

**Wye Trust**  
16 N Washington Street  
Easton, MD 21601  
Office 410.763.8543  
info@wyefinancial.com  
www.wyetrust.com



## Preferred stock

Preferred stocks occupy a place between common stocks and bonds. These shares are “preferred” because their dividends must be paid before any dividends are declared on common shares. They also have a preferred position in the event of a dissolution of a company, compared to the common shareholders, but inferior to the bondholders. Preferred shareholders generally do not have voting rights over company policies.

Unlike bonds, in which interest payments are not optional, the dividends on preferred stock may be suspended by the company during periods of financial stress. Dividends on some preferred shares are cumulative, which means that any missed dividend payments must be made up before any dividends are paid on common shares. Preferred dividends may be fixed or floating with changes in the general interest rate. Some preferred issues begin life with fixed dividends and convert to floating dividends after a set time period. Bonds have a fixed time to maturity, while preferred stock usually has a perpetual life.

With these greater risks, preferred shares tend to have higher yields than bonds. In most cases, dividends on preferred shares are Qualified Dividend Income, eligible for preferential tax treatment in taxable portfolios. Bond interest is taxed as ordinary income.

Financial and utility companies account for the majority of preferred stock issues. Growth companies tend to not pay dividends and not issue preferred shares of stock. Preferred stocks are usually expected to weather bear markets better than common shares, but market history does contain exceptions to this observation.

Preferred stock has low correlation to other investment asset classes, and so may be a useful approach to adding diversification to a portfolio. They provide some predictability of income similar to bonds, with the tax advantages of stocks.

If you would like to learn more about the role preferred stocks could play in your portfolio, please call to arrange for an investment review at your convenience.

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Not Bank Deposits or Obligations	May Lose Value