

# These ‘Dividend Aristocrat’ stocks have risen up to 24% a year for a decade

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*Having a long-term outlook can settle the mind, especially with these rock-solid companies*

Walgreens Boots Alliance has boosted sales per share by 28% over the past 12 months, which is by far the best among the S&P High-Yield Dividend Aristocrats.



By

**PHILIP VAN DOORN**

INVESTING COLUMNIST

Have you had enough negativity this year over the world economy, the U.S. stock market and the presidential election? Here's some relief.

Berkshire Hathaway Inc. [BRK.B, +0.04%](#) CEO Warren Buffett struck [a cheerful tone Saturday](#) in his [annual letter](#) to shareholders. He said the “all-powerful trend” for increased productivity in the U.S. “is certain to continue: America’s economic magic remains alive and well.”

And even sluggish economic growth can deliver “astounding gains,” he said.

Money manager Cullen Roche rounded up [other positive statements from Buffett](#) from 2015 and recent years, saying “the greatest wealth accumulator in the world reminds us that these fears are unfounded, yet the message falls on deaf ears.”

**Read:** [Warren Buffett's eternal optimism shows that fear is the real enemy](#)

Investors who are jolted by daily headlines might remember Buffett's favored time line for investing: forever. That's how real wealth is created. And the investments to hold for a very long time tend to be rock-solid dividend payers, also a Buffett favorite.

Think Coca-Cola [KO, +1.30%](#) and Procter & Gamble Co. [PG, +1.17%](#)

The Wall Street Journal pointed out Monday that [the S&P High-Yield Dividend Aristocrats Index has greatly outperformed the broader market](#) this year.

We thought it would be useful to put together lists of companies by different criteria to serve as a starting point for your own research into dividend stocks.

**Also see:** [Income investors are leaving money on the table if they don't use this easy options strategy](#)

When setting out, it's important to understand that these are long-term investments. That means a commitment of several years. If your objective is income, you will find plenty of attractive yields among the Aristocrats. If your objective is long-term growth, with a conservative outlook, you will also see that, historically, the Aristocrats have done well.

## Identifying the Aristocrats

S&P Dow Jones Indices actually maintains two indices of Dividend Aristocrats:

1. The S&P 500 Dividend Aristocrats Index [SPDAUDP, +1.92%](#) includes the 50 S&P 500 companies that have raised their regular dividend payouts for at least 25 consecutive years. That's the only criterion. It makes no difference how high a company's dividend yield is. An example of an ETF tracking this index is the ProShares S&P 500 Dividend Aristocrats ETF [NOBL, +1.95%](#)
2. The S&P High-Yield Dividend Aristocrats Index [SPHYDA, +1.71%](#) includes components of the S&P Composite 1500 that have raised their dividends for at least 20 consecutive years. This is made up of 107 stocks, including all of the S&P 500 Dividend Aristocrats. The SPDR S&P Dividend ETF [SDY, +1.82%](#) tracks the performance of this index.

Here's a comparison of total returns, with dividends reinvested, of both Aristocrats indices and the S&P 500, over the past 10 years:



Here's another way of comparing the three indices, with total returns year-to-date and 2015, along with average annual compounded returns for longer periods:

Index	Total return - YTD through Feb. 26	Total return - 2015	Average annual return - 3 years	Average annual return - 5 years	Average annual return - 10 years
S&P 500 Dividend Aristocrats	0.7%	0.9%	13.5%	14.0%	9.9%
S&P High-Yield Dividend Aristocrats	1.9%	-0.4%	12.0%	12.1%	7.6%
S&P 500	-4.3%	1.4%	11.5%	10.4%	6.5%

Source: FactSet

It's fascinating to see that the more conservative S&P 500 Dividend Aristocrats has greatly outperformed the High-Yield Aristocrats over longer periods, and both have outperformed the base S&P 500 by wide margins.

So the ETFs might be very good long-term choices for you.

