Canadian Imperial Bank of Commerce: Beat the Market's Irrationality Before it's Too Late

Description

Between March and September, shares of **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) gave up nearly 13% of their value. Although the stock has been steadily increasing since then, with shares up about 4.5%, the market's irrationality is still in place and provides you with an opportunity.

But first, let's understand why the stock is down.

The primary headwind for CIBC is the fact that it has far greater exposure to the Canadian housing market when looking at market cap compared to its larger Canadian peers. While others have expanded into the United States aggressively, CIBC focuses much of its attention on the Canada — though it is trying to diversify.

Naturally, investors are concerned about this for a multitude of reasons. Financial pundits are in a race see who can make the housing bubble sound worse than their competitors. Then there's the fact that interest rates are starting to increase. Although this should be a positive, since it increases earnings for the bank, there is also a negative aspect to it.

Many mortgages are adjusted rates, which move up or down based on what the interest rates are from the Bank of Canada. Therefore, if interest rates increase, it could affect how much consumers can borrow, which would limit how much higher housing prices can go.

Finally, if interest rates increase and there is no one to buy houses, consumers are stuck holding a mortgage that is more expensive for them to pay, thus resulting in an increase in defaults — or so the financial pundits say.

Here's the thing … the bank's delinquency rates are the lowest they've been in a year. CIBC has0.23% of mortgages that are +90 days delinquent, which is down from 0.26% in Q3 2016. And in theGreater Vancouver and Greater Toronto Areas, the +90 days delinquency rates for uninsuredmortgages are lower than the Canadian average. I believe that will continue to be the case.

Is it true that there is a bit of a housing bubble? Of course. But rather than a hard landing, like financial pundits and many investors are calling for, I believe it will be a slow drop. We can handle slow drops; this is not the second coming of the Financial Crisis.

But the market's irrationality is your opportunity, though you do need to act with some expediency. Right now, CIBC is yielding 4.75% after the company increased the dividend to $1.30 from $1.27 per share. Over the past five years, the payout has increased by over 38%, so investors of this stock have been rewarded.

To maximize your yield on cost, you'll want to buy CIBC before the market warms to the likelihood that the housing bubble will slowly deflate rather than burst. We can see shares are already on the rise, increasing by 4.5% since the beginning of the month. The best ways to make money in the market are to take advantage of opportunities when everyone else is afraid to act. That time is now.

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