Passive Income Alert: This BMO ETF Has the “Safest” 6.5% Yield on the TSX Index

Description

Forget the 4% rule.

There are ways to get higher yields without higher degrees of risk. And while you could go on the hunt for high-yield dividend stocks on your own, obtaining a higher, safe yield is as simple as scooping up the 6.5% yield offered by the **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC).

While the ETF’s name is a mouthful and may be perplexing to income investors who haven’t had the chance to dabble around in the options market, the strategy behind the ETF is easy enough for a beginner to understand. And given the diversified mix of quality securities within the ETF, it’s not a mystery as to why it’s one of the “safest” yields on the entire **TSX** index.

When it comes to most funds, the constituent dividends are summed and distributed to shareholders in the form of a distribution. In short, the fund’s distribution yield is a weighted average of the yields of its constituents. When it comes to fund leveraging, the “covered call” strategy, however, the ETF itself can achieve a yield that’s greater than the sum of its parts.

It’s quite magical. Well, not really when you understand how the covered call strategy works. In short, the ETF writes call options that trade off potential upside over a certain timeline in exchange for premium income that’s guaranteed regardless of whether the written option is exercised by its buyer. The premium income from writing the option is added on top of the dividends that are paid out by the constituent companies.

So, for those looking for passive income and could care less about short-term market fluctuations, a covered call ETF like the ZWC may be your cup of tea. While BMO has a line of covered call ETFs, I’m singling out the ZWC because it’s got one of the highest yields of the bunch as the ETF focuses on high-yielding Canadian dividend stocks.

Having a look under the hood, you’ll see all the high-yielding Canadian darlings that you know and love. The pipelines, the telecoms, the big banks, insurers, and the dividend growth kings. If it’s a high-quality company that's on track to become a Dividend Aristocrat over the next decade and beyond, chances are, the name is in the group.

Seeing as capital gains are few and far between these days, I consider BMO's line of covered call ETFs to be a secret weapon for investors who are not only looking to combat volatility, but also for those expecting to gain more returns in a potentially lower return environment.

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

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