Then again, if your main objective is income, and you are looking for considerably higher returns than what you would get from investment-grade bonds, individual Aristocrat stocks may be right for you.

The following section includes five subsets for the Dividend Aristocrats and the High-Yield Aristocrats.

## S&P 500 Dividend Aristocrats tables

Beginning with lists supplied by S&P Dow Jones Indices, we put together smaller lists of stocks in each Aristocrats Index to narrow possible choices. The information is based on data as of the market close Feb. 26.

### 10 highest-yielding S&P 500 Dividend Aristocrats:

S&P 500 Dividend Aristocrat	Ticker	Industry	Dividend yield	Price/consensus 2016 EPS estimate
HCP Inc.	<u>HCP</u> ,+3.92%	Real Estate Investment Trusts	7.69%	10.4
AT&T Inc.	<u>T</u> ,+1.19%	Telecommunications	5.17%	13.1
Chevron Corp.	<u>CVX</u> ,+3.22%	Integrated Oil	5.07%	54.1
AbbVie Inc.	<u>ABBV</u> ,+3.17%	Pharmaceuticals	4.07%	11.1
Emerson Electric Co.	<u>EMR</u> ,+2.33%	Electrical Products	3.85%	16.2
Consolidated Edison Inc.	<u>ED</u> , -0.33%	Electric Utilities	3.81%	17.5
Nucor Corp.	<u>NUE</u> ,+4.12%	Steel	3.75%	21.1
Exxon Mobil Corp.	<u>XOM</u> , -0.18%	Integrated Oil	3.57%	33.3
Archer-Daniels-Midland Co.	<u>ADM</u> ,+1.49%	Agricultural Commodities/ Milling	3.45%	13.4
Procter & Gamble Co.	<u>PG</u> ,+1.17%	Household/ Personal Care	3.27%	22.4

Sources: S&P Dow Jones Indices, FactSet

For HCP Inc. [HCP](#), **+3.92%** we used the ratio of price to consensus 2016 funds from operations (FFO), rather than price to earnings, because it's a real estate investment trust.

**10 S&P 500 Dividend Aristocrats with the lowest forward P/E ratios:**

S&P 500 Dividend Aristocrat	Ticker	Industry	Price/consensus 2016 EPS estimate	Dividend yield
Aflac Inc.	<a href="#"><u>AFL</u></a> , <b>+2.60%</b>	Life/ Health Insurance	9.5	2.73%
HCP Inc.	<a href="#"><u>HCP</u></a> , <b>+3.92%</b>	Real Estate Investment Trusts	10.4	7.69%
AbbVie Inc.	<a href="#"><u>ABBV</u></a> , <b>+3.17%</b>	Pharmaceuticals	11.1	4.07%
Pentair PLC	<a href="#"><u>PNR</u></a> , <b>+3.04%</b>	Misc. Manufacturing	12.0	2.72%
AT&T Inc.	<a href="#"><u>T</u></a> , <b>+1.19%</b>	Telecommunications	13.1	5.17%
Franklin Resources Inc.	<a href="#"><u>BEN</u></a> , <b>+2.98%</b>	Investment Managers	13.1	1.99%
Archer-Daniels-Midland Co.	<a href="#"><u>ADM</u></a> , <b>+1.49%</b>	Agricultural Commodities/ Milling	13.4	3.45%
Target Corp.	<a href="#"><u>TGT</u></a> , <b>+3.20%</b>	Discount Stores	14.9	2.86%
Stanley Black & Decker Inc.	<a href="#"><u>SWK</u></a> , <b>+2.95%</b>	Tools and Hardware	15.6	2.30%
Cardinal Health Inc.	<a href="#"><u>CAH</u></a> , <b>+1.44%</b>	Medical Distributors	15.7	1.86%

Sources: S&P Dow Jones Indices, FactSet

Once again, we used price/FFO for HCP, as explained above.

