Income Investors: Give Your Passive Income a Boost With This Simple Strategy

Description

Generating income is great for investors, and buying dividend stocks is an ideal way to make passive income from your investments. For those investors who are seeking to add more income, though, you can buy ETFs that give you exposure to a covered call strategy.

A covered call strategy is an options strategy that allows owners of stock to sell options on that stock to collect extra income. The theory may sound daunting to some, but don't worry; we won't get into the nitty gritty of it, since the fund is run by professionals.

All you need to know is that the strategy earns premiums by selling options for other investors to buy the stock if it appreciates to a certain level in a specified amount of time. The strategy tends to do better in periods where the stock increases in price but at a slow and steady rate.

The reason covered calls are a great strategy is because they cap your downside potential. The inverse of that is that they cap your capital gain potential as well, but for those investors seeking income, this should be a fair trade off.

Since the stock is selling its upside potential for a premium, investors won't be exposed to the massive capital gains but will see a higher-than-normal dividend yield to reflect the extra premium its earning.

One of the top covered call ETFs is the **BMO Covered Call Canadian Banks ETF** (TSX:ZWB).

Bank of Montreal has a number of ETFs that give investors exposure they wouldn't otherwise have access to without having a large investment portfolio and having the knowledge to make the investments in things like derivatives.

The covered call ETF is a top fund for those investors looking for exposure to the Canadian banks, with limited downside and enhanced income.

It’s made up of an equal weighting of bank stocks as well as its own equal weight bank ETF the **BMO Equal Weight Bank Index ETF** (TSX:ZEB). While ZEB pays a dividend that yields around 3.75%,ZWB fund currently yields roughly 5.5%.

Comparing the share performance of the ZWB to ZEB, it’s immediately clear that the main difference between the funds is the dividend amount. What ZWB pays out in dividends that is unmatched by ZEB, ZEB makes up for in capital gains.

This gives investors a clear choice whether they want the exposure to some dividends and share appreciation, or if they want to cap their gains and their downside and earn higher passive income.

The fact that the option to invest in a covered call strategy is available is a huge opportunity for investors, especially on an ETF that has a management expense ratio of just 0.7%.

For investors wondering when the best time to buy the ETF would be, I would recommend during periods of high volatility. The banks have been extremely stable throughout the volatility, and as it rises, the premium that options can be sold for rises; therefore, the risk is minimized and more profit is locked in.

It’s also useful to watch the price movement of the ETF and buy on a dip to maximize your return by buying it as cheap as possible.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:ZEB (BMO Equal Weight Banks Index ETF)
2. TSX:ZWB (BMO Covered Call Canadian Banks ETF)

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