

Preferred Stock

Preferred stock is a hybrid security that has features in between common equity and debt. To find out exactly what they are, you must read the stock contract. However, most preferred stock has certain typical features.

Preferred stock is usually perpetual, having no maturity date. Though it does not mature, it usually is callable. Preferred stock is usually limited in how much it can share in the profitability of the company. And unlike debt securities, preferred stock cannot force the company into bankruptcy if the securities are not paid in full. On top of all this, preferred stock usually does not have any voting rights.

However, preferred stock usually has several key features or “preferences” over common stock. Normally, no dividends can be paid on the common stock until the dividends on the preferred stock are paid; and in case of bankruptcy, the preferred stock is usually senior to the common stock.