

Preferred Stocks

High Dividends • Lower Risk

About Preferreds

- Corporations sell preferreds to raise cash
- Preferreds trade like stocks, but are more like bonds.
- Buy for Income (4% - 7% dividend yields)
- Some appreciation potential

Div. Det. Preferred Stocks Port.

1/31/22	2022 YTD	2021 Return	2020 Return	2019 Return	2018 Return	2017 Return	2016 Return	2015 Return	2014 Return
S&P 500	-5%	27%	16%	29%	-6%	19%	10%	-1%	12%
Preferred Stocks	-2%	12%	3%	24%	-5%	13%	6%	5%	15%

What's Preferred?

- Corps must pay first preferred dividends, then common stock dividends, if they have the cash.

Meaningless Distinctions

- Bankruptcy: Preferreds have priority
- Preferred holders can't vote

Preferred Ticker Symbols

- Not standardized, depends on website
- Corps issue multiple series; e.g. A, B, C, etc.
- Typically (not always) starts with common ticker
- Usually includes Series Designator, e.g. Bank of America (BAC) Series N: BAC-N, BAC-PN, BACPRN, etc.
- Use lookup function on website that you're using: start with common ticker, e.g. BAC.
- Sites typically display all corresponding preferreds

Nuts & Bolts

- Preferreds typically issued @ \$25, but could be any price.
- Minimum 30-year maturities.
- Coupon Rate: annual dividend percentage of issue price.
- Market Rate: annual dividend percentage of current trading price.
- Cumulative: issuer remains on the hook for missed dividends. Not a big advantage because any meaningful payout delay will ruin your day.

Calling Preferreds

- Call: issuer redeems preferreds at 'call price,' typically issue price.
- Call Date: earliest date preferreds can be called, typically 5 years after IPO.
- Issuer not required to exercise calls, and some never do.
- Issuer typically calls preferreds when it can issue new preferreds paying lower interest rates.
- Yield-to-Call: Average annual return if called on call date (worst case because preferreds typically not called that soon.).

Optimizing Preferred Returns

- Problem-free preferreds typically move with market, but in \$24-28 range. Problem preferreds often trade lower.
- Many preferreds trade in \$25-\$26 range first few weeks after IPO. Then move up to \$27+.
- After call date, but not called, preferreds typically trade in \$25 - \$26 range.
- Use yield-to-call for buy/sell signals.
- Call date 1yr+ ahead: $YTC > 3.0 = \text{buy}$
- Call date $< 1 \text{ yr}$ ahead, sell when $YTC < 2.0$
- YTC Calculator: <https://dqydj.com/bond-yield-to-call-calculator/>

Preferred Stock Risks

- Dividends canceled or suspended
- Rising interest rates
- Low trading volumes (require 10,000+)

