Canadian Imperial Bank of Commerce: Should You Be Greedy While Others Are Fearful?

Description

Many investors have shied away from **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) for many years because of many "weak spots" in the company's armour that many of its bigger brothers in the Big Five don't have. Despite having the largest yield (currently at 4.6%) and the cheapest multiple (10.27 price to earnings), the general public still sees CIBC as that fifth bank that's riskier and of lower quality.

Sure, CIBC has quite a way to go to catch up to its peers, but I don't think the excess pessimism surrounding the stock is warranted, especially considering that management has taken an active approach to improving the business over the long haul.

Why are investors still afraid of CIBC versus its larger peers?

Many pundits agree that the Canadian housing market is overheated and could be ripe for a correction. The Vancouver and Toronto real estate markets in particular are red hot, and many pundits are calling for a violent correction as the government attempts to cool down these markets.

Fellow Fool contributor Nelson Smith thinks that investors should avoid CIBC if they have any concerns at all about housing. It appears that investors who've had any doubts regarding Canada's housing market have done just that, as shares of CM continue to lag behind peers.

CIBC is the most vulnerable to a pullback should a violent housing correction occur. So, maybe it's the wiser decision to simply avoid the stock to begin with.

That's been the attitude of investors thus far, and I think concerns over CIBC's recent mortgage growth ramp up have been blown completely out of proportion. It looks like everyone's expecting a collapse to occur, but if that doesn't happen, shares could enjoy a huge surge at some point over the next few years, as CIBC gradually becomes a more robust bank.

"CIBC has 44% of its mortgage balances in Toronto and Vancouver." says fellow Fool contributor Will Ashworth. "If CIBC gets taken down, it won't be because of its exposure to Toronto and Vancouver. It will be because it has a whole lot of mortgages in small towns across the country that won't get paid if the economy stops growing and we move into a recession."

The general public is already afraid of the Canadian housing market. When you mention the Vancouver and Toronto housing markets as well, the fear level spikes, probably to an unreasonable level. This might indicate it's time to take Warren Buffett's advice and "…be fearful when others are greedy, and greedy when others are fearful."

Should you get greedy and back up the truck?

One could argue that fears surrounding CIBC and its exposure to Canadian housing is the highest its been in years thanks in part to a recent ramp up. I think it's an incredible opportunity to own shares of a great Canadian bank at a significant discount to its intrinsic value.

CIBC and its entrance into the U.S. market will make shares command a much higher multiple in five years from now than it has in the past. And I believe the Canadian housing market will gradually cool down and won't crash violently as so many are fearing. It appears that a violent housing meltdown and its potential effects on CIBC have partially already been baked in to the stock, so the actual impact on its shares may not be as bad as the bears believe.

Deep-value investors should strongly consider adding a position to their portfolios today and on any dips that may occur going forward.

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