

Preferred Stock Investing

For example, the ten CDx3 Selection Criteria resulted in forty CDx3 Preferred Stocks during 2001 alone. While I use all of them in the upcoming chapters to illustrate how the CDx3 Income Engine works for you, for new CDx3 Investors, it is not practical to manage a CDx3 Portfolio that includes so many CDx3 Preferred Stocks. Once you've gotten the hang of managing your CDx3 Portfolio, sure, but at first try to keep it simple.

For a new CDx3 Investor, you want to have about 18 CDx3 Preferred Stocks in your initial CDx3 Portfolio and here's why.

When CDx3 Preferred Stocks are first issued to the public, they have an initial price of \$25.00 per share and pay you a dividend in an amount that is determined by the dividend rate published in the prospectus. This dividend rate, a percentage, is applied to \$25.00 – regardless of your actual purchase price - to determine the annual dividend cash that you will receive.

For example, if a CDx3 Preferred Stock has a dividend rate of 8.0%, you will receive \$2.00 per year for every share that you own (note that if you can find a way to purchase a share below \$25 – discussed below – your *effective* dividend rate is actually even higher).

One of the goals to managing a CDx3 Portfolio is to build it up to a point where the dividend income being generated is enough to purchase the next CDx3 Preferred Stock, without investing any of your “new” money. In other words, it's great if you can have a sufficient number of CDx3 Preferred Stocks in your CDx3 Portfolio to become “self-funding” (more on this in Chapter 10).

I'll discuss how many shares of each CDx3 Preferred Stock you should consider buying in a moment, but let's say you always buy 1 share. Doing the math on a “per share” basis, if CDx3 Preferred Stocks have an average dividend rate of, say, 8% and therefore generate \$2.00 per share per year, you will need 13 CDx3 Preferred Stocks in order to generate the (roughly) \$25.00 per share purchase price. Plus, to allow for the time that may pass between a sale and your next buy, you'll need about 5 more. That brings you to a CDx3 Portfolio with 18 CDx3 Preferred Stocks.

Since, as you'll see momentarily, you should fix the number of shares you buy with each purchase of CDx3 Preferred Stock, you want to buy CDx3 Preferred Stocks, at a rate of about one per month, until you have about 18 in your CDx3 Portfolio.