. That’s already more than 7 times the current market cap. So, when the new shares show up in the Apes’ accounts, how many Apes will stop being holders and become sellers? The answer might be NONE. After all, the Apes believed the price was artificially depressed to begin with, and that the company is being undervalued. The only thing that has stopped the Apes from buying more shares was their limited resources (we're broke!). So the Apes just hodl their new shares. Even though the number of shares outstanding has increased sevenfold, there is no massive influx of supply (sellers) into the market because most of the recipients of the stock dividend don't want to sell at $19, $128, or any other price less than a phone number. (And remember, shorts don't get dividends; only longs get dividends). !<

>!Of course, some "paper handed" shareholders are going sell some or all of their new shares for $19 or $20 each because they believe GameStop was only worth its present market cap prior to the split. So -- don't get me wrong --- it is possible, and even likely, the market price of a share will drop temporarily. But suppose that, over a period of weeks, these shares are snatched up by the Apes, who continue to buy and hodl. !<

>!Paper hands are now empty. The price of a single share starts rising again due to continued demand by the Apes. And over time, as if by magic, the price of a single GME share is back to $128. The market cap of GameStop is now $68.3B, 7x what it was today. Apes’ portfolios are up 700%. ■ And this isn't magic or fuckery. It's just supply and demand. And it's ignoring any effects of short sellers needing to close their positions. !<

This is a possible outcome if existing shareholders have diamond hands after the stock dividend. I believe that this is (at least part of) the true story of Tesla’s meteoric rise over the past few years.

So, don't let anyone tell you that, just because a stock split decreases the value of a share, it also has to decrease the price. If the company is currently undervalued, and the price is being artificially held down by short selling and fuckery, a stock dividend can actually increase the company's market cap to more closely reflect its true value, and thereby increase the "worth" of your portfolio.

Not financial advice. Do your own research.

Edits: typos, clarifications