Income Investors: 2 Easy Ways to Supercharge Your Dividends

Description

In today's world of anemic GIC rates, where government bonds don't even pay enough to keep up with inflation, investors have been forced to get yield from different sources. Thus, REITs, preferred shares, and dividend-growth stocks have become popular investments.

But for some investors, those options just aren't enough. They're forced to do risky things like stretch for yield, or use margin to increase their assets, collecting the spread between the payouts and the interest charged. When done right, both of these strategies can be profitable; I'm just not sure they're suitable for someone who is primarily concerned with income.

Fortunately, there are better ways. Here are two strategies investors can use to dramatically increase the amount of income they receive each year.

Embrace DRIPs

Dividend reinvestment plans (DRIPs) have always been popular with investors. DRIPs allow them to easily put their dividends right back into the company, which then snowballs over time as the stock pays more dividends. And best of all, most DRIPs are free.

They make sense for companies too, since giving out new shares in lieu of cash dividends frees up capital that can be put back into the business, used to pay debt, or put to other uses.

There's another huge advantage to DRIPs, and that's when a company gives investors a bonus for taking their dividends in the form of more shares. This bonus can be anywhere from 1-5% of the amount received, depending on how much the company wants to encourage it.

Let's look at one of my favourite REITs as an example, **Cominar Real Estate Investment Trust** (TSX:CUF.UN), Quebec's largest landlord. Overall, the company has nearly 46 million square feet in total leasable area, with approximately 75% located in La Belle Province. It has a well-diversified portfolio, with a combination of retail, office, and industrial real estate. As of the end of the most recent quarter, it has an occupancy rate of 92.3%, a slight decrease compared with the same period last year.

Cominar also features a dividend of 8.7%, which is among the highest in the sector. But if you choose to take your dividends in the form of extra shares, you'll get an extra 5% boost in income. That turns an 8.7% yield into a 9.14% yield. It's not very hard to sell those extra shares once or twice a year to get the income.

Say you invested $100,000 in Cominar shares. That's an extra $440 each year in dividends for a minimal amount of work.

Selling covered calls

Another income-generating strategy sophisticated investors have enjoyed for years is selling covered calls. It sounds complicated, but in reality it's not so hard.

Say you owned 1,000 shares of **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI), Canada's largest wireless provider. As I write this, your stake would be worth approximately $45,300.

What you would do is go to the options market and sell the equivalent call options for a certain price, collecting the premium as income. As long as the price of the underlying stock stays below the option's strike price, you'd be free to collect the premium while maintaining ownership of the stock.

Let's look at a real-world example for Rogers. Currently, the January 2016 $50 calls are trading at $0.36 per share. For your 1,000 shares, you'd pocket $360 in additional income (less any commission), but would be forced to sell at $50 per share only if the stock traded above that level in January. Since that's more than 10% higher than today's price, being forced to sell at a profit isn't such a terrible outcome.

Remember, you can write covered calls several times during the year. Going back to our Rogers example, it's very possible to generate 2-3% annually in additional income. Add that to Rogers's already generous yield of 4.2%, and you're looking at a possible yield of 6-7% annually.

With just a couple of simple strategies, you can increase your income substantially, all without taking on much in extra risk. It might take a little hunting to find the best candidates, but covered-call writing and DRIPs are two weapons every investor should have in their arsenal.

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