

# Why Brookfield Asset Management Inc.'s Shareholder Letter Is a Must-Read

## Description

**Brookfield Asset Management Inc.** (TSX:BAM.A)([NYSE:BAM](#)) has done an exceptional job creating value for its investors over the years. The numbers really speak for themselves. Over the past two decades the company has delivered an 18% compound annual return due to its exceptional ability to buy assets at the right point in the market cycle.

In addition to creating wealth for its investors' portfolios, Brookfield shares a wealth of knowledge every quarter through its shareholder letter. This quarter's letter was particularly rich with information on a variety of subjects. Here are some of the nuggets of wisdom from that letter.

### Brookfield on the Brexit and long-term thinking

Britain's vote to exit the European Union earlier this year sent shockwaves across the globe. Global markets initially crumbled after investors dumped stocks due to the uncertainty surrounding the future of both the U.K. and the E.U.

While the market came roaring back, the long-term uncertainty remains. While that worries investors, Brookfield's view is that "these situations often present opportunities to earn greater returns than might otherwise be possible." That said, it stressed that "the important point to remember, though, is that one must take a long-term view and be prepared to withstand bumps along the way."

That long-term mindset is critical—not only for investors considering investing in companies with exposure to the U.K., but in general. All too often investors overreact to news or a bump in the road despite the fact that the long-term fundamentals remain in place.

For example, regarding investing in London, where Brookfield owns a lot of real estate, the company reminded investors why it believes that the long-term fundamentals remain in place. It wrote:

In this regard, our belief is that London will continue to be a very important centre of global commerce. It is centrally located, has a sound rule of law, a culture that respects capital, a free enterprise system, English as the primary language, a favourable tax regime for foreign companies and individuals, and is a city in which people like to live. In addition, moving corporate operations is extremely disruptive and expensive, and there is no natural alternative in the European Union. This is why London was a global centre before the vote, and why we believe it will continue to be a global centre of commerce over the long term.

Because of these favourable characteristics, Brookfield feels that while property value in London might decline in the short term, they might actually be much higher once the dust has settled. That is why the company plans to look for deals to buy real estate in that gateway city.

### Price versus value

Another nugget from Brookfield's letter was its discussion on price versus value. As investors, we tend to get caught up in a stock's price. However, Brookfield wrote that "price is merely a function of the supply and demand characteristics for capital that is looking to be invested in a sector of the market, or in a specific asset or stock."

Because of that, "price is often influenced by topical news of the day, market sentiment, availability of capital, and other factors that may or may not have any relevance to the value of a specific security." In other words, the price of a stock might not have any real correlation to the underlying value of a company because so many largely unrelated factors impact a stock's price.

On the other hand, Brookfield noted that "value ... is the net present value of the future cash flows of a business or asset, based on assumptions for future growth and discounted at the appropriate risk rate for that particular investment strategy." In other words, value is the wealth a business is creating now and projected to create in the future.

Given the difference between the two, investors need to focus their attention on the value of a company and not the price of its stock.

### **Investor takeaway**

Investors can learn a lot about Brookfield Asset Management's investment process by reading its quarterly shareholder letter. This quarter's letter was rich with tangible examples of how it focuses on the long-term story amid short-term uncertainty. It also provided an excellent discussion on why investors should not focus on price, but on value instead. It is advice that could make investors a lot of money over the long term.

### **CATEGORY**

1. Investing

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1. Editor's Choice

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