Should Careful Investors Add This Asset Manager to a Stock Portfolio?

Description

Defensive investors: how does a diversified Canadian asset manager covering around $330 billion worth of assets including real estate, renewable power, infrastructure, and private equity sound to you? It sounds like a tempting play ahead of a potentially broad market downturn, doesn't it?

Having averaged revenue growth of 39.49% since this time last year, **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM) is a consistently solid performer in the asset management space with exactly those credentials. Look at its five-year track record, for instance, up 22.43% on average, and year-on-year shareholder returns of 18.1%, and you'll see an impressively outperforming ticker.

With offices in Toronto, New York, London, Rio de Janeiro, and Sydney, Brookfield Asset Management isn't just diversified in its assets, it's also got serious geographical reach. Yes, you'll gain instant exposure to real estate, infrastructure, renewable energy, and a whole raft of entities in the business sector, but, more importantly, you'll have access to skilled management itself.

One of the main reasons to buy and hold Brookfield Asset Management is growth. Offering a dividend yield of 1.36% with payments that look set to carry on increasing year over year, Brookfield Asset Management is focused on steady improvement. With the fund raking in management and performance fees hand over fist, any investor buying shares in the company will have indirect access to all of its assets under management.

What's the risk with an asset management stock?

A defensive choice for investors looking to get out of riskier positions, such as oil, cannabis, non-essential retail, or other areas of industry vulnerable to uncertainty, Brookfield Asset Management is an affordable stock suitable for long-range stockholders. Its diversified asset spread combined with a growing cash flow and a small but reliable dividend are among the protective qualities on offer here.

There has been some inside selling in the last few months, though, which gives me pause for thought. Normally, a low amount of selling shouldn't be too much of a concern, though the amount here is significant. This doesn't sit well with the possibility that Brookfield Asset Management's higher fees (compared with passively managed funds, which charge fashionably low fees) could lead to it following other actively managed funds off a cliff.

The only other investment I might consider in a similar space would be something like **iShares S&P/TSX Capped Consumer Staples Index ETF**, or perhaps an apartment REIT. Either of these sorts of investments is designed to provide passive income from a diversified asset base drawn from classically defensive sectors. One other idea might be to hold Brookfield Asset Management alongside a consumer staples ETF for a lower-risk, recession-ready tag team.

The bottom line

A stock that has seen high growth in its share price and returns, Brookfield Asset Management is a nicely diversified dividend basket of funds that has both defensive qualities and a couple of dangerous flaws. If Brookfield Asset Management can keep its head above water in terms of profitability, its spread of represented sectors in just one stock will make it worth having in your portfolio long term.

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