



The Case For and Against Brookfield Asset Management Inc.

Description

The past year has been a very good one for shareholders of **Brookfield Asset Management Inc.** (TSX: BAM.A)([NYSE: BAM](#)). Over the last 12 months, its shares have gone up 25%. So is the party over, or is there room left to run?

In an attempt to answer that question, below I take a look at the case for, and the case against, Brookfield.

The case for: A strong track record

Brookfield's strategy can be boiled down into one very important goal: Make smart investment decisions. This allows the company to compound its capital at great rates over time. It also enables Brookfield to draw outside money, which is then managed for a fee — just last year, fee-related earnings totaled U.S.\$300 million.

Brookfield has done an excellent job making smart investment decisions, which has benefited shareholders tremendously. Over the last 20 years, Brookfield's shares have returned close to 20% per year.

The future looks just as bright. Brookfield owns a very diverse set of hard assets, including real estate, renewable energy projects, and infrastructure. Cash-strapped governments around the world are looking to sell public assets, providing plenty of buying opportunities for Brookfield. If the company is able to keep up its good work, then investors should continue to benefit.

As a bonus, Brookfield is very well diversified, with 100 offices worldwide. It has assets in North America, South America, Europe, the Middle East, Asia, and Australia. Thus, even if you buy lots of the stock, you're not overexposed to any one region.

The case against: A black box

The main problem with an investment in Brookfield is its complexity. The company has several business units, each with their own assets and liabilities, and trying to account for all of them is

a mind-boggling exercise. Making matters worse, Brookfield has a lot of discretion in valuing assets.

For instance, say that Brookfield is struggling to meet its net income targets for a quarter. It also discovers that one of its assets is worth less than previously stated. By not acknowledging this drop in value, Brookfield could inflate its earnings, helping the company meet its target.

No one is saying that management would actually do such a thing. However, Brookfield has tremendous leeway in its reporting, much more so than other companies, and there's always an incentive for companies to make earnings look nicer than they are. As an investor in Brookfield, all you can do is sit back and hope for the best.

Thus, investing in Brookfield is a lot like being a blindfolded passenger in a race car. No matter how successful the driver has been in the past, it's still the kind of activity that would make anyone nervous.

What's the verdict?

Avenue Investment Management's Paul Harris has said that Brookfield "should be a core part of anybody's portfolio." Such a statement is likely a stretch. However, if you're willing to put your faith in a strong management team, and to invest for the long term, then Brookfield is probably worth at least a few of your investment dollars.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. TSX:BN (Brookfield)

Category

1. Investing

Date

2025/07/25

Date Created

2014/08/05

Author

bensinclair

default watermark