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Preferred stock plays different roles for investors and business owners. When issued by companies it is to raise capital. For investors, it offers more security than common stock. Business owners make choice for preferred stock as a means of growing their business. Stock that represents the owner to preference in the distribution of dividends and the proceeds of liquidation in the event of bankruptcy. Preferred stocks are listed as equity on a balance sheet, but they perform more like bonds than common stock since most of these issues pay a fixed dividend set at the time of issue. It can be a profitable investment opportunity, but investors should find out the merits and demerits of preferred stock carefully, as well as the individual stock, before deciding to purchase shares. Preferred stocks have a higher status in terms of repayment compare to common stocks, which means that if a company defaults, preferred stock is paid before common stock. For example, a pharmaceutical research company discovers an effective cure for the flu; its common stock will soar, while the preferred share in the same company might only increase by a few points. The lower volatility of preferred stocks may look attractive, but preferred stock will not share in a company's success to the same degree as common stock. Due to this nature of the preferred stock, some people consider preferred stock to be more like debt than equity.

Preferred shares are known as a type of stock, they are really more of a cross between a stock and a bond. Preferred stock may also be â€œcallable,â€• which means that the company has the option to purchase shares back from their shareholders at any time, usually at premium price. Preferred stockholders generally do not have voting rights but they have a greater claim to the companyâ€™s assets because preferred stockholders have the ability to recover the investment upon a liquidation or sale of the company. If the company has excess cash and decides to distribute money (dividends) to its investors, the owners of the preferred stock can beneficial. Another reason that investors purchase preferred stock is to receive rights, preferences and privileges senior to common stock. The most important economic right of preferred stock is the ability to recover the investment upon a liquidation or sale of the company.

All preferred shares have a negotiated fixed dividend amount. The dividend is usually specified as a percentage of the par value or as a fixed amount. A stock's par value is the lowest amount of money at which a company can sell a stock. Before buying any preferred share make sure that the track of the company is good, check the annual report and independent analystâ€™s assignments then buyers can directly bid the price of the preferred share through his/her account.

Dividends can be cumulative, which means that if they are not paid in a particular year then they will be carried forward. For example, if a company issues preferred shares with a purchase rate of $100 and a cumulative dividend of 5% per year, or $5. If it is unable to pay the $5 cumulative dividend to shareholders in year 1 for any reason, it must pay a $10 ($5 + $5) cumulative dividend in year 2. Preferred stock dividend can have tax advantages for corporate investors, which is one reason they are the primary purchasers of preferred stock. In calculating return on equity, preferred dividend should be subtracted from net income so that the return to common shareholders is accurate.

The variation is endless. Due to the individuality of the preferred stock field, we must stick to generalizations. However, overall, purchasing preferred stock is still considered a wise investment choice.

You may find that a preferred stock has a date of maturity, which is when it must be traded for cash or converted to common shares. Some preferred stocks do not have a maturity date. Others allow the shareholder to make the decision about when to cash or convert their stocks. Like every type of investment, there are both positive and negative things about preferred stocks. If you are not sure, consider using the services of a professional financial advisor. This type of professional can help you figure out if this type of stock is right for you, and help choose companies in which to invest based on various reports.

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