A Contrarian Investor’s Dream Stock

Description

A recent study suggests that Canadians have socked away more than $75 billion in extra cash, fearing equity markets. Conservative investors still willing to own stocks–but only those that are no muss, no fuss–needn’t look any further than this Toronto-based asset manager that’s relatively unknown on the global stage but has done well for shareholders, managing to deliver long-term returns better than most–including Warren Buffett.

Brookfield Asset Management Inc. (TSX:BAM.A)(NYSE:BAM) CEO Bruce Flatt recently appeared in a 23-minute interview with *Bloomberg TV’s* Erik Schatzker. Flatt made it very clear that the company is on the prowl for real assets, believing that risks taken today will deliver huge dividends in five or 10 years.

His theory is that people want to own tangible assets in real estate, infrastructure, renewable energy, and private equity. With more than $225 billion in assets under management in more than 30 countries around the world, it’s surprising that more investors haven’t heard of Flatt and the rest of the professionals working at Brookfield. That may well change soon.

Brookfield’s formula for making contrarian investments by going where capital is most needed and in the shortest supply has worked well for Flatt in his 14 years as CEO. Since Flatt’s been at the helm, the shares have delivered annualized returns of 17.9%, almost three times the returns of **Berkshire Hathaway Inc.** and almost five percentage points better on an annualized basis than Prem Watsa, CEO and founder of **Fairfax Financial Holdings Ltd.** and considered by many to be Canada’s version of Warren Buffett.

Move over, Prem. You’ve got company.

The reasons to invest in Brookfield are many: it’s the second-largest alternative asset manager in the world behind only **Blackstone Group LP**; it’s in the process of spinning out its private equity division into its own publicly traded company on both the TSX and NYSE; there are rumours of a potential deal that could see the company acquire **General Growth Properties Inc.**, one of America’s largest mall operators; and its stock price is down almost 11% over the past 12 months through February 1.

Those are all valid reasons, but none of them are why I’d buy Brookfield stock.

For me it’s all about the allocation of capital. If I believe that Bruce Flatt can do a better job of investing than I can, there’s no reason to do anything more than buy Brookfield stock and let Flatt take care of the rest. No muss, no fuss.

In 1987 Warren Buffett addressed the idea of capital allocation in a letter to shareholders. At the time he lamented about the job most CEOs do when moving money around. That opinion likely hasn’t changed much.

“The lack of skill that many CEOs have at capital allocation is no small matter,” wrote Buffett. “After 10 years on the job, a CEO whose company annually retains earnings equal to 10% of net worth will have been responsible for the deployment of more than 60% of all the capital at work in the business.”

Buffett, of course, was speaking about business operators rather than investors. However, it’s safe to assume that Brookfield’s long-time shareholders are thankful Flatt isn’t lacking in this vital skill. It’s time for other investors to recognize it as well.

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