How to Boost Your Passive-Income Stream Without Risking Your Shirt

Description

Many retirees and income investors are hungry to give themselves a fat raise by reaching for high yielders with passive-income streams. Some are willing to ditch the "4% rule" of thumb for more aggressive strategies. But as you may know, the higher the yield, the higher the risks you bear, and the greater chances that you could be on the receiving end of a nasty dividend (or distribution) cut.

"Reaching for yield is really stupid, but very human." Warren Buffett once said.

Dividend cuts, especially surprise ones, tend to accompany steep capital losses, as income investors bail in search of sustainable investment income elsewhere. While it can be dangerous for a retired investor to double their portfolio's average yield from 4% to 8%, I'd argue that it doesn't have to be if the investor puts in ample due diligence to minimize the chances that they'll be served up with a fresh-cut dividend amid today's profound economic woes.

After the coronavirus crash, many high-yielding securities now sport yields above and beyond their historical averages. Many such securities have already brought their payouts to the chopping block. Others could follow suit, as the second wave of coronavirus cases stretches dividends to their breaking point. And some, which have witnessed their share prices implode, have safe and sound dividends whose health is being greatly underestimated by Mr. Market. It's these such names that income investors should seek to back up the truck on before everybody else eyes this pandemic's end, and the bargains evaporate alongside COVID uncertainties.

Forget Warren Buffett: It's not all that stupid to reach for yields if you reach for the bargains

In a prior piece, I'd highlighted that the act of reaching for yield wasn't necessarily "stupid," as the great Warren Buffett previously suggested. **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC) was a prime example of a +8% yielder at the time, and it wasn't necessarily an income trap or a massive distribution reduction waiting to happen.

With shares creeping higher over the past week to $16 and change, the ZWC's yield has compressed modestly to 8.2%. With a **Pfizer** vaccine that acts as a light at the end of the tunnel, I think the ETF could be due for a continued correction to the upside that could see the yield compress much farther.

In a nutshell, the ZWC is a run-of-the-mill Canadian high dividend ETF that marries a covered call strategy, which produces a "second layer" of income in the form of premium income. Such premium income comes at the cost of upside potential and a hefty management expense ratio (MER) just north of 0.7%. The capped upside and the higher MER, I thought, wasn't worthwhile for younger investors, given the market's propensity to go up over the long run. However, during times of crisis, when income is hard to come by, I noted that the trade-off was well worth making and without any feelings of guilt.

Foolish takeaway for income investors

While the ZWC won't enrich you as the economy heals from the coronavirus crisis, it will allow you to reach for a higher yield in what I believe is the safest way possible, at the cost of upside risk, not downside risk. Before you stash the ZWC for its lofty yield in your TFSA, though, make sure you have a look under the hood at the holdings. The name is heavily weighted towards financials and energy (same story as the **TSX Index**), two of the hardest-hit industries this year, with just over half of the portfolio reserved for such names.

If you're fine with betting on the battered pipelines, banks, and insurers, then ZWC may be your cup of tea if you seek big monthly income at this critical market crossroads.

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

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Date
2025/07/21
Date Created
2020/11/13
Author
joefrenette