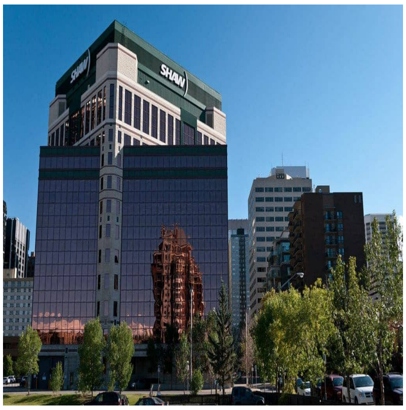

Income Investors: How to Get a 13% Yield From Shaw Communications Inc. (TSX:SJR.B)

Description

There's a powerful income-generating strategy many investors don't know about.

This strategy does take a few steps and a little expertise, but when done right it can generate significant yields. We're talking payouts of 8%, 10%, or even 15% on your invested capital. This strategy pays out monthly too, making it a great option for retirees who are looking to generate some extra income.

Let's take a closer look at this process, using **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) as an example.

Why Shaw?

The first step is owning Shaw shares. The good news is there are plenty of reasons to do so.

The company is actively working on dethroning Canada's so-called "Big Three" wireless operators. Shaw's Freedom Mobile subsidiary is growing at a much quicker pace than any of its competitors, as the company upgrades its network. I also think Shaw is doing the smart thing by focusing on large markets like Toronto, Vancouver, and Calgary.

Shaw's television business is slowly shrinking and has been for years. The good news is the company is able to mitigate this damage by increasing prices to current subscribers. It is also benefiting by selling cord cutters fast internet. These folks live online; they don't mind paying $100/month (or more) for internet fast enough to stream video to multiple displays at once.

Shaw isn't likely to increase its dividend anytime soon, because it's pumping additional cash into growing the wireless business. But it still easily earns enough to cover its current 9.875-cent-per-share monthly payout, which works out to a 4.8% yield.

How to turn 4.8% into 13%

Buying Shaw shares is only step one of this strategy.

The next step is a little more complicated, but it isn't that bad. Investors will need to venture into the options market and then sell the equivalent number of Shaw Communications call options. This action combined with owning the underlying stock is called writing a covered call.

Here's how it works out. Selling the November $27 covered call generates $0.17 per share in income. That income is received immediately. In exchange for this, investors are creating an obligation that they must sell their shares at $27 on November 16. If shares close below $27, the call option expires and nothing happens. Investors get to hang on to their shares. If shares close above $27, then the investor is forced to sell at $27.

The forced sale isn't the end of the world, since shares currently trade hands at $24.68. Say Shaw trades at $27.01 at the close on November 16. Investors would still get a profit of $2.59 per share, which includes $2.33 in capital gains, $0.17 in option premiums, and $0.0985 in dividends. That's a total return of 10.5% in less than a month.

Note, this doesn't usually happen. It's rare for Shaw shares to increase almost 10% in a month, which makes it a perfect stock for a covered-call strategy.

Now do it again … and again

Including the monthly dividend and the option premium, a covered-call strategy using Shaw Communications would generate $0.2685 per share in monthly income.

Shaw has monthly options, which leaves an investor free to do this strategy 12 times a year. Before commissions and other expenses, this translates into a 13% annual yield.

Or, to put it another way, using covered calls on 1,000 Shaw shares can take an investment worth less than $25,000 and turn it into a monthly income stream generating $268.50. Annually, this works out to $3,222. That's enough for a week or two down south every winter.

Most importantly, covered calls give retirees an option to supercharge their income without having huge amounts of money saved. If you're one of those people, you owe it to yourself to consider this powerful strategy.

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