Brookfield Asset Management (TSX:BAM.A) Plans to Pour More Into Real Assets

Description

BlackRock (NYSE:BLK) and the Vanguard Group are the two largest financial companies in the world by assets under management (AUM). They each hold over US$5 trillion in assets — yes, *trillion* with a "*t*". Vanguard is perhaps the more recognizable name, yet both companies have a mandate of low fees, denoted as management fees and a operating expense ratio, for their products, primarily in the form of exchange-traded funds (ETFs).

If you own Canadian ETFs, then there is a decent chance it's a BlackRock product, as the list of iShares ETFs is longer than your arm. BlackRock trades on the NYSE and the share price has turned down, much like many U.S. financial stocks have done in the last quarter. Meanwhile, Vanguard is a private firm.

I believe BlackRock and Vanguard will continue to grab more of the financial asset pie as more money moves from mutual funds to low-fee ETFs.

Let me be clear, though: I think that the ETF business is a race to the bottom. The only way to keep margins steady, as fees drop, is to add clients, increase AUM, or both. One analyst I came across commented they would not be surprised if ETF fees crept back up once they hit rock bottom and only after many asset firms were squeezed out. Although not a rosy picture, I could see that happen as it is a prevailing pattern these days (not mentioning any names…).

A Canadian asset management stock hiding in clear sight

Brookfield Asset Management (TSX:BAM.A)(NYSE:BAM) is another asset conglomerate that trades on TSX and has increased assets at a remarkable pace, doubling from $120 billion in 2014 to $242 billion at the present day. A key distinction here is that Brookfield holds a significant portion of "real assets" (real estate) as well as equities (stocks).

The June Annual General Meeting slides state the company will continue to shift towards a higher proportion of assets from “real assets” and “alternatives.” With 80,000 employees, Brookfield puts resources towards buying these private assets. By 2030, the proportion of stocks and bonds assets will drop from 75% to 60%.

A 15% divestment from equity markers may not seem like a lot, but it’s billions of dollars. Thinking about this strategic decision…

1. Brookfield will put emphasis on what it does best: big real estate.
2. Brookfield is hard pressed to compete against the big financial shops like BlackRock and Vanguard. If my interpretation is accurate, Brookfield is effectively passing on the race to the bottom in the financial AUM game.

Investors wanting to hear more on Brookfield can wait one week and read what the 2018 Investor Day brings. All five of the publicly traded companies are tabled on the agenda.

Take home

Brookfield has been a consistent market-beating stock. I’m considering adding more to my position and would even recommend this as the first stock you buy. Holding real estate assets is one way Brookfield could soften the impact of a downturn in equity markets. You traditionally have to pay a higher-than-average price multiple to own Brookfield shares, but the price-to-sales ratio (P/S) of 0.83, a 10-year low, indicates sales are strong.

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bmacintosh