



Forget 2% Interest: Beat the Market With This Stock!

Description

Coming into a new year and a new decade, it is always a good time to [re-evaluate your financial position and strategy](#). If you have been wise over the last decade, you may have established a solid monthly savings plan and maybe even saved up enough to have built a three- to six-month emergency reserve fund. Congratulations! If you have been really prudent over the past decade, you might even have cash left over just sitting in a savings account. Extra congratulations!

Savings accounts aren't as good as they seem

If that cash is sitting in a major bank's saving account, you might be lucky to have a special offer and earn between 0.85% and 1.25% interest per year. If you were really prudent and did your research, you may have found a high interest savings account) with an online bank or financial services provider that pays you between 2% and 2.50% interest per year.

This might seem like a decent return, considering you have very little downside risk holding cash in a savings account. However, taken holistically, it is not. As of October 2019, the Canadian Consumer Price Index (which measures inflation in Canada) was sitting at 1.9%. This means that the cost of goods and services that you require to live is presently increasing by 1.9%. Subtract your maximum 2.50% interest earned, and you are really only ending up with future buying power of 0.6%.

If you have cash sitting around and have a long-term investment horizon (say, the next 10 years), then why not get invested in one of the best operating companies in Canada?

Invest in a market leader like BAM

I would like to introduce you to **Brookfield Asset Management** (TSX:BAM.A)([NYSE:BAM](#)), also referred to as just BAM. While it resides within the financial services sector, BAM is really an alternative asset manager managing/operating various public and private investment vehicles that focus on [real estate, infrastructure, renewables, private equity, and now credit](#) with the recent acquisition of Oaktree Capital.

BAM has seen incredible performance over the previous decade, seeing its shares rise over 480% beating both the S&P 500 and the NASDAQ. While past performance is no indicator of future success, it indicates one thing: BAM knows how to manage capital effectively. BAM is still lead by CEO Bruce Flatt and a top team of contrarian investors/managers. They find the best assets (utilities, pipelines, rail roads, real estate, businesses) in the worst markets or worst situations across the world, often buying them at liquidation prices. Through restructuring, investing capital, and prudent management, they often turn these businesses into cash flow machines, which they either hold onto for the long term or sell at significantly higher multiples.

While the stock has always looked expensive, it is still not too late to buy. There are a number of catalysts that should continue to drive this company forward. First, with interest rates expected to be lower for longer, BAM believes there will be a huge shift of institutional capital from bonds toward alternative assets that can meet their yield target requirements. This presents a huge opportunity; we are talking trillions of dollars moving to alternatives, and BAM is positioned to manage a good share of that capital.

Second, the shifting and growing demand for alternative cash flow-producing assets should act to significantly increase the value of their present portfolio of assets. The company noted during its investor day that every 100-point reduction in the cap rate of its assets should result in \$20 of value per BAM share.

Finally, BAM should succeed in an economic boom or recession. With ample cash on the balance sheet, a recession means the company can begin to purchase more high-quality assets at distressed prices. Also, with the new addition of Oaktree, which specializes in distressed debt, BAM stands to do very well if the economy takes a downturn a balance sheets become stretched.

Overall, BAM is an excellent quality business, with high-quality management and high-quality, long-term assets. BAM should be a core holding for every Canadian's investment portfolio. Why waste your time earning 2% interest in a savings account when you can earn a growing 1.06% dividend yield and a decade of growth opportunities to come?

CATEGORY

1. Dividend Stocks
2. Investing

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