



Income Investors: 3 Easy Ways to Supercharge Your Yields

Description

Every income investor wants the same thing: more income without additional risk.

That's tricky to do, obviously. Every move we make in investing comes with some sort of trade-off. Even if you research a stock to death, some scandal from left field can emerge and rock the company to its foundation.

Still, there are a few general moves investors can make to really supercharge their dividends. These moves certainly aren't foolproof, because nothing is. But collectively, using them can add yield to your portfolio while minimizing capital losses.

Enroll in DRIPs

A dividend reinvestment plan (DRIP) is a great deal for both a company and its investors.

Here's how they work.

A company gives investors a small bonus for taking their dividends in the form of new shares. This bonus typically maxes out at 5% of the value of the dividend. There are dozens of Canadian companies that offer this perk.

Let's look at a real-life example. **Artis Real Estate Investment Trust** ([TSX:AX.UN](#)) is one of Canada's largest holders of real estate with 255 properties across western Canada, Ontario, and certain U.S. markets. Shares trade at \$13.45 per share despite generating \$1.50 in funds from operations in 2015.

Artis pays a dividend of \$0.09 per share on a monthly basis—a payout that works out to an annual yield of 8%. This dividend looks to be pretty secure too, considering it comes in at just 72% of funds from operations. Many of its peers have payouts in the 80-90% range.

Investors can goose that income an additional 5% by signing up for Artis's free DRIP. It boosts the effective yield of the stock to 8.4%—a move that makes a great dividend even better—and it frees up cash for Artis to use for other purposes.

Even if an investor would rather take the cash over the shares, it's not hard to sell a few Artis shares every few months.

Preferred shares

Many of Canada's largest companies issue a debt/equity hybrid product called preferred shares.

These shares give investors generous yields compared to the common shares, along with some principal protection. The market treats them more like debt, which means they move with interest rates. Preferred shares will struggle if the underlying company is doing poorly, but not to the extent of the common share.

Some preferred shares can be quite lucrative. **George Weston Limited** ([TSX:WN](#)) common shares yield a meager 1.6%, which isn't that exciting in today's low interest rate world. There aren't many dividend investors in that stock for the yield alone. Capital gains are the big story.

The preferred shares are a much better choice for income seekers. The Series V preferred shares (ticker symbol WN.PR.E) pay a dividend of \$0.296875 per share on a quarterly basis—good enough for a 5.5% yield.

One simple move can goose your dividends from the company 241%.

Covered calls

Covered calls are a simple concept thousands of investors are using to generate huge yields.

Here's how it works.

You own the underlying shares of a company. You then sell the company's call options, generating a premium immediately in exchange for entering into a commitment to sell at a certain price in the future.

Let's say you bought **National Bank of Canada** ([TSX:NA](#)) shares today at \$42.32. You could then sell a June 17th \$44 call for \$0.38 per share. As long as shares of National Bank are below \$44 on June 17th, the investor gets to pocket the \$0.38 per share premium. If shares are above \$44, they're forced to sell for a small gain. That's not the worst result in the world.

Investors can sell National Bank covered calls each month of the year. Assuming the same premium, an investor can make \$4.56 per share from call options alone over the course of a year, which works out to a 10.2% yield. Add in National Bank's 5.1% dividend, and we have a huge potential income generator.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)
2. TSX:NA (National Bank of Canada)
3. TSX:WN (George Weston Limited)

Category

1. Dividend Stocks
2. Investing

Date

2025/08/21

Date Created

2016/05/14

Author

nelsonpsmith

default watermark

default watermark