**10 S&P 500 Dividend Aristocrats with the highest 12-month implied upside by consensus price targets among analysts, while also being rated “buy” by at least 50% of analysts:**

S&P 500 Dividend Aristocrat	Ticker	Industry	Closing price - Feb. 26	Consensus price target	Implied upside	Dividend yield
AbbVie Inc.	<u>ABBV</u> ,+3.17%	Pharmaceuticals	\$56.00	\$72.18	29%	4.07%
Lowe's Cos.	<u>LOW</u> ,+2.24%	Home Improvement Chains	\$69.10	\$82.95	20%	1.62%
McGraw Hill Financial Inc.	<u>MHFI</u> ,+2.81%	Financial Publishing/ Services	\$89.30	\$106.40	19%	1.61%
Walgreens Boots Alliance Inc.	<u>WBA</u> ,+1.79%	Drugstore Chains	\$79.57	\$93.00	17%	1.81%
PPG Industries Inc.	<u>PPG</u> ,+3.16%	Industrial Specialties	\$98.16	\$113.33	15%	1.47%
Nucor Corp.	<u>NUE</u> ,+4.12%	Steel	\$39.96	\$45.50	14%	3.75%
Medtronic PLC	<u>MDT</u> , -4.15%	Medical Specialties	\$77.29	\$86.98	13%	1.97%
Cardinal Health Inc.	<u>CAH</u> ,+1.44%	Medical Distributors	\$83.03	\$93.23	12%	1.86%
Chevron Corp.	<u>CVX</u> ,+3.22%	Integrated Oil	\$84.35	\$94.26	12%	5.07%
Abbot Laboratories	<u>ABT</u> ,+1.52%	Medical Specialties	\$39.52	\$44.13	12%	2.63%

Sources: S&P Dow Jones Indices, FactSet

Even a Dividend Aristocrat can face tough times. Fourth-quarter earnings per share are set to fall 4.4%, according to S&P Global Market Intelligence. Half of the S&P 500 sectors are expected to post earnings declines.

Any company can have a bad quarter with a set of one-time events that skews earnings results for an entire year. So in the next table, we are listing the companies that have increased sales per share the most over the past 12 available reported months. Sales per share “bakes in” any dilution caused by the net issuance of shares for executive compensation or to raise money for acquisitions or other expansion.

### 10 S&P 500 Dividend Aristocrats with the fastest growth of sales per share over 12 months:

S&P 500 Dividend Aristocrat	Ticker	Industry	Sales per share - past 12 months	Sales per share - year earlier	Growth of sales per share	Dividend yield
Walgreens Boots Alliance Inc.	<a href="#"><u>WBA</u></a> ,+1.79%	Drugstore Chains	\$103.61	\$80.78	28%	1.81%
Becton, Dickinson and Co.	<a href="#"><u>BDX</u></a> ,+1.81%	Medical Specialties	\$52.76	\$42.99	23%	1.76%
Cardinal Health Inc.	<a href="#"><u>CAH</u></a> ,+1.44%	Medical Distributors	\$338.17	\$275.75	23%	1.86%
Medtronic PLC	<a href="#"><u>MDT</u></a> ,-4.15%	Medical Specialties	\$19.41	\$17.28	12%	1.97%
AbbVie Inc.	<a href="#"><u>ABBV</u></a> ,+3.17%	Pharmaceuticals	\$13.96	\$12.43	12%	4.07%
Lowe's Cos.	<a href="#"><u>LOW</u></a> ,+2.24%	Home Improvement Chains	\$63.54	\$56.77	12%	1.62%
HCP Inc.	<a href="#"><u>HCP</u></a> ,+3.92%	Real Estate Investment Trusts	\$5.49	\$4.96	11%	7.69%
Cintas Corp.	<a href="#"><u>CTAS</u></a> ,+2.35%	Misc. Commercial Services	\$41.06	\$37.70	9%	1.24%
T. Rowe Price Group	<a href="#"><u>TROW</u></a> ,+3.31%	Investment Managers	\$16.25	\$15.07	8%	3.10%
Sherwin-Williams Co.	<a href="#"><u>SHW</u></a> ,+3.94%	Industrial Specialties	\$120.66	\$113.56	6%	1.23%

