



## Home Capital Group Inc.: Is the Stock Due for a Bounce?

### Description

It's been quite a year for **Home Capital Group Inc.** ([TSX:HCG](#)) with the business on the brink of collapse following the announcement that Marc Cohodes was short the stock. Warren Buffett quickly came to the rescue with a sweetheart deal to lift HCG from its liquidity crisis.

With investors voting no to a second tranche offer from Buffett, it appears that all is well again in the land of alternative lending, as investors gradually regain confidence in the high-risk/high-reward business which Cohodes is still short.

There's no question that [Cohodes isn't happy with Buffett's deal with HCG](#), especially since it appeared that HCG was heading the way of some of Cohodes's past shorts, which lost over 90% of their value.

### Does the Buffett deal limit further downside?

It has to be comforting for investors to know that Buffett may return with another sweetheart deal should the company experience another liquidity issue. That's a lifeline that HCG has that many other high-risk businesses may not have.

I'm not at all a fan of the alternative lending business, because it's simply way too much risk and not enough reward for the average investor, but having Buffett waiting on the sidelines for another "loan-shark" opportunity certainly makes an investment thesis more sound, albeit speculative.

Despite Buffett's interaction with HCG, Cohodes still thinks he can profit from a further downfall in the stock.

"I think if they run this thing like a legitimate outfit, the company will not make any money," said Cohodes. "People in Canada, 99% of them, are god-fearing righteous people who know right from wrong ... They see wrong-doing, they just don't know what to do, but they don't like speaking out because they're scared to speak out for [fear of] retaliation. I'm not scared."

Clearly, Cohodes is still extremely confident that HCG will tumble over the long haul, but I think investors would be wise to not follow in his footsteps by shorting HCG, since another Buffett save could

potentially prevent meaningful downside from current levels. And there could be potential catalysts that could cause you to lose your shirt as a short seller.

### **What could send shares of HCG higher?**

Fellow Fool contributor Ryan Goldsman recently [pointed out](#) that banks would be subject to new rules that'd make it harder to apply for new mortgages or refinancing. This essentially means more rejections on prospective borrowers by the banks and more business for alternative lenders like HCG.

This is a promising development that could give HCG a bump it needs to get out of the gutter. When combined with the fact that investors are re-gaining confidence and that Buffett may be around should the company require a second rescue, I think HCG isn't as insidious a stock as Cohodes believes.

### **Bottom line**

HCG has historically been a very high ROE business, and it appears downside may be limited if you believe Buffett will come to the rescue should another liquidity issue occur.

I think it may be time for Cohodes to ditch his short position, since there are many reasons why the stock could rebound.

Personally, I wouldn't touch HCG, as there are still too many uncertain variables involved. I'd also recommend staying away from a long or short position since, realistically, the stock could surge or crumble depending on various external factors.

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