Home Capital Group Inc. Is Back on the Decline

Description

When **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) purchased shares of **Home Capital Group Inc.** (TSX:HCG) almost a month ago, it sent the stock up almost 25% in one day. Since then, the stock has given up all of its gains and gone down over 25%. The positive impact that the Berkshire investment had on the stock appears to be gone, and the stock is in a similar position to where it was before the investment.

Let's remember that the problems facing Home Capital haven't gone away. There are still very valid concerns about the company. Although Warren Buffett extended a lifeline to the company by buying shares for only $10 each and providing a line of credit, it is still up to the company to turn things around.

In Home Capital's latest liquidity update, dated July 17, the company announced it had sold some of its mortgage assets; the proceeds will be used to pay down Berkshire's line of credit to $900 million.

In its latest update, Home Capital reported its high interest savings account deposits are currently $104 million, which is down from $112 million when the Berkshire investment took place. However, GIC deposits are up to $12.27 billion from $12.04 billion almost a month ago. The company's Oaken savings accounts have also seen a bit of progress from $146 million up to $165 million in the most recent update.

Home Capital has seen some mild progress in its deposits, but investors haven't shown much optimism since the initial excitement of Buffett's investment. Even with price-to-earnings multiples of less than four, and the stock trading below its book value, investors are hesitant. The company provides good value at its current price, but the stigma of a company that misled investors is hard to shake.

Another encouraging sign for Home Capital is that the stock has found at least some stability in itsstock price. The company is also no longer receiving negative press on what felt like a daily basis. Thatcould be enough for the stock to see some upward momentum, but the company's next earnings reportcould derail that if the turmoil led to a significant loss of revenue and profitability. The stock could stillbe due for a decline before it can see some sustained improvement in its price.

A safer investment option would be **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), which is seeing a modest recovery in the stock price after dropping below $105. The company offers a solid dividend of over 4.6% and has a good history of paying and increasing dividends regularly. CIBC presents a stable growth opportunity and a good value investment at the current price.

CIBC is increasing its presence with the purchase of PrivateBancorp and is only trading at nine times its earnings. As interest rates rise, banks are sure to quietly increase their margins as well. With one interest rate hike already behind us, and the potential for another before the year is out, it might be a good time to buy. It's no coincidence that CIBC saw its share price rise along with the first rate hike this year.

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