A 13.7% Yield From Royal Bank of Canada? Yes, it's Possible

Description

If you're struggling to save for retirement and frustrated by today's low interest rates, then this might be the most important message you'll ever read.

Today I want to show you a little trick to "juice" the income you can earn from the stock market. Thousands of ordinary folks are already using this method to generate 10%, 15%, even 20% yields from some of the world's safest dividend-paying companies.

For years Wall Street insiders used this strategy to TRIPLE the yields they earned from blue-chip stocks. But today regular investors are using this technique to earn four times more in retirement income than they can get from RRSPs. Let me explain…

How to earn a 13.7% yield from the Royal Bank of Canada

I probably don't need to remind you about the plight of today's income investor.

A 10-year government note yield less than 2% today. Five-year GICs barely pay out 1%. And as for saving accounts, don't even ask!

As savers, we need to do better. For this reason, I have been an advocate for owning safe, dividend-paying stocks. Many of these names now yield between 3-5% and make a good hedge against inflation. But again, we can do better. Much better…

So today, I want to show you a simple technique called "covered calls," and you can use this to double, triple, and even quadruple the yields you earn from the stock market almost immediately. Here's how it works…

Simply put, a covered call amounts to buying shares of a stock and then selling "call options" on that position. Selling a call option gives another trader the right, but not the obligation, to buy your shares from you at an agreed-upon price in the future.

The process is different from just buying shares and it takes a little while to get used to the idea. But let me walk you through a simple trade so you can see how useful this strategy is for generating income.

For example, today you can buy the **Royal Bank of Canada** (TSX:RY)(NYSE:RY) for US$63 per share. Let’s say you buy 100 shares for a total of US$6,300.

Right after buying the stock, you can sell someone the right to buy your position from you for US$65 per share in about three months. You collect US$155 for selling that right. This US$155 payment represents an instant 2.5% yield on your investment.

If Royal Bank does not rise to US$65 per share in three months, you simply keep your instant 2.5% yield, your 100 shares, and any dividends you collected along the way.

coveredcalls

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You can then repeat this trade over and over again. Rerun this trade four times in one year and you can make 9.8% (on top of Royal’s regular 3.9% dividend). On a US$50,000 stake, that would generate more than US$6,850 per year in annual income.

Now, nothing comes from free. There are some downsides with this strategy. The usual knock against covered calls is that you “sell away” a lot of the potential gains stocks offer.

It’s a valid point. If Royal Bank shares go above US$65 in our example, all of your gains are capped beyond this level. But these days, I know most retirees are more interested in earning safe, 10-15% yields than trying to “shoot the lights out” with risky strategies.

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1. Bank Stocks
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1. Editor's Choice

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