Sources: S&P Dow Jones Indices, FactSet

## 10 S&P 500 Dividend Aristocrats with the highest average 10-year returns:

S&P 500 Dividend Aristocrat	Ticker	Industry	Dividend yield	Average total return - 10 years
Sherwin-Williams Co.	<u>SHW</u> ,+3.94%	Industrial Specialties	1.23%	22.9%
Hormel Foods Corp.	<u>HRL</u> ,+1.20%	Food: Meat/ Fish/ Dairy	1.35%	19.6%
V.F. Corp.	<u>VFC</u> ,+2.52%	Apparel/ Footwear	2.28%	19.6%
McDonald's Corp.	<u>MCD</u> ,+1.42%	Restaurants	3.04%	16.3%
PPG Industries Inc.	<u>PPG</u> ,+3.16%	Industrial Specialties	1.47%	15.6%
Brown-Forman Corp. Class B	<u>BF.B</u> , -0.82%	Beverages: Alcoholic	1.36%	13.5%
McCormick & Co.	<u>MKC</u> ,+0.13%	Food: Specialty/ Candy	1.84%	13.4%
W.W. Grainger Inc.	<u>GWW</u> ,+3.13%	Wholesale Distributors	2.15%	13.4%
Kimberly-Clark Corp.	<u>KMB</u> ,+1.03%	Household/ Personal Care	2.80%	12.6%
Ecolab Inc.	<u>ECL</u> ,+3.23%	Industrial Specialties	1.32%	12.6%

Sources: S&P Dow Jones Indices, FactSet



## S&P High Yield Dividend Aristocrat tables

As its name implies, the High-Yield Aristocrats are more aggressive. For starters, S&P Dow Jones Indices begins with a much broader list of 1,500 stocks, and with a slightly less stringent requirement of 20 consecutive years of increasing dividends. If yield is your main objective, you might find some compelling plays here. But bear in mind that a high dividend yield could also mean that most investors believe a company will need to cut its payout. Do some research on your own and with the help of your broker or financial adviser.

Once again, we began with a list supplied by S&P Dow Jones Indices. The information is based on data as of the market close Feb. 26.

### 10 S&P High-Yield Dividend Aristocrats with the highest yields:

S&P High Yield Dividend Aristocrat	Ticker	Industry	Dividend yield	Price/consensus 2016 EPS estimate
HCP Inc.	<u>HCP</u> ,+3.92%	Real Estate Investment Trusts	7.69%	10.4
AT&T Inc.	<u>T</u> ,+1.19%	Telecommunications	5.17%	13.1
Chevron Corp.	<u>CVX</u> ,+3.22%	Integrated Oil	5.07%	54.1
Mercury General Corp.	<u>MCY</u> ,+0.48%	Property/ Casualty Insurance	4.66%	20.0
Caterpillar Inc.	<u>CAT</u> ,+2.05%	Trucks/ Construction/ Farm Machinery	4.61%	17.8
People's United Financial Inc.	<u>PBCT</u> ,+3.56%	Savings Banks	4.49%	16.3
Cullen/ Frost Bankers Inc.	<u>CFR</u> ,+5.11%	Regional Banks	4.23%	11.3
Old Republic International Corp.	<u>ORI</u> ,+1.52%	Property/ Casualty Insurance	4.17%	14.3
MDU Resources Group Inc.	<u>MDU</u> ,-0.22%	Gas Distributors	4.12%	17.1
AbbVie Inc.	<u>ABV</u> , -12.50%	Pharmaceuticals	4.07%	11.1

Sources: S&P Dow Jones Indices, FactSet

Just a reminder, as explained above, we used price/FFO instead of P/E for HCP.

