A Real Estate Stock That Could Power Your TFSA

Description

Does it make sense to buy stocks that are closely tied with the real estate for your Tax-Free Savings Account (TFSA)?

The answer to this question very much depends on the direction of interest rates. When the rates go up, they reduce the rental yield on properties, making real estate assets less attractive. In my view, the timing of investing in real estate stocks has become suitable again, as both central banks in North America get ready to cut rates.

According to economists, the U.S. Federal Reserve will reduce the borrowing cost as soon as this month, and it won't take too long for the Bank of Canada to follow suit, as global trade wars hurt growth. If you are interested in exploring this area for your TFSA portfolio, then here is a stock that could show strength in this environment.

Home Capital Group

Once hit by a crisis, **Home Capital Group** (TSX:HCG) has staged a very powerful comeback this year after emerging from a near-bankruptcy situation about two years ago.

The Toronto-based alternative mortgage lender was rescued by Warren Buffett's **Berkshire Hathaway**, which provided a lifeline of about $400 million in equity.

Trading at $21.96 at the time of writing, its stock has surged more than 50% this year, as more and more mortgage borrowers turn to this non-bank lender to meet their financial needs.

The shift to HCG accelerated this year after Canada made it tougher for borrowers to qualify from the nation's top six banks for their mortgages as part of the federal government's efforts to curb speculation in the property market.

"We believe we are seeing high-quality borrowers coming to us that would have qualified for the big banks in the past but no longer qualify under tighter lending regulations," Yousry Bissada, Home Capital's CEO, was cited as saying in a recent article published in the *Globe and Mail*.

If that trend continues, Home Capital stock has more room to the upside. Just before the 2017 liquidity crisis, HCG stock was trading close to $30 a share, while its five-year high was more than $50 a share.

It won't be easy for this lender to regain the full glory after such a massive setback to its loan book, but I won't be surprised to see a gradual recovery if the big banks in Canada to lose their share in the home lending market.

Traditional banks, which control about 80% of Canada's residential mortgage market, are reporting slow mortgage growth. Growth slowed to just 2.3%, year over year in the big banks' fiscal second quarter and touched a 17-year low in December, according to the report in the *Globe and Mail*.

Bottom line

When interest rates are likely to fall, investing in real estate stocks become attractive. You could add a couple of such stocks in your TFSA if you want to diversify your portfolio.

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1. Bank Stocks
2. Investing

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1. Editor's Choice

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1. TSX:HCG (Home Capital Group)

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