How I'd Invest $1,000 in December to Make Easy Passive Income

Description

To combat the effects of inflation, the 2023 Tax-Free Savings Account, or TFSA, has been increased from $6,000 to $6,500. Depending on your tax bracket, maxing this account out as soon as possible is a great way to supercharge your investment portfolio.

The best thing about a TFSA is the lack of taxes imposed on distributions (aside from a 15% foreign withholding tax on dividends from U.S. stocks). This makes it a great place to hold income generating assets like real estate investment trusts, bonds, or dividend stocks.

Investors looking for high monthly income can consider the use of various covered call exchange-traded funds (ETFs). These ETFs use derivatives to boost their overall yield. Both of my picks today yield over 7% annually and pay on a monthly basis. Let's check them out!

BMO Covered Call Canadian Banks ETF

BMO Covered Call Banks ETF (TSX:ZWB) starts by investing in a equally-weighted portfolio of the "Big Six" Canadian bank stocks. Then the ETF sells covered call options. By selling these options, the ETF converts some of its future upside return potential into an immediate cash premium.

The options premium is then paid out to investors on a monthly basis along with any regular dividends. As a result, ZWB pays a very high distribution. Currently, the ETF has an annualized distribution yield of 7.04%, which is higher than any of the dividend yields paid by the underlying six bank stocks.

The annualized distribution yield is the percentage an investor can expect to receive in a year if the most recent payout remains consistent moving forward at the current share price. Keep in mind that this metric is an approximation and can change. ZWB charges a management expense ratio, or MER, of 0.71%.

BMO Covered Call Utilities ETF

Investors looking for a more defensive holding might like **BMO Covered Call Utilities ETF** (TSX:ZWU

). This ETF uses the same covered call overlay strategy as ZWB does but holds a portfolio of TSX-listed utility stocks instead, which gives it lower overall volatility and market sensitivity than ZWB.

As with ZWB, proceeds from the covered call options along with regular dividends are paid out to ZWU investors on a monthly basis. ZWU can be a great option for diversifying an income-oriented portfolio away from bank stocks. The ETF has an annualized distribution yield of 8.21% and costs 0.71%.

Bottom line

Combining ZWU and ZWB gives income investors exposure to the Canadian utilities and banking sectors, both of which have historically outperformed the broader TSX. Then adding a covered call overlay helps create more consistent cash flows by converting potential gains into regular cash premiums.

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2. TSX:ZWU (Bmo Covered Call Utilities ETF)

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