



The 1st Stock You Should Buy in a Recession

Description

By all accounts, it seems a recession is now imminent. Last week, the yield curve on United States treasury notes inverted (long-term rates fell below short-term rates). This week, the same happened here in Canada. This is first time North American yield curves are inverting since 2007.

The inversion of the curve is widely seen as a powerful indicator of an upcoming recession. Meanwhile, household debt is at a record high and data from Statistics Canada indicates that gross domestic product grew by just 0.1% in the fourth quarter of 2018. All these indicators have economists worried.

However, savvy investors with enough liquidity may find that an economic downturn helps uncover interesting investment opportunities. One stock I believe investors should watch closely is

Brookfield Asset Management (TSX:BAM.A)([NYSE:BAM](#)).

Brookfield has had an incredible run over the past decade. Since 2009, the stock price has multiplied over six times. If you include dividends along the way, the total return has been even better. The company has been unstoppable and its CEO Bruce Flatt has earned a reputation as a [master of wealth creation](#).

It's important to understand Brookfield's basic business model. The company is, at its core, an asset management firm that raises funds from institutional investors and invests it in alternative assets such as real estate, infrastructure, renewable energy infrastructure, and private equity.

The company also invests *its own money* into each of these asset classes. It is both an investor and an investment manager.

As an alternative asset management company, Brookfield is at the epicenter of the global capital markets. The company currently has US\$350 billion in assets under management (AUM) spread across 30 countries and managed by 800 investment professionals.

The company's recent acquisition of Los Angeles-based Oaktree Capital will take the combined entity's AUM up to US\$475 billion by the end of the year. Brookfield expects to generate US\$2.5 billion in annual revenues through fees on this asset base.

The Oaktree acquisition is a clear indication of Brookfield's near-term strategy. Bruce Flatt has already said that the company is preparing to pounce on attractive assets if the economy dips. According to the company's most recent filing, it has \$34 billion of available liquidity to deploy into similar acquisitions. That represents 10% of the company's current AUM.

Investors should be aware that a recession will have a direct impact on the value of Brookfield's portfolio and the fees it can collect on it. During a downturn, asset management firms have to face lower asset prices, client withdrawals, and a rising failure rate from the companies in their portfolio. This could have a temporary impact on the stock and the company's bottom line.

Taking a look back, it's easy to see an example of how the stock performs during a downturn. Brookfield's stock dropped 65% between 2007 and 2009 during the global financial meltdown. While there is no reason to believe the world faces a similar crisis now, Brookfield's stock could be better priced for investors willing to wait for a minor pullback.

Bottom line

A recession could have a direct impact on Brookfield's stock, but the company has enough of liquidity to not only withstand a downturn but also take advantage of it and add attractive assets to its already robust portfolio.

In my opinion, Brookfield is a good investment at its current price, but a pullback in the near term would be an even better opportunity for investors willing to ride the entire economic cycle.

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1. Dividend Stocks
2. Investing

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