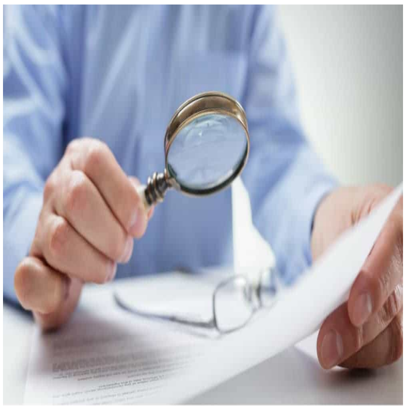

Is Home Capital Group Inc. (TSX:HCG) Worth the Risk?

Description

A little over a year ago, **Home Capital Group Inc.** (TSX:HCG) made international headlines when the company was "rescued" by the world's most famous investor, Warren Buffett himself.

In a storyline that would have perhaps been more befitting as a made-for-tv drama, Home Capital Group found itself on the brink of insolvency after suffering a run on its deposits led by short-sellers, only to then be "saved" by a multi-billion dollar pension fund offering to lend the firm capital — but only on predatory terms before Buffett waltzed in to save the day.

Buffett's $2 billion line of credit and 20% investment stake did a lot to restore investors' faith in the company.

Buffett's vote of confidence helped so much that between May and June, shares in Home Capital Group rallied from a low of $5.06 per share to a high that hit just over the $20 mark.

Shares would finally settle back down to earth in the months that followed, trading between the low-to-high teens.

But in the past year, much has changed, which begs the question, are Home Capital shares worth the risk today?

For one thing, the mortgage industry is facing changing regulations, which have made it considerably more difficult for first-time home buyers.

Most experts have suggested that the B-20 Guidelines, as they're called, will have the biggest impact on "fringe" lenders like Home Capital, compared to the larger traditional lenders – banks like **Royal Bank of Canada** and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS).

While shares in Bank of Nova Scotia may actually offer investors good value today, it could be a different story altogether for Buffett's Home Capital.

I wouldn't go as far as to predict a return to where the company saw itself last spring, but the escalating trade tensions between the United States and Canada might not be the most welcome development for the mortgage company.

Tariffs and trade wars are generally not good for anyone, and the most likely outcome is that at least in the short-run, jobs will be lost and there will unfavourable consequences for some – if not many – Canadian industries.

You can expect any potential layoffs to have a trickle down effect on the economy, thereby hurting consumer spending and potentially leading to defaults and missed payments on loans.

Bottom line

With Home Capital's client base already among those most vulnerable, an economic downturn could impact the lender in an outsized manner.

While shares could still offer very attractive value over the long-term (at least Buffett seems to think so) this is a company that could see some unwanted volatility in its shares should push come to shove.

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