

Convertibles Cars and Ragtop Investments

Convertible cars come in many flavors these days – you can get the traditional ragtop where the top is actually made of cloth and disappears into the trunk or snaps off when you want maximum sun. You can get removable hardtops where the whole top comes off as a whole and you can place it in the garage or on the ground, typically with the help of a pretty strong friend. The newest rides have a magical button you can press where mechanical wizardry turns an apparently one piece steel top into a scissor like mechanism that moves, twists, whirrs, buzzes and eventually disappears into your trunk – all in about twenty seconds. There is nothing like a ragtop on a sunny day for a cruise through the country, a drive into the city or to run your errands. The feeling of the sun on your head, wind blowing through your hair and the rumble of the motor is simply a magical combination. It's all good unless your ragtop is a toupee, which you may lose in when cruising in a convertible. ☺ When you are cruising with the top down and hit the accelerator you can really feel as well as hear the motor roar and the experience is so much better than if you're just cruising with the top up or in a regular car. You do give up a few things with a convertible – body structure is a bit less so if you're really out to race and turn hard, a convertible is not for you – also if you happen to roll the car and your convertible is not a Cobra, you likely have no head protection whatsoever. If the weather gets tough you can always raise the top and have a “regular” car to protect you from the elements. Like anything else in life, there are advantages and disadvantages to a convertible ride.

In the investment world we also have convertibles – convertible bonds and convertible preferred stocks. When you hear the term bond think loan – it's essentially a loan to a corporation or a government entity. Bonds are typically safe, steady investments as long as they are “investment grade” – the good ones. The “junk” bonds refer to ones sold by companies whose financial health is in question – sadly enough today's bonds sold by Ford & GM are considered junk bonds. Preferred stocks act much like bonds in that they are sold at par value, typically \$1,000.00 and pay a fixed dividend rate or a “coupon.” Common stocks – the tool most people refer to when they use the word stock, are much more volatile than bonds or preferred stock and the reward of investing in them that much greater – the common stockholder can vote on certain corporate decision. If the bond or preferred stock is convertible then it may be converted to a specified number of shares of common stock at a predetermined price. Let's take an example: Magic Motorcars (ticker symbol MGCM – not a real company, I'm just making it up for the example) they have 10 year convertible bonds that sold for \$1,000.00 each and pay a 5% dividend and are convertible into 20 shares of common stock of MGCM stock. MGCM motorcars stock currently trades at \$50.00 per share. Right now if you convert the 20 shares at \$50.00 each you have a \$1,000.00 value. If the investor holds the bond she'll get 5% annually for 10 years, then at the end of the 10 years she'll get her \$1,000.00 back. If the stock does poorly and the shares sink in value to \$10.00 each there would be no reason to convert – the bond is still worth \$1,000.00. If the stock does well and goes to \$100.00 per share now the investor would want to convert so she now has 20 shares at \$100.00 each, making her investment worth \$2,000.00. Convertible cars are great – convertible investments can be great too! Enjoy the ride. ☺

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