How to Make $200 a Week in Passive Income

Description

Canadians need passive income now more than ever following the horrific socio-economic impact of the coronavirus crisis. For those who've been accumulating wealth in savings accounts, it is possible to produce as much as $200 a week from $120,000 in invested principal. To get $200 per week, one needs $800 per month, which works out to an annual passive income of $9,600.

To get such an amount, one needs to average a yield of 9% with their passive income portfolio. While a 9% yield is, indeed, stretching it, I do think that in the era of the coronavirus crisis that the yield bar has been raised such that rules of thumb such as the 4% rule are now somewhat obsolete, especially for younger, laid-off investors who need a modest income boost to get them through this crisis.

For such income-seeking investors, there's no shame in swapping your low-to-no yield growth stocks for higher-yielding securities to meet your needs over the short- to medium-term. Unprecedented times call for unprecedented actions. But like switching gears in a vehicle, you'll also be able to swap income-producing securities for growthier names once you've found stable employment and no longer need the extra $200 in weekly cash.

The investments to look to for a 9% yield

An average yield of 9% may seem unsafe or downright reckless. While that may be the case in normalized conditions, given the damage done to many high-yield names today, I do think it's become possible to sustain a safe 9% yield if you pick your spots carefully.

Of course, the magnitude of risk you'll bear goes up in conjunction with the yield. But for the investments I'll draw your attention to, they aren't necessarily higher than that of income-producing securities that sport lower yields. A higher payout can come at the expense of forward-looking growth. And as you shift your mix from growth to income, that will be a trade-off you'll need to make to get your monthly income level where it needs to be.

Consider shares of the **BMO High Dividend Canadian Equity Covered Call ETF** (TSX:ZWC). Yes, it's a ridiculously long and perplexing name for a basket of high-income securities. The ZWC is basically comprised of long positions in select blue-chip dividend securities that are hand-picked based on several factors, most notably the health, size and growth potential of a firm's dividend.

What makes the ZWC different from your run-of-the-mill Canadian income-focused equity funds?

The covered call option-writing strategy adds another layer of income, bringing the yield slightly higher than it would have been otherwise. The premium income generated on top comes of dividends within the ETF don't come at the cost of increased downside risk but "upside risk" in the form of capped upside. With the ZWC and other covered call ETFs, you're trading upside potential for a bit of premium income upfront. And you're paying a slightly higher management expense ratio (MER) to the managers for the labour-intensive strategy.

Under normal conditions, the trade-off is unlikely to be worthwhile for younger investors, as paying to surrender upside for premium income is typically a bad deal, given markets tend to go up over prolonged periods of time. The trade-off is more worthwhile in a pandemic-plagued environment where TSX stocks are likely to remain down or flat. And if you need the extra income due to specific circumstances, the trade-off is well worth making.

The ZWC can help you stretch your income that much farther. While dampening risks of dividend cuts, among other risks that income investors have to worry about in these trying times. So, if you need an extra $200 a week and have the principal to put up, the ZWC is just one of many options that can help give yourself a raise.

Foolish takeaway

If you're willing to surrender upside potential for the passive income raise, I'd look to scoop up shares of the ETF today. For everyone else, it may be better to find a better balance of growth and income. The ZWC is an extreme example of just how far you can stretch a yield without necessarily putting yourself at risk of massive losses or a big dividend cut.

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TICKERS GLOBAL

1. TSX:ZWC (Bmo Canadian High Dividend Covered Call ETF)

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