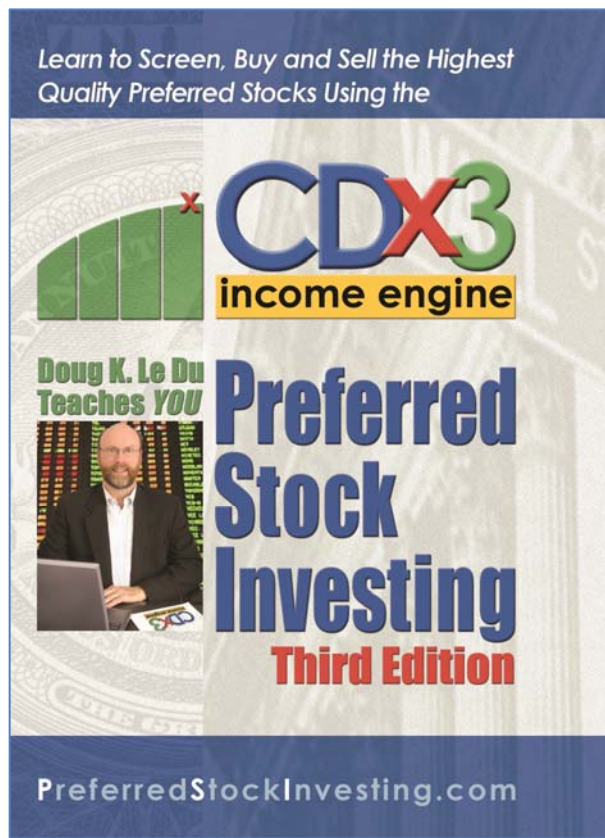


# Quick Guide To Preferred Stock Investing



For Reader's Of  
**Preferred Stock Investing**

By Doug K. Le Du

### QUICK GUIDE TO PREFERRED STOCK INVESTING

Knowing something, anything, about the future market price behavior of an investment that you are considering is the Mother Lode of investing. And with “CDx3 Preferred Stocks” (preferred stocks that meet the ten selection criteria presented in [Preferred Stock Investing](#)), we know quite a bit and we know it in advance. This knowledge allows preferred stock investors to time their buying and selling activities to take advantage of known factors that move preferred stock market prices up and down over time.

CDx3 Preferred Stocks have a five year lifespan - the period between the issue's introduction (the IPO date) and its "call date" five years later. The call date is when the issuing company regains the right to purchase your shares back from you (and pay you \$25.00 per share in the event that they do so).

During this five year period prior to the call date, the market price of a CDx3 Preferred Stock will tend to follow three specific rules - the Three Rules of Market Price Predictability from chapter 3 of [Preferred Stock Investing](#). One rule is for the short-term within a dividend quarter, a second for the longer-term prior to the call date and a third rule that tells us about how the market price will behave as the call date approaches (the "end-term").

These three rules were put to the ultimate test during the Global Credit Crisis (2007 – 2009) and performed perfectly; market prices performed just as the Three Rules of Market Price Predictability said they should (more on this in a moment).

Many preferred stock investors are in it purely for the great dividend income; that is, they are buy-and-hold investors. Even if they could earn three, four or five quarters worth of dividend income by selling and collecting a big capital gain, they simply do not want to take the time needed to do so. These preferred stock investors will consistently see annual returns between 6.5% and 9.0% while expending very little effort beyond determining their next purchase candidates, a catalog of which is provided to subscribers to the [CDx3 Notification Service](#) (my preferred stock email alert and newsletter research service).

But other preferred stock investors can use the Three Rules of Market Price Predictability to not only time their purchases, but also their selling activities. Since CDx3 Preferred Stocks produce fixed annual dividends in the 6.5% to 9.0% range, selling at the right time and adding on a nice capital gain allows these investors to consistently push their effective annual return over 10% ([Preferred Stock Investing](#) presents an itemization of every CDx3 Preferred Stock issued since January 2001 showing these results; readers are provided with periodic updates to this list for free).

What makes this possible is that the direction of CDx3 Preferred Stock market prices is related to the direction of interest rates throughout the U.S. economy. Knowing how this relationship works, and knowing it advance, gives preferred stock investors an enormous advantage for timing their buying and selling over time.

This *Quick Guide* provides a summary of the CDx3 Income Engine – the preferred stock investing method explained throughout [Preferred Stock Investing](#). I have made the references to sample documents clickable links throughout this *Quick Guide* so that you can see examples and follow along with the explanation.

Please remember that these sample documents, while actual CDx3 documents, are not the current versions as provided to subscribers to the [CDx3 Notification Service](#). But remember that [Preferred Stock Investing](#) explains how to use them; you do not need to be a subscriber to the [CDx3 Notification Service](#) in order to be a successful CDx3 Investor.

