TFSA Investors: 1 Stock Is All You Need to Create a $600/Month Tax-Free Income Stream

Description

If you're one of less than half of Canadians who've been regularly contributing the maximum amount to their TFSAs every year while immediately using the proceeds to invest in equities, you're probably sitting on a TFSA that's past the six-figure mark.

And if you've yet to hit the milestone, you may be too conservative for your own good or may have made too many TFSA withdrawals. In any case, you shouldn't fret, because the TFSA is still in its early days, and there are still decades' worth of tax-free compounding that can allow you to make up for lost time.

In this piece, I'm going to assume a TFSA of $100,000, a conservative estimate for investors who have been using their TFSAs to invest in high-return investments like stocks.

With such a TFSA, a $600/month tax-free income stream can be created with high-yield ETFs like **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC), a diversified mix of high-yield Canadian dividend stocks that are given an added income jolt through the implementation of a covered call option writing strategy.

ZWC sports a 7% yield at the time of writing, which is slightly higher than the yield that the sum of the ZWC constituent dividends. This is thanks to guaranteed premium income that's made through the dynamic writing of covered calls. A 7% yield gives us $7,000 in annual tax-free income per year, or just shy of $600 per month.

Fortunately, everyday retail investors don't need to be options wizards to profit off the strategy, as the managers running the ETF will take care of all the options writing for a reasonable MER of just 0.72%.

What you need to understand is that premium income from covered-call-writing strategies is added on top of the sum of collected dividends from ZWC's long positions and that this "additional" income comes at the cost of potential share price upside.

In a way, covered call ETFs are a hedge against downside.

The added premium income from covered calls serve to further dampen potential share price downside, but in a soaring market, potential gains from shares that have a covered call written against them will be surrendered in exchange for premium income, which may be far less.

For those seeking more income and a place to better weather the next market crash, the trade-off is more than worthwhile. And best of all, the covered call strategy allows investors to get a higher yield and a lower degree of volatility while doing so.

In a choppy market like this, where billionaire investors like Warren Buffett and Jim Pattison are hoarding cash amid geopolitical tensions, cutting risk and adding to income is only prudent, especially when you consider bonds aren't going to give you much more than the rate of inflation moving forward.

As we move into rougher market waters, you'll want to reduce your correlation to the broader markets and ensure you're getting paid enough to ride the roller coaster of emotions. An ETF like the ZWC is a one-stop shop for investors of all ages, granting instant exposure to a broad range of high-quality income-generating securities and a consistent options-writing strategy that will pay massive dividends come the next recession.

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joefrenette