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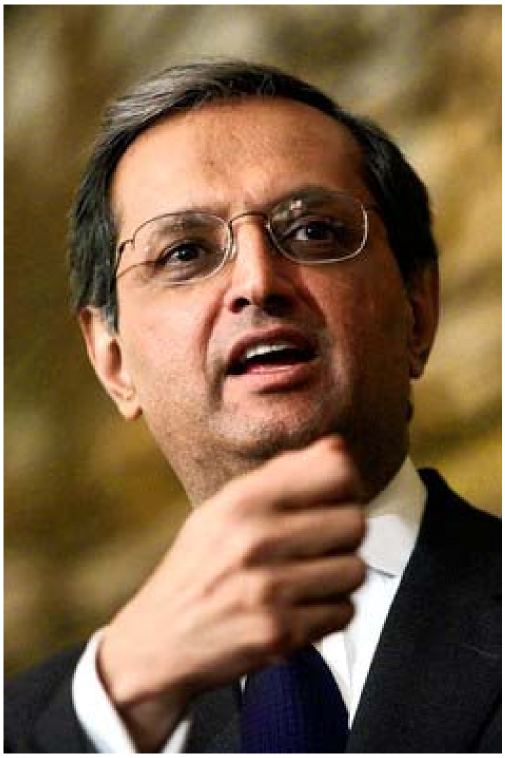
Citigroup Instantly Becomes a $40 Stock

Citigroup Inc. became a $40 stock for the first time since late 2007, as its share price appeared to r ise more than 850% from Friday's close. One catch: Investors didn't earn a dime on Monday.



Bloomberg News

Vikram Pandit, CEO of Citigroup, took pains to point out to investors the plan for the reverse split at the bank's annual meeting on April 21.

Citigroup, the heaviest-traded U.S. stock that accounted for 6.8% of total U.S. stock trading volume last year, drastically shrunk its share count. The move instantly erased its single-digit stock price, which has been a persistent reminder of the trauma the bank suffered during the financial crisis.

Through a reverse split, Citigroup was able to ax a huge number of shares outstanding by turning every 10 shares into a single share. Instead of trading for less than $5 a share, where Citigroup has languished despite improvements in profits and capital, the New York financial behemoth instantly became a $40 stock. Shares of the bank fell $1.04, or 2.3%, to $44.16.

Citigroup isn't the only financial institution whipsawed by the financial crisis to try a reverse

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split. In July 2009, American International Group Inc. executed a 20-for-1 reverse stock split. Initially, the stock rose. A year after the reverse split, it was up roughly 87%. Year-to-date, however, the stock is down roughly 39%, making it one of the worst performers in the S&P 500-stock index in 2011.

Broader studies also show a mixed record for reverse splits. James Rosenfeld, an associate professor of finance at Emory University's business school in Atlanta, said he and April Klein of New York University's business school had tracked the performance of 1,600 companies that did reverse stock splits over a three- year period. They underperformed the returns of comparable companies by 50 percentage points.

Investors didn't gain a thing despite Monday's apparent share-price jump, a concept Citigroup Chief Executive Vikram Pandit took pains to point out to investors at the bank's annual meeting on April 21.

"It's like a pizza pie: Whether you have 10 slices or 12 slices, your ownership doesn't change," said Mr. Pandit. Citigroup declined to comment on Monday's stock-price move.

Amid heavy losses and near failure during the financial crisis, Citigroup's share count ballooned from five billion shares to more than 29 billion shares in 2009, as the bank was forced to issue common stock to rebuild its balance sheet.

Retail investors flocked to the shares, drawn by the low price point, high-profile brand name and implicit backing by the government.

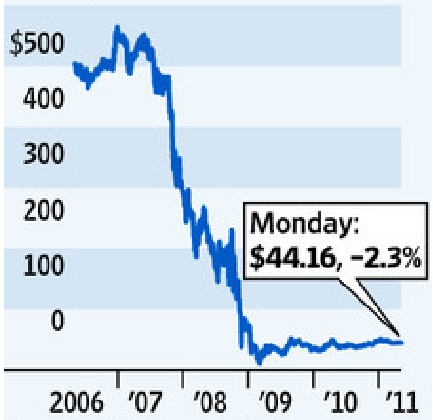
Chris Rotella, a fund-raising event planner living in Washington, D.C., first bought into Citigroup s hares when the stock was trading around $1 a share. "I knew it wasn't going away after TARP," or the Treasury Asset Relief Program, he said. "I'm only 25, so I can hold it for a while and not have to worry about, you know, needing to dump it for retirement."

High-frequency traders may be dissuaded by the higher price of Citigroup shares. Citigroup's giant pile of shares outstanding and relatively low price made it an ideal stock for market makers, which make small amounts of money by briefly holding shares.

"The lower the share price, the more attractive the stock is to high-frequency traders," said Justin Schack, managing director at Rosenblatt Securities Inc., a brokerage and stock-market research firm. "And if you can find a stock with a low share price that is also a large-cap stock with a big float, it becomes even more attractive."

New Picture

Citigroup's stock, adjusted for Monday's reverse 1-for-10 stock split.



Source: FactSet Research Systems via WSJ Market Data Group

Citigroup's new higher share price could reduce its volume at a time when trading volumes in the broader market have been thinning. In the first four months of this year, average daily trading volume of stocks listed on the New York Stock Exchange and Nasdaq Stock Market is down 15% from 2010's pace.

The effort was intended to appeal to another class of traders: institutional shareholders, such as pension funds, mutual funds and endowments. In late March, Citigroup also announced that it would reinstate its dividend, to a penny a share after the reverse split, which could help lure big investors.

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At the annual meeting, Citigroup's Mr. Pandit told investors that some institutions don't buy stocks trading below $10, while others don't buy stocks that pay no dividend. Together, he said, the two factors will give Citi "a broader audience of investors."

Citi may have to continue its positive momentum before it wins over some institutional investors. Jack Ablin, chief investment officer at Harris Private Bank in Chicago, said the reverse split didn't tempt him to buy Citi shares. "Academically speaking, it should be irrelevant, but practically speaking, reverse splits are generally done by troubled companies, so it carries a negative connotation," Mr. Ablin said.

Still, leadership at Citi remain bullish on the prospects for Citigroup after the split. At the annual meeting in April, Citi Chairman Richard Parsons said the timing of the board's decision was meant as a signal that "the crisis is behind us now and confidence has been restored."

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