Income Investors: This Bank of Montreal (TSX:BMO) ETF Offers a Massive Raise Minus the Extra Risk

Description

If you haven't given **Bank of Montreal** (TSX:BMO)(NYSE:BMO) a gander yet, you most definitely should, especially if you're an income investor who wants to leverage sophisticated portfolio management strategies without incurring a hefty bill of trading commissions, or having to worry about the potentially perplexing nature of derivatives which are incorporated into some of BMO's smarter ETFs.

Higher yield? Lower risk? But how?

When it comes to ETFs available to Canadians at a low rate, BMO is a king in its own regard. The bank has an extensive lineup of smart-active ETFs that implement covered call strategies that allow investors to bolster their monthly income stream without taking on additional amounts of downside risk.

Such covered call strategy ETFs stand to reduce volatility and downside risk for investors who are willing to trade a bit of potential upside in return for an additional stream of premium income from the calls written in BMO's covered call ETFs.

If you have absolutely no idea what calls, covered calls, or options are, you should give my previous piece a read, as it goes into further detail on BMO's covered call strategy and why it may be right for you given your unique situation. Simply put, covered calls allow the bank's ETFs to achieve a higher yield than the sum of its constituents by trading off potential upside for a guaranteed income payment (option premiums) that the ETF will receive upfront for distribution to shareholders.

Enhanced income is great, but what's the catch?

Covered call ETFs own long positions in high-yielding securities while simultaneously writing covered calls on its holdings.

The result? The covered call ETFs will outperform their non-covered-call counterparts, which will not receive any option premium income, when its holdings go down or flatline. If the holdings that have covered calls written against them go up, however, BMO will surrender excess upside after some strike price but will still rake in the option premium income.

So, the extra premium income isn't without its risks, but fortunately for retirees who value downside protection above all else, the risk is to the upside, not the downside. So, you can think of covered calls as a sort of "short" position or a hedge against down or flat markets that may be a drag on a long-only portfolio consisting of the same constituents, which will only benefit if they go up in price.

In short, if BMO covered call ETFs like the **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC), which has a 6.7% distribution yield, has a more prudent risk-parity approach that can offer its investors enhanced income and the ability to perform well regardless of which direction the market is headed.

Foolish takeaway

As you may know, I'm a huge fan of BMO's affordable ETFs and the "all-weather" or risk-parity approach to investing. With BMO's covered call ETFs like the ZWC, you'll get a lower degree of volatility and a beefed-up yield from call option writing that greatly enhances the ETF's long holdings in uncertain times.

I think that BMO's covered call ETFs are the best thing for Canadian retirees and conservative income investors since sliced bread. The 0.72% may seem steeper relative to BMO's other ETFs, but when you consider the professional management you're getting with BMO Global Asset Management, I'd say that's one heck of a price, especially if you're looking to batten down the hatches as we head deeper into a bear market.

Stay hungry. Stay Foolish.

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Author
joefrenette