



2 More Reasons Home Capital Group Inc. Is in Deep Trouble

Description

Other Fool authors have touched on **Home Capital Group Inc.** ([TSX:HCG](#)) in the past; some had bullish expectations based on personal investments made in HCG, and others were wary of the company's practices and underlying fundamentals. Some wavered on the fence, supporting the company in times of strength and suggesting caution when the waters got rough. I, however, have not wavered in my criticism of the company's lending and management practices.

Since the beginning of the year, I have written about the potential for a [long-term short play](#) on HCG, suggesting the underlying mortgages, many of which were given out to sub-prime borrowers or inadequately secured with low percentages of equity in underlying assets, would turn out to be dangerous. Year-to-date, the stock price is down nearly 17%.

Later, I wrote about how an [Ontario Securities Commission](#) (OSC) enforcement action may lead to a class-action lawsuit. It did.

Class-action lawsuit filed with Ontario Superior Court of Justice

Pertaining to my previous article on the pending class-action lawsuit, the formal statement of claim and notice of action have been officially presented to the Ontario Superior Court of Justice (as of approximately two weeks ago). The court will consider the statement of claim and notice of action and will decide whether or not to approve the class-action lawsuit.

Typically, when such a claim is presented, enough evidence exists for the court to accept the claim and bring the action forward. HCG and its officers have the opportunity to respond to the allegations. However, this step solidifies the fact that the class-action lawsuit is officially underway, signalling yet another blow to the company's lending reputation.

CEO Martin Reid has been dismissed, and no successor has been named

CEOs get fired all the time. But contrary to tradition, when a CEO is terminated effective immediately instead of permitted to resign, and no successor is immediately named, signals are sent to investors that something has gone awry within the head office. The lack of an interim CEO named from the C-

Suite executive also indicates a lack of confidence in the company's management team — something investors generally take as a negative moving forward.

Conclusion

I recently wrote of a potential [options-trading strategy](#) with respect to HCG, one which would take into considerations the fluctuations in the company's stock price in the future. I based this strategy on the [analysis](#) I did of HCG's fundamentals, noting that the company's fundamental metrics were deteriorating across the board.

My belief is that while a turnaround may be possible, it is not plausible in the medium term. As such, the options I suggested are beginning to look quite attractive at today's level for HCG. For a period of time this week, the April 21 puts were "in the money." I expect that throughout the year, the company's stock price will continue to ebb and flow; however, the overall trajectory of HCG's stock makes the staggered put options strategy quite attractive moving forward.

Stay Foolish, my friends.

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