How to Improve Your Investment Returns in This Great Stock

Description

Brookfield Asset Management (TSX:BAM.A)(NYSE:BAM) stock is one of the best long-term investments you can make. It is a leading global alternative asset manager that invests for institutional investors and sovereign wealth funds with a primary focus in real estate, infrastructure, renewable power, and private equity. And investors like you and me can easily buy the stock or its listed limited partnerships in those four areas.

Get market-beating returns

Brookfield aims for long-term total returns of 12-15%. This is powerful because the long-term average North American market returns have been 10% or lower. An outperformance of 2-5% makes a huge difference over the long haul. Assuming a 3.5% outperformance over the course of 10 years amounts to more than $41,000 of extra returns for an initial investment of $100,000.

Additionally, Brookfield has huge stakes in the listed partnerships. So, as the general manager and partner, its interests are very well aligned with that of its shareholders (and the shareholders of the listed partnerships).

First-quarter results weren't bad

Last week, Brookfield reported its first-quarter results. On the surface, it seemed to have done pretty poorly, with earnings per share falling 31% to US$0.58 and funds-from-operations per share declining 10% to US$1.04 compared to Q1 2018.

However, investors should note that Brookfield did particularly well in 2018 and earned outsized performance fees, which would eclipse the profitability for this year — including the Q1 results.

Fee-bearing capital set to grow

At the end of Q1, Brookfield had US$150 billion of fee-bearing capital, which increased by about 60% since 2015. Combined with the **Oaktree Capital Management** acquisition that's expected to close by the end of Q3, Brookfield will have about US$475 billion of assets under management and US$2.5 billion of annual fee-related revenues. The fee-bearing capital is set to continue growing at a teenager's rate, which will translate to higher fee-related earnings.

How to improve your investment returns

Brookfield is a great stock — it's diversified and well run by great management, and it just added to its team the bright minds from Oaktree, which will run independently of Brookfield, whose estimated long-term returns of 12-15% are also stellar.

While Brookfield does its part, you can do your part to improve your investment returns in the great stock as well by aiming to buy it when it is attractively priced and especially when it experiences meaningful corrections.

Due to the nature of its business, Brookfield's profitability can be quite volatile and unpredictable, and it's certainly sensitive to market downturns. For example, in the October to December correction last year, the stock fell about 16%.

At US$47.85 per share as of writing, Brookfield isn't particularly expensive. **Thomson Reuters** has a mean 12-month target of US$54.70 per share on the stock, which represents 14% near-term upside potential. The bigger the margin of safety you buy the stock at, the better.

By buying the quality business whenever it trades at a big discount, you can boost your investment returns for the long haul.

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