

BUSINESS INSIDER

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December 9, 2020

PREMIUM

Ron Baron earned a \$4.2 billion windfall just from investing in Tesla. The legendary investor told us why he still expects a 30-fold return from Elon Musk — and shared the biggest lessons and mistakes of his career.

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- **Ron Baron is a billionaire investor and one of the most successful mutual-fund managers of 2020.**
- **He told Business Insider he was still enthusiastic about Tesla after it helped him deliver big returns this year and that he expected giant profits from his stake in Elon Musk's SpaceX as well.**
- **Baron also discussed how his investing approach had evolved, the biggest opportunities in the market, and a few painful mistakes from his career.**

Ron Baron has made billions of dollars from Tesla, and he says that's given him a new identity: "the Tesla guy."

It's the result of his periodic TV appearances touting the stock and the company, he said. In one recent interview, he said Tesla could be worth \$2 trillion in a few years. That's a far-off goal, but shares of the soon-to-be S&P 500 component have skyrocketed 870% in the past 12 months and gained 1,300% since he began buying the stock in 2014.

Baron said that performance made him a profit of \$4.2 billion on a \$357 million investment. It also made his Baron Partners Institutional fund one of the most successful US stock funds of 2020.

In an interview conducted via email, Baron remained enthusiastic about the electric-car titan but said he was looking for a new nickname.

"My goal next ten years is for people to also call me the 'SpaceX guy' when they see me," he said, adding that he expected "to make more than 30X our investment in that business."

Baron has been building a stake in the privately held company for years. The Baron Partners Institutional fund's shares were worth \$195 million at the end of the third quarter.



BARON FUNDS/BUSINESS INSIDER

The billionaire investor Ron Baron.

If he's right about SpaceX, the fund's future might look a lot like the present: Baron Funds reports that it's returned 15.2% to investors annually since its inception in 1992, handily beating the 9.8% return of the S&P 500.

Baron Funds is approaching its 40th anniversary, and Business Insider asked Baron how his approach had evolved over time. He said he started off as a research analyst and then became a traditional value investor looking for underpriced stocks.

"Anyone could do that," he said. But he added that as he found successful then smallish companies like McDonald's, Disney, FedEx, Nike, and Tropicana, he "evolved to investing in people, often entrepreneur/owners, who ran fast-growing, competitively advantaged businesses for the long term. Years, not months, weeks or days."

That led to a strategy of investing in rapidly developing industries. Today he says the most appealing include

internet distribution, internet advertising, biology, technology, autonomous cars, space, climate change, healthcare, and communication.

Baron has also surrounded himself with top talent like the growth-stock expert Alex Umansky, who has brought huge returns to investors at the Baron Global Advantage Fund, while Baron's sons Michael and David are bringing in strong returns at other funds.

Baron's funds are highly concentrated in a few stocks he intends to hold for at least five years. Thanks to that confidence and Tesla's explosive gains, the electric-car company accounted for 45% of the assets of the partners fund as of September 30. Add in his positions in CoStar Group and Idexx Labs, and that's almost two-thirds of its assets.

But getting enough confidence in a prospective investment is the hardest thing in investing, Baron said, and he looks back with some regret at opportunities he's missed out on over the years. Asked about his biggest mistakes, he mentioned

not buying Amazon stock in 1999 and closing out a Netflix position far too soon.

"That was during a period when I spoke to Jeff Bezos frequently and met him three times," he said of Amazon. "Still marvel how could I have missed it?"

He also sold out a Netflix position in the 2000s and didn't buy the stock again even after cofounder and CEO Reed Hastings suggested he do so. The company was worth about \$2.5 billion at the time.

"If I wanted to have DVDs through the mail I would have called this business DVDs through the mail. I named it Netflix," Reed told me," Baron said of the conversation. "He predicted streaming before there was streaming."

If Baron had bought at that time and never sold, he'd have made a gain of about 9,000%. But however costly those misses were, they weren't painful enough to keep him from staging a comeback on the way to a hugely successful career.

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Portfolio holdings as a percentage of net assets as of September 30, 2020 for securities mentioned are as follows: – Tesla, Inc. – Baron Opportunity Fund (3.7%), Baron Partners Fund (39.3%*), Baron Focused Growth Fund (35.9%); Space Exploration Technologies Corp. – Baron Asset Fund (0.5%), Baron Opportunity Fund (0.4%), Baron Partners Fund (3.6%*), Baron Focused Growth Fund (3.5%); IDEXX Laboratories, Inc. – Baron Asset Fund (6.7%), Baron Growth Fund (4.8%), Baron Small Cap Fund (2.1%), Baron Partners Fund (5.7%*), Baron Health Care Fund (1.4%); CoStar Group, Inc. – Baron Asset Fund (3.5%), Baron Growth Fund (7.5%), Baron Opportunity Fund (1.6%), Baron Partners Fund (11.6%*), Baron Focused Growth Fund (11.0%), Baron Real Estate Fund (2.7%), Baron FinTech Fund (1.9%); Amazon.com, Inc. – Baron Opportunity Fund (6.9%), Baron Fifth Avenue Growth Fund (10.0%), Baron Global Advantage Fund (5.0%); Netflix, Inc. – Baron Opportunity Fund (1.1%).

* % of Long Positions.

None of the Baron Funds held shares of McDonald's Corp., The Walt Disney Company, Fedex Corp., Nike, Inc., or Tropicana Corporation Berhad as of 9/30/2020.

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

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