

# Business

10 | Thursday, October 1, 2015 | North Lake Tahoe Bonanza

## Are preferreds too often overlooked?

**R**eaders of this column know that I like the income and relative stability that preferred stocks offer. Needless to say, I was pleased to see the article, Learning to Love Preferreds, in the September 7 issue of Forbes.

In the article, Richard Lehmann said preferreds are often overlooked because brokerage firms provide little research and brokers discourage buying them because clients tend to hold on for a long time, which is not good for commissions.

Preferreds are also often overlooked because most are not liquid enough for large firms looking to buy or sell many thousands of shares. But that is not a problem for individual investors with modest sums. That is to our advantage.



**David Vomund**  
Market Pulse

Finally, Mr. Lehmann compares a Citigroup preferred that yields 6.3 percent to its senior debt that yields 4.5 percent.

Assuming Citigroup is too big to fail (it is), getting the 180 basis point premium from the preferred is a no-brainer. Lehmann calls it an "ignorance premium."

Here are some of my favorites: Renaissance Re called half of its Preferred 'C' issue and I'm sure they'd love to call the other half.

With the threat of a call, it won't fall below \$25 by much, even if interest rates rise. Downside risk is very low and it yields 6.1 percent with a qualified dividend.

Saul Centers Preferred 'C' has traded between \$25.50 and \$26.50 for much of the last several years. It's in the lower half of that range now and yields 6.7 percent (not qualified).

It doesn't trade much so use a limit order. It goes ex-dividend on October 1 and is callable in February 2018.

Partner Re is acquired and its preferred shareholders will roll over their stakes into the new company.

To seal the deal its Preferred 'D' now may not be callable for five years and the coupon was raised to 7.5 percent after the deal closes. Like Renaissance Re, it pays qualified dividends.

CBL & Associates Properties is one of the largest mall REITs and its Preferred 'E' trades just under par and yields 6.6 percent.

Its call date is October 2017. Like the Saul Centers preferred, this security does not pay qualified dividends so it is best in tax-deferred accounts.

Most people don't own preferred stocks because brokers don't recommend them and individuals don't understand them.

Yet, in today's near zero interest rate environment they provide attractive income with acceptable risks. They play an important role in my client portfolios.

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