Here's the Best Bank for Your Buck

Description

Canada's big banks are an essential nutrient to any diversified Canadian portfolio, regardless if you're a young growth-oriented investor, a seasoned retiree who's winding down, or a beginner who's looking to dip their toes in the waters of retail investing for the first time. If you've truly got a long-term time horizon of at least a decade, you'll get above-average capital gains to go with an above-average magnitude of annual dividend hikes and an attractive upfront dividend yield.

It's the best of both worlds — or like having your cake and eating it, too!

By avoiding Canada's big banks because of short-selling activities, you're doing your portfolio a huge disservice. The shorts have been wrong time and time again. And when the banks pick up traction, the shorts get squeezed, and long-term investors are the ones who prevail.

At any given time, there may be a different Big Five bank that's the most attractively valued, but one thing that's remained constant over the last few years is the noticeable discount that shares of **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) possessed relative to its peers.

Following the acquisition of PrivateBancorp, CIBC now has a presence in the red-hot U.S. market, and over the next few years, tuck-in acquisitions are likely to bolster CIBC's U.S. exposure as it attempts to make up for lost time. Many of CIBC's peers in the Big Five are already decades ahead when it comes to international diversification. During this entire time, CIBC has remained primarily a domestic bank, but over the next five years, that's going to change.

Management expects 25% of revenues to be derived from the U.S. at some point down the road. And although CIBC is likely going to need to open its wallet to add to its already impressive U.S. foundation, investors need not worry about the potential for deteriorating ROEs, since **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), Canada's most American bank, has already exhibited some of the lowest ROEs in the Big Five.

Expanding into the U.S. isn't cheap, and the big banks, CIBC included, are going to need to continueto pay premium multiples. As such, the multiples paid for U.S. acquisitions may seem cringe-worthy onthe surface, but over the long run, their value will end up paying huge dividends.

Bottom line

While CIBC remains overexposed to the severely overvalued Canadian housing market, I think the large portion of the worries are already baked in to shares at these levels. As such, if a violent housing crash doesn't pan out over the next few years, investors will stand to profit profoundly from CIBC's surging U.S. segment, which will serve as a means to grow CIBC's earnings (and dividends) at a rapid rate as the U.S. economy heats up, provided that a Trump trade war doesn't trigger a recession.

At the time of writing, investors can pick up CIBC's attractive 4.7% dividend yield, which is higher than any of its Big Five peers. The trailing 9.5 P/E is also lower than any Canadian bank stock.

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