Anxious About the End of CERB? Here’s How Your TFSA Can Help!

Description

CERB’s conclusion was inevitable. While many affected Canadians will be transitioning to a new form of Employment Insurance (EI), there’s no question that the numerous changes to relief benefits has many feeling a bit uneasy in the face of a second wave of COVID-19 cases that stands to sweep across the nation.

Fortunately, there is a solution for CERB users who want more security amid the seemingly never-ending updates and amendments. If you’ve got a Tax-Free Savings Account (TFSA), then you’ve likely got enough dry powder to put to work in some of the more bountiful income-paying securities out there.

Many firms within hard-hit industries are still in the doghouse after the February-March coronavirus market crash. And while there are value traps with dividend payments that could be destined for the chopping block, there also exist many investments that are like babies that have been thrown out with the bathwater. It’s these babies that soon-to-be-ex-CERB users should look to stash in their TFSAs to create a sustainable passive-income stream, which, unlike government relief benefits, are free from tax and can provide greater security in this time of crisis.

Beyond CERB payments

There are two approaches to getting the monthly income you desire. You can err on the side of caution with securities that have high, but safe payouts, or you can reach for the battered super-high-yielders, with the expectation that a modest dividend (or distribution) cut could be in the cards in a worsening of this COVID crisis.

If you're an older investor or a near-retiree, the former approach is more suitable. But if you're a young investor, there's a lot to gain by looking to the hardest-hit areas of the market. Many super-high-yielders offer investors a chance to lock in a huge dividend yield alongside potentially outsized capital gains coming out of this pandemic. Of course, if the rest of your portfolio isn't well diversified to COVID risks, it may be wiser to steer clear of such super-high-yielders, unless you've done the homework and have conviction in a name.

A tale of two REITs

Consider **Inovalis REIT** (TSX:INO.UN) and **BMO High Dividend Covered Call Canadian Equity ETF** (TSX:ZWC), two compelling income options with yields of 10.7% and 8.5%, respectively. I've pounded the table on the former, urging TFSA investors to buy the dip to lock in the yield when it was north of the 13% mark.

Today, shares of Inovalis have bounced back considerably, and the yield looks to be in the process of reverting towards its mean yield of around 8%. In many prior pieces, I've noted that Inovalis's payout was far safer than the magnitude of its yield suggested. As an office REIT with a 7-9% yield by design, I didn't think the swollen double-digit yield was as concerning as most other super-high-yielders with yields north of the 10% mark.

Inovalis has mostly corrected to the upside, as rent collection has shown signs of improvement in recent months. As the second wave sends people back to their home offices across Europe (yes, Inovalis is a European-focused office play), we could see Inovalis fall under more pressure, and TFSA investors could have a second chance to lock in a +12% yield.

Depending on how bad the second wave gets, Inovalis's distribution may not walk away unscathed the next time around. As such, TFSA investors should evaluate the risks and place their bets accordingly.

A safer, more diversified way to get your income

For CERB users looking for greater safety, there's the ZWC, a diversified basket of high-yield, blue-chip stocks that have an added layer of premium income through the incorporation of the covered call options-writing strategy.

The ZWC is a great way to boost one's income without substantially increasing one's risk profile. However, one should prepare to sacrifice capital gains potential and pay a hefty MER of 0.72%. In times of crisis, I think the price of admission into the ZWC is well worth paying, as I think it's one of the safest income options with yields north of the 8% mark.

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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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