As always, all of the usual disclaimers apply here - I do not know your personal financial goals, resources or risk tolerance so specific investment decisions are up to you. My goal is to let them be decisions that are more informed. This *Quick Guide* is to be considered educational rather than advisory.

Now before I lay this out, let's get a couple of administrative points out of the way. First, like any investment, reaping a return assumes that the entity you are investing in stays in business (more on this in a moment). Second, investing is no place for next week's grocery money. In these two respects, the CDx3 Income Engine is no different than any other investment method.

**HERE'S THE OVERALL CDx3 STRATEGY:** Use the highest quality preferred stocks to earn above average dividend income while simultaneously creating multiple downstream capital gain opportunities.

**HOW IT'S DONE:** CDx3 Investors buy their CDx3 Preferred Stocks at a point in time when the market price tends to be relatively low, less than \$25.00 per share, and hold their CDx3 Preferred Stocks until (a) they can sell for the Target Sell Price (as defined in [Preferred Stock Investing](#)) or (b) the issue is 'called' by the issuing company for \$25.00 per share. Preferred stocks with a higher declared dividend rate ("coupon rate") have a greater chance of being called. But either way, you realize a capital gain in addition to earning above-average dividend income in the meantime.

Now to the details on selecting, buying and selling CDx3 Preferred Stocks:

**SELECTING - MINIMIZE YOUR RISK BEFORE INVESTING A DIME:** To qualify as "CDx3 Preferred Stocks" regular preferred stocks must meet the ten CDx3 Selection Criteria presented in [Preferred Stock Investing](#). For example: (a) the issuing company must have a *perfect track record* of never having suspended dividends on a preferred stock, and remember these are multi-billion dollar decades-old companies; (b) the dividends must be '*cumulative*' meaning that if the issuing company misses a dividend payment to you they have to make it up to you later (they still owe you the money); and (c) carry an *investment grade* Moody's creditworthiness rating.

CDx3 Preferred Stocks are the highest quality preferred stocks available.

The CDx3 Selection Criteria successfully screened out each of the 57 preferred stocks issued by the eight financial institutions that failed during the Global Credit Crisis - New Century, Washington Mutual, Lehman Brothers, Freddie Mac, Fannie Mae, IndyMac, Bear Stearns and CIT Group - all of them. Further, the CDx3 Selection Criteria let pass the thirteen preferred stocks issued by the four financial institutions that were acquired - National City (by PNC Financial), Countrywide (by Bank of America), Merrill Lynch (also by Bank of America) and Wachovia (by Wells Fargo); not one CDx3 dividend was missed. In 70 out of 70 cases, the CDx3 Selection Criteria saved investors.

**BUYING – ALWAYS FOR LESS THAN \$25 PER SHARE:** CDx3 Preferred Stocks have a “par value” of \$25 per share. This share value is very meaningful to preferred stock investors. This is the share price that the issuing company will pay you in the event that they “call” (buy back from you – more on this in a moment) your shares.

So when buying, the trick becomes knowing when the market price of a CDx3 Preferred Stock is most likely to be less than \$25.00 per share.

Another thing that we know in advance about the market price behavior of CDx3 Preferred Stocks is that it is inversely related to the direction of interest rates; that is, when interest rates are falling, market prices will tend to rise and vice versa (this is the Rule of Rate/Price Opposition from [Preferred Stock Investing](#)).

[Preferred Stock Investing](#) explains how to purchase your CDx3 Preferred Stock shares for less than \$25.00 when interest rates are falling (and prices are climbing) and when interest rates are climbing (and prices are falling).

For example, during periods of increasing rates the market price of a CDx3 Preferred Stock will tend to initially rise, while it is offering the top dog dividend rate, then fall as newer, higher-payers are introduced. This price drop usually takes about two dividend quarters to occur. Since we know that market prices will tend to fall within two dividend quarters of IPO during such conditions (see two examples, [Preferred Stock Investing](#) pages 153 and 156), you can reduce your risk by limiting your buying activities to CDx3 Preferred Stocks that have already cleared their second dividend quarter.

Every month, subscribers to the [CDx3 Notification Service](#) are provided with a list of these CDx3 Preferred Stocks. This list is called the [CDx3 Bargain Table](#) and identifies CDx3 Preferred Stocks that have already experienced the price deflating effect of the Rule of Rate/Price Opposition and are available at bargain basement prices (less than \$25 per share).

By purchasing CDx3 Preferred Stocks after they have completed their second dividend quarter during a period of increasing rates, you not only boost the return on the money you have invested (your dividend yield), but by buying at the already-dropped price, you also set yourself up for a larger capital gain downstream when you sell for a much higher price (at least \$25 per share – keep reading).

**SELLING - CAPITAL GAIN ON TOP OF DIVIDEND INCOME:** Interest rates throughout the U.S. economy will move up and down several times within any five year period (the lifespan of a CDx3 Preferred Stock, IPO date to call date). Because of the Rule of Rate/Price Opposition, market prices will move down and up, respectively, with these changes in interest rates over time. By buying during periods of low market prices then selling later when prices move back up, you are almost certainly going to have two opportunities to sell for a capital gain downstream, the first opportunity bigger than the second.