**10 S&P High-Yield Dividend Aristocrats with the lowest forward P/E ratios:**

S&P High-Yield Dividend Aristocrat	Ticker	Industry	Price/consensus 2016 EPS estimate	Dividend yield
Aflac Inc.	<u><a href="#">AFL</a></u> ,+2.60%	Life/ Health Insurance	9.5	2.73%
International Business Machines Corp.	<u><a href="#">IBM</a></u> ,+2.55%	Information Technology Services	9.8	3.94%
HCP Inc.	<u><a href="#">HCP</a></u> ,+3.92%	Real Estate Investment Trusts	10.4	7.69%
AbbVie Inc.	<u><a href="#">ABBV</a></u> ,+3.17%	Pharmaceuticals	11.1	4.07%
Cullen/Frost Bankers Inc.	<u><a href="#">CFR</a></u> ,+5.11%	Regional Banks	11.3	4.23%
Chubb Ltd.	<u><a href="#">CB</a></u> ,+1.89%	Property/ Casualty Insurance	12.0	2.28%
Pentair PLC	<u><a href="#">PNR</a></u> ,+3.04%	Misc. Manufacturing	12.0	2.72%
RenaissanceRE Holdings Ltd.	<u><a href="#">RNR</a></u> ,+1.40%	Property/ Casualty Insurance	12.3	1.08%
AT&T Inc.	<u><a href="#">T</a></u> ,+1.19%	Telecommunications	13.1	5.17%
Franklin Resources Inc.	<u><a href="#">BEN</a></u> ,+2.98%	Investment Managers	13.1	1.99%

Sources: S&P Dow Jones Indices, FactSet

**10 S&P High-Yield Dividend Aristocrats with the highest 12-month implied upside by consensus price targets among analysts, while also being rated “buy” by at least 50% of analysts:**

S&P High-Yield Dividend Aristocrat	Ticker	Industry	Closing price - Feb. 26	Consensus price target	Implied upside	Dividend yield
Telephone and Data Systems Inc.	<a href="#"><u>TDS</u></a> ,+0.82%	Wireless Telecommunications	\$26.38	\$39.00	48%	2.24%
AbbVie Inc.	<a href="#"><u>ABBV</u></a> ,+3.17%	Pharmaceuticals	\$56.00	\$72.18	29%	4.07%
SEI Investments Co.	<a href="#"><u>SEIC</u></a> ,+4.69%	Investment Managers	\$38.56	\$47.60	23%	1.35%
RPM International Inc.	<a href="#"><u>RPM</u></a> ,+2.77%	Industrial Specialties	\$40.87	\$49.50	21%	2.69%
Lowe’s Cos.	<a href="#"><u>LOW</u></a> ,+2.24%	Home Improvement Chains	\$69.10	\$82.95	20%	1.62%
McGraw Hill Financial Inc.	<a href="#"><u>MHFI</u></a> ,+2.81%	Financial Publishing/ Services	\$89.30	\$106.40	19%	1.61%
Walgreens Boots Alliance Inc.	<a href="#"><u>WBA</u></a> ,+1.79%	Drugstore Chains	\$79.57	\$93.00	17%	1.81%
General Dynamics Corp.	<a href="#"><u>GD</u></a> ,+1.45%	Aerospace and Defense	\$137.11	\$159.18	16%	2.01%
PPG Industries Inc.	<a href="#"><u>PPG</u></a> ,+3.16%	Industrial Specialties	\$98.16	\$113.33	15%	1.47%
Nucor Corp.	<a href="#"><u>NUE</u></a> ,+4.12%	Steel	\$39.96	\$45.50	14%	3.75%

