2 Ways to Earn Huge Income From Stocks

Description

Income-focused investors are hungry for high yields from their investments. Since it looks like interest rates aren't going to move any time soon, this means they need to look for other ways to generates income for their portfolios. Listed in this article are two ways that you can generate big income from your stocks.

Buy stocks with high yields

Many stocks listed on the Toronto stock exchange boast dividend yields of well over 7%. In an age of low interest rates, yields like these can be very tempting for income-focused investors. But while some yields might be safe, a yield of over 7% can often be the market signaling that a dividend cut might be on the horizon.

When I think of dividend stocks with high yields, **Inter Pipeline** (TSX:IPL) comes to mind. This company has a large dividend that appeals to many investors looking for income. It is a pipeline utility with a dividend yield of over 8%, a pretty hefty yield at this point in time. Other companies with similarly high yields and debt loads have cut their dividends over the past couple of years, so the high yield makes me a little nervous.

While I am relatively confident that Inter Pipeline will maintain its dividend, there is a risk of owning stocks with such a high yield. Other companies have slashed their payouts even after many people defended their ability to maintain their dividends.

Use covered calls

Luckily, there is another way to generate a yield greater than 7% from your stocks. It takes a bit of research and practice, but if it is done well, you should be able to get a big yield without having to be at the mercy of the company.

The way this is done is through the use of options, namely covered calls. First, choose a stock with a decent yield and a very secure payout. A good example of a company that fits this bill is **Fortis** (TSX:FTS)(NYSE:FTS). This company has what is probably the most secure dividend on the TSX, with

45 years of steady dividend increases under its belt.

The problem is, that yield is in pretty high demand, driving the share price up to a point where the stock only pays a yield of 3.59%. At that level, the market is essentially pricing this stock like a bond, with the yield only slightly higher than a five-year GIC.

Using covered calls, you can add some extra yield to your stocks. At the moment, you can get about $0.60 (less expenses) for an October 18, 2019, $52 strike call on Fortis. That brings your total yearly income from the stock to $2.40 ($1.80 in dividends + $0.60 in premium). As long as the stock remains below $52, you will collect the premium and dividends and keep the shares.

But wait … that's only a yield of 4.8%! Don't worry, there's more. If the shares are below $52 a share, you can write another call. Assuming the shares are around the same price of $50 a share they are today, you could potentially get a further $0.60 a share in premium, bringing your income to approximately $3 a share ($1.80 in dividends + $0.60 per October contract + $0.60 per February contract = $3 a share). Your new yield will be about 6% ($3/$50 a share).

The downside, though, is that you will sell your shares if it goes above your strike price. You will miss out on any capital gains as well. If Fortis shoots up to $80 a share, all those gains above $52 will be lost. The good news is, though, that Fortis is a pretty boring, steady stock. Since it is already near its 52-week high, it is unlikely that it will rocket higher. This makes it a great candidate for covered calls.

Covered calls are complicated but profitable

If you want to get a high yield but don't want to be at the mercy of a company for high income, covered calls might be the strategy for you. They take a little more work, and you have to be prepared to sell your shares, but it is a way to gain that high yield you desire without the stress of having your dividend cut.

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