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Preferred shares are an equity security that has properties of both shares and fixed income securities. Companies provide a return in the form of fixed periodic payments in the form of preferred shares. The difference in preferred shares and bonds is that the interest payment on a bond must be paid to the bondholder. For preferred shares, the company can choose the preferred dividend as long as they do not pay ordinary shareholders a dividend. Thus preferred shares have priority over ordinary shares in terms of dividend payment and liquidation, but are junior to bonds.

Preferred shares represent an ownership in a company. In other words we say it is a claim on its assets and earnings. However, as the term suggests, "preferred" shares carry certain advantages. While preferred shares usually do not carry the same voting rights as common shares, they do have priority when it comes to dividends and bankruptcy. And like common shares, preferred shares can be bought and sold through a broker.

Advantages

â€¢ Tax Advantaged Investment Income:-The main reason to invest in preferred shares is investment income. Preferred shares pay higher preferred dividends than common shares and dividend income provided to investors is treated favorably from a tax perspective relative to other forms of income. Therefore, preferred shares are often able to offer a better after-tax yield than bonds of similar credit quality and risk.

â€¢ Security of Principal: - investment in preferred shares provide a greater security of principal and also motivate investors to invest in preferred shares as they rank above the interests of common shareholders, both in their seniority to receive dividend payments and their higher ranking in the distribution of assets if a company is liquidated. However, preferred shares rank below all other forms of debt.

â€¢ Priority of preferred stock Dividend: - Preferred shares dividend payments is a cumulative decision which means that dividends grow to the holder of the preferred share if the issuer miss a payment. The issuer must pay the missed dividend before any dividends are paid on common shares. Most financial preferred shares are non-cumulative.

Exchange Traded Markets: - unlike bonds, preferred shares trade on public exchanges where both the bid and ask prices and volumes are shown, as well as previous trade data being visible for all market participants. Investors can easily access real-time price and volume information via the website or on their brokers' trading platforms.

How do you invest in preference shares?

An investor of preferred shares earns a return on their investment from the interest payment, and also has the potential for capital appreciation upon sale of the shares in the market, although this tends to be limited relative to common shares. Preferred shares provide you a predictable income drift, where you know how much interest you can expect to receive and how often you will receive it. However, note that the dividend on preferred shares is not guaranteed.

Preference shares are traded on the Singapore Exchange. The process of buying and selling a

preferred share is similar to that of a buying an ordinary share. Your trade can be executed through a broker or online platform during trading hours, and can be bought and sold using stop-loss orders, limit orders and margin purchases, just like shares.

Preferred shares are a good alternative for risk-opposing investors wanting to buy equities. In general, they are less volatile than common shares and provide a better stream of preferred stock dividends. Most preferred shares are also callable, meaning the issuer can redeem the shares at any time, so they provide investors with more options than common shares. But for all of these advantages, preferred shares have one downside; its shareholders generally do not enjoy the same voting privileges as the holders of common shares. Not all investors actively participate in voting, but it may be a deterrent for some investors.

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