



TFSA: Invest \$50,000 and Get \$290-\$340/Month in Passive Income

Description

Looking for a consistent stream of tax-free investment income? Your [Tax-Free Savings Account, or TFSA](#) is a great place to start. Buying income-paying investments is a good idea. Keep in mind, the distributions are not subject to taxation, allowing you to keep more in your pocket.

Still, sinking \$50,000 into one or two [dividend stocks](#) isn't the greatest for [diversification](#). Case in point, look at how the share price of **Algonquin Power & Utilities** ([TSX:AQN](#)) dropped by over 16% intra-day after the company missed earnings expectations. Ouch!

I think a better option here is an [exchange-traded fund \(ETF\)](#) that holds dividend stocks. With this method, you gain better diversification and can bet on a [sector](#) instead of a single stock. Both of my picks today yield over 7% thanks to their use of covered call options.

BMO Covered Call Utilities ETF

Utilities stocks are a great defensive pick for conservative Canadian investors thanks to their lower beta, a measure of market sensitivity. They make for great lower-risk, lower-volatility core holdings and can offer good income potential from the steady, ever-increasing dividend payments.

ETFs like the **BMO Covered Call Utilities ETF** ([TSX:ZWU](#)) take utility sector stocks and enhance their yields by selling covered calls. By selling these options, the ETF essentially converts some of its future upside potential into an immediate cash premium. This premium is distributed monthly.

As a result, ZWU pays a very high dividend. Currently, the ETF has an annualized distribution yield of 8.35%. The yield is how much an investor can expect to receive moving forward if the most recent dividend remained consistent at the current share price. It's not precise, but it's a good approximation.

With a projected distribution yield of 8.35%, buying and holding \$50,000 worth of ZWU would give you a gross annual income of \$4,175, or \$347.92 monthly. The cost? A management expense ratio of 0.71%, or \$71 per every \$10,000 invested.

BMO Covered Call Canadian Banks ETF

Another great sector for income investors is Canadian banks. The “Big 6” banks operate in an oligopoly, and have historically outperformed the market thanks to their strong balance sheets, ever-increasing dividend payments, and growing revenues.

A great way to stretch that yield further is by buying the **BMO Covered Call Canadian Banks ETF** ([TSX:ZWB](#)). ZWB works the same way as ZWU does: hold a portfolio of Canadian bank stocks, and then sell call options in exchange for high monthly income potential.

Currently, ZWB has a distribution yield of 7%. Investing \$50,000 in ZWB will get you around \$3,500 in gross annual passive income, which works out to around \$293.33 monthly. ZWB has the same management expense ratio as ZWU at 0.71%.

Regardless of your choice, the dominant consideration should be diversification. While ZWU and ZWB have solid holdings, they are concentrated in the utilities and financial sectors. A good way to diversify is by adding additional stocks from other sectors (and the Fool has some great picks to check out!).

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AQN (Algonquin Power & Utilities Corp.)
2. TSX:ZWB (BMO Covered Call Canadian Banks ETF)
3. TSX:ZWU (Bmo Covered Call Utilities ETF)

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