**CAPITAL GAIN OPPORTUNITY #1:** The first opportunity that you will have to sell for a market price greater than \$25 per share is on the open market prior to the call date. Remember that the Rule of Rate/Price Opposition works both ways – when dividend rates go down, market prices of CDx3 Preferred Stocks will tend to come up. The CDx3 Seller’s Notification email message that subscribers to the [CDx3 Notification Service](#) receive every month includes the direction of rates, INCREASING, DECREASING or STABLE, and illustrates that direction on the [CDx3 Key Rate Chart](#) over the last 60 months.

When rates are decreasing, sellers consider selling at a point in time when the market price of a CDx3 Preferred Stock will tend to reach a high point. This date is indicated on the [CDx3 Seller's Calendar](#) (*Preferred Stock Investing*, page 169) in yellow. No need to look up your market prices any other time since these are the dates that the market prices of your CDx3 Preferred Stocks are most likely to reach a relatively high value (due to the Rule of Buyer/Seller Behavior, *Preferred Stock Investing* page 43).

**CAPITAL GAIN OPPORTUNITY #2:** What if the market price of your CDx3 Preferred Stock never comes back up? That would defy the research not to mention common sense. Let's say that you purchased a CDx3 Preferred Stock during the Global Credit Crisis that pays an annual dividend of 8% for \$22 per share. When dividend rates fall down to, say, 7%, a new 7% preferred stock will be introduced at a market price of \$25 (new CDx3 Preferred Stocks are always introduced at a market price of \$25.00 per share). If a new CDx3 Preferred Stock that pays 7% is selling for \$25, how could the 8% CDx3 Preferred Stock that you purchased during the Global Credit Crisis be selling for less than \$25?

As rates fall, prices go up and vice versa.

Can there be exceptions? Sure. And let's say that that's exactly what happens. The market price of your 8% CDx3 Preferred Stock that you purchased for \$22 during the Global Credit Crisis never goes above \$25 again; it stays at or even below the price that you originally paid. How will you make a capital gain then? Easy - just hold onto it until it gets "called."

All CDx3 Preferred Stocks have a five year call date; that is, the issuing company regains the right to purchase your shares back from you five years after the issue is introduced. And, if they do so, they are required to pay you \$25 per share (the par value) *regardless of what you originally paid*.

So even if, for some odd reason, the market price of your 8% CDx3 Preferred Stock does not go back up when dividend rates come back down to, say, to a more normal 7% (per the Rule of Rate/Price Opposition), your shares will almost certainly be bought back from you, for \$25 per share, by the issuing company – you have a "built-in buyer."

In the event of a call, you will realize a capital gain of \$3 per share (in this example) on top of the above average dividend income that you are going to be making in the meantime. This combination of dividend yield plus a capital gain, consistently produces an overall effective annual return above 10% (see *Preferred Stock Investing*, back cover).

**SUMMARY:** Because CDx3 Preferred Stocks have a variety of characteristics, and those characteristics are known in advance, investors know much about the future market price behavior of their investments – the Mother Lode of investing:

- ✓ **Select The Best** - The CDx3 Selection Criteria select just the highest quality preferred stocks, as illustrated by their perfect track record, even during the historic Global Credit Crisis;
- ✓ **Buying** - The monthly [CDx3 Bargain Table](#) identifies CDx3 Preferred Stocks at a point in time when their market prices tend to be very favorable for your purchasing consideration (less than \$25 per share);

- ✓ **Selling, Opportunity #1** - To see if it is a good time to consider selling, check the market price of your CDx3 Preferred Stock on the date explained by the Rule of Buyer/Seller Behavior and highlighted in yellow on the monthly [CDx3 Seller's Calendar](#). Knowing when the price is most likely to peak is a huge time saver; no need to continually check prices;
- ✓ **Selling, Opportunity #2** - If a good selling price never presents itself, you could simply hold the issue until it is called by the issuing company (at which point you will receive \$25 per share).

In the meantime, enjoy your great annual dividend income.

**Use the highest quality preferred stocks to earn above average dividend income while simultaneously creating multiple downstream capital gain opportunities – the CDx3 Income Engine.**

*Preferred Stock Investing*, available in paperback and downloadable eBook format from [your favorite retailers](#), teaches preferred stock investors how to screen, buy and sell the highest quality preferred stocks. The book includes all of the websites and other resources needed for you to be a very successful preferred stock investor.

For those who would rather someone else do the research and just receive an email alert when there are buying or selling opportunities, I offer the [CDx3 Notification Service](#).

### **Many Happy Returns,**

Doug K. Le Du, author of *Preferred Stock Investing*

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