



Why Home Capital Group Inc. Surged 8% in a Day

Description

Shares of **Home Capital Group Inc.** ([TSX:HCG](#)) soared 7.99% in a single trading session following news that the company repaid the \$2 billion line of credit it received from **Berkshire Hathaway Inc.**

Warren Buffett is profiting big time as the pessimism quickly turned to optimism following the news that Berkshire Hathaway was jumping in to save the financially distressed alternative lender, which has been battered by the infamous short seller Marc Cohodes.

The management team stated that cash raised from asset sales helped the company repay the line of credit. Going forward, the company is shooting to improve its liquidity as it hopes to regain the trust of investors.

So, where does Home Capital Group go from here? That's really hard to say, especially considering the huge amount of uncertainty and headline risk associated with an investment right now. Warren Buffett's involvement has definitely sparked investor confidence, so further downside over the medium term is unlikely.

Shares of Home Capital Group are up almost 150% from their bottom earlier in the year, and there appears to be really volatile movements in the share price. The stock is not for the faint of heart, and although shares may still seem cheap at a 3.94 price-to-earnings multiple, I wouldn't recommend picking up shares right now.

Home Capital Group provides mortgages to many borrowers who the big banks deem too risky. Alternative lending may be a high return-on-equity business that may work out for a time, but once the housing bubble pops, major losses could be in store for investors, and Buffett may not be able to save them.

Although I'm not a fan of the company, I wouldn't short it either. In a previous piece, I mentioned the dangers of following short sellers into stocks, and that Buffett would beat Mr. Cohodes in the bull-versus-bear battle at Home Capital Group. Although Home Capital Group seemed like a company facing imminent bankruptcy, shorting the stock was still a risky proposition since unexpected occurrences like a bailout could lead to astronomical losses in a hurry, especially if the company's

shares have already lost a huge amount of their value.

If you followed Mr. Cohodes by shorting Home Capital Group, then you're probably regretful, but treat it as a lesson learned to not follow gurus in or out of stocks blindly, especially when taking a short position.

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