Introduction to

Preferred Stock Investing

Characteristics

- Higher priority than common stock but below bonds & creditors
- No voting but liquidation preference
- Dividends can be either fixed, floating, or fixed-to-floating after specified period
- Perpetual or term limited
- Some are redeemable (watch par value)
- A few are convertible
- Cumulative or not

Tax Status

Usually awarded Qualified Dividends status (same as long term capital gains rates)

Maximum Capital Gains Rates

2025 Projected Tax Brackets

Filing Status	Maximum Zero Rate Amount:	Maximum 15% Rate Amount:
Single Taxpayers	\$48,350	\$533,400
Married Filing Jointly & Surviving Spouses	\$96,700	\$600,050
Married Filing Separately	\$48,350	\$300,000
Heads of Household	\$64,750	\$566,700
Trusts and Estates	\$3,250	\$15,900

Table: Kelly Phillips Erb • Source: Bloomberg Tax • Created with Datawrapper

Exceptions to Qualified tax status

Trust preferreds issued by banks

Majority of REIT preferred dividends from real estate (or portion)

Additional considerations

- Most have \$25 or lower par value
- Par values of \$50, \$100 or \$1,000 trade infrequently (illiquid, held mostly by long term investors)
- Can be issued by any industry, but most by banks, insurance companies, utilities & REITs (Real Estate Investment Trusts)
- Banks & insurance are mostly non-cumulative
- Utilities & REITs tend to be cumulative

Additional considerations

- Ocean shipping has offered high yields over the past 2 decades
- Yield tends to move with interest rates & pay higher than bonds (on top of tax advantage)
- Preferreds tend to be redeemed when interest rates are low
- Usually issued for a 30 year term
- Dividends paid mostly quarterly, but some are monthly, a few semiannually

Industry	Discount	Yield
Business services & equipment	-14.21%	22.66%
Hotels, lodging, restaurants & travel	-62.04%	21.73%
Television & radio	-62.08%	21.10%
Consumer goods	-13.27%	19.94%
Water utilities	-39.16%	14.46%
Other utilities	-15.88%	13.67%

Industry	Discount	Yield
Airlines	-30.20%	11.46%
Technology	-36.48%	11.41%
Real estate	-30.00%	10.89%
Diagnostics	-10.05%	10.48%
Travel & entertainment	-29.82%	9.77%
Air services	3.13%	9.08%

Industry	Discount	Yield
Industrial	40.56%	8.95%
Banking & savings	-4.18%	8.80%
REITs	-26.65%	8.54%
Transportation	4.28%	8.11%
Shipping	-0.23%	8.06%
Credit services & lending	-14.52%	7.87%

Industry	Discount	Yield
Insurance	-11.83%	7.41%
Agriculture & farm products	7.08%	6.96%
Energy	0.80%	6.96%
Financial	-6.36%	6.50%
Drugs & pharmaceuticals	-24.62%	6.18%
Metals & mining	-12.00%	6.00%

Industry	Discount	Yield
Materials	-29.88%	5.70%
Oil & gas equipment & services	-2.03%	5.43%
Closed end funds (CEF)	-8.31%	5.40%

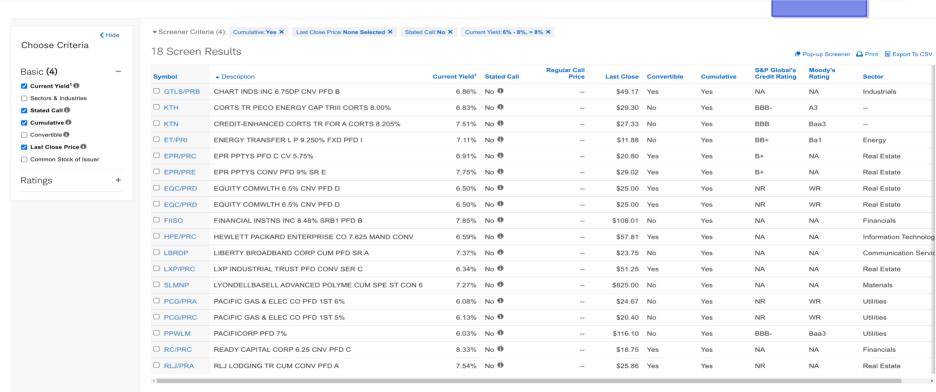
Preferred screener example

NASDAO

DJIA

S&P 500

Russell 2000



Time (ET)

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Closed End Funds

* Closed end funds avoid year end redemptions

* Some sell below NAV yet have par value redemptions with time limits

* Can have preferred class for CEF

Conclusion

 For income generation portion of your portfolio consider some preferred stocks, particularly CEFs instead of bonds

Q&A?