



The Pros and Cons of Investing in Brookfield Asset Management Inc.

Description

Brookfield Asset Management Inc. (TSX: BAM.A)([NYSE: BAM](#)) is Canada's largest publicly traded alternative asset manager. It is also one of Canada's most controversial companies. In the past, those betting on the company have fared much better than those betting against it – but will history repeat itself?

To help answer that question, below we look at two reasons to buy shares of Brookfield, and two reasons to stay away.

Why to buy

1. The right mix of assets

When you buy shares of Brookfield, you're not simply buying one business. You're buying numerous businesses. For starters, there are its publicly traded subsidiaries, which own commercial real estate, infrastructure, and renewable energy projects. There's also a substantial private equity business at Brookfield, which also holds a diverse set of companies.

In addition, Brookfield also makes money from managing others' capital – as of the end of 2013, the company had an astounding \$79 billion in fee bearing capital, generating \$300 million in fee-related earnings last year.

So Brookfield is very well diversified and has a great mix of assets, helping to lower the risk of an investment.

2. Track record

In this business, track record is everything. If you have invested well in the past, you will draw more fee-bearing capital. Otherwise, you have little chance of competing. Fortunately, few asset managers have a better track record than Brookfield.

To illustrate, one only has to look at the stock price of Brookfield itself. Over the 20 years from 1994-

2013, Brookfield shares on the NYSE earned an average of 19% per year. With performance that good for that long, you can't chalk it up to luck.

Why to avoid

1. Lack of transparency

This is the major sticking point with most investors, as investing in Brookfield is akin to wearing a blindfold. The company is really a conglomerate of different businesses, and trying to figure it all out is a fool's errand. Even the Securities and Exchange Commission has probed the company, demanding changes to how Brookfield discloses its operations to investors.

Management also has plenty of latitude when reporting numbers. For example, most of its assets are valued internally. In other words, Brookfield's assets are worth whatever Brookfield says they're worth. If you're not willing to accept this, then you should buy companies that are easier to understand.

2. Lack of control

Like many Canadian companies, Brookfield employs a dual-class share structure – hence the '.A' next to its Canadian stock ticker. What does this mean?

Quite simply, it means that a select few control the company, despite holding a minority of the shares. Sometimes this structure is a positive – after all, it prevents short-term focused hedge funds from wreaking havoc. And we all know that sometimes democracy can be very messy.

But this is an especially troubling case, precisely because of Brookfield's lack of transparency. So if you hold the shares, you have no visibility or power. All you can do is collect the dividend (currently yielding less than 1.5%) and hope the company continues to perform well.

At the end of the day, Brookfield's track record probably warrants an investment. But because of these issues, you shouldn't make this position too big. And if you're uncomfortable with a lack of control, you're better off avoiding the shares altogether.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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