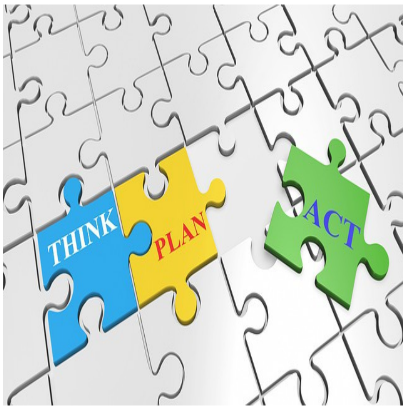

Brookfield Asset Management Inc. Shows Why Diversification Is Not a Good Idea

Description

Brookfield Asset Management Inc. (TSX:BAM.A)(NYSE:BAM) is one of my favourite stocks on the TSX. I just love all the moving parts.

With +US$250 billion in real estate, infrastructure, and private-equity assets, it's a joy to follow. However, trying to keep up with everything it owns is a full-time job, highlighting why investors such as Warren Buffett believe in smaller, focused portfolios.

Diversification, as I found out, can be a double-edged sword.

Case in point

I recently came across a negative news story involving Brookfield and the Hard Rock Hotel and Casino in Las Vegas. Evidently, Brookfield took over the casino in March 2011, converting debt it held on the property into equity.

The casino, a place where I've stayed in the past, is externally managed by Warner Hospitality, a Las Vegas-based hospitality organization specializing in casinos and hotels.

Casino properties are starting to regain their lustre.

In August, Carl Icahn sold the unfinished Fontainebleau hotel in Las Vegas for US$600 million — a 300% return for his shareholders since buying the white elephant for US$150 million in 2010. Now, it appears Brookfield might be looking to unload its hotel to the Seminole Tribe of Florida, who own Hard Rock International.

Why is this a problem?

Well, I follow Brookfield fairly regularly, and I didn't know that it's owned this hotel for six years. There are probably lots of other assets it owns that I'm unaware exist.

Multiply Brookfield by 50, and it makes it nearly impossible to keep track of all the assets owned by your portfolio companies.

Diversification is a great buzzword, but unless you're a portfolio manager who is paid handsomely to watch over those assets, you're likely unaware how all these moving parts affect your overall financial well-being. Either that or you own a few quality ETFs, and it's done for you. If not, you're putting yourself and your family at risk by owning too many stocks.

Diversification is overrated

Lots of statistics exist on both sides of this argument. I tend to believe a focused portfolio with some diversification, and 10-20 stocks are much better than having 50 stocks all over the place.

“A concentrated portfolio goes hand in hand with your investment approach,” said Effie Wolle, chief investment officer at Toronto-based GFI Investment Counsel in a 2015 *Financial Post* article about diversification. “If you're investing in carefully selected businesses with modest leverage, and you can see them being around for 20 or 30 years, then a concentrated portfolio makes a lot of sense.”

However, it's likely that even with a focused portfolio, most investors wouldn't know that Brookfield, in its position as owner of the Hard Rock Las Vegas, is accused of pressuring its employees who are currently considering unionization.

Given a sale could be on the table, the Culinary Union is working hard to ensure any potential new owner retains most, if not all, of its employees.

If you own Brookfield, are happy with your investment, but were unaware of its ownership of the hotel and the current developments, you might want to trim your roster of holdings, so the next time something happens to Brookfield, you won't be caught off guard.

That's the downside of diversification.

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