TFSA Investors: A 10% Yielder That's Safe Enough to Buy on the Market Crash

Description

The markets are crashing — hard. That means it's time to go on the hunt for opportunities to pay a dime to get a dollar with the dry powder you've been saving up. For dividend investors with cash enough on hand, a generational window of opportunity just opened up to snag a "safe" 10.2% yield.

The **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC) recently plunged along with the broader markets. As you may know, yields go up when shares fall, all else left unchanged. The ETF holds a basket of high-quality Canadian securities that are screened not only for their sizeable yields, but their safety and growth potential.

Reaching for yield in a crisis

Warren Buffett thinks it's a bad idea to reach for yield. But it can make sense amid a market crash if you do your homework and pick your spots. You've just got to pay special attention to the financial health of the companies behind the stocks you intend on buying. That means analyzing the state of the balance sheet, the fate of the income statement given the coming headwinds, and the statement of cash flows.

To save yourself from a potential dividend cut down the road, steer clear of heavily indebted companies. Next, you'll want to reach only for companies with cash flow streams that are less likely to be affected by interruptions caused by a pandemic or a severe economic downturn. When business gets put on hold, fixed costs could get the better of a company, so a careful analysis of solvency metrics is a must.

With ZWC, you're getting premium income from the writing of covered calls that goes on top of the income you'll get from distributions from the ETF's long positions. That's a double dose of income in exchange for upside potential. Given the **TSX Index** has been tanking with no end in sight, that's a more than favourable trade-off.

Sure, you'll still face substantial downside with the name, but at least you're getting paid a fat cheque while you ride this horrifying rollercoaster ride of a market.

What's under the hood? High-quality components, mostly.

Moreover, the brilliant managers at **Bank of Montreal** have hand-picked securities that are less likely to crumble, even during crises like the one we find ourselves in now. A biological crisis without sufficient fiscal stimulation could be the recipe for dividend cuts galore and bankruptcies left, right, and centre.

Fortunately, a majority of the firms in ZWC are well capitalized and have what it takes to weather the storm. ZWC owns plenty of dividend aristocrats, including the Canadian banks, which, while stressed, are unlikely to slash their dividends as they fall into the abyss.

An evident sore spot of ZWC is its energy holdings, which have taken on a brunt of the damage of late.

Pipeline payouts may become stressed should unfavourable conditions continue, but on the whole I think that ZWC's payout is a heck of a lot more stable than any single high-yield dividend stock with a comparable yield. The ETF owns several REITs, utility, and telecom companies that are both well positioned and committed to continue paying outsized dividends.

Foolish takeaway

In an era where yield is scarce, ZWC is a must-buy if you're no stranger to volatility. Don't panic, buy the dip, and you'll probably be pleased with your results in a few years from now when the idea of a safe 10% yield will be unheard of!

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