

Is Brookfield Asset Management Inc. a Smart Long-Term Investment?

Description

While I believe that amateur investors like you and me can make plenty of money by picking great companies for the long term, it helps to invest in a company that is able to make incredible picks repeatedly.

Brookfield Asset Management Inc. (TSX:BAM.A)(NYSE:BAM) makes its money by taking investors' money and investing it in projects, such as energy, private equity, infrastructure, stocks, and other types of investments.

For example, it runs three publicly traded funds: **Brookfield Property Partners**, **Brookfield Renewable Energy Partners**, and **Brookfield Infrastructure Partners**. Each of these was once a basket of assets that the company had acquired using money from its investors. When they reached a certain size, these baskets were made public, Brookfield took a significant return on investment and kept a decent chunk of the shares to continue profiting from them.

Brookfield is able to charge a management fee on the money it takes from investors. For \$100 billion in fee-bearing capital, it is able to generate \$1.6 billion in annualized fees and target carried interest.

Brookfield also invests in assets that then return cash flow. In essence, if Brookfield buys an asset, the asset generates cash and then is sold, and Brookfield gets a percentage of the generated cash and the sale price. This method makes the most money because investors want a return on their investment.

Brookfield seeks out distressed assets. Take Brazil, for example. Once one of the top developing economies in the world, Brazil is dealing with a credit crunch, which makes it incredibly expensive for business owners to borrow money. Brookfield can sweep in and buy up whole pieces of infrastructure for pennies on the dollar. The owners would rather get something than declare bankruptcy.

When the economy in Brazil returns to its former strength, these assets will appreciate in value, kick off cash flow, and, at some point, Brookfield might push another fund public.

The company has set aside \$1.2 billion to buy up infrastructure in Brazil.

The reality for Brookfield is that it is an incredible company that is really good at finding quality assets to purchase. As more investors realize this, they'll give Brookfield more money to work with, which gives the company even more potential to grow.

Had you invested \$10,000 in Brookfield 20 years ago, you'd have what famed investor Peter Lynch calls a 32-bagger because your investment would now be worth \$320,000. For each of those 20 years, the company returned 19% on average. There still remains a lot of growth for this company, and I believe investors should own it.

CATEGORY

1. Investing

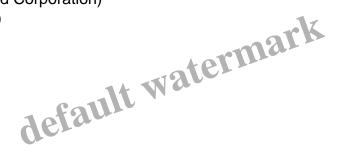
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- 1. NYSE:BN (Brookfield Corporation)
- 2. TSX:BN (Brookfield)

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