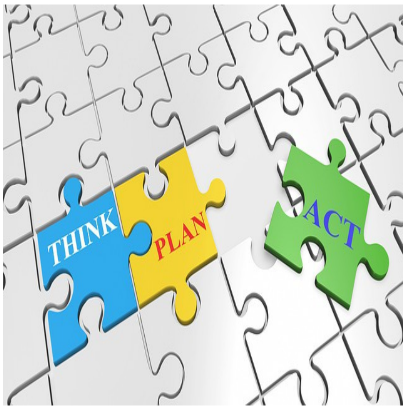

Home Capital Group Inc.: Is This New Direction for Real?

Description

Shareholders of **Home Capital Group Inc.** (TSX:HCG) finally had a normal week. Shares, which closed the previous Friday at $15.13, traded almost sideways for the five-day period and closed last Friday at $15.04. After many weeks of daily angst and material news, which most often came out of nowhere, things may now be starting to normalize for the company and shareholders alike.

Over the past week, there was only one press release, which confirmed that Yousry Bissada was appointed president and CEO of Home Capital Group and its subsidiaries effective August 3. The good news for shareholders is the lengthy track record of the new CEO, which spans close to 30 years at various financial institutions, including two of Canada's Big Five banks.

Given the business model of Home Capital Group, it will be very interesting to see how the new CEO reshapes the borrowing and lending process for the company. Bissada is coming from Kanetix Ltd. Most Canadians are familiar with this company as the place to go for online insurance quotes. Basically, the website aggregates quotes from different insurance companies and provides the comparison shopping directly to the consumer without them needing a broker.

Given the success of the direct-to-consumer model of Kanetix, Home Capital Group may now need to focus more effort on going directly to the consumer, not only for lending, but for the raising of funds to resume the funding of new mortgages. When evaluating what led the company to have significant challenges over the past few months, one of the major challenges was maintaining the high interest rate deposits that came in from the registered accounts of many Canadians. The reason this was such a challenge was due to the limitations that Canada's big banks placed on their own clients through their brokerage accounts.

Moving forward, the company will have to make it a priority to ensure proper funding from a wide variety of sources. Alternatively, the next crisis may not only cripple the company, but it could end things altogether.

At $15 per share, investors willing to take the risk are still purchasing securities at a substantial discount to tangible book value. For those considering the technical indicators of the stock, the 10-day simple moving average (SMA) has finally caught up to the share price, where a base seems to be forming. Given the pullback over the past few months, the 50-day SMA is now sitting at considerably less than the share price, which may offer an upward life as things return to normal and the new CEO sets out a strategic plan for the company.

Although shares continue to carry a significant amount of risk, it is important for investors to realize that things may just turn positive for shareholders and the company alike.

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