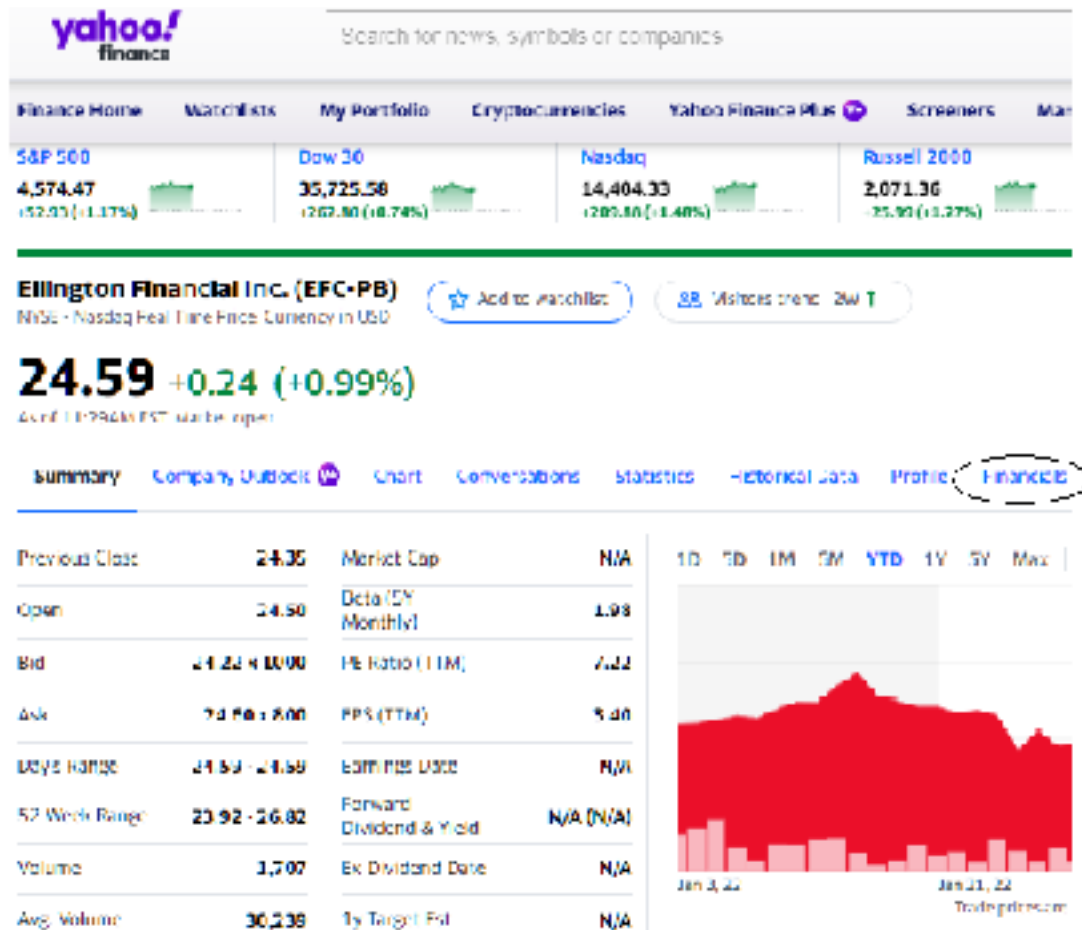
Priority #1

Analyze the issuer

- Quick Check: \$5 minimum issuer's trading price and higher is better (\$20+ is best).
- Free Cash Flow: Cash left after paying operating expenses and capital expenditures. Require positive FCF.
- Free Cash Flow minus common stock dividends: Best if positive.

Using Yahoo to Check Cash Flow

- Financials → Cash Flow



Using Yahoo to Check Free Cash Flow

- Financials → Cash Flow
stop here if FCF negative

Breakdown	TTM
> Operating Cash Flow	83,909,000
> Investing Cash Flow	-24,948,000
> Financing Cash Flow	-52,825,000
> End Cash Position	20,568,000
Capital Expenditure	-23,215,000
Issuance of Capital Stock	1,749,000
Issuance of Debt	-
Repayment of Debt	-5,325,000
Repurchase of Capital Stock	-29,224,000
Free Cash Flow	60,693,000

Using Yahoo to check 'FCF minus common stock dividends'

Financials → Cash Flow → Expand All

∨ Financing Cash Flow	-52,825,000
∨ Cash Flow from Continuing Hi...	-52,825,000
∨ Net Issuance Payments of ...	-5,326,000
∨ Net Long Term Debt Issu...	-5,326,000
Long Term Debt Issuance	-
Long Term Debt Payments	-5,326,000
Net Short Term Debt Issua...	-
∨ Net Common Stock Issuan...	-27,475,000
Common Stock Issuance	1,749,000
Common Stock Payments	-29,224,000
∨ Cash Dividends Paid	-17,293,000

Preferred Stock Tax Issues

- Qualified Dividends: 15% - 20% tax rate
 - Most corporations
- Not Qualified dividends: rates up to 37%
 - REITs
 - Business Development Corps (BDCs)
 - Farm cooperatives
 - Baby Bonds etc. (payments classified as interest, not dividends).

Best Resource for Preferred Data

QuantumOnline.com

Complete information for income investors



INCOME TABLES

STOCK LISTS

SPECIAL LISTS

INFORMATION

SERVICES



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