

Preferred Shares To Take You Through the Recession

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While stock prices have, for now, started to recover, the U.S. economy is far from out of the woods. The federal and state governments continue to keep closed a large swath of the economy shut down or shut-in. The U.S. economy is in a recession. There is no doubt of that fact, and the timing of when it will end is uncertain.

The U.S. stock market is often described as forward-looking, with investors valuing stocks based on their view of future business results. However, the price discovery process is messy. Current news and opinions influence investor beliefs. Outside factors drive short-term trends. Fear and greed are always present.

2020 introduced a new element: An economic shutdown driven by a pandemic outbreak. Predicting future results has become impossible for many companies and sectors of the economy. The result is a stock market with record-breaking volatility.

While I believe that guessing at the future is usually futile, I have enough information about this market and economy to make some predictions. With this report, I am concerned with what will happen when the defacto recession becomes official by way of a government report. I think it is possible to probable that the U.S. stock market will enter another bear market down-leg when companies start to report their 2020 first-quarter results and second quarter outlets. This period of an economic shutdown will result in gruesome results for many companies.

Before we enter into the next bear market leg, I have put together this portfolio of preferred stock shares. Preferred shares have a dividend preference over the common stock dividends. That means that as long as a company pays any dividend on its common shares, the preferred shares coupon rate dividends are secure. Preferred stock prices have crashed along with the common shares. In normal times most preferreds trade close to the \$25 par rate. You can expect these preferred shares to return to that mid-\$20s level when the U.S. economy returns to normal function.

Most preferred issues are callable for \$25 per share.

I provided a detailed explanation of how preferred stocks work in the April 2020 issue of the Dividend Hunter newsletter.

Buy these shares at the current discount. You will earn the dividends. Be ready to buy more if the stock market drops into another down leg.

American Finance Trust Preferred A (AFINP)

American Finance Trust is a net lease REIT that has reduced, but continues to pay common share dividends. This means the 7.5% coupon rate for AFINP is secure. At a current \$23.50 per share, this preferred stock has a current yield of 8.0%. Buy up to \$25.

Brookfield Property REIT Preferred A (BPYUP)

Brookfield Property REIT shares are mirror shares of Brookfield Property Partners L.P. The Preferred A shares have a 6.375% coupon. The current yield is 9.25%. Buy up to \$25 per share.

Cedar Realty Trust Preferred B (CDR.PB)

Cedar Realty Trust is a small cap REIT that specializes in grocery store anchored shopping centers. The COVID-19 crisis pushed the company to cut the common stock dividend to one cent. That small common makes the 7.25% coupon rate on the preferred B shares secure. The current yield is just over 8%. Buy up to \$25.

Chimera Investment Corp. Preferred B (CIM.PB)

Chimera Investment Corp. is a finance REIT that invests in residential mortgage loans, asset securitization, and mortgage-related securities. While I am not interested in the CIM common shares, the Preferred B shares are now attractive after the high-yield sell-off. The CIM.PB has an 8% coupon and is priced to yield 11.4%. Buy up to \$25.

EPR Properties Cumulative Preferred G (EPR.PG)

EPR Properties is a REIT that primarily owns entertainment properties, such as multiplex

theaters and Topgolf facilities. The COVID-19 economic shutdown is challenging EPR revenues. The EPR balance sheet is conservative, and the company has the cash to support dividend payments through the crisis. The Preferred G shares have a 5.75% coupon and are priced to yield 9.0%. Buy shares up to \$25.

Golar LNG Partners Cumulative Preferred A (GMLPP)

Golar LNG Partners has slashed the common stock dividend to 2 cents, down from 40 cents. Maintaining a common dividend means the preferred 8.75% coupon dividend will continue to be paid. GMLPP shares are priced to yield 14.9%. Buy up to \$25.

