

Strategic and tactical decision-making db5 critical thinking

[Business](#), [Company](#)



Strategic and Tactical Decision-making: DB5

Introduction:

Preferred stock, warrants, convertibles, and options are hybrid securities that may perform like derivatives in certain market conditions. This paper is going to discuss preferred stock, warrants, and convertibles. It will seek to explain the characteristics of each as well as their uses. Each of the three has been discussed in depth below.

Preferred stocks are also called preferred shares and are equity securities that have properties of both a debt and an equity instrument, and are considered hybrid instruments. Preferred stocks are having a higher ranking to subsequent common stock even though they are subordinate to bonds with reference to claim (which are rights to a share of the company's assets). This implies that in the event of bankruptcy the company may have enough money to pay preferred stocks since they are senior. Preferred stocks are a special category of shares, which have a collection of features that are not possessed by common stock (Spiegeleer & Schoutens, 2011). Some of the characteristics of preferred stock include preference in dividends, nonvoting, convertibility to common stock, preference in assets during liquidation and call ability; at the corporation's option, Companies use preferred stocks as a form of financing. They allow the company to defer payments with little or no penalties being incurred by the company. On the other hand, companies can use them to prevent hostile takeovers from occurring within the organization (Calamos, 1998).

Warrants are derivative securities that give the bearers the opportunity of purchasing securities (often, equity) from their issuer within a predetermined

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period at a named price. Warrants are usually included in new debt issues as possible 'sweeteners' to continue enticing investors (Woodson, 2001). The main characteristics of warrants include the presence of a premium.

Premiums in warrants represent the extra amounts to be paid for the shares in buying them on the basis of the warrant in comparison to using the regular way to buy them (Miyajima, 2006). Warrants are used give the bearers (an individual) the opportunity of purchasing securities (often, equity) from their issuer within a predetermined period at a named price.

Convertibles are bonds that are converted into predetermined amounts of asset equity during various times of their life at the bondholder's discretion of the are sometimes called CVs. Issuing convertibles is a strategy of a company to efficiently minimize on the existing negative investor sentiment in relation to its ultimate actions (Du, 2007). For instance, if a certain public company opts to issue a certain level of stock, the market in this case will usually interpret it to be a sign that the share price of a company is overvalued in some way (Villupuram, 2008). In this case, convertibles are issued to avoid such a negative impression of the company and the bondholders will convert to equity if the company performs well.

In conclusion, this paper has been able to discuss preferred stock, warrants, and convertibles. It has explained their characteristics as well as their uses. It has also examined how preferred stock, warrants, convertibles, and options are hybrid securities that may perform like derivatives in certain market conditions.

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