Why I'm Banking on a Rebound in Bank Stocks

Description

For us contrarians, it's a good time to go shopping for Canadian bank stocks. Most of them have dipped considerably over the recent bout of headwinds that some investors, including Mr. Big Short (Steve Eisman), believe will become much worse over the coming months.

Potentially falling interest rates, a slowing economy, rising provisions, weak activity in the capital markets, upped expenses, geopolitical uncertainties, and flashing recessionary indicators are just a handful of concerned that have bank investors questioning the most recent dip in bank stocks.

While the macro picture could get much uglier over the near term, I'm more than comfortable scavenging the wreckage for battered bargains and scooping them while they're at a discount based on historical valuation metrics because the contrarian mantra to live by is "short-term pain for long-term gain."

By going against the grain, you could risk knicking your portfolio as an investor who lacks a long-term mindset. If you're looking for a stock to hold for a decade or more, however, the rewards are substantial. Not only are you getting a lower price of admission, but you're also locking in a slightly higher dividend yield.

Consider **CIBC** (TSX:CM)(NYSE:CM) stock and its 5.41% dividend yield. The yield is now the highest it's been since emerging from the depths of the financial crisis, and is nearly a full percent higher than the five-year historical average yield of 4.6%.

While the extra yield definitely sweetens the pot for contrarian bank investors, those who bite on CIBC's dividend will need to put up with the shorts like Steve Eisman, who will likely continue to kick the bank while it's down should it stumble again following the release of future quarterly results.

You can't blame Eisman or the shorts with such conviction though. That's what talking your book is all about, but if you recognize the flaws in his thesis and realize you're only getting the bear side of the story, it's easier to bet against the legend that called the financial disaster that unfolded just over a decade ago.

Sure, CIBC is most exposed to the frothy Canadian housing market and has the most downside in the event of a collapse, but the name isn't at risk of imploding due to poor preparation for the next phase of the credit cycle. CEO Vic Dodig and company have likely seen the move coming from a mile away, and as credit continues to decay, we'll see a healthy correction. Nothing more, nothing less.

In fact, one could argue that given all the extremely negative commentary that's been pushed around of late that CIBC's correction could already be in the books. And if you choose to wait until *after* seeing a quarterly result that shows the bleeding has slowed down (or stopped), the window of opportunity to buy the stock at a hefty discount would have likely slammed shut as shares correct to the upside.

In the meantime, CIBC's earnings growth will be stunted as management looks to deal with its big expense problem as revenues remain sluggish. At this juncture, most folks are looking for more bleeding as credit flops further. Should the damage be contained, however, I wouldn't rule out a year-end rally. But for us long-term investors, we'll be happy collecting dividends as the headwinds slowly, but inevitably fade away over the long term.

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