

Solution:

A preferred stock resembles a common stock in many ways; in cases when a company does not pay dividends to its shareholders, the preferred stocks are not much different from the common stock. The difference lies in the priority and the accumulation of dividends that the company is expected to pay.

A preferred stock resembles a debt, and the company pays an interest (dividends) to ensure that you retain the stock. The priority is above a common stockholder, and below a debtor, which shows its resemblance to a debt. Also, preferred stocks are required to pay a certain amount upon a company's liquidation (called as liquidating value), which resembles it to a bond.