Boost Your Passive Income With These BMO ETFs

Description

BMO's line of ETFs is magnificent.

With a slew of new DIY investment options now available to Canadian investors, like BMO's wide range of low-cost ETFs and mutual fund products, Canadians now have the most investment options ever! And that leaves them even less of a reason to surrender their hard-earned capital to the hands of an active "professional" money manager who'll end up charging a small fortune in fees.

If you're a passive-income fan like a retiree, there's a BMO ETF for that. And thanks to BMO, it's possible to get a little extra income without any added downside risk through the use of options strategies.

Now, most Canadians aren't well versed with options, and that's fine. You don't need to be a seasoned options trader to score the extra income that BMO's covered call ETFs can provide.

What are covered calls all about?

I touched on the strategy in a previous piece.

Essentially, you're getting premium income in addition to the income you'll get from dividends and distributions paid out by the constituent companies held in the BMO ETF. While you won't elevate your downside risk, you will surrender some upside potential should the constituents with covered calls written against them appreciate in price.

You're essentially taking the opposite side of a call option. When you buy a call, you pay a premium to have the right to purchase a security at some strike price on or before an expiration date. With covered calls, you're the one receiving premium income in exchange for the right to purchase your security. If the security doesn't move above the strike price, the option won't be exercised, and the covered call writer will still walk away with the premium.

As an income-oriented investor who cares less about scoring short-term capital gains, covered call ETFs are all the rage!

They're also a great hedge for investors who own a portfolio of stocks, as covered call ETFs are big outperformers when the markets consolidate or go down in price. In today's shaky market, covered call ETFs, like **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC), are a must-own, even for the non-income savvy.

Whenever analyzing an ETF, one must not only look at the fund strategy, managers, and associated fees. One must pay close attention to the constituents that are being held in the basket, because ultimately, that's what you're really paying for — not the basket, but the fruit that's contained in the basket!

What's in this basket?

That would be high-quality dividend-paying securities with above-average yields; several pipeline firms, telecoms, utilities, and well-capitalized financial institutions; run-of-the-mill "Steady Eddie," passive-income stocks that most retirees know and love.

The basket of businesses themselves are a perfect way to play defence, and the volatility-dampening call option writing just serves as another layer of protection for those looking to get paid, regardless of which direction the markets head.

With the smart managers at BMO Global Asset Management running the show, you'd think you'd pay a pretty penny for the ZWC, but compared to most other actively managed products that involve options, you're actually getting a bargain as the ZWC's MER is a mere 0.72%, which is comparable to some currency-hedged index funds!

There are plenty of cheaper ETFs out there, but if you're looking to go the extra mile to bolster your income, I'd say the slightly higher MER of the ZWC is well worth the price of admission. You're paying a bit more for the added effort behind the writing of call options. Writing your own could save you money, but I'd say it's not worth the added time and effort unless you're a high-net-worth investor.

With the ZWC, you just buy it, forget about it, and collect the "enhanced" distribution, which currently yields 6.43%.

Foolish takeaway

Covered call ETFs are the perfect defensive income investment to own in market environments like the one we're in right now. Even in a roaring market, investors who are willing to sacrifice some capital gains for extra premium income (like retirees) ought to consider injecting covered calls into their passive-income portfolios today.

Stay hungry. Stay Foolish.

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1. TSX:ZWC (Bmo Canadian High Dividend Covered Call ETF)

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Date
2025/07/21
Date Created
2019/05/17
Author
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