Retirees: Double Your Dividend Yield With the Safest 7.3% You'll Find

Description

There are a few extremely high yielders (with yields north of 7%) out there that have sustainable payout ratios, but for conservative income investors, like retirees, it's tough to justify allocating a sizable position of your portfolio to just a handful of securities.

You see, most securities with yields north of the 7% mark are "artificially high yielders," meaning the only reason the yield got that high is because shares of the company have been pummeled due to a known issue in the underlying business. While the dividend may still be safe, investors need to realize that they could be taking on more risk than they intended, as many artificially high yielders come with their fair share of baggage. And for the investors who don't do enough homework, they could be the ones left holding all the bags.

As a retiree, you should aim to reduce your risk exposure, not take on more risk with a potentially troubled firm to score a large upfront raise. Fortunately, there is one security that'll allow investors to get a higher yield without excessive amounts of risk that come with artificially high yielders.

Enter **BMO Europe High Dividend Covered Call CAD Hedge ETF** (TSX:ZWE). Now, the name of the ETF is rather intimidating, especially for investors who have no knowledge of options or how they work. As you may have guessed from the name, the ZWE is an ETF that's comprised mainly of high-dividend-paying equities based in the European market. What sets the ETF apart from a run-of-the-mill European ETF, however, is the covered call strategy that's executed by the fund managers working behind the scenes. If you're unfamiliar with covered calls, check out my previous piece on various other covered call ETFs.

In a nutshell, the covered call strategy allows investors to obtain a higher upfront yield from option premium income generated from the writing of covered call options.

The catch? The “extra upfront yield” made possible by the covered call strategy comes at the cost of excess upside in shares of firms that have covered calls written against them. Essentially, coveredcalls introduce upside risk, which is the risk that excess upside in an underlying security will not bebeneficial to shareholders of the ETF.

You’re swapping potential upside for extra income, and for retirees, that’s a favourable trade-off, especially as the markets get choppier.

At the time of writing, ZWE has a 7.22% yield, and with its diversified basket of European-based constituents, retirees should feel comfortable owning a sizable position in the “one-stop-shop” security. For an 0.72% MER, I’d say ZWE is a well worthwhile, especially since the ETF will provide you with diversification into the European market, and you’re paying for someone to take care of the covered call writing for you.

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