Home Capital Group Inc.: Here We Go Again!

Description

Subprime lender **Home Capital Group Inc.** (TSX:HCG) had a terrible week. Although shares carved out a gain of one penny on Tuesday (over the previous Friday's closing price), the trend was very clear: down.

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Wednesday through Friday, shares of the company declined every day with the moves on Thursday and Friday being particularly painful for long investors who owned the stock. For the week, shares fell a total of 10.9% to close at $15.13 per share. Put another way, the company lost total market capitalization of roughly $140 million during the week. Given that shares opened in excess of $20 each on June 23, the current decline of close to 25% since then may be telling us that investors and short sellers believe that there may still be more to the story.

The bad news that weighed on the entire housing sector last week was the significant decline in total units bought and sold in the Toronto market. In total, 37% fewer units changed hands in spite of significantly more listings being available to consumers. Given the large number of mortgages held by Home Capital Group in this part of the country, investors may have cause for concern. The silver lining is that this decline was not company specific. Over the past week, shares of **First National Financial Corp.** (TSX:FN), which boasts a dividend close to 7%, were slightly down for the week, while shares of **Equitable Group Inc.** (TSX:EQB) declined by close to 10%.

Given that Equitable Group is better known as a competitor of Home Capital Group (and pays a lower dividend than First National), it is completely understandable that shares of this lender have retreated this much. Investors may be lumping these two names together.

For investors considering an investment in any of these names, it is important to take into consideration what many short sellers believe is an underlying threat to the entire industry. The reason many traders have taken short positions is due to the belief that the overall Canadian housing market is in a significant bubble and will collapse. Although it is difficult to arrive at a conclusion either way, investors must not forget the basic risks of investing. One of them is that a macro event could happen, such as a generalized recession.

There are two scenarios. In the first scenario, there is no housing bubble or oncoming recession, and these companies will continue to function normally and make profits that will be shared with investors along the way, resulting in long investors making a profit.

In the second scenario, the Canadian housing market declines significantly, and profits are affected over the short term. Shares will decline.

In this second circumstance, however, almost all Canadian companies will be captured in this very wide net. Housing, which is one of the biggest expenses for almost any Canadian, will have a significant impact on the overall economy. In this circumstance, the housing industry may be no different than any other industry!

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