Why Following Warren Buffett May Lead to Huge Profits

Description

The past month has been almost non-eventful for shareholders of **Home Capital Group Inc.** (TSX:HCG), as shares of the alternative lender have moved up and down by a very small amount almost every day. The totality of the movements, however, is starting to show signs of a breakout.

Although the Oracle of Omaha (who bought into the company close to one year ago) is typically not one who trades actively, retail investors have the opportunity to approach the investment decision-making process in a much different way. As the company is more than one year past the major challenges that it experienced, the market may finally be starting to value shares at an appropriate price .

At a current price near $15 per share, the stock is finally trading starting to break out of the “tunnel” it has traded in over the past several months. To make matters even more interesting, the tangible book value per share, which is close to $24, may be realized sooner than expected, as the new mortgage business is starting to slow down. In spite of new mortgage originations being good for future revenues, the company will have substantially higher cash flows available for share repurchases should company management choose to undertake them.

Although many investments made by Warren Buffett have taken a long time to become profitable, investors must realize that investing is a long-term game that very few have been able to master. As Home Capital Group has been profitable for almost a full year, the simple moving averages (the technical indicators) are starting to look substantially more attractive.

The 10-day and 50-day simple moving averages (SMAs) are starting to be left behind by the share price, which has quietly moved up from $14 to $15. Although technical indicators alone are not a reason to buy into a stock, the expression “the trend is your friend” has been proven correct many times over. As the share price approaches the 200-day SMA, investors need to pay very special attention to this name, as a major breakout could occur. Should this happen, shares could easily move over the $20 mark and return to tangible book value.

Alternatively, a reasonable valuation of 12 times earnings would lead to a price of almost $19 per share under the assumption that earnings do not continue to increase upward over the next few quarters.

For investors seeking alternatives to Home Capital Group, fellow competitor **First National Financial Corp.** (TSX:FN) is part of a very different risk quadrant. The company pays out a substantial amount of its cash flows in the form of dividends. The dividend offers investors a healthy yield of no less than 6.5%. The caveat, however, is that there is very little tangible book value to speak of.

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