Which Is the Better Buy in 2018: Canadian Imperial Bank of Commerce or Bank of Montreal?

Description

It was an interesting race to the top when you analyze the stock performances by Canada's top five banks in 2017.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM), which remained a laggard for much of the year, emerged the top gainer at the time of writing thanks to its stunning performance during the last quarter.

In a slow but steady move, its shares were up more than 10%, trading at $123 and nearing the highest point in the past 12 months. This outcome is what I had expected and extensively written about in my previous columns.

My point was that short-sellers were wrongly targeting CIBC and won't be able to achieve their goals. Those who were betting against the CIBC stock were pinning their hopes on the crash of the Canadian housing market. They picked CIBC because of its huge exposure to the Canadian housing market, where prices have surged to a dangerous level.

To their dismay, the red-hot housing markets in Canada's largest cities, Toronto and Vancouver, didn't crash and CIBC's mortgage portfolio remained healthy.

In the fourth quarter, the lender surprised many analysts when its profit surged 25%, boosted by strong performance from its U.S. operations.

In that period, CIBC recorded the first full quarter of input from its Chicago-based PrivateBancorp Inc. The profit from the newly created U.S. commercial-banking and wealth-management division rose more than fourfold to $107 million.

Better buy for 2018?

That was the story of 2017, which leaves investors wondering which Canadian banking stock is best positioned to outperform in 2018.

To answer this question, we should listen to David Berman, an investing columnist at *The Globe and Mail*, who has an interesting take on picking a winner in the banking space. “Buy last year’s underperforming bank stock. Hold for a year. Repeat,” he wrote in a recent article.

From 2000 until the end of last year, this approach has produced an average annual gain of more than 16% (not including dividends), according to Berman’s research, beating the **S&P/TSX Composite Index** by about six percentage points over the same period.

I think this strategy makes sense given the oligopoly we have in our financial services industry, where each top lender has its own niche and dominance. This exclusivity provides enough room for each of them to catch up to the market trend within a few quarters.

The bottom line

Next year’s pick is **Bank of Montreal** (TSX:BMO)(NYSE:BMO), which remained under pressure throughout 2017.

The good thing about investing in Canadian banks over the long term is that they’re great dividend stocks. If you plan to buy-and-hold BMO stock, then you will also be earning a steady income stream while you wait for this stock to catch up in 2018.

With a dividend yield of 3.69%, you’ll be investing in a company that has sent dividend cheques to investors every year since 1829.

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