



Gain Instant Diversification With This Single Stock Purchase

Description

Modern portfolio theory suggests that by adding a diversification of investments to your portfolio, you can reduce investment risk and ideally grow your portfolio. But diversification can sometimes be tricky for the average investor to achieve because we don't have direct exposure to some top- quality assets.

One company that can add [instant diversification to your portfolio](#) is **Brookfield Asset Management Inc.** (TSX:BAM.A)([NYSE:BAM](#)). Because of how the business is structured, owning Brookfield gives you exposure to a wide variety of industries.

At its core, Brookfield is a value investor that takes a contrarian view to most investments. Specifically, it looks to deploy its capital in regions of the world that don't have as much liquidity in the expectation that it will be able to pick up assets for pennies on the dollar. We can see that with the founding of Brookfield over one hundred years ago in Brazil with the launch of the São Paulo Railway.

Brookfield has a portfolio of US\$285 billion of assets under management spread over 30 countries. One of the ways that it invests that capital is through [the operating listed partnerships](#), which focus on specific industries. Of the four listed entities, it owns 49% of the real estate partnership, 12% of the renewable energy partnership, and 6% of the infrastructure and private equity partnerships, respectively.

What I like about these operations is that they're actual operating businesses. Thus, they generate funds from operations, which allows them to pay lucrative dividends. Brookfield benefits from these as well. In the fourth quarter, the company generated US\$1.3 billion in funds from operations, up from US\$1 billion a year prior. And full year 2017 was US\$500 million higher than the previous year.

It's not just the diversification through its partnerships that matter, however. Because it manages all the assets, it earns a fee. According to its 2017 full year results, the company saw a 15% boost to its fee-bearing capital, reaching US\$126 billion and ultimately generating fee-bearing revenues of approximately US\$1.5 billion. And fundraising doesn't appear to be slowing down, so I expect this number to continue increasing over the coming quarters and years.

Because the business is doing so well, management announced a 7% increase of the dividend to

US\$0.15 per quarter. The first increased dividend went out on Thursday, but future investors can expect this in upcoming quarters.

When comparing capital gains and dividends together, Brookfield Asset Management has beaten the **S&P 500 Index** benchmark nearly every time on different time horizons. For example, over the past year, the company has generated growth of 34% for investors, whereas the benchmark only returned 22%. And over a 15-year period, Brookfield returned 20% annual returns, double the benchmark.

Being a contrarian can pay off, as Brookfield has demonstrated. But there's one final note to take from a company like Brookfield that we can apply to our own diversification. In their letter to shareholders, they wrote: "We have also found that the single greatest way to dig ourselves out of mistakes is to be patient with investments and, in most cases, double down."

To put it another way, to avoid making bad investments, be patient and analyze them carefully. But even if you miscalculate the buying when buying an asset, if your convictions are true, double down. And I think investors should double down on Brookfield Asset Management.

CATEGORY

1. Dividend Stocks
2. Investing

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