Earn $500 in Monthly TFSA Income With This Canadian Bank

Description

If you're one the fortunate investors to have amassed a TFSA nest egg that's worth more than $100,000, you've now got enough to construct a tax-free income stream through one of Canada's top banks.

Today, **CIBC** (TSX:CM)(NYSE:CM) is by far the cheapest Big Six bank, and it's also the most bountiful with its 5% dividend yield, which is over a 1% higher than some of the bank's bigger brothers in the space.

After the recent pullback in the broader banking scene, I believe CIBC has become not only the best bank for your buck, but also the best bargain on the entire TSX for those value and income-savvy investors who are always scouring the indices for an opportunity to pay three quarters to get a dollar.

You're probably aware of the macro issues that have been a massive drag on bank stocks over the past year. They broader headwinds aren't going anywhere, but given that some of CIBC's peers are now flirting with all-time highs, I find it absurd that CIBC is still down in the ditches, with shares closer to their Christmas Eve bottom than the September highs.

The bank stock that Canadians love to hate

For some reason, Canadians love to hate CIBC more than any other Canadian bank. And if I had to guess, it's because of the horrific aftermath of the Financial Crisis is still fresh in the minds of CIBC shareholders and ex-shareholders.

The bank was ill-equipped to deal with the events that unfolded over 2007-08, but today, CIBC is a much better business, trading at a much better price despite the significant fundamental improvements that have been made over the last decade.

CEO Vic Dodig has pulled the right levers such that CIBC is now ready to compete at a high level against its bigger brothers in the Canadian banking scene. The U.S. banking business is growing fast, the book of domestic mortgages (the single source of failure for CIBC) is growing at a slower pace, and there appears to be far better risk management policies in place compared to over a decade ago.

With a 9.1 forward P/E, it appears that Canadians don't care for the more attractive longer-term thesis. They'd rather focus on the company's prior two very slight earnings misses and view any of CIBC's seemingly positive events through dark-tinted glasses.

For example, the acquisition of PrivateBancorp was the answer to the bank's lack of geographic diversification, but almost everybody blasted CIBC for the premium price tag that was paid. CIBC's big book of domestic mortgages was another sore spot, but with two quarters of slower mortgage growth, investors continued to shame the stock in spite of the positives.

Over the longer haul, it will be the earnings reports that'll dictate the trajectory of the stock, and right now, the bars set low after two consecutive misses at a time of industry hardship. Higher credit provisions and depressed capital markets have hurt CIBC of late, but it's not an issue that's unique to the bank. CIBC just found itself dropping the ball at the worst possible time, as money flowed out of bank stocks.

Foolish takeaway on CIBC

If you dare to go against the grain with CIBC, I see tremendous rewards for those with a long-term time horizon. The stock is ridiculously undervalued relative to its peers, and I don't think the valuation gap is sustainable, so if you've got the extra cash, I'd think hard about picking up CIBC stock while the yield is at the 5% levels.

CIBC is a much better bank than it was many years ago, and it's also cheaper. It may take time for investors to appreciate the bank for what it's worth, but in the meantime, the 5% dividend yield should be more than enough to keep investors happy.

Stay hungry. Stay Foolish.

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