



Extreme Income Alert: How to Get a 9.7% Yield From Bank of Montreal

Description

Canada's bank stocks have long been popular with all investors.

There's a lot to like about the sector. It's dominated by the so-called Big Five, which collectively have a market share exceeding 80%. This oligarchy status means banks aren't too aggressive in trying to compete with each other—a move that ensures healthy profits for all.

Additionally, an investment in Canada's banks is a bet on Canada's economy. Sure, you could argue the economy doesn't look great right now—due to weak commodities, mostly—but Canada will bounce back. It always does.

And while investors wait for Canada's economy to improve, the banks are paying dividends of up to 5%. In a world where negative interest rates are very much a thing, these yields are attractive to income investors.

Income investors who are willing to do a little extra work can really goose their bank yields. Here's how to collect up to 9.7% annually from **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)).

Covered calls

Call options are generally used by speculators who want to make a big bet on a stock without putting much of their own capital on the line.

BMO shares currently trade hands at \$81.49 each on the TSX. If investors buy a call option for \$86 per share, they're putting up anywhere from a few cents to a few dollars per share for the right to buy at \$86 on a certain day.

The October 21, 2016, \$86 call options currently sell for \$0.79 each. If BMO shares are above \$86.79 on October 21, the investor makes money. If not, the entire premium is lost and the options expire worthless.

There's a way for income investors to use these products to really goose their dividend income. What

they do is sell near-term call options, pocketing the premium in exchange for creating a sale obligation at some point in the future.

Let's look at another example, starring BMO. The July 17, 2016, call options have a current price of \$0.37 each. If a BMO shareholder sold those calls, they'd get \$0.37 per share in income today in exchange for committing to sell at \$84 on July 17.

One of two outcomes can occur. If BMO shares are below \$84, the options expire worthless and the investor keeps the premium. If shares close above \$84, they're forced to sell at a profit. Including the option premium gained, the profit works out to 3.5% in about a month—not bad for a worst-case scenario.

Repeat

This strategy can be especially powerful in sideways or downwards markets.

Say the market languishes this summer, as it has many times before. BMO has monthly options, so investors can make this trade every 30 days if they so desire. If they do it every month for a year, the strategy will generate approximately 5.5% annually in additional income.

But remember, the investor will also be collecting attractive dividends from the underlying shares. These dividends pay a 4.2% yield.

Put the two together and you have total income potential of 9.7%. That's massive, especially in today's low interest rate world.

Or to put it another way, investors using this strategy can generate \$970 worth of yearly income for every \$10,000 invested. That compares to \$150 annually from a GIC paying 1.5%.

It's easy to see the power of a covered-call strategy. Savvy income-focused investors can really use it to their advantage. Will you be one of them?

CATEGORY

1. Bank Stocks
2. Dividend Stocks

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1. Editor's Choice

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