4 Must-Have ETFs for Monthly Income

Description

Dividends are the best. There is nothing more satisfying than seeing cash come into your account every month with little effort other than clicking the "buy" button on your computer screen. These beautiful payments are also taxed more handsomely than other earnings, including the wage you earn from your day job.

In addition to dividends, writing covered call options on your existing stocks can be used to generate income on stocks that you already own, although options can be a little daunting for casual investors who do not want to mess around with the tricky asset class. Fortunately, there are ETF choices that allow you to benefit from the premiums that covered calls generate while reducing some of the headaches.

Taxes are simpler with an ETF

Unlike owning and holding stocks, selling covered call options for premium can be a big headache when tax season comes around. While there are tax benefits from the premiums themselves (premiums earned are counted as capital gains, which are taxed even more favourably than dividends), it can be difficult to keep track of all the different options.

Using an ETF like **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC) can help simplify the process. This ETF has most of the high-dividend stocks that Canada has to offer. The yields from these companies combined with the covered call premiums and capital gains from stocks sold when options are exercised leaves investors with a yield of around 6.6%.

As you will notice with all of these stocks, the active management and covered calls add to the cost, making them more expensive than an average index fund. ZWC charges a relatively expensive management expense ratio (MER) of 0.72%.

U.S. investing and covered call writing makes more sense

If you like writing covered call options for income on U.S. dividend stocks, then **BMO US High Dividend Covered Call ETF**

(TSX:ZWH) might be a good substitute. This ETF holds many of the largest dividend-paying stocks in the United States. This ETF simplifies taxes in the same manner as the ZWC — a fact that is especially compelling given the fact that U.S. stocks are subject to the U.S. dividend withholding tax. The ETF is also traded in Canadian dollars, reducing the need for conversion.

That being said, if you want to generate U.S. dollars, you can always buy the U.S. dollar-traded option, **BMO US High Dividend Covered Call ETF** (TSX:ZWH.U). This ETF pays a monthly distribution that is slightly lower than ZWC at 5.8%. The lower yield is primarily due to the expensive nature of U.S. equities, but having the chance to own excellent dividend stocks with the added covered call overlay is a great deal. This ETF charges a MER of 0.71%.

Get diversified!

If you really want huge income and great diversification, buy **BMO Europe High Dividend Covered Call ETF** (TSX:ZWP). This ETF holds several great European dividend companies with the covered call premiums. For many investors, buying these stocks can be difficult, so owning them through this ETF can be a great strategy. European stocks have been hammered, so of the ETFs mentioned, this probably has the most upside potential.

Get bigger income today

Each of these ETFs gives Canadians a great way to diversify and get income from dividends as well as from the covered call premium in an easy, straightforward manner. Even though the MERs are relatively high, the service provided is well worth the extra cost.

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:ZWC (Bmo Canadian High Dividend Covered Call ETF)
2. TSX:ZWH (Bmo Us High Dividend Covered Call ETF)
3. TSX:ZWH.U (Bmo Us High Dividend Covered Call ETF)

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