



## Why Home Capital Group Inc. Said No to Seconds for Warren Buffett

### Description

The shareholders of **Home Capital Group Inc.** ([TSX:HCG](#)) have spoken! They're going to take a pass on the second tranche offer from **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B), which would have seen Warren Buffett and company invest another \$246.8 million, increasing Berkshire's stake to nearly 40%.

### Home Capital Group is back on its feet. Investor confidence is increasing

There's no question that Buffett got a sweetheart deal with his first investment, and the second deal would be just more of the same. Warren Buffett picked up Home Capital Group earlier in the year when it was on its knees, but now that it's walking again, many shareholders believe the company can get running again without additional assistance from the Oracle of Omaha.

Sure, it's always nice to have Warren Buffett stand in your corner with a huge stake, but the terms of the deal are ridiculously lopsided in the favour of Buffett, such that it would be a win-win for the Oracle in nearly every scenario. Shares of Home Capital Group are currently at \$14.03, substantially higher than the second tranche offer to buy at \$10.30 per share.

It's clear that shareholders don't want to give up control of the company, even if it's to the best investor in the world. The resulting dilution would just be too much to stomach for the majority of Home Capital Group shareholders.

### Reassurance from Buffett was what investors needed

I believe the initial investment boosted the confidence of many shareholders, and they're realizing that a second deal with Buffett really isn't necessary, at least not for now. Home Capital Group's liquidity position has improved, and deposits are returning, so what investors are really saying is, "Thanks for the save Mr. Buffett, but we're in good enough shape to move ahead on our own now."

Many investors may also feel comfortable owning Home Capital Group shares now because if another liquidity crisis happens, it's likely that Buffett may come to the rescue again with another lopsided deal. That has got to be comforting, especially since investors now realize they're invested in the high-risk,

high-reward business of alternative lending.

### Bottom line

There are many reasons for Home Capital Group investors to be confident again. The management team is rebuilding its mortgage portfolio to prevent the chances of another liquidity crisis in the future. Home Capital Group isn't being shunned by the masses anymore, and it's likely that GIC rates will be reduced further in order to kickstart profitability.

Investors went from being incredibly fearful to pretty confident. Maybe at some point down the road, they'll get greedy again.

Personally, I'd recommend staying on the sidelines because the alternative lending business is probably too risky for the average investor. In addition, infamous short seller Marc Cohodes will probably return with another short attack at some point in the future.

Stay smart. Stay hungry. Stay Foolish.

### CATEGORY

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### TICKERS GLOBAL

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2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. TSX:HCG (Home Capital Group)

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