A Passive-Income Top Pick for Passive TFSA Investors

Description

Passive-income investors have a lot of high-yielding securities to choose from after the first half of 2022. It's been a volatility storm, and nobody knows when it will end, as we move into earnings season. Undoubtedly, recession calls have grown, and the earnings season has now become a thing to dread for investors. Indeed, it can feel tempting to just hit that sell button before companies have a chance to unveil their quarterly results and give Mr. Market yet another reason to drag down our portfolios.

Indeed, it's hard to check your TFSA (Tax-Free Savings Account) retirement fund after such a brutal past few quarters. Looking ahead, there could be more pain, as the macro outlook sinks. Though negative earnings surprises are horrifying this time of year, I'd argue that the bar is already set quite low by the analysts on Bay Street. While earnings beats may be more influential on stock prices this time around, I'd bet that most of the focus will be on those analyst calls and forecasts.

Passive income for Canadian investors

As for the weakening economy, we may be in for a "bad news is good news" type of environment. Inflation is still a nasty thorn in the sides of our TFSAs. And until forces other than higher interest rates can take inflation's foot off the pedal, it seems difficult for any firm to trend much higher from here.

At the end of the day, investors should focus on the next three years, rather than the next quarter or two. Yes, a recession could be baked in, and things could get worse for the broader basket of businesses. At the same time, come 2025, many may wish they bought stocks during the bear market of 2022 in anticipation of a 2023 recession.

The ZWC: A 7% yield that's safe and sound

A V-shaped recovery seems unlikely now, but that doesn't mean you can't fare well over a prolonged timespan. In this piece, I'm a big fan of passive-income ETFs like **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC), which I've praised ad nauseam in recent months.

The ETF sports a 6.81% yield, which is about as safe as nearly 7% yields come. The ETF isn't too different from your garden-variety high-yield TSX ETF. The differentiating factor is the "covered call" aspect, which uses options to trade off upside potential for a bit more yield.

In an environment like this, that's a trade-off worth making. You'll still get capital upside in the event of a market rebound. But it will be for tame. For yield hunters and cautious passive investors, the ZWC is a great pick right here. About 40% of the ETF is derived from financial services, with the big banks contributing the biggest slice of the pie.

Sure, you could bet on the big banks themselves, which doesn't cost you a 0.8% management expense ratio. However, in the face of a recession, banks tend to nosedive as loan growth sours in a hurry. Though I do favour the bank stocks over an ETF like the ZWC for highly liquid investors willing to average down, most fearful investors may find it easier to sleep at night with the ZWC. Treat it as a cautiously optimistic way to hedge your bets.

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