

How I Screen Preferred Stocks

Jun. 11, 2018 2:00 PM ET46 comments | 30 Likes

by: Steve Bennett

Summary

- Several SA authors provide data and advice regarding preferred stocks.
- However, there is no rigorous analysis of the issuing company's financial statements.
- I set out the metrics I use to evaluate preferred stocks and list the stocks I now hold in my portfolio.

When our business careers ended and my wife and I moved to Maine several years ago, I decided that I would try to accomplish three things in retirement: I would improve my golf game, learn to play the guitar, and become proficient in Spanish.

Well, here we are eight years later. My golf game is terrible, I haven't opened my guitar case in two years, and my Spanish-English dictionary is gathering dust on the shelf.

So much for my "best laid plans".

Instead, I learned to cook, I became a gardener, and most important, I became an ardent self-directed investor.

During my banking career I relied on professional investment advisors to manage my portfolio, but in retirement I finally decided to "go it alone". Having been disappointed time and again by poor results, high fees, inconsistent communication, and mediocre customer service, I decided that I was going to have to learn to do investing by myself. And so I did.

My investment approach has evolved over the past six years into what I would now describe as "half Dividend Growth and half High Yield". Josh Peters of Morningstar (he has since left) got me started with his excellent book "The Ultimate Dividend Playbook", and I subsequently absorbed critical knowledge and advice from various investment publications and from dozens of authors on Seeking Alpha and other websites. I started out cautiously by sticking to large cap dividend growth stocks and as I gained knowledge and confidence I gradually expanded into other asset classes.

My wife and I now diversify our investment assets among 72 positions as follows:

30% Common Stocks

20% Preferred Stocks

20% Closed End Funds

10% REITS

10% Business Development Companies

10% Master Limited Partnerships

Our weighted yield at cost is 6.67% and our market yield is 6.05%. The organic income from our portfolio, when added to social security, a pension, and one annuity, covers all our living expenses and taxes. I conservatively estimate that our income should grow by about 2-3% per year, which I hope will cover inflation.

Comments (46)

beabaggage

this is a good article w a lot of great points on pfd's and how to evaluate.. I agree yields should be higher on pfd's..you recommend a min 6.5%, I want 8% so am out of them now.. usually play via CEF's, CEF leverage costs rising and new issue rates still low, avoiding CEFs now too.

the trade seems crowded to me as yield chasing driven by QE's have pushed many into the space.. when it goes out of favor things can fall fast and there will be opportunities.. even this year you had a mini crash in some better rated REIT pfd's..

Rubicon Associates does a good job on pfd's and is worth following..

lively discussion is also available on Tim McPartland's site and Tim gets into financials on new issues.. Tim, formerly the Dividend Yield Hunter site and a SA contributor in the past, is building out his new site.. innovativeincomeinvest...

re Norman Roberts, I believe he was banned from SA as he got into the political weeds w discussions, he did a good job but was it was his way or the highway, same w Colorado imo. Bea

11 Jun 2018, 02:54 PM

Affinity4Investing

I'd like to see more contribs banned for descending into political rants. Ruins the whole purpose of being here for me.

13 Jun 2018, 03:29 PM

JOIN THE CONVERSATION