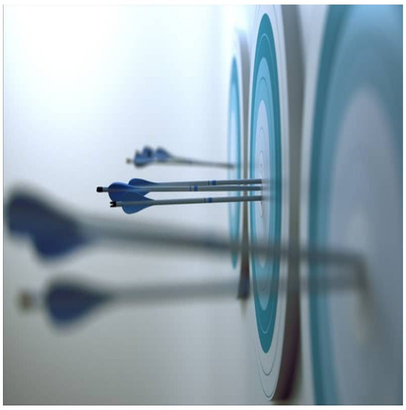

Short Sellers Targeting Royal Bank of Canada and Canadian Imperial Bank of Commerce Will Lose Their Shirts

Description

Shorting Canada's Big Five banks has rarely ever been a profitable endeavour. The big banks are fundamentally sound, and although there are some reasons to be bearish, like exposure to the overheated Canadian housing market, the banks always manage to find a way to thrive and adapt, despite any perceived weaknesses in their armour.

The big banks are core holdings, and they'll continue to raise their dividends by a generous amount on a consistent basis. For short sellers, that means a great deal of pain will be realized from the get-go, and it's very likely they'll eventually be squeezed from their positions down the road.

PAA Research, a U.S. research firm based out of Atlanta, recently set its sights on **Royal Bank of Canada** (TSX:RY)(NYSE:RY) (Canada's largest bank), and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), (the cheapest Big Five bank), claiming both banks have bleak outlooks mainly thanks to Canada's frothy housing market. PAA believes that a plunge of at least 50% could be in the cards sometime over the next three years.

I don't think PAA should hold its breath on this. Big bank short sellers are nothing new; they've been proven wrong over the past year, and going forward, I find it likely they'll be squeezed from their positions, as Royal Bank of Canada and CIBC continue to reward their long-term shareholders with capital gains and massive dividends.

Three years from now, both Royal Bank of Canada and CIBC will be in much better positions than they are today, as they invest in technology to keep up with changing consumer demands. In addition, CIBC will probably be in much better shape with a fully integrated PrivateBancorp, which will finally give the bank exposure to the red-hot U.S. market.

Housing concerns are overblown. Short sellers will continue to lose big

Concerns about the Canadian housing market and fears of a collapse have been the talk of the town over the past few years. CIBC in particular is the most exposed to Canada's red-hot housing market, and would be hit the hardest should a violent housing correction occur.

Every time CIBC comes up, investors always bring up concerns over its heavy exposure to the Canadian housing market — the red-hot Vancouver and Toronto markets in particular. With the company's prior lack of geographic diversification, CIBC shares have traded at a significant discount to its peers. I think fears of a collapse are already partially baked in to the stock at current levels, and should a housing meltdown occur, I don't think shares will hit $76, as PAA projects.

Bottom line

CIBC shares have surged nearly 6% in the past few days following a whopping 25% year-over-year increase in profit. Short sellers are going to really start to feel the pain over the next few years, as the bank goes all-in with its U.S. expansion efforts.

Royal Bank of Canada also reported a solid 12% increase in earnings on a year-over-year basis. The bank reportedly spent $3 billion on tech enhancements over the past year.

Both banks will continue to impress over the years, so don't be alarmed by short-seller claims, as they've been proven to be wrong time and time again. The big banks will always be low-risk/high-reward investments that will reward those who are patient over the long term.

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