



Income Lovers: Create Your Own 21% Yield With This Little-Known Company

Description

I'm going to let you in on a secret today — a little-known income-generation technique many investors have never even heard of before.

This method allows investors to collect annual yields of 12%, 15%, even up to 20% on stocks they already own that have a history of trading in a tight range. Most of the return comes from the dividend, in other words.

Intrigued? You should be. Here's how you can generate your own massive passive income with a stock like **Chemtrade Logistics Income Fund** ([TSX:CHE.UN](https://www.tsx.com/stocks/quotes/CHE.UN)).

Why Chemtrade?

Chemtrade Logistics is a leading provider of various chemicals, operating in three separate segments. The leading part of the company provides sulphur and other related products to industrial companies, including oil refineries. It also provides water purification products to water treatment plants across North America, and it has an electrochemical division, which primarily provides products used for bleaching by the pulp and paper industry.

Chemtrade must keep a relentless eye on its cost structure, since the sector is competitive and there's little to differentiate the company's products from competing ones. Chemicals are chemicals, after all. 2018 was a poor year, with the company posting a net loss of \$1.42 per share. This compared to a profit of \$1.57 per share in 2017.

Management is busy dealing with the issues that led to the loss, including working with rail transporters to alleviate certain bottle-necking issues and minimizing plant maintenance, which stretched longer than expected in 2018. The company also had large one-time costs related to a lawsuit, a process that should be resolved in 2019. And it took a large goodwill writedown from a recent acquisition.

Excluding some big one-time costs, Chemtrade earned \$1.61 per share in distributable cash in 2018, which puts the company's shares at just six times that number. Bulls point to distributable cash being

the more relevant earnings number. And they're also quick to point out that amount easily supports the company's \$1.20 per share annual dividend.

In fact, Chemtrade has paid that same dividend since 2007, and it hasn't missed a distribution payment since its 2001 IPO.

How to juice your income

Chemtrade Logistics already yields 12.4%, thanks to the stock selling off after those crummy 2018 results. That alone should be enough to get an income investor's attention.

But it can be even better. How would you like to earn more than 20% annually from this stock?

You can, using a covered call option strategy. Here's how it works. First, you have to buy Chemtrade stock. That's the easy part.

The next step is to go into the option market and sell a call option, which gives an investor immediate income in exchange for creating an obligation to sell the underlying shares if the price increases by a certain date.

Let's look at a real-life example. The \$11 June 21 call option contract last traded for \$0.07 per share, which means you'd pocket that premium immediately if you sold that particular option. In exchange for that, you'd have an obligation to sell your shares if the price exceeded \$11 each on June 21.

This isn't such a bad outcome. Chemtrade shares currently trade hands at \$9.68 each. Moving up to \$11 in under a month would be a profit of 13.6%, plus the option premium and the monthly dividend.

The ideal solution would be for shares to trade in a range for a long time, which would allow you to collect a monthly option premium and the dividend, really goosing your total yield in the process.

Collect a 21% yield

Remember, you won't only be collecting the \$0.07-per-share option premium by using this strategy. Shareholders as of May 31 are eligible to collect Chemtrade's \$0.10 per share monthly dividend.

That gives investors a potential monthly income stream of \$0.17 per share on a \$9.68 stock. That works out to a whopping 21% annualized yield.

No, that's not a typo. That's how powerful a covered call strategy can be. Will you add this incredible income-generation tactic to your portfolio?

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1. TSX:CHE.UN (Chemtrade Logistics Income Fund)

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