

# Preferred Stocks

A bit of hybrid type of security  
that may not fit in all portfolios



# Preferred Stocks

- Preferreds represent a class of ownership in a company that has a higher claim on assets and earnings.
  - They have priority over common for dividend payment and claims in bankruptcy. Bonds have priority over preferreds though
  - Preferreds do not have voting rights

# Preferred Stocks

- Most Preferred dividends are fixed. Holders of them forgo the possibility of larger future gains—even if common stock dividends are increased in a profitable year.
- In bad years, a company may defer preferred dividends. If the preferred are cumulative, the company cannot pay common stock dividends until the past preferred dividends are paid.

# Preferred Stocks

## ➤ Affect of Interest Rate Changes:

- Most Preferred Stocks are **Callable**. When it is to the company's advantage (i.e. interest rates lowering) they will call. Then the holder may have a problem replacing the lost income at a similar yield.
- Like bonds, **interest rates** are the primary driver of the price of preferred stocks. When interest rates rise, the preferred stock holder could have a capital loss if he needs to sell.
- In neutral interest rate environments, the price of preferreds typically **move more slowly** than that of common stock.

# Preferred Stocks

## ➤ Taxes

- **Terms** of Preferred vary considerably which can in turn **affect the taxes**. Check the prospectus to know the rate if they are in a taxable account.

# Preferred Stocks

➤ Research can be tricky because of the hybrid nature of the security. Some information is searched through stocks, some through bonds.

➤ Fidelity:

➤ General info

- Investment Products

- Income products

- Dividend Yielding Stocks

- Preferred Stocks---But found none

Search for Preferred Stock Mutual Funds

Only 10 to 25% of a funds portfolio in Preferreds

# Preferred Stocks

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- [QuantumOnline.com](http://QuantumOnline.com)
- Examples on Line

# Preferred Stocks

- QuantumOnLine.com
- Examples on Line
  - Income Tables
    - All Preferred Stocks—926 of them

# Preferred Stocks

The End

