Canadian Imperial Bank of Commerce (TSX:CM) Has a Secret Weapon to Beat its Peers

Description

If you think all the current talk about diversity and inclusion at work is nothing but bunk, you might want to think again.

According to **Thomson Reuters Corp.'s** Diversity and Inclusion index (TRDI), companies that have a diverse workforce, are welcoming to all employees, develop their people and avoid PR disasters tend to outperform companies that aren't so focused in these areas.

"It appears, maybe not surprisingly, that a company with a strong culture of diversity and inclusion, which develops its people and prevents controversies, is a sign of strong management – which leads to stocks that perform well on a long-term basis," Thomson Reuters' Hugh Smith stated recently in *The Globe and Mail.*

Smith works in the company's financial and risk unit, the operating segment responsible for maintaining the TRDI.

What is the TRDI?

The TRDI is a list of 100 global companies that are ranked highly in all four areas mentioned above. Over the past three-year and five-year periods, on both a risk-adjusted and absolute basis, it has outperformed the global markets as a whole.

Of the 100 companies, only three are Canadian compared to 24 from the U.S. and 76 outside North America. One of the Canadian companies to make the list is the **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), which is easily my favourite of the big Canadian banks.

Unfortunately, investors continue to avoid it because of its exposure to the residential housing market in Canada, although Fool contributor Haris Anwar believes these fears have subsided — hence its 5% gain over the last three months to bring it closer to breakeven on the year.

The **BMO Equal Weight Banks Index ETF** owns the six biggest Canadian banks. Rebalanced quarterly to equal weights, it's delivered a total return of 2.3% year to date, highlighting CIBC's continuing lack of performance.

Will it last?

I maintain that the CIBC is Canada's best bank because of its innovation and willingness to take risks other banks won't take.

The fact that it's made Thomson Reuters' exclusive list of global companies is prime evidence that it can compete with banks both in Canada and the U.S.

Recently, its U.S. wealth management business was featured in *Barron's* magazine; it plans to double its assets under management and administration to U$52 billion over the next 5-8 years by building its business outside its Chicago base to Texas, Florida, and California, three of America's most populous states.

"I believe we're one of the best growth stories in the space," CIBC U.S. Private Wealth Management CEO Jack Markwalter, Jr. told *Barron's.* "We'll be relentless about looking for top talent."

As for its bottom line, CIBC's second-quarter adjusted earnings grew 26% to $1.34 billion, with its U.S. business accounting for more than 10% of its overall profits.

As the mortgage market begins to slow in 2019, the bank's growing U.S. business will pick up the slack in future earnings. Can the other Canadian banks do the same? We'll find out next year.

The secret weapon

It's not complicated.

I see CIBC out-hustling its Canadian peers over the next few years and delivering the kind of returns the TRDI suggests it should.

Until it bears the fruit of this hard work, investors who see the light can enjoy the highest yield of the major Canadian banks.

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