Diversify Your Portfolio With These 2 Yielders of Over 8%

Description

While covered calls are an excellent way to diversify your portfolio, there are issues with the strategy.

First, it's a little bit complex, something that only relatively experienced investors can pull off. The option market is a scary place for someone who doesn't know how it works. Anyone can figure it out over time, but there's definitely a learning curve there.

Second, if you manage your own covered call portfolio, there's a certain amount of active management involved. You must find suitable covered call candidates, figure out the best call options to use, and so on. This takes at least a little bit of work and at least a little bit of expertise.

Still, despite these downfalls, I firmly believe any investor looking for a little extra income needs to take a look at a covered call strategy. You can get eye-popping yields (we're talking 15% or more here) while giving up only a little upside potential. That's an excellent way to diversify your portfolio and your income sources.

Fortunately, investors can have their cake and eat it too. Here are two ways to passively invest in covered calls, collecting a nice income stream without having to do any work. You just sit back, relax, and think about spending your dividends.

The BMO way

Bank of Montreal has several covered call ETFs that trade on the **Toronto Stock Exchange**. I personally own the **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC), which uses the strategy to deliver solid yields.

This is an actively managed fund, which means there's a team of smart people scouring the market for the best covered call opportunities. Top holdings are the same kinds of stocks you'll see in any Canadian dividend fund. This comes with a relatively high management fee — at least for an ETF, checking in at 0.65% — but it's well worth it to diversify your portfolio.

The income stream is the real reason to own this ETF, of course, and the BMO Canadian High Dividend Covered Call ETF doesn't disappoint. The current yield is an excellent 8.7%. Unlike other high-yield stocks that don't really offer safe dividends, this ETF can actually boast a history of dividend growth. The payout has increased by almost 10% since it debuted back in 2017.

The Canoe way

On the surface, the **Canoe EIT Income Fund** (TSX:EIT.UN) is very similar to the BMO ETF we just looked at. Both funds use an active management approach to choose the best stocks for a covered call strategy, and both funds own a similar range of stocks. The only difference is the Canoe fund also owns some U.S. blue-chip stocks.

If they're so similar, then how can the Canoe fund yield an astronomical 13.2%, a payout that is approximately 50% higher than offered by the BMO ETF? And this is after investors pay a management fee of more than 1%, which is much higher than the other ETF we just looked at.

The answer is one word: leverage. The Canoe EIT Income Fund uses borrowed money to goose its returns. But we must remember that leverage is a double-edged sword. It's great when things are going well, but it causes big declines when the market suffers.

I'm also confident the Canoe fund can maintain its yield over the long term. The payout — which is currently $0.10 per share each month — has stayed the same since 2009. Additionally, this fund hasn't missed a payout since debuting on the Toronto Stock Exchange back in 1997.

The bottom line

Both of these covered call funds are excellent ways to diversify your portfolio while getting a nice income stream. In fact, a position in the two would deliver an over 10% yield on your money. That's an excellent payout, especially in today's low interest rate world.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EIT.UN (Canoe EIT Income Fund)
2. TSX:ZWC (Bmo Canadian High Dividend Covered Call ETF)

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