



## The All-Cap Portfolio That Will Beat All Others

### Description

You read a lot about the importance of diversification to investment portfolios. However, for every academic who presents an argument *for* diversification, you can find an equally compelling argument for why more than 20 stocks in a portfolio is simply overkill. The key is picking the right companies—not a lot of them.

Start your foundation with a solid large cap such as **Brookfield Asset Management Inc.** (TSX:BAM.A)([NYSE:BAM](#)) and you've got a recipe for success. Follow that up with a mid cap that's still growing but has little leverage and a pristine balance sheet, add to this a small cap whose exponential growth puts some fire under your all-cap portfolio, and then finish it off with a micro cap that's expected to blast off any time now but is still conservatively financed.

In the large-cap category I've already mentioned Brookfield. CEO Bruce Flatt has become one of the best asset managers not just in Canada, but globally as well. It has \$28 billion invested alongside its clients, who've trusted it with more than \$225 billion in assets under management. Brookfield gives your portfolio a solid foundation.

Next up, I'm going with **Alaris Royalty Corp.** (TSX:AD) as my mid-cap selection. Barely qualifying with a \$1.1 billion market cap, Alaris is a quasi-private equity firm that invests in private mid-market firms in both Canada and the U.S.

It takes non-control positions in its partner companies, structuring the monthly distributions it receives based on the previous year's revenues. That way, if a particular investee company is working through some temporary issues, payments will be reduced to reflect that situation. By doing so, Alaris helps its partners maintain stable cash flow. In the end, both parties win by this arrangement. Alaris is a well-run company that continues to grow alongside its partners.

My pick for a small cap is **DHX Media Ltd.** (TSX:DHX.A), a Halifax-based company known for children's television programming including the Teletubbies, Inspector Gadget, and Deglassi brands. While its current market cap is almost identical to Alaris at \$1.1 billion, I'm putting it in the small-cap category because I believe it's got more upside potential in terms of stock price.

Why?

Because DHX Media has a far greater chance of being acquired than Alaris does. As an independent creator of kid content, it will continue to be an attractive acquisition for larger media companies in search of additional content for its various audiences. With its Wildbrain Multi-Platform Kids' Network continuing to show promise in terms of its audience reach—750 million monthly views—the company's \$100 million goal for annual revenue (it was \$12.1 million in fiscal 2015) doesn't seem outlandish.

Trading near a 52-week high, DHX Media's stock isn't cheap at the moment. However, if you can wait two to three years, you'll be glad you bought now because kid content is booming.

Finally, in my opinion, **Canopy Growth Corp.** (TSXV:CGC) is one of the only micro caps currently trading on the TSX Venture Exchange that is worth a sniff (no pun intended). However, you're going to have to forget about profits for the time being because the company is still building the infrastructure necessary to be a player in the medical marijuana industry.

Two years since it shipped its first product to customers, its revenue in the first nine months of fiscal 2015 ended December 31, 2015, was just \$7.7 million, while its operating expenses were double that.

But when you consider that it had 8,289 customers at the end of 2015, 357% more than a year earlier, you begin to understand the potential growth ahead of it. Yes, it's going to be a messy affair as the Trudeau government moves the country toward marijuana legalization, but it's the right thing to do. Having first-mover advantage in this situation could be enticing to cigarette manufacturers looking for a quick entry into the Canadian marijuana market.

To protect yourself from the unknowns a stock like Canopy presents, it might be wise to put 40% in Brookfield, 30% in Alaris, 20% in DHX Media and 10% in Canopy.

It's the ultimate all-cap portfolio.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. TSX:AD.UN (Alaris Equity Partners Income Trust)
3. TSX:BN (Brookfield)

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