



## Home Capital Group Inc.: Could This Tailwind Cause Shares to Rebound?

### Description

**Home Capital Group Inc.** ([TSX:HCG](#)) shares are back in the green after surging ~21% over the last month. With new rules that'll make it tougher to get a mortgage or refinancing from the banks, many clients will be seeking alternative methods of obtaining their loans.

That means there will be more business for alternative lenders that were on the brink earlier in the year due to a liquidity crisis at Home Capital Group, which sent shares crashing by as much as ~82% from its 52-week high. Shivers went down the spines of investors, not just in Home Capital Group, but across the entire alternative lending industry, as investors quickly headed for the exits.

Earlier in the year, it seemed like Home Capital Group was going to \$0, but a few months later after Warren Buffett jumped in, the bleeding stopped, and investors were confident enough to reject a second tranche offering from the Oracle of Omaha. Investor confidence was non-existent a few months ago, but now, it appears that investors are starting to have a second look at the alternative lender with a promising [tailwind on the horizon](#) that'll likely result in a surge in clientele over the next few years, as more applicants are rejected by the big banks.

I've never been a fan of the high-risk/high-reward business of alternative lending. Sure, investors may reap the rewards of an above-average ROE, but that's only until the house of cards begins to implode, as we've witnessed earlier in the year.

But with Buffett likely waiting on the sidelines for another sweetheart deal, are shares of Home Capital Group investible again?

I think things are a lot different this time around, since Buffett may bring out the safety net should another crisis occur, and that's been a boost to investor confidence as I've explained in my [previous piece](#).

### Can shares move higher with Cohodes still short and bearish?

Definitely. However, investors are going to need to have an incredibly high risk tolerance to reap the long-term rewards. Alternative lending is a scary place to be, as shares could head back into the red

should another unexpected negative development present itself.

Although shares are dirt cheap with a price-to-book multiple of 0.7 (half of the industry average and nearly a third of its historical average), it's important to note that there's likely no margin of safety after the huge scare earlier in the year.

If you do understand the risks and you want to capitalize on a potential client stampede, then I think Home Capital Group is a solid bet after falling ~70% from all-time highs. Buffett's vote of confidence stopped the bleeding, and I think it's possible that Cohodes could get squeezed out of his position going forward.

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## **Date**

2025/08/24

## **Date Created**

2017/12/03

## **Author**

joefrenette

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