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Stock Splits and Liquidity: The Case of the Nasdaq-100 Index Tracking Stock

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Abstract

In an attempt to disentangle the signaling effect from the liquidity effect of stock splits, I examine the liquidity changes following the two-for-one split of the Nasdaq-100 Index Tracking Stock. Since there can be no signaling with an index stock split, any difference between pre- and postsplit trading may be driven by liquidity but not signaling effects. I find that though the postsplit relative bid-ask spread is higher and daily turnover is unchanged, the frequency, share volume, and dollar-volume of small trades all increased after the split, indicating that the split improved liquidity for small trade-sizes.

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