2 Methods to Make Your TFSA Passive Income Fund More Bountiful!

Description

Higher risk, higher reward. Higher yield, higher risk. You've probably heard these phrases ad nauseam by now. And although most income investors are content with sticking with the boring, outdated, and sometimes sub-optimal 4% rule, there are ways that an income investor can give their TFSA passive income stream a jolt without elevating the downside risk of your portfolio substantially.

So, if you're looking to give yourself a big raise, without the indigestion that comes with chasing "riskier" higher-yielding securities, consider the following three ways to help make the most out of your passive income stream.

Start using covered call ETFs

For conservative income investors who'd like to trade a bit of capital gains for added income, covered call ETFs are the best thing since sliced bread. With securities like the **BMO Covered Call DJIA Hedged Canadian ETF** (TSX:ZWA), you're getting the defensive income investor's version of the Dow Jones Industrial Average.

The ZWA has a bountiful 4.4% dividend yield at the time of writing, but the Dow's constituents don't have yields that average that amount! How is this possible?

It's possible through the writing of covered call options because you're getting premium income on top of the dividends that come from the basket of Dow constituents at the cost of potential upside.

In a static or bear market, the covered call version of an ETF ends up the winner. In periods where stocks are rising, the non-covered-call version reigns supreme.

If you could care less about where the markets are headed and just want an extra boost of reliable income, the covered call version of an ETF is your forté. And if you're overexposed to equities and want to hedge your bets in case of a recession, the covered call version, again, is the horse to bet on!

Buy the dips

Buying the dip is a strategy that's usually implemented by contrarian investors who seek capital gains. For income investors, I like to think of the strategy as "locking in a higher yield" because as you may know when a dividend-paying stocks falls in price, the dividend yield goes up by a proportional amount. The steeper the dip, the higher the yield gets!

In the choppy market environment like the one we're in right now, there's no shortage of dips. You've just got to be ready with cash on the sidelines to lock-in those high yields as they come because should shares of a company bounce back abruptly, you'll lose your chance to lock-in that swollen yield because once the stock bounces back, the yield will revert lower, toward its mean.

When you add dividend hikes on dips into the equation, you could see the yields really swell in size! Especially for firms that use dividend hikes as a "bribe" to get investors back into a name. Of course, you need to make sure you don't confuse a temporarily dipped stock with a value trap with an artificially high yield, a stock whose yield has soared because its price has tanked due to serious problems with the underlying business.

You want a battered stock of a company whose long-term thesis is still intact, not an obliterated stock of a company with a ton of baggage that will likely never see its highs for a long time.

If you're a beginner, I'd encourage you to buy the ZWA on dips because most of the constituents are solid blue-chips that'll seldom fall into value trap territory. If another Trump tweet causes the Dow to flop, buy the ZWA and lock-in the extra few tenths of a percent of yield. It may not seem like much now, but over the long term, it makes all the difference!

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:ZWA (BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks

2. Investing
3. Stocks for Beginners

Date
2025/06/29
Date Created
2019/05/20
Author
joefrenette