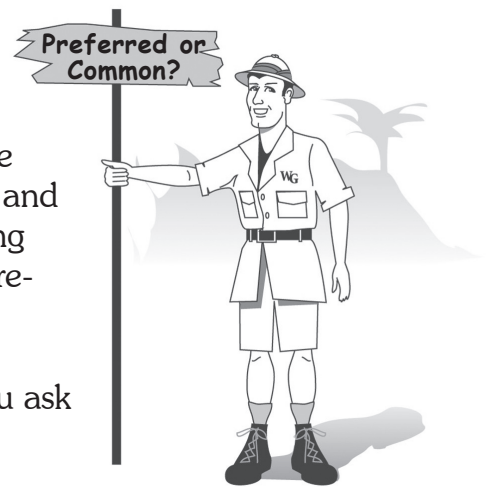


# Which Type of Stock Should You Pick?

Wow, our jeep just rounded a clearing, and there they are — a pride of lions (stocks). Glad we're looking at them from a distance! It's interesting — there seems to be two really different types, of different sizes and coloring. Yes, the Wise Guide says, we're actually seeing double — the two types of lions we're looking at are preferred stocks and common stocks.

They both look awesome. "What's the difference?" you ask our Guide.



Remember, regardless of which type of stock you buy, purchasing stock makes you a part owner, or **shareholder**, of a company.

Let's begin with preferred stock.

Companies that sell **preferred stock** are actually offering a blend of a more aggressive investment (stock) and a more conservative one (bond). This combination means that the price of preferred stock does not fluctuate as much as the price of common stock. That's why many risk-adverse investors favor preferred stock.

Another advantage to owning preferred stock is that it almost always pays a dividend to shareholders.

Preferred stock also offers these benefits:

Companies pay dividends to preferred stock shareholders *before* they pay dividends to common stock shareholders.



### Deserves Another Look

#### Preferred Stock Benefits

The main benefit to owning preferred stock is that the investor has a greater claim on the company's assets than common stockholders. Preferred stockholders always receive their dividends first and, in the event the company goes bankrupt, preferred stockholders are paid off before common stockholders.

Dividends accumulate if the company's board of directors decides to put a freeze on divvying up profits because it doesn't have the financial resources.

If the company goes bankrupt, preferred stockholders have a claim to any assets ahead of common stockholders.

On the other hand, preferred stockholders don't have any voting rights. To many investors, this doesn't really matter, but if, as an owner, you are passionate about management decisions at the company, you may want the right to vote. If so, then preferred stock is not for you.


Now let's talk about **common stock**.

Common stock, which is sold by most companies, is the only "pure" form of stock in the market. It's what people are talking about when they just mention "stocks." Because common stock has the potential for greater returns, investors buy it more often than preferred stock.

Common stock represents an equity ownership in the company and entitles shareholders the right to vote on management issues at the annual shareholder's meeting.

Common stockholders may, or may not, receive dividends, depending on management's decision about distributing profits.

Many beginning investors think that preferred stock is better than common stock, but that's not necessarily the case. Your decision to purchase one over the other depends upon your financial goals, your tolerance for risk, and your interest in voting rights in the company.



**Be On The  
Lookout**  
Dividend Payments

Dividends are payments made to stockholders by many, but not all, companies. They are generally paid in quarterly installments and have become even more popular since the federal tax-cut package signed in May, 2003. Dividend-paying stocks have long been popular with relatively conservative equity investors interested in income.

Because most investors are interested in price appreciation, they usually purchase common stock. You get more "bang for your buck." It's that simple — and so is our goal for you: to get the returns you need to fund your dreams. That's why we wrote this guide.

So, from this point on, whenever we refer to "stock," we mean common stock. A little later, in Part II, we'll begin learning about the specific kinds of stocks that are best for you: growth-producing or income-producing.

Right now, though, you're ready to step a little further along the trail.