New Residential Investment Corp. Preferred A (NRZ.PA)

New Residential has slashed its common stock dividend to 5 cents. The Preferred A shares have a 7.5% coupon and are priced to yield 10.2%. Buy under \$25 per share.

RLJ Lodging Trust Preferred A (RLJ.PA)

RLJ Lodging is a hotel REIT that has slashed the common stock dividend to one cent. The preferred shares have a 7.8% coupon rate and are priced to yield 9.5%. Buy these preferred shares under \$25.

Two Harbors Investment Corp. 7.625% Preferred B (TWO.PB)

The current yield is 8.0%, and the first call date is in July 2027. The ex-dividend date was January 11, so it will be another quarter before we earn the next dividend. Buying now takes advantage of the ex-dividend share price drop.

Avid Bioservices, Inc 10.5% Convertible Preferred E (CDMOP)

An independent biologics manufacturer. CDMO is profitable but does not pay common dividends. It is a high growth biotech stock. The Avid Bioservices, Inc. 10.50% Conv. Preferred E (CDMOP) become callable in February 2021, but I think it is highly unlikely the company would use cash to buy in the preferred shares.

Currently, Avid is expanding rapidly, and available money will be used to fund the growth. CDMOP shares are convertible into 1.1905 shares of CDMO. If the common shares manage to double in 2021 (they were up 90% in 2020), the conversion factor will push up the preferred stock price. This recommendation is to buy shares of CDMOP. At \$27.50, the shares yield 9.5%.

Global Ship Lease, Inc. 8.75% Series B Cumulative Redeemable Perpetual Preferred Shares (GSL.PB)

Global Ship Lease (GSL) is a containership owner, leasing ships to container shipping companies under industry-standard, fixed-rate time charters. GSL suspended common share dividends in 2015, but management recently stated they will resume common share dividends, providing further safety to the GSL.PB big dividends.

Invesco Mortgage Capital Inc 7.50% Series C Cumulative Redeemable Preferred Stock (IVR.PC)

Invesco Mortgage Capital (IVR) is a finance REIT that slashed its dividend from \$0.50 to \$0.02 due to the pandemic crisis. The common dividend has been slowly increased, making the preferred stocks dividends like gold.

Preferred Stock Dividends With Your Broker

Our journey into individual preferred stock shares has produced a lot of questions about actually buying these shares. Unlike regular stock shares, each broker uses its own format for preferreds.

Below is a listing of how different brokers will show preferred shares. You can also use the symbol lookup function. Enter the regular stock symbol, such as NRZ, and you will get a list of related securities. Pick the one that looks like preferred shares. You will get the full name after you select the symbol.

To help you out, here the format for NRZ preferred A on the different brokerage websites:

- TD Ameritrade: **NRZ-A**
- E-Trade: **NRZ.PR.A**
- Fidelity: **NRZ/PA** or **NRZPRA** (yes, they use both in different places on the website)
- Firsttrade: **NRZ.PR.A**
- Interactive Brokers: **NRZ PRA**
- Merrill Lynch: **NRZPRA**
- Schwab: **NRZ/PRA**
- ThinkorSwim: **NRZpA**
- TradeStation: **NRZ.PA**
- T.Rowe Price: **NRZ.PRA**
- Vanguard: **NRZ PRA**
- Wells Fargo: **NRZ.A**

Note: These formats may not be hard and fast. For example, on Schwab, the GMLP preferred has the symbol GMLPP. Go figure.

I have heard from subscribers that Fidelity treats different preferred stocks differently. With some, you have to call in and place a trade over the phone—at least a first trade for the shares. Subscribers have told me this is the case for NRZ/PA. There are other preferreds that you can buy using the regular online trading system. I purchased some shares of NNN/PF this way.

I hope this helps you find the preferred stocks you want to buy. There will be a quiz.

Thanks to my Dividend Hunter Insiders, who quickly responded when I asked for preferred stock symbols from the brokers they use.



Land, Fly or Die,

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