



## Income Investors: Get a 32% Yield From Crescent Point Energy Corp (TSX:CPG)

### Description

After years of dependable dividends, many income investors swore off the energy sector for good in 2015 after just about every oil producer cut their payout.

I often advocate something similar, telling investors that the best choice for energy sector dividends are [Canada's largest pipeline stocks](#), not our energy producers. The price of oil simply fluctuates too much.

But that doesn't mean there aren't some fantastic income opportunities in the energy sector today, however. You'll just have to do a little work to uncover them. Here's how you can earn a 32% yield on **Crescent Point Energy Corp** (TSX:CPG)(NYSE:CPG) today.

Yes, really. That's not a typo.

### Using options to your advantage

Options and derivatives get often get a bad rap, as traders use them to take big levered bets on companies. Remember, it was derivatives that nearly bankrupted the U.S. economy in 2008 and 2009.

Most investors ignore the option market completely.

But there are ways that even small-time investors can use options to goose their returns. Today I'm going to introduce you to a concept called covered calls, which can really increase your income.

A covered call is relatively simple. First, you buy a stock. This is an important part; you must own the underlying security to do a covered call.

Next, you'll sell a call option, which will generate an obligation to sell your stock at a specific price on a specific day. You'll get income in exchange for taking on this responsibility.

At this point it becomes easier to explain using a real-life example. As I write this, the December 21 \$5 call option for Crescent Point currently trades at \$0.08/share. This means that an investor who sells this call collects \$0.08 today in exchange for agreeing to sell their underlying shares at \$5 each on

December 21st.

One of two things will happen between now and then. Crescent Point shares will either remain under \$5 each — they're trading for \$4.14 each on the TSX as I write this, which means that the options will expire, worthless. But if Crescent Point trades above \$5 at the close of trading on next Friday, then the covered call holder must sell their shares for exactly \$5.

The worst case scenario is Crescent Point shares fall between now and December 21. Sure, you'd still collect your option premium — and your dividend, since shares pay a \$0.03 monthly payout — but anything more than a \$0.11 drop and you're losing money.

The ideal outcome to this strategy is Crescent Point shares stay pretty much where they are, which would entitle the investor to the \$0.08 option premium while having no capital loss. A move up in shares from \$4.14 to \$4.50, say, would be quite fine too.

Finally, shares could end above \$5 each on December 21. This isn't such a bad solution either, as you'll end up with a nice capital gain. The only problem is that potential capital gain is capped and you'd have to buy the shares back to do this strategy again. Still, a 23% return in a week and a half is nothing to scoff at.

### **32% annual yield**

Now that we've got the basics of a covered call down, the only thing left for investors to do is to execute it. Remember, a stock like Crescent Point has monthly options (heck, it even has weekly options, but we won't delve into those), meaning you can execute this strategy 12 times a year.

If you do this trade each month, you'll generate \$0.96/share in option premiums annually. Add in Crescent Point's dividend, which currently sits at \$0.03 per share each month, and we're looking at 2.66% return each and every month.

It'll take you a whole year to earn an equivalent return from a GIC or government bond.

Annualize that return and we get a 32% yield.

I won't sugarcoat it: the reason why this opportunity exists is because Crescent Point shares are volatile. But if you're willing to tolerate some ups and downs, there's a lot of income that can be generated from the stock.

### **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

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nelsonpsmith

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