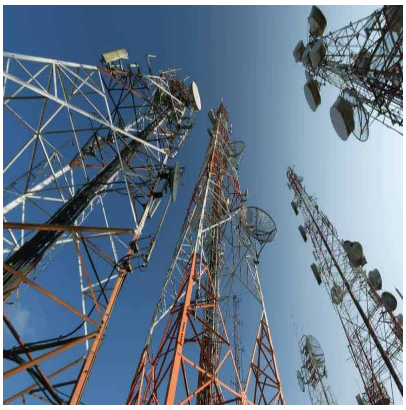

Yield Alert: Create Your Own 14.4% Dividend With Shaw Communications (TSX:SJR.B)

Description

Today I'd like to introduce you to a simple investing trick thousands of Canadian investors are using to generate some eye-popping yields. We're talking payouts of 10%… 12%… even as high as 14%.

No, that's not a typo. You really *can* generate yields that good. And I'm not talking about risky stocks that have perilous dividends, either. These are blue-chip Canadian stocks that are likely already in your portfolio.

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Anxious to read more? Then let's check out how you can use **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) shares to generate double-digit yields.

Why Shaw?

First, let's talk about why Shaw Communications is the ideal stock for such a plan.

The company is a solid operator with an interesting growth arm attached. Remember, Shaw's legacy business of providing home phone, cable, and internet to customers in Western Canada is still alive and well, generating gobs of consistent cash flow. And investors gain exposure to the exciting part of the business in the form of rapidly-growing wireless provider Freedom Mobile.

The stock pays a monthly dividend of $0.09875 per share, which is important for this strategy, as we'll see in a moment. The current yield is 4.5%, and Shaw's dividend is highly regarded. You don't have to worry about the payout.

Now let's determine how you can use Shaw shares to generate some fantastic yields.

The skinny

We're going to use a covered call strategy — a common options strategy investors use to generate additional income.

The first step is to buy Shaw shares. Without ownership of the underlying stock, you can't do a covered call strategy.

Next, we're going to sell a call option on the stock, a move that generates income immediately. In exchange for this income, we'll take on the obligation to sell our shares at a certain price on a predetermined date.

Let's look at a real life example. The $27 call option trades hands for $0.22 per share, and the contract expires on January 17. If Shaw shares trade below $27 on January 17 (the stock trades at $26.60 as I write this), then you can keep the option premium and retain your shares. If the stock rallies and ends up above $27 on the date in question, then you're forced to sell your stock at $27.

Either way, you've made money on the trade. The ideal solution is if shares stay the same or fall a little, as you'd get the option premium and get to retain ownership. But even if the stock rallies, you've made a profit of approximately 2%, a pretty solid result for holding just over a week.

But there's more. I picked Shaw for this exercise because the company's monthly dividend is paid out to shareholders who own the stock as of January 14, which means that you'd get the monthly dividend as well, increasing your worst-case profit to 2.5%.

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Now do it again… and again…

Ideally, Shaw shares will stay in a tight trading range and you can write covered calls on them month after month, pocketing the premium. Real life might not prove to be that cooperative, however.

Still, the amount of yield you can generate from this strategy is amazing, even if you have to periodically go back and buy new shares after yours get called away.

Add together the $0.22 per share in option premium and Shaw's $0.09875 dividend and we get just under $0.32 per share in monthly income. On an annual basis, that works out to $3.825 per Shaw share, an amount that translates into a 14.4% dividend.

Have I gotten your attention yet? That's a huge amount of income for just a few mouse clicks every month.

The bottom line

A covered call strategy can be a huge income generator, especially if you manage the portfolio well and choose the best opportunities.

Covered call ETFs will do the same thing, but you're not getting nearly as much yield that way. It's much better to pick your own stocks.

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