How to Generate TFSA Passive Income That's Better Than the CRA's CERB

Description

The CRA's CERB (Canada Emergency Response Benefit) will eventually end. In the meantime, it will be subject to changes, as the COVID-19 pandemic continues dragging on. A second wave of infections in the fall may or may not spark another round of relief payments. But if you're an investor who's been contributing to their TFSA (Tax-Free Savings Account) over the years, you may find that you're in a position to create your own income stream, which, unlike the CERB, is free from taxation!

Many overly cautious Canadians have been using their TFSA funds to sit around in so-called high-interest savings accounts. With interest rates at nearly zero, with the potential to go negative by year-end, pending the severity of a second COVID-19 wave, Canadians would be wise to look beyond savings accounts now that interest generated on savings has become nearly negligible.

There may be a plethora of reasons why you've avoided investing in "risky" securities such as equities, REITs (real estate investment trusts), or royalty funds. You may be winding down for retirement and may not be able to handle the thought of losses, or you may just be allergic to excessive amounts of volatility.

Stop hoarding TFSA cash: Invest it wisely!

Indeed, many cautious Canadians find comfort in knowing that their money is safe in "guaranteed" instruments like GICs (Guaranteed Investment Certificates), bonds (both long and short duration), cash, or cash equivalents. But it's these "risk-free" assets, while technically free from downside risk, that come with high opportunity costs. For younger investors, I'd argue that the risk of missing out of years' worth of wealth creation in the equity markets by hoarding cash is far greater than the risk of any steep losses from a soured equity investment. And that's with market crashes, corrections, and pullbacks taken into consideration!

While no high-return investment is entirely free from downside risk or volatility, there are ways that you can tilt the risk/reward trade-off in your favour, as you seek to tame the magnitude of volatility you'll be exposed to.

A high-yield ETF that can outlast the CRA's CERB

Consider a one-stop-shop specialty income ETF like the **BMO High Dividend Canadian Equity Covered Call ETF** (TSX:ZWC) if you're looking to construct a TFSA income stream whose income payments will outlast the CRA's CERB and this pandemic.

The diversified basket of high-yield Canadian stocks incorporates a "covered call" strategy, which adds option premium income on top of the aggregated dividends and distributions from the ETF's constituents. The ETF sports an 8.7% dividend yield at the time of writing and is likely one of the safer nearly 9%-yielding securities on the **TSX Index**, as the ZWC's constituents are mainly comprised of high-quality blue chips with large, healthy, growing dividends.

The ZWC has fallen under pressure amid the COVID-19 crisis of late, because it's exposed to some of the weaker areas of the Canadian economy right now. We're talking the financial, energy, and real estate industries, all of which have taken hits to the chin in 2020. While weakness across the sectors could spread to the ZWC, I'm of the belief that the dividend is mostly safe given the ZWC's constituents have been screened with quality in mind.

Foolish takeaway

Even if the crisis causes a few of the ZWC's constituents to suffer from dividend reductions, it's unlikely to move the needle for the ETF, as there are many solid companies keeping the ZWC's huge dividend steady. If you're looking for income that can provide more security than the CRA's CERB, consider stashing a one-stop-shop income play like the ZWC in your TFSA.

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