Income on Steroids: Get a 17.8% Yield From Suncor Energy Inc.

Description

It's tough to be a retiree in 2017.

Yields from traditional fixed-income products are pitiful. So-called high-yield savings accounts barely pay 1%, and GICs barely hit 2% — if you're lucky. Government bonds have equally terrible yields.

Dividend stocks are a better choice with many dependable stocks paying out 4%, 6%, or even 8% annually. Thousands of Canadian retirees are loading up on these stocks, content to hold for the long term. Besides, dividends have huge tax advantages.

But for some retirees, these impressive yields just aren't enough. They just don't have enough saved up to generate enough income using conventional means.

If that's you, this might be the most important message you read all year. There's a method that has been used by Bay Street insiders for decades to really goose their income. We're talking yields of 10%, 15%, or even 18%.

Yes, really.

Here's how you can supercharge your income, using **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) as an example.

The secret

Although the strategy sounds complex, it's really quite simple. Here's how it works.

The first step is to buy a position in Suncor just like you normally would. There are plenty of reasons to like Suncor as a core position, including its attractive upstream assets, its +1,500 retail fuel stations, and the company's smart acquisition history. It aggressively bought up assets in the oil sands during the downturn — purchases many think will be real bargains in about five years.

The next step is to venture into the option market, which seems like a terrifying place. Options are a form of derivatives, and derivatives caused the Great Recession.

There’s no doubt that option strategies can be incredibly complex. I know professional investors who don’t fully understand the option market. Fortunately, we’ll be sticking with one of the simplest option trades: covered calls.

A call option gives an investor the right to buy a stock at a certain price on a certain day. They pay a small fee for this right called a premium.

We’re taking the opposite of that trade. If an investor sells a call option, they receive that premium as cash. In exchange for the premium, they’ve now created a obligation to sell the shares at the option price. Since they already own the underlying shares, this isn’t a major problem.

A real-life example

As I write this, Suncor shares trade hands at $40.90 on the Toronto Stock Exchange.

An investor who sells a $42 April 21st call option would receive $0.50 per share. They would then create an obligation to sell their shares at $42 each on April 21, 2017.

One of two things will happen on April 21. If Suncor shares are below $42 each, the option will expire worthless. The investor is free to keep the option premium without doing anything else. This is the ideal solution.

The other option is if Suncor shares rise above $42 each. This ensures a profit of $1.60 per share (the $0.50 premium plus $1.10 in capital gains), which is a little less than 4%. That’s not such a bad outcome, especially considering the short time frame.

Do it again and again

This strategy can produce massive income streams.

Suncor has monthly options, meaning an investor can do this very trade 12 times a year. Assuming today’s price stays the whole year, the strategy would yield $6 per share in income.

But remember, Suncor pays a 3.1% dividend — a payout of $0.32 per share each quarter. If we add on Suncor’s dividend to the covered-call premiums, we get a total of $7.28 per share in yearly income.

That’s good enough for a yield of 17.8%. No, that’s not a typo.

The bottom line

Thousands of Canadian investors are using covered calls to really supercharge their income. There’s no reason why you can’t join them. Those outsized yields are out there, waiting for you to seize them. What are you waiting for?

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