



Brookfield Asset Management's (TSX:BAM) #1 Risk Factor

Description

Brookfield Asset Management Inc (TSX:BAM.A)([NYSE:BAM](#)) has a cult following.

Looking at its history of success, it's not hard to see why. Since 1995, shares have increased in value by roughly 5,000%.

Its recent performance is just as impressive. Over the last five years, Brookfield stock has increased by around 100%. The **S&P/TSX Composite Index**, meanwhile, has only increased by 11%.

Unfortunately, the same trait that makes Brookfield so special could eventually lead to its downfall. If you're investing in this stock, you'll want to get acquainted with the biggest risk it faces today: indexing.

A threat to all

As its name suggests, Brookfield Asset Management makes money by managing money.

With more than \$300 billion in alternative assets, the company invests in fields like real estate, renewable power, infrastructure, and private equity through vehicles including **Brookfield Property Partners LP**, **Brookfield Renewable Partners LP**, and **Brookfield Infrastructure Partners L.P.**

As with most asset managers, Brookfield Asset Management generates fee revenues in exchange for managing the respective funds.

As its asset base grows, the company's revenue streams grow. It doesn't take too many more employees to manage \$100 billion versus \$120 billion, so as assets rise, profitability ramps even quicker.

Therefore, Brookfield's greatest risk is that its asset base withers. While the company has been able to resist fund outflows, it's fighting a rising tide.

In 2009, roughly US\$900 billion was invested in passively managed funds. These vehicles, composed

heavily of index funds, require little management and thus have fees 90% or more lower than the ones Brookfield typically charges.

At the time, nearly US\$3.2 *trillion* was invested in actively-managed funds, similar to what Brookfield operates. That dynamic has changed dramatically over the last decade.

In 2018, roughly \$3.5 trillion was invested in passively managed funds versus \$3.6 trillion for actively managed funds. The active management industry is still growing, but it's rapidly losing share to cheaper funds that require little to no management.

As this trend continues, it threatens to destabilize Brookfield's entire business model, cannibalizing profits and pressuring assets under management. Every asset manager has been put on notice due to this trend.

Brookfield's secret weapon

What would prevent investors from choosing an index fund? Two things: performance and access. These factors are where Brookfield succeeds.

On the first factor, performance, Brookfield shines brighter than nearly any other asset manager. Take Brookfield Infrastructure, for example.

Since 2008, Brookfield Infrastructure stock has risen in value by 210% versus a rise of just 28% for the **S&P/TSX Composite Index**. Plus, it pays a dividend of nearly 5%. While it doesn't have a perfect track record, many of Brookfield's investment vehicles have similarly impressive resumes.

When it comes to active versus passive investing, Brookfield makes a great case for trusting it with your money.

On the second factor, access, Brookfield also shines. Take its recent private equity fund, for example.

Private equity, by definition, is not available publicly. To access the market, most investors need to pay a premium to an asset manager like Brookfield. Based on its latest fund raise of \$7.4 billion for a new private equity vehicle, Brookfield is having no problem attracting capital.

Recently, the company also finalized a real estate opportunity fund for \$15 billion and closed \$14 billion in initial commitments to an infrastructure fund.

A risk worth monitoring

Thus far, Brookfield has bucked the trend towards passively managed funds. As the trend continues, however, pressures will mount.

As long as the company can maintain its edge with outperformance and niche markets, Brookfield should find ways to succeed. Just keep a close eye on the resiliency of assets under management and management fees.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. TSX:BN (Brookfield)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/09/15

Date Created

2019/05/17

Author

rvanzo

default watermark

default watermark