A $2,000/Month Income Stream Better Than the CRA's CERB

Description

The CRA's CERB (Canada Emergency Response Benefit) isn't going to last forever.

Once the insidious coronavirus is eliminated, and the pandemic passes, not every Canadian who lost their job at the hands of COVID-19 is going to make a timely return to work. Sadly, many affected Canadians won't be in for that same V-shaped recovery that the stock market has enjoyed in recent months. As such, Canadians who have cash sitting around in their savings accounts ought to think about converting their savings into an income stream.

If you've been contributing every year to your retirement fund, using proceeds to invest in a mixed basket of low-risk securities and cash, you may have enough to rotate the funds into higher-yielding securities that could give you a payout that could rival that of the $2,000/month amount provided by the CRA's CERB.

Better than CRA's CERB

Let's say you have $250,000 sitting in your "high-interest" savings account. Instead of breaking open your nest egg by spending the principal and running the risk of running out of money. It may make sense to put money on some of the more compelling securities out there, which now sport high, but relatively sustainable distributions. Based on $250,000 in principal, you'd need to average a 9.6% yield to obtain the $2,000 per month equivalent of the CRA's CERB.

The act of chasing yield in itself dangerous if you don't put in the homework.

But that doesn't mean you should shun every security that sports a yield north of the 6% mark. Now that the yield bar has been raised following the coronavirus crash, there are plenty of opportunities to pay less to get more (yield). While stretching a yield north of 9% may seem reckless, I'd argue that it's not nearly as dangerous if you look to some of the securities that have super-high yields by design.

High yielder by design

We're not talking about the stocks of severely distressed firms with stretched payout ratios that are seeing their operating cash flow streams deteriorate in the face of the COVID-19 crisis. We're talking about businesses that have demonstrated resilience amid the crisis and are in a spot to continue paying distributions or dividends to investors, regardless of whether a second (or third) wave of COVID-19 ends up happening later this year.

Moreover, super-high yields aren't only at the expense of dividend (or distribution) stability. They can also be at the expense of future capital gains potential. Certain REITs and specialty income ETFs can provide you with lofty yields, not necessarily at the expense of elevated downside risk but at the expense of capital appreciation potential.

Given folks in need of relief like the CRA's CERB need income over the near term rather than substantial capital appreciation over the long term, I'd say the trade-off is more than worthwhile, at least for the duration of an affected Canadian's financial hardships.

How to stretch your yield, not your risk

Consider **BMO High Dividend Covered Call Equity ETF** (TSX:ZWC) and **Inovalis REIT** (TSX:INO.UN), two super-high-yielding securities that can help investors maximize their portfolios' yield without exposing them to a dangerous magnitude of downside risk or excessive dividend cuts.

The ZWC and Inovalis REIT sport 8.6% and 10.6% yields, respectively, at the time of writing and are an example of two securities that can help investors average a 9.6% portfolio yield to obtain income that can outlast the CRA's CERB, which may or may not be extended another time.

Inovalis has typically commanded a high +8% yield by design, as I've mentioned in many prior pieces. The REIT is not under a profound amount of stress, but it is in a spot to continue paying distributions as it rolls with the punches brought forth by the COVID-19 pandemic.

ZWC is a more peculiar play.

The ETF is a mixed basket of high-quality, high-yield dividend stocks — nothing remarkable here relative to your garden-variety dividend fund.

What makes the ZWC special is the "covered call" strategy that marries premium income generating from the writing of call options on top of the aggregated dividends and distributions from the ETF's long positions. The options-leveraging strategy trades off upside for a bit more income and is a worthy trade-off for income beyond the CRA's CERB.

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TICKERS GLOBAL

1. TSX:INO.UN (Inovalis Real Estate Investment Trust)
2. TSX:ZWC (Bmo Canadian High Dividend Covered Call ETF)

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