Where Home Capital Group Inc. Continues to Lead the Pack

Description

A lot has happened to **Home Capital Group Inc.** (TSX:HCG) over the past month. The company has taken steps to resolve the charges levied against it by the Ontario Securities Commission (OSC) in addition to securing better financing from Warren Buffett's **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B). Although things began to improve after a lot of bad news, the company still leads the pack on at least one metric over the past month.

As of Friday, shares closed down by almost 11% for the rolling month and led the group of alternative lenders as the worst performer. Shares of **Equitable Group Inc.** (TSX:EQB) were down 2.6%, while shares of **First National Financial Corp.** (TSX:FN) were up by less than 1%. Although certain investors have done very well by purchasing shares of Home Capital Group while the tide had receded, it is important to ensure that the holding has not become too large a part of one's portfolio. After all, shares moved from a low price of $5.06 to above $20 per share over the past few months.

The reason that investors have experienced a decline in the share price has been due to the enormous run-up. Looking forward, however, shareholders wanting to maintain a position in this market have a number of names to choose from. For those wanting dividend income, shares of First National, which pay a dividend of close to 7% and have not been in the news for anything negative over the past few months, may be the best bet.

Alternatively, for investors who want to invest based on the balance sheet instead of cash flows, shares of Equitable Group currently trade at a discount to tangible book value in the amount of 13%. The dividend yield for investors is no more than 1.7% at current prices, but given that the value on the balance sheet is there to back up the share price, many investors will feel more comfortable holding this name.

Home Capital Group continues to lead the pack in terms of uncertainty. Currently trading at the biggest discount to tangible book value of any of the alternative mortgage companies, shareholders continue to have a much higher risk/reward ratio when selecting this investment. Given that the current rate paidby the company to finance mortgages with Berkshire is no less than 9%, shareholders may bewitnessing a destruction of shareholder value.

Compounding what could become an even bigger problem is the fact that the company has also issued additional shares to Mr. Buffett at a large discount to tangible book value, further diluting shareholder value. For investors wanting to do additional due diligence before investing, the next earnings release will offer a much clearer picture into company financials in addition to the company's cash flow situation over the past few months.

CATEGORY

1. Investing

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2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. TSX:EQB (EQB)
4. TSX:FN (First National Financial Corporation)
5. TSX:HCG (Home Capital Group)

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