Sources: S&P Dow Jones Indices, FactSet

**10 S&P High-Yield Dividend Aristocrats with the highest growth of sales per share over 12 months:**

S&P High-Yield Dividend Aristocrat	Ticker	Industry	Sales per share - past 12 months	Sales per share - year earlier	Growth of sales per share	Dividend yield
Walgreens Boots Alliance Inc.	<u>WBA</u> ,+1.79%	Drugstore Chains	\$103.61	\$80.78	28%	1.81%
Becton, Dickinson and Co.	<u>BDX</u> ,+1.81%	Medical Specialties	\$52.76	\$42.99	23%	1.76%
Cardinal Health Inc.	<u>CAH</u> ,+1.44%	Medical Distributors	\$338.17	\$275.75	23%	1.86%
Medtronic PLC	<u>MDT</u> , -4.15%	Medical Specialties	\$19.41	\$17.28	12%	1.97%
AbbVie Inc.	<u>ABBV</u> ,+3.17%	Pharmaceuticals	\$13.96	\$12.43	12%	4.07%
Ross Stores Inc.	<u>ROST</u> ,+2.27%	Apparel/ Footwear Retail	\$28.64	\$25.52	12%	0.83%
Lowe's Cos.	<u>LOW</u> ,+2.24%	Home Improvement Chains	\$63.54	\$56.77	12%	1.62%
HCP Inc.	<u>HCP</u> ,+3.92%	Real Estate Investment Trusts	\$5.49	\$4.96	11%	7.69%
Carlisle Cos.	<u>CSL</u> ,+2.00%	Misc. Manufacturing	\$53.83	\$48.97	10%	1.33%
Essex Property Trust Inc.	<u>ESS</u> ,+3.49%	Real Estate Investment Trusts	\$18.79	\$17.11	10%	3.05%

Sources: S&P Dow Jones Indices, FactSet

**10 S&P High-Yield Dividend Aristocrats with the highest average 10-year returns:**

S&P High-Yield Dividend Aristocrat	Ticker	Industry	Dividend yield	Average total return - 10 years
Ross Stores Inc.	<u><a href="#">ROST</a></u> ,+2.27%	Apparel/ Footwear Retail	0.83%	24.4%
Sherwin-Williams Co.	<u><a href="#">SHW</a></u> ,+3.94%	Industrial Specialties	1.23%	22.9%
Hormel Foods Corp.	<u><a href="#">HRL</a></u> ,+1.20%	Food: Meat/ Fish/ Dairy	1.35%	19.6%
V.F. Corp.	<u><a href="#">VFC</a></u> ,+2.52%	Apparel/ Footwear	2.28%	19.6%
A.O. Smith Corp.	<u><a href="#">AOS</a></u> ,+3.71%	Building Products	1.33%	18.4%
Polaris Industries Inc.	<u><a href="#">PII</a></u> ,+2.39%	Recreational Products	2.41%	16.7%
McDonald's Corp.	<u><a href="#">MCD</a></u> ,+1.42%	Restaurants	3.04%	16.3%
Realty Income Corp.	<u><a href="#">O</a></u> ,+0.50%	Real Estate Investment Trusts	4.06%	16.0%
West Pharmaceutical Services Inc.	<u><a href="#">WST</a></u> ,+2.55%	Medical Specialties	0.76%	15.9%
PPG Industries Inc.	<u><a href="#">PPG</a></u> ,+3.16%	Industrial Specialties	1.47%	15.6%

Sources: S&P Dow Jones Indices, FactSet

# Opinion: Income investors are leaving money on the table if they don't use this easy options strategy

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*Covered call options provide additional income up front plus downside protection*

By

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Do your eyes glaze over when you hear someone mention an options strategy as a way of enhancing investment returns?

Mine do. But I promise to explain a “covered call” option strategy as painlessly as possible.

If you're an investor seeking income, buying quality securities that pay high dividends or interest is a prudent strategy. But covered call options can boost income while providing downside protection. And that's important nowadays, as some analysts are predicting a bear market for stocks, and traders expect low interest rates for quite a while.

