

Brookfield Asset Management Inc.: Your 1-Stop Shop for Diversification

Description

Brookfield Asset Management Inc. (TSX:BAM.A)([NYSE:BAM](#)) is one of my favourite stocks. As an asset manager with over \$250 billion in assets under management, it provides investors the opportunity to diversify in investment services and a series of other industries thanks to its investment strategy.

Brookfield Asset Management's strategy has worked wonders. If you had purchased shares five years ago, you would be up 132.5%. Compare that to the typical strategy investors choose for diversification, the **S&P/TSX Composite Index**, which was only up 25% in the same period.

The strategy is really straight forward. Brookfield Asset Management builds a portfolio of assets in specific categories and, when that portfolio reaches a certain size, it spins the business out. It keeps a large holding of the company, but allows it to operate on its own. And when that child company needs resources for a major acquisition, Brookfield Asset Management participates.

Its subsidiaries are **Brookfield Renewable Partners LP** (TSX:BEP)(NYSE:BEP.UN), which invests in hydroelectric and other renewable assets, **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)), which invests in major infrastructure properties, and **Brookfield Property Partners L.P.**, which is the real estate arm. By holding a sizeable holding of each of these, Brookfield Asset Management benefits from their success, which in turn benefits you.

On March 7, Brookfield Asset Management announced it was acquiring a controlling stake in **TerraForm Power Inc.** (NASDAQ:TERP). The assets will be managed by Brookfield Renewable because of what the company specializes in. Brookfield Renewable is chipping in some of the money from its own operating capital.

On March 9, Brookfield Asset Management announced that it had received a favourable court decision in its takeover of 90% of Petroleo Brasileiro SA Patrobras. Brookfield Infrastructure will provide some of the capital to acquire the company and will manage the assets.

These are just two of many examples how Brookfield Asset Management uses the operating experience of its subsidiaries, coupled with capital from both the subsidiary and a network of institutional investors, to acquire massive businesses. In turn, Brookfield Asset Management is able to generate significant returns from its subsidiaries, allowing it to continue growing and making larger investments.

Although net income in 2016 was only US\$3.3 billion compared to US\$4.7 billion in 2015, Brookfield Asset Management's funds from operations saw a large jump from US\$2.56 billion to US\$3.24 billion. This is important because it demonstrates how the business model is starting to pivot. Specifically, the company's asset management business is growing rapidly, and funds from operations are a way of showing growth in this business.

All in all, Brookfield Asset Management is in the business of acquiring major projects and generating cash flow from them. Thanks to its strong subsidiaries, it has the operational experience to manage a wide variety of businesses, making acquisitions like the TerraForm deal.

For investors that want to gain instant diversification from a company that has generated large returns, Brookfield Asset Management is one of the best picks in the market right now.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
3. NYSE:BN (Brookfield Corporation)
4. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
5. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
6. TSX:BN (Brookfield)

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