This High-Yielding Small-Cap Stock Can't Hold a Candle to Brookfield Asset Management Inc. (TSX:BAM.A)

Description

If you take a hard look at real estate in the U.S., are you seeing market weakness? For the third consecutive month, existing home sales were down south of the border. Mortgage lending rates have been creeping up on both sides of the border, making real estate a more expensive proposition for home owners. The prime lending rate in the U.S. is currently 5%, whereas in Canada it is 3.70%.

These rates are not likely to go lower any time soon. After a decade of low rates, the slow march upward is a tactic to create a buffer against the next recession. Now is a good time to shake up your portfolio to see if any of the holdings are heavy debt-carrying stocks. The dead weight could stifle portfolio growth, or worse, make it sink.

A company that has likely long been considering this is **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM). With $285 billion in assets under management, and the many Brookfield subsidiaries, this is a company that knows something about going into debt to grow capital.

Up only 1% year to date, despite two solid quarters, it remains to be seen whether Brookfield will outperform the TSX for 2018. I'll be paying close attention to the next quarterly reports on August 9.

What about a Brookfield offshoot with a huge dividend yield?

The smallest Brookfield subsidiary is **Brookfield Real Estate Services** (TSX:BRE). It has a market cap of $246 million that is minuscule compared to Brookfield Asset's cap of $52 billion.

Why invest in this realtor service small cap? Two words: juicy dividend. At 7% yield, don't expect the dividend to grow, but shareholders get paid rather handsomely for holding this stock.

This Brookfield company offers real estate services in the form of 18,000 realtors Canada-wide from recognizable franchise names like Royal LePage.

The real estate services generate revenue from royalties on real estate sold by realtors. In the last quarter, revenue of $10 million was driven entirely from royalties. That's a lot of home sales when you think that this is a cut of a cut (realtor commissions). The balance sheet shows cash flow from operations whittled down from expenses (including that big dividend), resulting in a small earnings loss for the quarter. Basically, the company broke even! This is a sign of a *dividend trap*. The moment those royalties drop, the dividend could be in jeopardy.

Reasons to avoid Brookfield Real Estate Services:

1. The dividend may not be sustainable *without* a little help from its friends. In the trailing 12 months, the dividend amounted to $1.33 per share, but the amount of free cash flow was $0.80 per share. It is a sign that more money is going out than coming in.
2. This company is too small, and analysts don't cover it. According to my sources, there have been no earnings estimates to help guide investors, nor forecast on future earnings. A *Morningstar* rating of three stars is a start, but it's still not enough info to make an informed investing decision.

Take home

Now is not the time to be loading up on risky income stocks whose revenue stream could dry up during a market downturn. I do not recommend the small-cap realtor service company at this time, but I do continue to think that Brookfield Asset Management can weather basically any storm!

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3. TSX:BRE (Bridgemarq Real Estate Services Inc.)

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