Retirees: Give Yourself a Raise With These 3 Preferred Shares

Description

Preferred shares don't get any love, yet they're an incredibly easy way for investors to both increase their yield and decrease their risk.

Preferred shares are a hybrid security that act a little like bonds and a little like equities. They tend to move up or down depending on interest rate expectations. If rates drop, the value of a preferred share will rise, and vice versa if rates increase.

But unlike bonds, the price of a company's preferred shares can move pretty substantially if the company's credit rating takes a beating. Preferred shares are below bonds in the corporate hierarchy, which means if a company can't pay its debts, preferred shares are the first to be affected. Thus, the market is very sensitive to any changes in a company's credit rating, either real or perceived.

Another big advantage of preferred shares is they pay dividends, not interest. This means a preferred share yielding 5% can net as much as a bond paying 6% or 7% on an after-tax basis depending on an investor's tax bracket, thanks to the dividend tax credit. This can be especially powerful for a retiree with very little additional income besides dividends.

The only thing left for a retiree to do is choose their own preferred shares. Here are three to get you started.

Bank of Montreal

There are a number of reasons why investors should be bullish about **Bank of Montreal** (TSX:BMO)(NYSE:BMO).

The company's U.S. exposure is a big one, at least for me. Approximately a quarter of its net income comes from its U.S. retail banking operations with another 20% coming from capital markets activity on both sides of the border. That's nice diversification. Additionally, operations are steady enough that BMO has declared dividends for 187 consecutive years.

Common shares yield 4.1%, which certainly isn't bad, especially in today's interest rate environment.

But the Series 14 preferred shares (ticker symbol BMO.PR.K) yield 5.2%, which represents a 27% increase in dividends compared to the common shares. Yes, the common shares have a history of hiking their payout, but you can’t argue with 27% more day one.

These are also perpetual preferred shares, which mean they maintain the same payout while they’re outstanding.

George Weston

George Weston Limited (TSX:WN) is the parent company of **Loblaw Companies Limited**, Canada’s largest grocer. Besides owning a 46% stake in Loblaw, George Weston also owns a substantial stake in **Choice Properties REIT**, both directly and indirectly. Finally, it also owns Weston Foods, a leading Canadian fresh bakery business.

The yield from the company’s common shares is a somewhat anemic 1.5%, although management has been doing a nice job of raising the payout in recent years. Investors looking to get much higher dividends should check out the company’s preferred shares, mainly the Series V preferreds, which trade under the ticker symbol WN.PR.E.

These preferred shares have a payout of $0.30 per quarter, which is good enough for a yield of 5%.

Bombardier

The saga of **Bombardier, Inc.** (TSX:BBD.B) over the last few years hardly needs an introduction. The company’s CSeries program has faced significant challenges, delays, and cost overruns.

But there’s also an interesting opportunity for investors who are willing to look past the company’s recent struggles. Common shares have ceased to pay a dividend since early 2015. But Bombardier’s preferred shares offer a particularly enticing yield.

The Series 4 preferred shares (which have the ticker symbol BBD.PR.C) currently pay investors a dividend of 8.9%. With the company making noticeable strides in improving its balance sheet in recent months and these shares trading at 52-week highs, it looks like the chance of bankruptcy is remote. This means investors should be able to enjoy this outsized yield for years to come.

Conclusion

Investors looking for a little extra income should really check out the preferred share market. And, as a bonus, cash parked in preferred shares is protected from the next downturn to a greater degree than common shares. They’re the perfect defensive investment for today’s turbulent times.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BBD.B (Bombardier)
3. TSX:BMO (Bank Of Montreal)
4. TSX:WN (George Weston Limited)

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/07/19
Date Created
2016/08/23
Author
nelsonpsmith