## How covered calls work

A call option gives a buyer the choice of purchasing the underlying security for a particular price. Most options expire within a month, but some expire weekly, quarterly or even yearly. A covered call option, on the other hand, is one you sell when you already own the shares.

A LEAP (which stands for long-term equity anticipation) is an option that doesn't expire for a whole year. However, they do expire every January.

For example, let's say you buy 100 shares of a company or exchange traded fund for \$50 a share. You can sell an option to another investor with an exercise price that is considerably higher than the price you paid, say \$55. You will receive a premium for selling the option, which will immediately enhance your income from the stock.

If the share price doesn't rise to a level high enough above the \$55 strike price to compel the option buyer to exercise the option before it expires (and buy your shares from you), you have gotten what you wanted. The premium has significantly enhanced your income and you can then sell a new option if you like.

You can also consider the premium to be downside protection. If the stock price declines, the option won't be exercised, but the premium is yours.

There are many positive aspects to the covered call strategy, but it is "definitely not for everyone. You need to be willing to sell the stock at the strike price," said Ken Roberts, an investment adviser with Wespac, which is based in Oakland, Calif., and has about \$200 million in assets under management. Wespac is a unit of Focus Financial Partners, which is based in New York and has close to \$60 billion in assets under management. Roberts often uses covered call option strategies with his clients.

Roberts is also a member of the MarketWatch [RetireMentors](#) team, and you can read his articles [here](#).

You have to give more consideration to commissions and tax consequences if covered calls become one of your ongoing strategies. But the bottom line is this: If there's a price at which you would be willing to part with the shares, and you can sell an option with that strike price for a decent premium, you're in a good position. The premium is yours. You expect the option to expire before the stock hits the strike price. In that case, your yield has increased by the amount of the premium you received.

Then again, if you are forced to sell the shares, you will have a tidy profit on the sale, plus the option premium, plus any dividends you received in the meantime. All of this can lead to hefty returns, as we'll show below.

“If turnover isn’t a factor, you can get good returns with options, but there is a lot of turnover,” Roberts said.

He was referring to monthly option expirations, commissions and taxable events. You need to understand just how high (or low) the commissions will be for all the possible transactions, and what taxes you might face when earning the option premiums.

“For tax-deferred accounts, you can do a lot of activity without tax consequences,” Roberts said. So the covered call strategy might work out well for you in retirement account.

“In a taxable account, people might prefer to sell them out in time, quarterly or semiannually. Some people use LEAPs to sell them out for a year and just wait, and limit turnover,” Roberts said.

The LEAPs “expire in January, but you can go out right now with liquid ETFs or stocks, and sell a LEAP that will expire in January 2017. So you will have no tax consequence until the 2017 tax year. You don’t have a very high turnover,” he added.

*(On the next page, we’ll offer covered call options examples with the help of Ken Roberts.)*

## Q&A and examples

**MarketWatch:** If your client is conservative and said his objective is income, what would you say?

**Ken Roberts:** Stick with relatively conservative stocks that pay dividends. There’s no guarantee that they will continue to pay, but with names like General Electric Co. [GE, +2.54%](#) and Johnson & Johnson [JNJ, +1.91%](#) between the dividend and the call premium, you can get some pretty good returns.

**MarketWatch:** What about ETFs?

**Ken Roberts:** Using ETFs, you have some diversification.

If you bought the SPDR S&P 500 ETF [SPY, +2.35%](#) for \$ 193.20 a share, at Wednesday’s close, and bought the LEAP with a strike price of \$200, your static return if it didn’t go anywhere would be 7.32%, including dividends and the premium for the option. Your maximum possible profit would be \$20.94 a share and your max return would be 10.84%. The call option is your downside protection too, since you have a \$9.30 premium already in your pocket.

If you look at the iShares 20+ Year Treasury Bond ETF [TLT, -1.76%](#) it’s pretty conservative and interest-rate sensitive. Your static return if the ETF were bought Wednesday at \$131.21 and you sold a \$135 call for a premium of \$5.75 would be 6.39%.



