Have $10,000 to Invest? Buy This 9% Yield BMO ETF Right Now

Description

The dividend (or distribution) yield bar has been raised substantially amid the coronavirus market crash . Typically, a security yielding north of the 9% mark is to be avoided at all costs because it likely comes with its fair share of baggage.

Amid a market crash, stocks, ETFs, and sometimes even bonds all fall off a cliff. And much of the time, the damage overextends to the downside. As you may recall, yields go up as share prices go down.

And assuming no dividend (or distribution) cuts, contrarian investors have an opportunity to lock-in an outsized dividend while paying a much lower price of admission.

Of course, you'll need to analyze the sustainability of the payout so the dividend isn't pried out of your hands by a financially distressed firm (or a group of firms in the case of an ETF).

That's a lot of homework to do, but it's worth it, especially if we're on the cusp of a V-shaped market recovery, which could allow you to have your cake (a huge dividend yield) and eat it too (capital gains in the event of an upside correction).

Safely reaching for yield

Warren Buffett believes that the act of "reaching for yield" is "stupid" but "very human." However, in the case of some of the more innovative income-producing products in the ETF market these days, I'd say that it's possible to reach for yield without getting slapped with a colossal cut.

Consider the **BMO High Dividend Covered Call Canadian Equity ETF** (TSX:ZWC).

Yes, that's a mouthful, and for many beginner investors, the **Bank of Montreal** ETF is intimidating.

Options stuff can be perplexing, even to some of the more seasoned long-term investors on the Street. However, for conservative income-oriented investors, learning about the sophisticated strategies leveraged by the ETF to better cater to your unique needs is well worth it.

The ZWC can improve your ability to meet your personal investment income goals while hedging your downside risks. As such, you should seek knowledge into how to ETF operates rather than shun it because the name of the ETF is intimidating.

As you may have guessed from the name of the ETF, the ZWC invests in high-quality dividend-paying stocks with sizeable yields. The constituents within the ZWC are screened for their dividend sustainability as they are for their dividend growth prospects and their overall financial health.

That means the sum of the dividends from the ZWC's constituents are a heck of a lot safer than the average dividend stock out there with a comparably sized yield.

Oh, the options!

If the ZWC stopped there, it'd be your garden-variety high-yield equity ETF. The ZWC takes it one step further by marrying the basket of high-yield long positions with "covered calls," which entails the writing (or selling) of call options against its underlying long positions.

In a nutshell, the covered call strategy trades off upside potential in the underlying long positions for premium income upfront. The premium income is added on top of the dividends paid by the ZWC's constituents — and you've got yourself a double dose of income: dividends and premium payments.

There's no such thing as a free lunch, however. The extra premium income essentially caps intermediate-term upside, and the labour involved with writing call options comes at the expense of the investor through a somewhat hefty 0.72% management expense ratio (MER). Whether or not the cost is worth it depends on your personal investment goals.

Foolish takeaway

Are you an income investor who's looking for more sustainable yield and couldn't care less about capital appreciation? Are you in the belief that the markets will stagnate or fall over the intermediate term and would like to hedge your existing equity portfolio?

If so, the ZWC is well worth the marginally higher price of admission.

The ETF sports a safe 9.2% yield and can serve as a solid foundation for any high-yield income stream. If the market crashes further, you'll see the yield swell past the 10% mark.

Although it looks unsustainable, it's far more sustainable than most super high-yielding securities out there.

Stay hungry. Stay Foolish.

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