



Should Investors Bet on Canadian Imperial Bank of Commerce's Bet on Wealth Management?

Description

For most investors, **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)) is akin to that actor in the movie the other night that you don't quite remember — the guy with the star, not the star himself. Since it doesn't stand front and center like **Royal Bank of Canada** or has the international flavor of **The Bank of Nova Scotia**, CIBC often gets overlooked.

It hasn't helped that when it *has* dominated the headlines, it's been for being part of a scandal south of the border. Now under the leadership of its new CEO, Victor Dodig, the bank is hoping for a brighter future and that, apparently, will involve a focus on wealth management.

Banking on personal experience.

This is an area of familiarity for Dodig as he used to run the bank's wealth management division. CIBC is far from the only bank zeroing in on the wealth management market not just at home but, more importantly, in the U.S.

The overall goal is that at least 15% of the bank's total profits would come from its wealth management arm — a goal that appears attainable as wealth management currently generates 14% of total profits. In order to meet these goals, the bank is ready to turn its focus back to the U.S., where the bank had been battered and \$15 billion poorer thanks to the mortgage crisis and Enron.

But the allure of American wealth management clients is too hard to pass up. Currently, just under 20% of the bank's wealth management business comes from outside Canada, and CIBC wants to see that number rise to 40%.

Growth through acquisitions

In order to meet these goals, CIBC has been making acquisitions to bolster its presence, starting a few years ago when it invested US\$848 million to pick up a 41% interest in American Century Investments. The deal was followed by the purchase of Atlantic Trust, a private banking specialist.

More deals could be over the horizon as Dodig has stated that he is on the lookout for deals that range “up to \$2 billion in size.”

Keeping up with the other banks

Traditionally, CIBC is known for its strong retail banking operation here in Canada, and the financials prove this — Canadian banking makes up 65% of its earnings.

But competitors such as RBC have made great strides in bolstering their wealth management divisions and have seen record revenues in recent quarters, thanks to their U.S. expansions. Now CIBC is in the middle of playing catchup in order to diversify itself from its traditionally low-risk Canadian operations. Though in the past the U.S. has not been kind to CIBC and has contributed to some of the bank’s lowest moments, perhaps under new leadership and a focused approach, it can finally break the cycle.

A change in perspective

In an attempt to pique the interest of investors, Dodig has said that the bank is ready to “evolve our risk profile.” He also emphasised that he remains comfortable with continuing to pay out a significant portion of the bank’s earnings through dividends and share buybacks. This should quell some of the bank’s longtime investors’ jitters as this leadership change unfolds.

CATEGORY

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2. Investing

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