



## 1 Options Strategy to Consider With Home Capital Group Inc.

### Description

**Home Capital Group Inc.** ([TSX:HCG](#)) has been on quite the roller-coaster ride of late. The company continues to spiral downwards with investor concerns over the company's income disclosures on a number of mortgage applications.

A group of investors have hired a law firm to investigate "whether a series of statements made by Home Capital Group Inc. regarding its business, prospects and its operations were materially false and misleading at the time they were made."

This investor investigation is the first step in filing for a class-action lawsuit — an action which appears to be significantly more likely as investors attempt to recoup losses. The company's stock price has dropped from its 2014 high above \$55 per share to its new price level around \$26 per share.

The downward momentum Home Capital Group's stock has experienced is due to a number of [pervasive issues](#) which continue to provide significant headwinds. Of late, the investigation into the company's disclosures and statements may conclude in additional negative findings over and above the company's admission that some loan applications had been falsified in 2014 and 2015.

Anticipating that the company's admission that it falsified loan applications is not the only issue that will be brought to light after the pending investigation closes, I have derived an options trading strategy which may prove to be useful to investors interested in betting against Home Capital Group during this potentially tumultuous time.

Currently, the 52-week low for Home Capital Group sits at \$23.41. If you believe, as I do, that this 52-week low will be tested at some point during the remainder of the year, and that the stock may experience periodic increases due to the sporadic buying patterns of the market, initiating put options on Home Capital Group over a period of time is one way to limit downside exposure while maximizing returns should the news releases following the shareholder investigation be less than stellar. If a class-action lawsuit should ensue, expect Home Capital Group's stock price to dip even further.

Looking at the options prices available as of March 10 (which became slightly more attractive today after the 1.2% bump in Home Capital Group's stock price over March 9th close), I am considering the

following:

- March 17 puts: strike price, \$27. Price, \$0.90. In the money at \$26.10
- April 21 puts: strike price, \$27. Price, \$1.70. In the money at \$25.30
- June 16 puts: strike price, \$28. Price, \$3.60. In the money at \$24.40
- September 15 puts: strike price, \$30. Price, \$6. In the money at \$24
- December 15 puts: strike price, \$32. Price, \$8.40. In the money at \$23.60

It should be noted that each of these puts have a bid-ask spread, and the prices I listed are March 10 put ask prices (the price at which an investor would be guaranteed to acquire these puts on March 10).

It should also be noted that each of these puts will become profitable should Home Capital Group's stock price, at some point over the year, decline toward its 52-week low. If, at any point over the course of 2017, the company's stock price dips below its 52-week low, investors with put options will be significantly into the money.

For investors currently holding positions in Home Capital Group, at these prices, it doesn't hurt to buy some insurance against the negative news that may arise over the coming months from additional scrutiny into the company's operations.

My experience is that bad news begets more bad news, so this is a great defensive medium-term strategy for any investor.

Stay Foolish, my friends.

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