Buy This Monster Stock Before it Pops

Description

Monster stocks could potentially grow your wealth much faster than normal stocks. However, higher risk often piggybacks off higher growth prospects. You can partially reduce risks by diversifying your capital and investing in multiple monster stocks as well as ones that pay safe dividends.

Here's a potential monster stock in the making.

After the spinoff in December 2022, investors can now own **Brookfield Asset Management** (TSX:BAM) as a pure-play global alternative asset manager. Although it's a new publicly traded company, BAM is nonetheless backed by **Brookfield Corporation**, which owns 75% of the company. Brookfield's investing expertise dates back to more than a century ago, and it has built this asset management business for longer than 25 years.

Currently, BAM has approximately US$800 billion of assets under management (AUM). Of the AUM, roughly US$418 billion are fee-bearing capital. The asset management company operates in 30 countries across five continents with about 180,000 operating staff who support about 2,000 investment and asset management professionals. It serves more than 2,000 institutional clients, including pension funds.

Institutional investors have been more than willing to place their capital in Brookfield Asset Management because of its long-term track record of delivering wonderful returns. For example, BAM's investment funds in infrastructure, renewable power and transition, private equity, real estate, and credit have a 12- to 34-year history, delivering gross rates of returns in the range of 12-28%. Its credit business is actually the result of acquiring Oaktree in 2019, and the company kept the successful management team.

With BAM's global diversification across different sectors, it can allocate investments in areas that are short of capital for the best risk-adjusted returns. The company believes that many of its assets, including real estate, infrastructure, renewable power, private equity, and credit, have secular tailwinds for growth. Its AUM are about 60% in North America, 6% in South America, 19% in Europe and the Middle East, and 14% in the Asia-Pacific region.

As an asset-light business, Brookfield Asset Management has no debt on its balance sheet. The dividend stock also targets a payout ratio of +90%, such that it currently offers a decent dividend yield of 3.6% for its extraordinary growth potential. Some financial information websites are showing the wrong yield. They're likely getting it mixed up with the fact that the company pays a U.S. dollar-denominated dividend — not in Canadian dollars.

Based on its track record and forecasts, management anticipates Brookfield Asset Management can continue growing its fee-related earnings at a rate of 15-20%. Therefore, it also projects attractive dividend growth of about 15-20% per year.

If a 15% dividend-growth rate materializes, the Rule of 72 approximates its dividend will double in about 4.8 years. Since the dividend growth must be supported by its distributable earnings growth, assuming the stock is fairly valued today, we can approximate that an investment today can roughly double in about four years from a combination of dividend income and earnings growth.

In summary, investors should consider allocating a portion of their diversified portfolios in a basket of monster stocks like Brookfield Asset Management that can accelerate their wealth creation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BAM (Brookfield Asset Management)

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1. Business Insider
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Date
2025/07/17
Date Created
2023/02/16
Author
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