Baby Boomers: 3 High-Dividend ETFs for a Rich Retirement

Description

Are you looking forward to a rich retirement? If so, it pays to invest in dividend ETFs.

ETFs are perfect "set-it-and-forget-it" investments, as they are managed for you by professionals. Some passively replicate the holdings of the stock market as a whole; others are actively managed according to a specific mandate. Many investors like passive funds for their low fees; others prefer active funds for their ability to target specific kinds of stocks.

If you're into dividends, **Bank of Montreal** offers a number of funds that may suit your needs. While these funds have higher fees than true passive funds, they also offer higher yields. In this article, I will explore three of BMO's most popular high-yield ETFs and how much income they can add to your portfolio.

BMO Covered Call Banks ETF

BMO Covered Call Banks ETF (TSX:ZWB) is a bank ETF that uses covered calls as a form of yield enhancement. Canadian banks generally have pretty high yields to begin with, and ZWB's covered-call strategy takes the yield even higher.

Your average Canadian bank stock has a yield somewhere in the 3-4% range. That's pretty high for stocks these days, but ZWB has a much higher yield: 5.61% according to the fund's fact sheet. A 5.61% yield gives you $5,610 in annual cash back on every $100,000 invested. That's not a bad dividend return, and it's backed by the safety and stability of the Canadian banking sector, which hasn't suffered a serious crisis in 150 years.

BMO S&P/TSX Equal Weight Banks ETF

BMO S&P/TSX Equal Weight Banks ETF (TSX:ZEB) is another Canadian bank fund. This onedoesn't have the covered-call yield enhancement. Because this fund doesn't have covered calls in themix, its yield is lower than that of ZWB.

According to the fund's fact sheet, it yields 3.14%. That's not even on the same planet as ZWB's yield. But because ZEB doesn't use covered calls, its potential capital gains are higher than those of ZWB. Covered calls increase dividend income but limit growth, because they result in shares having to be sold if they hit a certain price. So, ZEB may be more appropriate than ZWB for investors who want some capital gains in addition to their dividends.

BMO Covered Call Utilities ETF

BMO Covered Call Utilities ETF (TSX:ZWU) is a high-yield ETF that invests in utilities, telcos, pipelines, and other high-yield sectors. Like ZWB, this fund uses covered calls to increase its yield. In this case, the covered-call strategy results in a truly astounding 7.41% yield. The stocks in the fund already have high yields to begin with, but the covered calls take the fund's payouts to the next level.

If you invest $100,000 at a 7.41% yield, you get $7,410 in annual cash back. If you invest $500,000 at such a yield, you get $37,000 back — potentially enough money to live off. Normally, you need to invest a million or more to truly cover all your expenses with just dividends, but with a high-yield fund like ZWU, it could be achieved with just a few hundred thousand. So, these funds are very much worth researching and potentially buying.

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3. TSX:ZEB (BMO Equal Weight Banks Index ETF)
4. TSX:ZWB (BMO Covered Call Canadian Banks ETF)
5. TSX:ZWU (Bmo Covered Call Utilities ETF)

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Date
2025/08/19
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2022/01/10
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