Passive Income: Earn Over 5% Dividends With These ETFs

Description

When it comes to dividends, exchange-traded funds (ETFs) can be just as viable as a choice (if not better than) as stocks. They allow you to invest in a whole basket of securities at once, and the dividends/distributions you are getting might reflect more than just the dividends of the underlying company.

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The dividend ETFs also have a slight edge when it comes to frequency, with a healthy proportion of them offering monthly distributions, whereas, among stocks, that’s usually the forte of REITs.

And if you are looking for ETFs that can help you start a passive income with their 5% or higher yield, three should be on your radar.

A Canadian corporate bond ETF

BMO Long Corporate Bond Index ETF (TSX:ZLC) is an ideal pick for conservative investors, as it offers you exposure to one of the safest investment instruments: bonds. This particular ETF is almost wholly invested in fixed-income corporate bonds issued by both public and private companies, and the exposure is quite spread out, though infrastructure and energy dominate the mix.

Even though the distributions *have* fluctuated over the last 10 years, the year-to-year difference has been manageable. The fund offers monthly distributions, and the current distribution yield is an attractive 5.29%, which is quite high for a fixed-income ETF.

It’s important to understand that while this ETF might be a powerful resource for passive income, it’s not the right fit if you are also seeking adequate capital appreciation. However, its fixed-income orientation can help you hedge/balance your portfolio.

A U.S. fixed-income ETF

Another fixed-income ETF that can offer you a decent combination of safety and dividends is

Blackrock's **iShares U.S. High Yield Fixed Income Index ETF (CAD-Hedged)** (TSX:CHB). Thanks to its fixed-income nature, it carries a low- to medium-risk rating. The portfolio is enormous and contains 1,093 bond holdings with varying maturity periods.

The fund has one distinct advantage over the Canadian bond, and it's that it holds its value significantly better, which gives it more capital-preservation points. It also offers a high distribution yield of 5.9%, although it comes with a high MER of 0.55%.

These fixed-income ETFs, even when they offer such healthy yields, are not the right fit for everybody. But if you want to balance out some extra-risky investments in your portfolio with something more stable, these ETFs might be smart contenders.

A preferred share ETF

BMO US Preferred Share Index ETF (TSX:ZUP) offers you exposure to about 166 U.S. companies. However, the portfolio of assets is not equally diversified, and over half of it is made up of financial sector companies. Thanks to the preferred shares in its portfolio, geared more towards generating income than growth, it behaves quite similar to the two fixed-income ETFs.

It's quite safe, with a risk rating of low to medium, but it also comes with a high MER of 0.5%. It makes monthly distributions, and current distribution yield, which makes up for its other weaknesses, is 6%. Since 2017, the company has managed to maintain its payouts somewhere between $0.10 and $0.11 per month per unit.

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Foolish takeaway

The three ETFs offer you two things: safety of fixed income and preferred shares and decent dividends. If this is the combination, you are looking for, whether because of your conservative approach to investment or simply to lower the risk profile of your portfolio, these might be a good fit. But if you are looking for growth, you may have to consider other options.

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