LCBS-2023-10-16-CoveredCallDividendETFs.pdf

**DISCLAIMER - I am not a Financial Advisor and do not work for any Brokerage Firm. The opinions given are my own and are not to be used as professional advice. These are my findings and can hopefully help you to make informed decisions on investing. Consult a Broker or Lawyer before making any investment.**

## *Dividend ETFs using Covered Call Options*

**One of the easiest ways to make money in Dividend Investing is to buy ETFs that specialize in Dividend Growth stocks. DGI (Dividend Growth Investing) is a very efficient and consistent method to grow your portfolio.**

**[What is DGI Investing?]**

I have many ETFs that invest in Dividend Stocks and found out this week why a number of them are making a lot more money than the others. Those making the most are using Covered Calls options on the dividend stocks.

Options are not anything new, but I have not written about them as most of the time, they seem limited to speculative investors (loosely called investors) and very wealthy investors like Warren Buffet. Anyone can write an option, but only those holding shares in the stocks should do this. Many day traders sell naked options without holding the stock and sometimes make a lot of money. But most of the time, people who deal only in options go broke very quickly.

I will try to briefly explain how options work. Let us say you have 100 shares of stock XYZ. (A fictional stock symbol.) The stock price is $25 a share and pays a 10% dividend. So in a year, your $2500 investment would yield you $250 if the stock price stayed the same every quarter. If you placed a covered call option to sell your stock in 6 months for $28, the option would vary in price as the maturity of the option closed. Let us say hypothetically that you could sell the $28 a-share option for $3 a share.

Anytime in the time of the option until maturity, the option owner could call the stock and pay you $28 per share for it. You would get to keep the $300 payment for the option. So not only did you make $3 a share, you received quarterly dividends while you owned it for 10% of the current stock price, plus the $2800 the option caller paid for the stock. Let us say it was worth $26 at the end of the quarter and if we still owned it, we would have received $65 in dividends ($2600 * .10 = 260 then divided by 4 for quarterly value.)

So you made $65 in dividends, $300 on selling the option, and gained another $300 over the purchase price of thestock(Capital gain). So you made $665 on a $2500 investment in less than 6 months. That $665 makes you over 25% net profit on an investment that was held for less than 1 year. Now all these assumptions are based on this being done in a non-taxable investment account like an IRA or a 401K so you have no taxable capital gains.

See the difference in your net dividend or gain? 10% is a good return, but 25% is way better. Now suppose that the stock never went to $28 a share. What happens then? The option buyer has two options. One is to take the loss and pay you the $28 a share and exercise his option, or just let the option expire. Either way, you win. You keep the $300 on option purchase and still get $28 a share when stock is of less value.

Think about how great that is. You got $300 of free money by writing the option. The numbers I am using are made up, and you may receive more than $3 a share or less based on the market sentiment for your stock. The longer the maturity window on the option, the higher the amount the option buyer pays as it gives them a long window of opportunity to exercise their option.

Why would anyone pay you $3 a share for an option? Their $300 investment is controlling the full value of the 100 shares. So speculators like to take a chance and make money on what could happen. If the shock was to shoot up to $33 a share, they come out good. Most options buyers that I have met are either very intelligent with a good plan or they are mainly gamblers hoping for a free quick payout. Most of these last only a few months until they lose all their investment money. Dave Ramsey said on his show today that 78% of day traders go broke in the first 6 months. No way to invest if you want to retire with a large sum.

Remember that this is a super simple explanation. Study out options in detail before selling (or buying) covered call options. An investment professional or broker can give you details and explain all the risks. They are not totally risk free, but most of the time a conservative play to bump up your income.

So why talk about this opportunity? Two reasons. One is when you get to owning 100's of shares of stocks, this is easily one of the most secure methods to bump your income up with minimal risk. And secondly, you don't have to own hundreds of shares to do it right now.

There are several ETFs designed for this exact purpose. I own a bunch of them and just found out why these pay out over 12% most of the time. Here is an article published in October 2023 from Morningstar explaining some of the ETFs.

Why Investors are Pouring Billions into Covered Call ETFs.

They list a lot of ETFs in the article. Some that I own that have done very well for me are QYLD, JEPI, JEPQ, PFFA, and SDIV. (I am not 100% sure SDIV uses covered call options, but they pay consistently high dividends.) I have owned all of these for quite some time, and all have been very constant in paying excellent dividends quarter after quarter. These are examples of some that have worked for me, but never buy any investment without talking it over with a broker or investment professional.

So keep this strategy in mind. If you are a big investor with thousands of shares of stocks, this is a way for you to supplement your income with very minor risk. If you are a new or small investor, get started by using some of the ETFs I have listed or those mentioned in the Morning Star article.

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