Get Massive Yields (and Protect Your Capital) With These 3 Preferred Shares

Description

Retirees everywhere are putting their capital to work in dividend-growth stocks.

And who can blame them? Traditional yield sources — think GICs, government bonds, and other fixed-income equivalents — barely keep up with inflation. Dividend-growth stocks offer retirees a diverse portfolio with an outsized yield today as well as potential growth for tomorrow.

There's just one problem: stocks are inherently risky. The last thing many retirees want is to look at their account balance and see their shares are down 20%, or even more. Such a move might even persuade them to sell at the bottom of a bear market, which is the exact wrong moment.

An interesting different approach is for retirees to embrace preferred shares. Here's why.

Prefer preferred shares

Preferred shares are a combination of equity and bonds. They're typically classified as equity on the balance sheet, despite having many of the same characteristics as debt.

Unlike debt, which has a fixed payoff date, most preferred shares are perpetual. They can usually be redeemed at the end of a five-year term, but only if the issuing company chooses to do so. Many preferred share issues will trade for a decade (or more) before being redeemed.

Today, there are two different kinds of preferred shares. The first have a fixed payout that continues as long as the issue is outstanding. The other, called rate-reset preferreds, have a dividend that resets every five years. The new payout will be specified as a certain premium to the Government of Canada five-year bond.

Preferred shares tend to move up or down based on two different factors. The first is interest rates. Since a preferred share is essentially a long-term bond, it will be impacted by long-term rates. The second factor is the company's overall health. If investors believe a company will struggle to pay its preferred share dividends, shares will go down.

Companies also have the right to suspend preferred share dividends, but that only happens if there's economic hardship.

Essentially, the case for buying preferred shares comes down to this: investors can get better yields without taking as much underlying stock market risk. If stocks fall, preferred shares tend to go the opposite way as investors retreat to safer options.

Which preferred shares to buy today?

Canada has many interesting preferred shares today. Here are three of the best choices.

Power Corporation of Canada (TSX:POW) is primarily a holding company. It has stakes in some of Canada's largest financial services companies — including **Great-West Life** and **IGM Financial** — as well as holdings in Europe, Asia, and a smattering of media assets across Canada.

The company's series A perferred shares (which trade under the ticker symbol POW.PR.A) currently yield 5.2%.

Another interesting preferred share is **Bombardier, Inc.** (TSX:BBD.B) and its series 4 preferred share. These are perpetual preferreds that have paid the same $0.39-per-share quarterly dividend since 2002. They currently yield 8.8% and trade under the ticker symbol BBD.PR.C.

George Weston Limited (TSX:WN) is another company that uses the preferred share market. It has a solid balance sheet, which is always good news for a preferred shareholder. There's no worrying about the company's series 1 preferred shares — which trade under the ticker symbol WN.PR.A — and the 5.6% yield is still quite attractive.

The bottom line

Preferred shares are a legitimate option many retirees don't consider. They offer tremendous current income while being less volatile than the overall market. Any investor looking for a little extra income should consider these special securities.

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