2 Ways to Score a Richer Monthly TFSA Payout

Description

Is your goal a monthly stream of tax-free investment income? A good place to start is by investing in your Tax-Free Savings Account, or TFSA. Canadian dividends earned here are completely tax exempt, unlike U.S. dividends, which are subject to a 15% foreign withholding tax.

However, there is one downside of Canadian dividend stocks: namely, their quarterly dividend schedule. This can be a bummer for investors looking for monthly payouts. Fortunately, buying an income-oriented exchange-traded fund, or ETF, can fix this problem.

Compared to individual dividend stocks, income ETFs can offer greater diversification and lower volatility. Today, I have two income ETF picks that both have yields higher than 6% and offer monthly dividends. Let's take a look at how these ETFs work.

BMO Covered Call Utilities ETF

Canadian utilities stocks already have a reputation as a low-volatility, high-yielding investment on their own. The **BMO Covered Call Utilities ETF** (TSX:ZWU) takes this one step further by selling covered call options. By doing so, the ETF converts some of its upside potential into an immediate cash premium.

The cash premium received from selling the covered calls is then distributed to investors on a monthly basis, along with the regular dividends from the underlying utilities stocks. Currently, the ETF has an annualized distribution yield of 8.07%.

The annualized distribution yield is the percentage an investor can expect to receive annually if the most recent dividend remained consistent at the current share price. It's an approximation and can change as time goes on, but it's a good gauge. ZWU costs an expense ratio of 0.71%.

BMO Covered Call Canadian Banks ETF

If you're not a a fan of utilities stocks, an good alternative is **BMO Covered Call Canadian Banks ETF** (TSX:ZWB). This ETF holds all of the "Big Six" Canadian bank stocks and sells covered calls. Investors receive high income consisting of regular dividends and premiums from the calls.

Compared to ZWU, ZWB has a lower annualized distribution yield of 6.73%. In general, banks tend to pay lower dividends than utility stocks. However, the Big Six Canadian banks have a strong history of increasing dividend growth, so they're still a great long-term investment.

Like ZWU, ZWB costs an expense ratio of 0.71% annually. This might seem high, but it's worth not having to sell covered calls yourself. Options trading is highly complex and is best left to a professional fund manager to implement on your behalf.

The Foolish takeaway

ZWU or ZWB could be good core holdings for TFSA investors seeking high yields and solid underlying stocks. Both ETFs offer greater diversification compared to individual dividend stocks from the bank or utility sector and are professionally managed on your behalf.

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