



## What to Do With Home Capital Group Inc. in 2018

### Description

Throughout 2017, investors in **Home Capital Group Inc.** ([TSX:HCG](#)) have gone through a tumultuous experience and are finally near the end of the tunnel. For long-term holders, the noise has been nothing to be concerned about, whereas many who saw this stock as a trade (rather than an investment) may now need to reconsider their positions.

Although there was a point in 2017 that the future of the company was in jeopardy, the [calamity](#) was dealt with as a C-suite shake-up took place followed by many long-time employees leaving the company. After costs were cut, financing was provided by **Berkshire Hathaway Inc.**, and the company was able to not only survive, but also thrive as the concerns of both liquidity and solvency were done away with.

As shares traded sideways around the \$14 mark for several months following the debacle, many investors who were comfortable with the company and its ability to deliver profits on an ongoing basis were handsomely rewarded, as earnings were released and a profit was again delivered.

After seeing shares rise to more than \$17 per share, many are beginning to wonder if this security warrants being held on to, as the shorter-term (10-day and 50-day) simple moving averages are beginning to lose momentum, and the share price is at risk of falling once again.

For long-term investors who will not consider selling any time soon, the story is far from being played out. The company's tangible book value per share is well in excess of \$20, and the dividend has yet to be re-established.

For more active investors, who took a position over the past six months, this may be an opportunity to take a portion of their position off the table, as the next earnings release will present one key risk. Due to the litigation the company is now facing over what is alleged to be "inadequate disclosure," there may be additional costs and potentially damages awarded to those seeking financial incentives. The next earnings release may see the company report a loss due to the money that will be earmarked for a legal battle.

Of course, this cloud could take several months or even years to deal with.

The result of this overhanging risk is that the importance of the income statement will be significantly diminished, as the cash flow statement becomes much more important. For investors not familiar with this statement, it breaks down the use of cash in the company's day-to-day operations, long-term investing activities, and finally the capital structure of the company, which includes the issuance/retirement of debt, equity, and the payment of dividends.

The statement of cash flows will present a much clearer picture as to what has happened with the company's daily operations regardless of how much litigation is actually ongoing. Hoping that these challenges are dealt with sooner rather than later, investors still have a lot to gain from [holding on to](#) their shares of Home Capital Group Inc.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

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1. Investing

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