A Top Dividend Stock to Buy Right Now

Description

Buying stocks with a high dividend yield comes with risks. A higher than the average yield that the market is offering tells us that the stock is more risky. In order to compensate for that risk, investors are seeking more return.

Companies in that situation might be facing intense competition, the balance sheet could be infected with a high degree of debt, and the managements has no idea how to produce growth that will satisfy investors.

However, it's highly unlikely that you will be able to make better returns than others by playing it safe. Look at the high-flying growth stocks.

Although these stocks have more than doubled in the past 12 months, investors are still willing to buy them and are pushing their values to new highs almost every other day.

One segment of the Canadian market that offers relatively safe income opportunities belongs to Canadian banks.

Canadian banking stocks have offered some of the best returns to long-term investors due to the strength of their businesses, their diversified operations, and the oligopolistic nature of the Canadian market.

It's confined to just five top banks that dominate all aspects of the banking business, offering quite stable dividend income. In general, these stocks return between 40-50% of their income in dividends.

If you're interested in banking stocks, the next step is to find the best opportunity available to you.

A top banking stock

In this segment of the market, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), the nation's fourth-largest lender, is looking more attractive.

After falling about 4% in the past one year, CIBC stock is now trading around $105 at writing, offering an annual yield of 5.23%. That yield is much higher if you compare it with what you can earn on a savings account, or GICs. But there were reasons for this underperformance.

The lender's weakening earnings, its exposure to the nation's mortgage market, and the rising provisions for bad loans were some of the major negative catalysts that kept its stock under pressure.

In the latest quarterly report, CIBC reported profit fell 5.9% after taking a $135 million goodwill charge related to selling a stake in CIBC FirstCaribbean in November. A 37% jump in earnings from its U.S. commercial banking and wealth management was a bright spot in the quarter.

Short-sellers have targeted CIBC in the past due to its vast exposure to the Canadian mortgage market, betting that a possible collapse in the housing market will sink the lender as well. That devastating scenario hasn't played out, however, and is losing its appeal.

Canada's housing market is showing resilience. Toronto saw its benchmark home prices climb 1% in January and 8.7% from a year ago, its strongest annual increase in more than two years, according to the Toronto Real Estate Board. Vancouver's benchmark prices rose 0.8% last month and fell 1.2% from a year ago.

Another factors that could expedite the recovery in CIBC stock are healthy capital markets, which should increase revenue from the investment banking and Canada's move to relax its tighter mortgage regulations this spring.

Some analysts believe that this move will increase demand from home buyers seeking new loans, thereby benefiting the nation's largest lenders, including CIBC.

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