



Warren Buffett Bets on Home Capital Group Inc.: Time to Buy?

Description

The share price of **Home Capital Group Inc.** ([TSX:HCG](#)) lost nearly 90% of its value from its peak in 2014 to last month's trough. The stock has been excruciating for long-term investors to own. However, **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) announced that it has agreed to indirectly acquire \$400 million of HCG common shares at a discount.

It's not a mystery that Home Capital Group was on its knees after being under investigation for misleading the general public with tampered documentation for a portion of mortgages as well as being under the constant attack of short seller Marc Cohodes, who is clearly not a fan of alternative lenders and their predatory nature.

Berkshire Hathaway makes a deal with the financially troubled Home Capital

Home Capital Group was on the brink of collapsing, so Warren Buffett and company have stepped in at the right time to make a save. Home Capital Group chair, Brenda Eprile stated, "Berkshire's investment in Home Capital is a strong vote of confidence in the fundamental, long-term value of our business ... We are pleased to partner with such a renowned institution in a transaction that we believe will reward all our investors for their patience and loyalty by enhancing the value of Home Capital over time."

It sounds like Home Capital Group is set to turn a corner, but investors should still be cautious, as the company isn't out of the woods yet. But it sure helps if the Oracle is there to give guidance.

It's reported that the deal will happen in two parts, but once everything is said and done, Berkshire Hathaway will own about 39% of Home Capital Group with an average cost basis of about \$10. Berkshire Hathaway will also provide a \$2 billion line of credit, which has better terms than the emergency loan that Home Capital was granted earlier in the year.

Why investors shouldn't follow short selling "experts"

It appears that the latest deal could send Home Capital Group on a sustained rally back to higher levels, so if you copied Mr. Cohodes's advice, now would be the time to throw in the towel on your short position.

Although Mr. Cohodes has an impressive track record, it's usually not a good idea to follow short sellers blindly. Shorting is a dangerous game, and I wouldn't recommend anyone do it. Unlike taking a long position in a stock, your losses could be unbounded, especially if a stock you're shorting soars into the atmosphere because of a news event that you might not have even thought of.

The stock of Home Capital Group plunged over 70% in April, but if you'd followed Mr. Cohodes with a short position of your own at the wrong time after the fall, then you could have lost your shirt, as the stock partially rebounded by soaring over 157% from its trough to the time of writing.

Sure, the business is quite shady, and Mr. Cohodes's thesis appears to be correct, but that doesn't mean it's safe to short the stock. No investment is ever risk-free, especially not a short position. Now that Berkshire Hathaway is involved, I think Home Capital Group's worst days are behind it.

Takeaway

Personally, I wouldn't buy any because I'm not a fan of the volatility and controversy surrounding the business, but if you're an aggressive value investor who wants to stand in Buffett's corner, then you might want to buy shares of Home Capital Group while they're cheap, because in a Buffett versus Cohodes match-up, I believe Buffett would win every time.

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