Brookfield Asset Management (TSX:BAM.A) Just Exploded 31%: Should You Buy or Bail?

Description

Don't look now, but shares of top-tier Canadian alternative asset manager **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM) are soaring, with shares now up over 31% for November thus far.

Don't say you weren't warned about the timely gain that was to come, as I've been pounding the table on the stock for most of October, as most other investors threw in the towel on stocks that have been feeling the greatest impact from the coronavirus pandemic. Today, it's now apparent that BAM was one of the babies that had been thrown out with the bathwater amid October's vicious month-ending sell-off.

While shares of BAM have taken off, the name remains over 13% off its February 2020 all-time high, and the stock still looks ridiculously cheap, given the more favourable environment that now looks to be in the cards in 2021 and beyond.

Brookfield stock: The tides have finally turned

Brookfield's retail real estate exposure has been a major sore spot for most of the year. With the curtain being pulled on two effective vaccines over the last two weeks, battered COVID-hit stocks finally have permission to rally, after months of hovering around in limbo. While the coast isn't clear yet (coronavirus cases are surging uncontrollably in many localities), hope and earnings growth potential beyond 2020 seem to be overpowering the near-term reality of current crisis, which seems to be getter drastically worse by the day.

Indeed, markets are forward-looking, and that's a major reason why I touted Brookfield Asset Management as one of my top picks going into November.

On October 30, I'd pounded the table on Brookfield Asset Management (I guess you could say "with a BAM!"): "Dragged down by its real estate exposure (malls in particular), Brookfield is now trading at a bargain-basement valuation that's too good for most long-term thinkers to pass up." I'd said in a prior piece

. “With central banks committing to keeping interest rates near the floor for a longer duration of time, the appetite for alternative assets is likely to surge out of this pandemic. With more than enough liquidity in place to weather another storm of COVID cases, it’s tough to find a firm with a risk/reward in the same league as Brookfield Asset Management.”

Indeed, there are fewer and fewer places to find a suitable expected return with rates staying at the floor for at least another two years or so. Brookfield is a best-in-class alternative asset play and the fact that shares got cut nearly in half from peak to trough back in the February-March market crash goes to prove that Mr. Market is capable of making massive blunders with his pricing.

If you hesitated, though, you missed out on a very sharp rally. After the 6.6% single-day surge on Monday, Brookfield is now up year to date. And as investors look to rotate back into value, I’d say BAM stock has much more room to run, as we inch closer to the end of this horrific pandemic.

The Foolish bottom line

The assets under the hood of BAM are just far too good, given the low-rate environment and the unrewarding nature of most other alternative assets, including the likes of fixed-income securities.

While the name is no longer the same steal it was in late October, I still think it’d be a wise move to buy a half position in the name, with the intention of buying the other half should this market and BAM stock be overdue for a significant retracement following one of the most explosive rallies since March.

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