Retirees: Use This Simple Trick to Supercharge Your CPP Payments

Description

The financial media loves to report stories of folks who are very ready for retirement – the kinds of people with nest eggs comfortably into seven figures.

But unfortunately for millions of Canadians, these stories are the exception, not the norm. Many Canadian savers are woefully unprepared for retirement. These people aren't bad, it's likely they just spent their cash on other priorities like paying off the house or helping out their children.

The default solution for folks without much retirement capital has always been high-yield stocks, the kinds of companies that pay a 6% yield or more. But these stocks are risky, and they don't tend to provide much in capital gains because they're paying out all their earnings to shareholders.

There's a better solution. Here's a simple trick you can use to really supercharge the income you receive from a stock, a perfect solution for a retiree without enough cash. Let's take a closer look.

A covered call strategy

You won't see it covered much in the financial media, but a covered call strategy is one of the easiest ways for investors to earn sustainable 10%, 12%, even 15% yields.

Here's how the system works. The first step is to buy the underlying stock. There are certain stocks that work really well for this strategy, like higher dividend payers that offer monthly payouts. We'll use **TransAlta Renewables** (TSX:RNW) as an example for this article because I like the company's focus on greener power generation, it has nice growth potential, and it trades at a reasonable valuation.

Once you've purchased the underlying stock, it's time to venture into the options market. Derivatives get a bad rap because traders can use them to make incredibly leveraged bets on stocks, the kinds of ideas that pay huge when they work out. The vast majority of the options market is way less exciting.

The next step is to sell a call option, which gives you income immediately in exchange for creating a sell obligation on a specific date. This is when it gets easier to use a real-life example, starring

TransAlta Renewables. The $15 November 15th call option last traded at $0.07 per share. Or, if you're feeling a little bearish, the $14 call option on the same date pays $0.40 per share. Remember, shares currently trade hands at $14.25 each.

The $15 call option trade has two outcomes. The first one is ideal. If the stock trades below $15 at the end of trading on November 15th, you get to keep the premium and the option expires, worthless. The other outcome is the stock rallies above $15 per share and you're forced to sell your shares at $15 each. This isn't such a bad outcome either; you've made $0.70 per share in capital gains and you're free to keep the option premium, too. Not bad for holding just under two weeks.

More income?

The beauty of using a covered call strategy with monthly dividend payers like TransAlta Renewables is you also receive a nice income boost from the dividend alone.

Remember, Renewables pays a succulent $0.07833 per share monthly dividend, a payout that works out to a 6.6% yield. The ex-dividend date is November 14th, meaning you'd qualify for November's dividend.

A covered call strategy is essentially like getting two dividends for the price of one. You're looking at a $0.14833 per share income source each and every month you do this trade. That works out to an eye-popping 12.5% annualized yield.

That's how powerful a covered call strategy is. You've essentially doubled your income with just a few mouse clicks. And since TransAlta Renewables is a pretty boring stock, you don't have much risk of shares rocketing higher and ruining the trade.

The bottom line

Anyone can use this simple strategy to really supercharge their income, but I bet it'll be especially popular with retirees looking to get a little extra from their savings. It's the perfect CPP supplement.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:RNW (TransAlta Renewables)

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1. Business Insider
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Date
2025/09/10
Date Created
2019/11/05
Author
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