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Preferred stock typically is issued for innovative investors or other institutional investors. Its name is derived from the â€œpreferencesâ€• relative to common stock, which is the basic equity security that is issued when a corporation is formed.

Preferred stock is an equity investment that carries some of the characteristics of debt securities (such as bonds). It consistently represents a safer investment than common stock. It is a form of capital stock that provides dividends and other privileges to its holders. It is a separate type of stock from common stock, and is therefore priced and traded separately from common stock. Anyone can purchase preferred stock and it can often be converted into common stock at a later stage.

The complex preferred stock market is difficult to gauge--which provides calculating investors with outstanding returns.

Investors are scrambling to maximize returns in today's low-interest-rate environment. However, these income-oriented investors may be missing an opportunity right under their noses: the preferred stock market, which offers equities issued by America's largest corporations, insurance companies, and utilities.

One of the preferred market's biggest attractions is that so few people understand it. Imperfect investor knowledge creates an inefficient market--and therefore, overall returns that can exceed those of either bonds or common stocks. Tax benefits also are a big attraction of preferred stocks. A little research can create a lucrative opportunity for rounding out a well-balanced portfolio.

This trend may continue, as blue-chip companies seeking greater appreciation than offered by their common stock turn to less traditional financing in the preferred market. In addition, corporations without income-tax liability have an incentive to issue preferred stocks--while improving their capital structure, there's no disadvantage to paying preferred stock dividends (which are paid after taxes) versus bond payments (a pre-tax expense).

Same as with common stock, preferred stock represents some degree of ownership in a company but typically doesn't come with the same voting rights. With preferred stock investors are usually guaranteed a fixed dividend forever. This is different than common stock, which has variable dividends that are affected by the market and never guaranteed. Due to this nature of the preferred stock, some people consider preferred stock to be more like debt than equity.

Another benefit of investing into preferred stock is that in the event of liquidation preferred shareholders are paid off before the common shareholder. This means that when the company must liquidates and pays all the creditors, common stockholders will not receive any money until after the preferred shareholders are paid out. Preferred stock may also be callable, meaning that the company has the option to buy back the shares from shareholders at any time for any reason. Investing into this type of stock gives investor a greater claim to a company's assets and earnings. Thus, if the company has excess cash and decides to distribute money (dividends) to its investors, the owners of the preferred stock can beneficial.

In addition, the dividends paid from investing in preferred stocks are of a different type and generally considered a greater investment than that of common stock. When investing your money into preferred stock, you will know when to expect the dividends that are paid in regular frequencies. In the case for common stock, it is the company's board of directors that will decide whether or not to pay out a dividend on a stock. Because of this characteristic, these stocks typically don't fluctuate as often as a company's common stock and it is sometimes called a fixed income security. Another feature of this fixed income character is the fact that the dividends are generally ensured, meaning that if the company misses a payment, it will be required to pay it before any future dividends are paid on any stock.

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