



TFSA Passive Income – Earn \$500~ Tax Free Every Month

Description

Inflation had a bit of a silver lining this year. To help Canadian investors offset its effects, the annual [Tax-Free Savings Account, or TFSA](#) contribution limit has been increased to \$6,500 for 2022. Canadian investors who have never contributed to a TFSA now have cumulative contribution room of \$88,000.

If you have maxed out your TFSA, then the \$88,000 (or more if you made some gains) can be put to good work generating a stream of tax-free passive income. A great choice here are [exchange-traded funds \(ETF\)](#) that combine dividend stocks along with covered call option strategies.

Both of my picks today provide exposure to high-quality, large-cap Canadian and U.S. blue chip stocks. Thanks to their use of covered call options, each ETF also yields over 6% at the time of writing. As a bonus, both ETFs make payouts on a monthly basis. Let's look them over.

BMO Canadian High Dividend Covered Call ETF

The **BMO Canadian High Dividend Covered Call ETF** ([TSX:ZWC](#)) sells covered call options against a portfolio of quality, high-yielding Canadian dividend stocks. By doing so, the ETF effectively converts the future share price appreciation of these stocks into an immediate cash premium.

The premium is then combined with the dividends from the underlying stocks and paid out on a monthly basis. Currently, the ETF has an annualized distribution yield of 6.79%, which is the percentage an investor can expect to receive in a year if the most recent dividend remains consistent at the current share price.

In terms of fees, ZWC charges a management expense ratio of 0.72%. This is the annual percentage fee deducted from your overall investment. If you invested the full TFSA amount of \$88,000 in ZWC, you can expect to pay around \$633.60 annually in fees. However, if sinking such a huge amount into a single ETF, even a dividend-payer like ZWC, isn't a good idea. Always try and diversify as much as possible.

Assuming ZWC's most recent December monthly distribution of \$0.10 and current share price at time of writing of \$17.24 remained consistent moving forward, an investor who buys \$88,000 worth of ZWC could expect the following monthly payout:

COMPANY	RECENT PRICE	NUMBER OF SHARES	DIVIDEND	TOTAL PAYOUT	FREQUENCY
ZWC	\$17.24	5,104	\$0.10	\$510.40	Monthly

BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF

As noted earlier, more diversification is always good. While ZWC might hold some quality stocks, it only invests in the Canadian market. A great solution here is to diversify your income sources to U.S.-paying dividend stocks via the **BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF** ([TSX:ZWA](#)).

ZWA uses the same strategy of selling covered calls, but does so instead for the 30 large-cap, blue-chip U.S. stocks that make up the Dow Jones Industrial Average Index. Currently, the ETF has an annualized distribution yield of 6.44% and charges a 0.72% expense ratio.

Assuming ZWA's most recent December monthly distribution of \$0.13 and current share price at time of writing of \$23.87 remained consistent moving forward, an investor who buys \$88,000 worth of ZWA could expect the following monthly payout:

COMPANY	RECENT PRICE	NUMBER OF SHARES	DIVIDEND	TOTAL PAYOUT	FREQUENCY
ZWA	\$23.87	3,686	\$0.13	\$479.18	Monthly

CATEGORY

- Investing

TICKERS GLOBAL

- TSX:ZWA (BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF)
- TSX:ZWC (Bmo Canadian High Dividend Covered Call ETF)

PARTNER-FEEDS

- Business Insider
- Flipboard
- Koyfin
- Msn
- Newscred
- Quote Media
- Sharewise

8. Smart News

9. Yahoo CA

PP NOTIFY USER

1. cleona

2. tdong

Category

1. Investing

Date

2025/08/12

Date Created

2022/12/28

Author

tdong

default watermark

default watermark