Retirement Strategy: If You Miss This Dividend Fund, You'll Kick Yourself Later

Description

If you're a retiree looking for quality dividend stocks, you have plenty of options to choose from. Between banks, utilities and energy stocks, you may have a hard time deciding which one to choose. Too much choice isn't always a good thing, and in the equity markets, it's easy to end up feeling like a kid in a candy store.

Fortunately, you don't have to choose. By buying dividend ETFs, you can get plenty of yield into your portfolio without having to settle on just one stock. You'll also get built-in diversification, which reduces risk. In this article, I'll be focusing on one ETF that has an absolutely stunning yield at today's prices.

The BMO Covered Call Utilities ETF

The **BMO Covered Call Utilities ETF** (TSX:ZWU) is a dividend ETF that holds a mix of utilities, pipelines and telcos–all great sectors for low-risk-tolerance retirees. If you buy it, you'll get heavy exposure to stocks like **Fortis**, **Enbridge** and **Telus,** among dozens of others. The fund's holdings read like a greatest hits list of Canadian dividend stocks.

It should therefore come as no surprise that the fund has a massive yield. According to **BMO**, ZWU has a 7.89% yield. Other sources report it at a more modest 6.98%–which is still extremely high. The fund does come with a fairly high MER of 0.72%. That's higher than I'd personally like, but far lower than the fund's yield.

Built-in risk reduction

One interesting thing about ZWU is that it has built-in risk reduction. The fund's managers write covered calls to offset the risk of the underlying assets. This means that the fund collects option premiums in addition to the returns generated by the holdings themselves.

It also provides downside protection and lower volatility. This is a pretty attractive mix of risk management features that arguably justify the fund's fairly high fees. It also helps to explain how the fund generates such an extraordinarily high yield when most of its holdings only yield in the 3%-5% range.

Foolish takeaway

For retirees, there are two main investing principles that must always be kept in mind:

1. Income
2. Preservation of capital

ZWU delivers both principles in spades. With its high yield, it delivers steady dividends that pay cash income in bull or bear markets. And with its covered calls, it has downside risk protection built in.

In concept, it's hard to find a better fund for retirees than this. Of course, the management fee is a little high for an ETF. But achieving the lowest possible fees isn't the be all and end all of ETF investing.

If income is your goal, ZWU's fees may be worth it. A truly passive broad market fund with ultra-low fees will rarely yield more than 3%. ZWU yields more than twice that!

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1. Dividend Stocks
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