2 Top Banks You'll Want to Load Up on in 2018

Description

Canadian banks have shown time and time again that they're terrific long-term producers of wealth. They're the essential core to any portfolio thanks to the stable dividend, the high magnitude of dividend growth, and the capital gains that are likely to be enjoyed over the years.

There have been short sellers that have voiced their concerns over the bank's exposure to a "fragile" Canadian housing market, which may be on the verge of collapse, but I don't think investors should panic, especially since many pundits would agree that a gradual housing market cooldown is the highly probably scenario that will pan out over many years.

One mustn't rule out the less likely case, however — especially since the frothy Canadian housing market has been the talk of the town over the last several months. It's important to remember that all banks aren't created equally. Some will be more affected by a collapse than others. Take **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) for example. Many would agree is the "riskiest" Big Five bank, and it's the cheapest as a result.

On the other side, you've got **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), arguably the most expensive bank which has tended to trade at a premium to its peers over the past five years. It's expensive because it has a solid U.S. business and a promising growth profile. Not to mention that it's well positioned to deal with a violent Canadian housing meltdown if it were to happen.

I believe the cheapest and the priciest banks are the best buys for investors looking to buy into the banks over the next year. In the case of TD Bank, I believe it's worth it to pay up for its premium assets (strong U.S. growth runway), and given the long-term earnings-growth trajectory, I think the stock should trade at an even larger premium relative to its peers.

In the case of CIBC, it's a stock that the general public loves to hate thanks to the bank's overexposure to Canada and the Canadian housing market. If a housing meltdown occurred, CIBC would be hurt the most, and that's why many investors have taken a pass on the bank over the last few years. I think the fears are overblown, and given management's new long-term growth plan to diversify away from Canada and into the U.S., I believe the stock is too cheap to ignore if you've got a long-term investment horizon.

The general public claims that CIBC overpaid for PrivateBancorp to gain entrance into the U.S. market and is therefore the Big Five bank to ignore. In addition, CIBC's recent mortgage growth ramp up spooked investors, causing shares to become even cheaper.

CIBC recently surged upward following the Q4 2017 quarter. Adjusted net income rocketed 25%, and the stock spiked ~6% in the two trading sessions that followed the earnings release. The PrivateBancorp (now known as CIBC Bank USA) acquisition can be thanked for this strong performance, but many naysayers will continue to be pessimistic about the bank in spite of recent promising efforts from management to become a most robust player over the next five years.

Bottom line

TD Bank and CIBC are both fantastic businesses that are putting their foot on the pedal when it comes to U.S. growth. Sure, U.S. banking assets aren't cheap, but they're well worth it, especially since we're likely to see the price of admission increase gradually over the next few years as the U.S. economy heats up under a pro-growth Trump.

TD Bank has more banks in the U.S. than in Canada. It's known as "America's most convenient bank." And on the flip side, CIBC is attempting to make up for lost time with its recent U.S. expansion efforts.

Both banks are on opposite sides of the traditional valuation spectrum, but I believe they are actually the best buys when you take into account where each bank is headed over the next five years.

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