



Extreme Income Alert: Get an 18.4% Yield From Bank of Nova Scotia

Description

After really hitting the doldrums early in 2016, it's been good to own shares in Canadian banks.

There are a few reasons why bank shares sunk some 20% in the months leading up to the market bottom in January. The general market was down, which is bad news for both capital markets and wealth management divisions. Energy was weak, and banks have billions in energy loans outstanding. And pundits were loudly declaring Canada's housing bubble was unsustainable.

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) was looking particularly vulnerable. It was one of the most aggressive lenders to energy companies. It also has exposure to Colombia—a country getting hit hard by the energy downturn.

Bank of Nova Scotia shares were so beat up at their trough that they yielded comfortably over 5%. In hindsight, that was a good buying opportunity for income investors.

Now that shares are up close to 30% from those lows, many investors are thinking of taking some cash off the table. As the old adage goes, they're looking to buy low and sell high.

I think I have a better idea. Here's how investors in Bank of Nova Scotia can use the option market to really supercharge their yields from the company, collecting as much as 18.4% annually instead of selling.

Covered calls

Covered calls are a strategy income investors can use to really boost their income. Surprisingly, they're not terribly complex, either.

Here's how they work. Normally, investors use a call option to lock in their right to buy a certain stock at a certain price on a certain day. If the bet is correct, the investor makes a lot of money based on the small original investment. If they're wrong, the premium paid to control this option is lost forever.

Covered-call writers are taking the opposite side of this bet. They're collecting a premium today in

exchange for agreeing to sell their shares at an agreed to price on a certain day.

It gets easier if you look at a real life example. Bank of Nova Scotia investors who agree to sell their shares at \$66 each on August 19 will receive \$0.75 each today for agreeing to this arrangement. Shares currently trade hands at \$64.97 each.

Investors can count on one of two outcomes. If shares stay below \$66 each, the premium is pocketed and the option expires worthless. This is the ideal solution. Or, if shares rise above \$66 each, the shareholder is forced to sell at \$66.

So the worst-case scenario is that an investor makes a profit of 2.74% in a little over a month. That's hardly a disaster.

Here's the best part. If Bank of Nova Scotia shares go down or continue to trade in a tight range, this strategy can be used over and over again to generate some serious income—\$0.75 per share each month plus the company's quarterly dividend of \$0.72 per share works out to a yield of 18.4% annually.

That's a huge amount of income it's enough to make a difference in nearly any portfolio.

If you believe Bank of Nova Scotia shares are due to correct at some point soon, perhaps a covered-call strategy would make sense. It can generate some huge income in the interim, while still giving an investor the potential to sell if prices trend ever higher.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

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