Retirees: 2 ETFs That Pay Large Dividends

Description

If you’re looking for high dividend income in retirement, ETFs are the way to go.

Everybody likes to make individual stock plays from time to time, but let’s be honest: ETF investing is what’s most likely to work over the long run. Index ETFs take some of the risk out of your investments by spreading your eggs across many baskets. They also take away some of your research load, leaving you free to spend your retirement doing what you want. The end result is a relatively safe, diversified investment that can pay you throughout your golden years.

Not only that, but you can get very high dividend yields with ETFs. Not all ETFs have high dividend yields, but some of them do. The ones that have high yields offer an attractive mix of high income and low risk. In this article I will explore two diversified ETFs that can pay you passive income in retirement.

Equal weight banks

The **BMO S&P/TSX Equal Weight Banks ETF** (TSX:ZEB) is an ETF consisting of Canadian big banks. Its holdings are pretty much the same as any other Canadian banking ETF: six big bank stocks. ZEB is not unique in that regard. What is unique is its weighting scheme. ZEB is equally weighted, meaning that each stock makes up an equal percentage of the fund’s net asset value. This reduces concentration risk. In most funds, higher market cap stocks have higher weighting. If anything bad happens to one of the higher-weighted stocks, the fund takes a disproportionately large hit. Thanks its equal weighting, ZEB doesn’t have this problem. So you get diversified exposure to six bank stocks that together yield 3.55%. Not a bad yield at all for an ETF.

Covered call utilities

The **BMO Covered Call Utilities ETF** (TSX:ZWU) is a Canadian ETF that yields 7.3%. The fund’s name is a bit of a misnomer: it doesn’t just invest in utilities, it also invests in telcos and pipelines. Regardless, it has a wide variety of high yield holdings in its portfolio. Utilities, telcos, and pipelines are all known for their high dividend yields. Pipelines in particular can often go well north of 6%. And on top of the high yield holdings, ZWU also has covered calls. That is, calls that are secured by the fund's own holdings. When you sell a call option, the buyer pays you a premium, which increases your yield on the security. ZWU collects these premiums and passes them on to investors as part of the distribution. The end result is a massive 7.3% yield. The downside of this strategy is that it limits capital gains. If you look at ZWU's chart, you'll notice that it has been going down in value over time. That's partially because of the covered calls. So if you're interested in this fund, think of it as a pure income investment. It's not the kind of thing that produces huge capital gains.

Foolish takeaway

In retirement, income is the name of the game. You don't want to be timing stock sales in retirement, you want to enjoy your money. With high yield ETFs like the ones named in this article, you can enjoy steady income in your golden years. Talk about a win-win.

CATEGORY

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TICKERS GLOBAL

1. TSX:ZEB (BMO Equal Weight Banks Index ETF)
2. TSX:ZWU (Bmo Covered Call Utilities ETF)

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