Canadians: A Top Passive Investment for Big Passive Income

Description

Canadian investors have not been spared from the brutal first half to 2022, with the TSX plunging deeper into correction. It seems like a move into a bear market is just a matter of time, with energy stocks surrendering a bit of the gain posted in recent weeks.

Personally, I think recent damage done to Canadian stocks is overdone. Canada is chockfull of value versus the U.S. markets. And for that reason, I continue to be a big fan of buying Canadian stocks, especially after the recent slide in the loonie in response to the Fed's big 75-basis-point rate hike.

There's no shortage of value plays on the TSX. After yet another brutal week in the books, that value has become deeper. In this piece, we'll look at one Canadian ETF that can provide safe and secure passive income to make it through stagflationary times.

If central banks induce a recession and inflation remains well above the 4-5% range, stagflation could be a reality. Even if central banks set their sights on 3%, it could prove really hard to score a positive real return (that's after inflation, Fools!) moving forward.

Take advantage of a correction with passive-income plays on the cheap

Indeed, investing can be uncomfortable and difficult. But it's more a matter of temperament, as Warren Buffett once put it, rather than wits. With many dividend stocks sliding so sharply, yields have swollen at a staggering rate. Top high-yielding ETFs are now sporting their highest yields since the depths of the 2020 recession.

Indeed, **Bank of Montreal** has an impressive roster of high-yielding specialty-income ETFs, many of which were built for times like these. Under normal circumstances, covered-call ETFs may not be worth the extra management fees. However, times are anything but normal. Between the war in Ukraine and stagflation risks, investors should look to trade off a bit of upside for some stability in the form of premium income.

What separates covered call ETFs from equity ETFs? They trade off appreciation in underlying constituents for premium. This premium adds to the already sizeable yield.

In short, the upside trade-off sweetens the yield at the cost of missing out on upside. In a bear market, that may be a smart compromise, especially if you think this bear market will worsen in the second half.

Enter **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC).

BMO Canadian High Dividend Covered Call ETF (the ZWC)

The ZWC is an underrated dividend ETF with a huge 6.8% yield. In bull markets, the ETF can drag its feet, but in bear markets, the ETF can really shine. The ETF has a mere two-star rating on **Morningstar**, which is quite poor.

However, I don't think the rating gives the fund justice, especially given the bull run that lies behind us. Looking ahead, prospective returns will get harder to come by. And with bond yields so low, I'd argue that the big passive income provided by the fund is more than worth risking upside and paying a 0.7% or so MER to BMO's managers.

Finally, the ETF is more diversified than the TSX, with less weighting to the red-hot energy sector and more exposure to the defensive utilities.

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