

**Video lecture**

[https://youtu.be/F5rV\\_te5QPM](https://youtu.be/F5rV_te5QPM)

**What?**

Is preferred stock really a stock? Preferred stock holders have rights to dividends. During liquidation, they come before common shareholder and after bond holders. Preferred stock holders don't usually vote. Preferred stocks trade like stocks on stock exchanges. So far, preferred stock sounds very much like a stock.

Could preferred stock be a bond? Preferred stocks usually have call value (usually \$25) similar to face value on bonds. They usually have a call date, similar to maturity date on bonds. But, preferred stocks can continue to exist after the call date (so, they don't get paid automatically like bonds). Preferred stocks' dividends are usually referred to as coupons. Overall, preferred stocks are hybrid financial securities that combine characteristics of stocks and bonds.

**Dividends**

Preferred stocks pay dividends. Note that the stipulations about dividends for preferred stocks and for common stocks are different. If a company does well, common stocks would gain in value. If a company does well, preferred stocks' value would probably not change at all. Preferred stocks' value is based primarily on dividends but also somewhat on its call value. Preferred stocks' dividends are not required like bonds. However, if preferred stocks don't pay dividends, issuers lose credibility and preferred stocks' value tank. Any company that revoke preferred stock dividends will have hard time to issue new preferred stocks in the future. If a preferred stock stops paying dividends, issuer loses credibility and the value of the preferred stock would tank (sometimes to zero).

While credibility is a major issue, dividends are not required. Thus, preferred stocks are very high risk financial securities.

**Who can issue**

Usually financial institutions or large cap industrialized companies issue preferred stocks. There is a useful preferred stock information web site at <http://www.preferred-stock.com>. Also, There

are also ETFs that contain preferred stocks. An example of such an ETF can be reached at <https://finance.yahoo.com/quote/PFF>.