

# [Costs of capital and dividends case studies examples](https://assignbuster.com/costs-of-capital-and-dividends-case-studies-examples/)

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Preferred stock is the class of business ownership in a company where there is a higher claim on the assets and profits than that of common stock. Under preferred stock, the dividends must be paid out before dividends to common stockholders. The shareholders under a preferred stock ownership usually do not have rights to voting at the company meetings.
Financing of preferred stocks is usually equity based financing sources. The company can decide to issue securities to raise capital to finance an approved stock company. Under this arrangement, proceeds from the sale of securities would be used to fund the expansion or growth of the enterprise. In the case of private enterprises, the company can decide to issue individual preferred shares to investors to fund its operations. Unlike public preferred shares, private preferred shares. Investors would, therefore, most probably be willing to venture into the acquisition of private preferred stock to finance the operations of a non-public company. Warren Buffett is a classic example of a publicly traded company with preferred stock in its capital structure. The company gave out preferred stocks to investors. The bank called Berkshire then bought cumulative preferred stocks for the enterprise. The interests in more than ten other bigger companies.
Proctor and Gamble Company is also known to have preferred stock in its capital structure. Through preferred stock financing, it has grown to be a world re-known company in the provision of health care services to the world.
American Express is another world re-known financial service company through its credit card brand name. It is also another classical success of a corporation that raised capital financing through preferred stock shares.
The three listed companies have chief executive officers at the helm of their operations and employ thousands of citizens to run their activities. They were listed on major stock securities across the United States of America.
Warren and Buffett have 6 percent preferred stock in its structure while Proctor and Gamble and American express had an average of 5. 3 and 5. 5 percentages respectively. In his arguments of December 2014 about preferred stocks and investment, Doug K. Le Du suggests that it was s preferable for investors to acquire shares through regular income accounts. That resulted to a favorable issue that would in the long run lower individual's tax obligations. That was particularly true when the aspect of taxation was considered in the remittance of the stock dividend. However, what the write failed to address was the importance of paying taxes to the economy of the nation. Taxation is the backbone of the national economy, and therefore, attempts that are tailor made to reduce this obligation on the taxpayers would hurt the national economy in return (Moyer, McGuigan, and Kretlow, 67-73).
Harry Campbell's take on preferred stock investment as a means of increased income due to their perceived higher dividends is actually pointed on. He correctly submits that the prices of shares in the market are subject to the prevailing risks in interest rates. What he failed to recognize in that response was that investors need investments with higher returns. The higher and quicker the returns, the more an investor would be willing to pump in more resources in the company. He should have advised on the positive aspect as was asked by the concerned individual. Even though he rightfully stated the underlying determinants, he discouraged people from looking at preferred shares as a meaningful investment.

## Work Cited

Moyer, R C, James R. McGuigan, and William J. Kretlow. Contemporary Financial Management. Mason, OH: South-Western/Cengage Learning, 2009. Print.