



Marijuana Investors: Create Your Own 25% Yield With Canopy Growth (TSX:WEED)

Description

Although I've recently become [bearish on the marijuana sector](#), I can understand why investors would still want exposure to the industry.

There is still lots of potential there, especially as edibles and topical creams became legalized later on this year. Supply issues have hindered official demand, as consumers who couldn't get product from stores kept their dealer on speed dial.

Cannabis operators are having success in expanding to other nations to help supply these new markets with medical marijuana. Some of these nations will soon decriminalize the drug, thereby opening up further potential.

Unfortunately, the sector is largely being driven by investor sentiment today. If Bay Street — or Main Street — suddenly turns bearish on cannabis, the share price of the biggest producers will decline.

We witnessed just such an occurrence in the last quarter of 2018, which saw the stock price of many of the industry leaders cut in half over just a few months.

There's one way that investors can protect themselves from this fall all while collecting [a massive yield](#) in the process. It'll take a little work on your part, but the reward is well worth it.

Covered call strategy

The way to get income from a marijuana stock that doesn't pay a dividend is to use a covered call strategy. Let's use **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC) as an example.

The first step is to buy shares of the company. Canopy is a mainstay in many portfolios these days, so chances are you already have a healthy position.

The next step is to sell Canopy call options, which gives an investor income immediately in exchange

for creating an obligation to sell at a certain price on a specific date in the future.

At this point it's much easier to look at a specific example, so let's do that. The August 16 \$50 Canopy call options last traded at \$1 per share. Thus, selling this option today would generate \$1 per share in income immediately while creating the obligation to sell at \$50 per share on August 16th.

Remember that Canopy shares trade at a hair over \$46 each as I type this, so there's a little wiggle room there.

The trade has two possible outcomes. If Canopy shares close under \$50 on August 16, the investor gets to keep the income and the shares. If Canopy closes above \$50, then the investor must sell their shares for \$50.

The same outcome happens if shares are \$50.01 or \$70. There's the potential to miss out on some upside if something big happens.

The first situation is ideal, as that would give the investor the opportunity to do the option trade again next month and collect at least one more premium.

But even if the situation forces a sale, the investor will lock in a profit north of 10% in a little less than a month. Shares can then be repurchased and the strategy used again.

The yield potential

Creating a \$1 per month income stream from Canopy works out to a very impressive yield. It's a hair over 2% per month, or approximately 25% per year.

No, that's not a typo. It's very possible, assuming Canopy shares cooperate. And remember, even the trade executed only once or twice still works out to a 25% annualized yield. So you can be picky with your timing. There's no need to do this every month.

It's also a great way to hedge against a potential downturn in the industry. Let's Canopy shares grind 25% lower over the next six months. A covered call strategy generating 2% per month in income would cut the loss in half.

The bottom line

The marijuana sector isn't paying dividends anytime soon. The only way for income investors to get a little cash flow from their cannabis investments is to create it themselves. It might not be a bad strategy today, especially if the sector starts moving lower.

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