Automated Allocations

The Strategy That Adjusts… Automatically.

Video Script
Video 9
Managing Splits

The next tool provided by the Automated Allocations App that we'd like to look at is the Managing Splits button. Historically, roughly every two to four years, our ETFs will undergo a split. These are generally a two for one forward split, but occasionally, there have been a few three for one forward splits. The AA App has the ability to deal with a split built in. Like everything else the App offers, this operation is quite simple. The user enters in the known data… the AA App handles the rest. Let's walk through a two for one split, and see how this works.

For the Managing Splits review, we're going to use the 2020 portfolio. Let's go to the action menu and hit the Manage Splits button. The layout of this menu is somewhat familiar, but it does have some twists. Left to right, we have the date and then the pre-split price. Splits are always done after the close, so we have to make sure we're using the official close for the day of the split. Once we see the changes on our brokerage account, we can then apply them to our AA portfolio.

Next, we have the Forward/Reverse toggle. Hopefully we never have to use the reverse toggle. Then comes the ratio. It looks like there are numbers there, but they are for example, and are grayed out. We have to fill these boxes in. The three information boxes, shares held, price, and average cost… those contain the data that is going to change when the split is entered.

So, let's say we got the word about a 2 for 1 split. The day has come and we see our brokerage account is really different. It looks like we have a whole lot of shares and they're a lot cheaper than they were yesterday. It's time to correct our AA portfolio.

Here's a little trick we can show you. It's really not necessary, but it will make it easier to compare the before and after the split. This will supply the pre-split market value for us. Let's go to the Trade Menu. Enter the date of the split, the pre-split price, and notice, zero shares. If we enter a trade like this, we get an entry in our transaction history called hold. This gives us all the pertinent information as it is at the price we entered. This can come in handy in a situation like this.

Now back to our Manage Splits menu. We're gonna go ahead and enter the date. Followed by the price $95.95. Finally, the ratio, remember, we have to put the 2 and the 1 in. We are getting 2 shares for every 1 share we own. And boom, it's done.

Well, we'd better look things over and see what we've done. Let's scroll down here a bit. We can see that the price per share has been cut in half. The number of shares we now have is twice of what we did have, and the average cost per share is one half of what it was before the split. And the good news, the total market value of those shares hasn't changed, and our cash on hand and cash gain remain the same. All in all, that was pretty simple and painless.

There's one last thing we should look at. Let's go back to the Trade Menu and take a look at our Next Buy and Next Sell boxes. Have we thought about any open good till canceled orders we have with our broker? Comparing our new marching orders to what they were before the split was entered, the new next buy and next sell orders are twice the number of shares at 50% the price. Some brokers cancel open good till canceled orders around splits or other corporate actions instead of adjusting them. Check your broker's open order policy before the split date. In practice, many traders cancel good till canceled orders before a split and re-enter after the split to avoid surprises. The manage splits menu is another tool the Automated Allocations App provides to handle stock splits quickly and accurately.
Enjoy.