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## Preferred stocks take a hit because they're still stocks

**Q: Why are preferred stocks falling in value so much and should a long-term investor bail out?**

**A:** Preferred stocks aren't acting so preferred lately.

Despite preferred stocks' reputation as a relatively safe source of income, they've delivered investors some real pain this year. The Winans International Preferred Stock Index is down 27% this year through Feb. 20 and 50% the past 12 months. That is an even larger decline than the one posted by the Standard & Poors 500 stock index, a benchmark of large common stocks. You can go here to [read more about preferred stock](#).

Why have preferred shares done so poorly this year relative to the market at large? There are a few reasons. Most important, many preferred shares are issued by financial companies. Given the amount of strain the financials are under, it's not surprising the value of their investment vehicles are under pressure.

Financials taken under federal control have seen their preferred shares especially hard hit, says Ken Winans of Winans International and author of "Preferreds: Wall Street's Best-Kept Income Secret."

Preferred shares of Freddie Mac ([FRE](#)) and Fannie Mae ([FNM](#)), for instance, have been all but wiped out.

There's another factor hurting some preferred stocks. Some do not have any senior claim to the company's assets, Winans says. That has exposed the owners to large credit risk.

If you own preferred shares or are interested in them, Winans urges caution. Take the time to understand where in the pecking order the stock is and what claim you would have in case of a business failure. If you don't know how to assess the credit quality of a preferred stock, either avoid preferreds or find someone who can help you.

And before you buy preferreds, consider investing in bonds instead, given the current environment, Winans says. Owning a company's bond gives you claims to assets superior to preferred stock. And companies must continue paying interest on bonds, while they can suspend paying dividends on preferred stock.

*Matt Krantz is a financial markets reporter at USA TODAY and author of Investing Online for Dummies. He answers a different reader question every weekday in his Ask Matt column at [money.usatoday.com](http://money.usatoday.com). To submit a question, e-mail Matt at [mkrantz@usatoday.com](mailto:mkrantz@usatoday.com). [Click here](#) to see previous Ask Matt columns.*

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