Retirees: A Better Way to Bet on Canadian Banks

Description

Don't listen to the short-seller noise you hear on television. The Canadian banks are impeccable long-term builders of wealth, so don't be fazed by a bearish few who take advantage of the media limelight to talk up their books, because when the tides turn, they won't be held accountable.

In prior pieces, I've highlighted the macro headwinds that Canada's top financial institutions have been facing. I won't go into further detail in this piece. Rather, I'd like to point retirees to a better way for betting on Canada's banks on the dip. While the medium-term outlook for all banks is looking bleak, and a rebound may be several more quarters away, valuations are compelling, and as momentum dries up, retirees may have an opportunity to get more income with **BMO Covered Call Canadian Bank ETF** (TSX:ZWB).

For those unfamiliar with the covered call option strategy, it's essentially trading potential share upside for premium income up front. This premium income is added on top of the aggregated dividend of Canadian banks within the ETF, resulting in a 5.2% yield, which is slightly higher than the average yield of the ETF's bank constituents.

While **CIBC** (TSX:CM)(NYSE:CM) sports a higher yield (5.5%) than ZWB at the time of writing, those retirees who want less volatility and greater diversification may be better off with the ZWB over CIBC, especially if they think Canada's banks, most of which have been downgraded to "hold" by analysts, are going to stay lower for longer.

In any case, ZWB is a terrific way to bet on the banks for those who want income but aren't bullish on the near-term prospects of the sector. The premium income from options writing will dampen volatility and make it easier to ride out the uncertain times that lie ahead.

Foolish takeaway

ZWB is a one-stop-shop banking bet for conservative investors who want to play it safe while collecting an above-average yield. For those who can tolerate a bit more volatility, CIBC offers more upside potential in the event of a banking bounce and a slightly higher yield.

If you're bullish on the bank's abilities to rebound in the second half of the year, go with CIBC. And if you don't want to make a call on where the banks are headed next but want to place a hedged bet on the broader basket, ZWB is the horse to bet on. Note that you will be on the hook for a 0.72% MER, which, while relatively low compared to mutual funds, may be on the high end as far as ETFs are concerned.

I'd say most income-savvy retirees would be best served by placing a bet in both the ZWB and CIBC.

Stay hungry. Stay Foolish.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners
5. Top TSX Stocks

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:ZWB (BMO Covered Call Canadian Banks ETF)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners
5. Top TSX Stocks

Date
2025/08/20
Date Created
2019/07/21
Author
joefrenette