**MarketWatch:** Would you recommend the two stocks and two ETFs you mentioned as appropriate long-term choices for investors seeking income?

**Ken Roberts:** Yes. Here's a list with those ETFs and five stocks, including those mentioned above, that I would recommend. I have clients who own all of them right now.

Company or ETF	Ticker	Annual dividend yield
SPDR S&P 500 ETF Trust	<u>SPY</u> , +2.35%	2.18%
iShares 20+ Year Treasury Bond ETF	<u>TLT</u> , -1.76%	2.37%
General Electric Co.	<u>GE</u> , +2.54%	3.18%
Johnson & Johnson	<u>JNJ</u> , +1.91%	2.86%
Clorox Co.	<u>CLX</u> , -0.75%	2.36%
AT&T Inc.	<u>T</u> , +1.19%	5.18%
Verizon Communications Inc.	<u>VZ</u> , +1.44%	4.45%

Sources: Ken Roberts/Wespac, FactSet

This next table shows hypothetical examples of those stocks, with Wednesday's closing prices, along with premiums you would have received for selling one-year covered call options (LEAPs) that expire on Jan. 20, 2017, as well as the strike prices, maximum profits, maximum returns and static returns:

Ticker	Dividends	Share price - close on Feb. 24	Option strike price	Premium	Maximum profit	Static return	Maximum return
<u>SPY</u> ,+2.35%	\$4.84	\$193.20	\$200	\$9.30	\$20.94	7.32%	10.84%
<u>TLT</u> , -1.76%	\$2.64	\$131.21	\$135	\$5.75	\$12.18	6.39%	9.28%
<u>GE</u> ,+2.54%	\$0.92	\$28.73	\$32	\$0.90	\$5.09	6.33%	17.72%
<u>JNJ</u> ,+1.91%	\$2.25	\$104.96	\$110	\$4.17	\$11.46	6.12%	10.92%
<u>CLX</u> , -0.75%	\$3.08	\$130.24	\$135	\$6.92	\$14.76	7.68%	11.33%
<u>T</u> ,+1.19%	\$1.92	\$37.10	\$40	\$0.81	\$5.63	7.36%	15.18%
<u>VZ</u> ,+1.44%	\$2.24	\$50.82	\$55	\$1.15	\$7.57	6.67%	14.90%

Sources: Ken Roberts/Wespac

*The “dividends” column includes how much in cash dividends you can expect to receive if the dividend remains unchanged. This column has been adjusted to reflect whether a company has already paid a quarterly dividend this year, leaving you with just three quarterly dividends before the LEAPs expire on Jan. 20, 2017.*

*The premium is your downside protection, since you get paid this immediately when you sell the option. The static return is what your return would be if neither the stock price nor the dividend changed through Jan. 20, 2017. It’s the sum of the dividend and premium divided by the share price.*

*The maximum profit is the premium you would receive for selling the option, plus the profit on the sale of your shares at the strike price (assuming you had purchased them at the close on Feb. 24), plus the dividends you would receive if the option were exercised after the last dividend was paid. The maximum return is the maximum profit divided by the share price at the close on Feb. 24, 2016*

**MarketWatch:** How easy is it for an investor, through her broker, to sell covered call options?

**Ken Roberts:** These stocks are very liquid. Today, GE’s share trading volume is 17 million in just three hours. I am recommending the LEAPs with a \$32 price, to give you 11% of upside. Right now, there is open interest on 35,986 of these contracts. That’s a very liquid option.

## Next steps

Selling covered call options is a reasonably conservative way to boost yields on an income portfolio, but you must be very careful only to sell the options if the strike prices are high enough that you won’t have regrets if you wind up selling the shares.

It’s a good idea, especially if you are new to options, to have a detailed discussion about the possibilities with your broker or financial adviser. You can also go to the [Option Industry Council’s website](#), which has plenty of information brochures and strategy guides.