Warren Buffett: Create Generational Wealth With This Young Berkshire Hathaway

Description

Early investors of **Berkshire Hathaway** would have created wealth that can be passed down for generations. Every $100 invested in Berkshire stock in 1964 would have turned into more than $274 million. Now that's more than half a century of compounding.

Even if you only invested in Berkshire stock about 15 years, you still could have tripled your money by turning $10,000 into more than $36,107.

An interesting and incredible fact is that the earlier you invest your money and the longer that time elapses, the larger your pool of money grows. It's like rolling a snowball down a mountain.

Invest in this growth stock to outperform

Since 2002, when Bruce Flatt took the helm as the CEO after being with the company for 12 years, BAM has grown its assets under management (AUM) from approximately US$20 billion to US$550 billion.

Since 2002, the stock has compounded by 16.5% per year, despite the year-to-date selloff of 12%. In the same period, the U.S. stock market only compounded at a rate of 6.9%.

The growth stock has been in consolidation mode for about half a year and looks stabilized. Now, before its next leg up, is your opportunity to invest in a wonderful business, **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM), which is looking a lot like the young version of Berkshire.

The strength of this Berkshire Hathaway-like company

Like Berkshire, Brookfield Asset Management owns and invests in quality assets and businesses with a value investing approach. Specifically, BAM's portfolio consists of real assets across renewable power/infrastructure, real estate, private equity, and credit.

Unlike Berkshire, BAM is involved in the operations of the businesses as a manager. In fact, its decades of experience have accumulated into operational expertise, which gives it an edge.

Its investment products and services cater for institutional and retail investors alike. In the last 10 years, BAM has expanded its institutional investor base 22 times to about 2,000 clients.

Thanks to its ever-higher fee-bearing capital, which is at US$277 billion now, its fee-related earnings (before performance fees) compounded by 25% annually over the past five years to US$1.2 billion. This aligns roughly with the 24% growth rate of its AUM in the period.

Looking past the pandemic

The pandemic-triggered economic shutdown has negatively impacted 10-20% of BAM's businesses. Brookfield Asset Management has a strong liquidity of about US$16 billion and US$61 billion of third-party funds that it can call upon.

Importantly, its debt is largely at the asset level. Therefore, in the worst-case scenario, it'll simply hand over problem assets to its creditors with the rest of its business intact.

Due to its past investment success and continuation to aim for long-term returns of 12-15% on its funds, BAM raised US$48 billion for its flagship funds in the last 12 months. It has the confidence to raise US$100 billion in the next round.

Perhaps what's most exciting for me as a shareholder is that BAM is broadening its strategies. Among other strategies, in the coming years, BAM will be investing US$50-100 billion in technology funds that acquires "software/software-like services that resemble utilities" and US$100-200 billion in insurance, which would work in BAM's favour in this near-zero interest rate environment.

Do you see the resemblance between Berkshire's insurance business, using low-cost float to invest for higher returns and its investment in technology stocks like **Apple** and **Amazon** and BAM's new moves?

The Foolish takeaway

BAM aims for returns of 12-15% on its investments. On top of management fees, it generates performance fees on its AUM. It owns large stakes in its subsidiaries, which are primarily cash cows that generate predictable cash flow.

BAM has a strong financial position and a responsible management team to lead the company to grow for years to come.

The growth stock tends to appreciate and outperform in the long run. This year is a rare occasion that it sold off and is consolidating. Now is the perfect time to accumulate shares in the core holding to create generational wealth.

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