2 Covered Call ETFs for Massive Income

Description

At the moment, it is hard to invest in anything. We are essentially in two markets. Technology and gold stocks are shooting upward and everything else is going down. It is very hard to maintain conviction in any one sector. Let's face it, global economies are looking pretty grim, and large parts of the stock market are hardly reflecting the economic pain yet to come.

The situation becomes even more convoluted with super-low interest rates muddying the equation. Keeping funds in cash is a very difficult option since you get nothing for your money. The best option for cautious investors is to buy covered-call ETFs that track major market, sectors, and indexes.

Growth: Technology

I have long wanted an income-producing ETF focused on technology, and this wish has finally been granted. The **First Asset Tech Giants Covered Call ETF** (TSX:TXF) provides investors with exposure to the biggest names in technology while giving income through a covered call strategy.

This comes in two formats, a hedged to the Canadian dollar version and an unhedged one. If you believe the U.S. dollar is set to collapse or the Canadian dollar is set to rise, the hedged version is probably the better one. If you want full currency exposure, then the unhedged ETF is the superior product.

This ETF currently has a trailing yield of 6.5%, but that yield will fluctuate considerably. After all, the yield almost entirely comes from the covered call premiums since many of the stocks the ETF holds do not have dividends of their own. The benefit is that the premiums are quite large, due to the high volatility the market is currently experiencing and the volatility of the underlying stocks.

The management expense ratio (MER) is more expensive than those of standard index ETFs. The trading fees are relatively high, after all. The MER is currently about 0.65%.

Value: Europe

Europe has been a disaster for more than a decade. This is a region that can't gain any traction. Fortunately, Europe is home to some of the world's best companies, some of which are now trading at significant discounts. They frequently pay generous yields as well. When combined with a covered call strategy, you are looking at a serious cash generator.

The **BMO Europe High Dividend Covered Call ETF** (TSX:ZWE) is another great way to collect dividend income. This ETF is more of a value play than it is a growth strategy, since most of the underlying stocks have been severely beaten up. The trailing yield currently sits at a whopping 8.26%, paid out monthly.

As was the case with TXF, BMO European ETF has both a hedged (ZWE) and an unhedged (ZWP) version. The MER is also fairly high, for the same reasons regarding fees. At the moment, the MER is about 0.72%.

The Foolish takeaway

Covered call ETFs are more expensive than another index ETFs due to the fees incurred with options, but they do serve a purpose. These ETFs should be less volatile, both to the downside and upside, as a result of the premiums. They also give a far more generous yield than the underlying stocks. If you want a less volatile way to gain exposure to technology and Europe, these ETFs are a great way to do so.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:ZWE (BMO Europe High Dividend Covered Call Hedged to CAD ETF)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

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