

## An Interview with **Ron Baron** Founder, Baron Capital

**98.8%**

Percentage of Baron  
Capital assets that beat  
the market in 2019.

Q&A

# Growth Stocks Forever

By **Leslie P. Norton**

In 2019, a year in which the S&P 500 index stomped most active managers, Ron Baron zipped by the index with ease. The founder of Baron Capital, 76, ascribes his success to finding promising companies, knowing them intimately, and then hanging on to them forever. Case in point: Vail Resorts (ticker: MTN), which Baron began purchasing in 1997 at an average cost of \$32 a share. Today, it's \$223 and Baron Capital owns 11% of the company. Baron also likes disruptive companies like Tesla (TSLA), which he expects to be a 10-bagger from here. (He is invested in Tesla chief Elon Musk's private vehicle, SpaceX, too.) But the firm's performance isn't solely due to Tesla's moonshot: Last year, according to Baron, 98.8% of the firm's assets beat the market.

In a recent interview, Baron, who co-manages Baron Growth (BGRFX), Baron Focused Growth (BFGFX), and Baron Partners (BPTRX), shared his sunny long-term outlook for stocks and said he wasn't worried about the short-term risks posed by the coronavirus or the coming U.S. presidential election. "I have never seen a president so fascinated with envisioning the stock market as the most important



Ron Baron  
Photograph by Evelyn Freja

element for his re-election," he said. An edited version of the conversation follows.

**Barron's:** How do you feel about the market?

**Ron Baron:** Nobody gets it right on whether the stock market is going to go

up or down, whether you're thinking about an election or coronavirus or interest rates or trade wars. A couple of years ago, I was interviewed at the Robinhood conference. I said, "In the 1970s [when Baron was a stockbroker], all you hedge funds kept me alive with commissions, so thank you very

*(over please)*

**“We invest in businesses, not stocks. I hate commodities. I don’t like materials.”** —Ron Baron

**Before Ron Baron discovered Tesla, there was ManorCare. In the 1960s, he borrowed \$2,000 to open a margin account and bought the stock, thinking it would benefit from the Medicare Act of 1965. In the 1980s, Baron became the largest holder.**

much for that. And thank you very much now for shorting all my stocks so I can buy them at better prices.” Donald Trump had just been elected president. The market went down 800 points and came back the next day.

**Baron Growth is up 13.3% a year since its 1994 inception. It doesn’t own Tesla, even though other funds you own do.**

That compares with 8.1% for the Russell 2000 Growth index and 10.2% for the S&P 500. We’re long-term investors, which is unusual. The three-year average turnover for Baron Growth is 2.7%.

**Still, people like to complain about your high fees. The management fee alone is 1%.**

If you’ve earned 13.3% compounded for 25 years, net of fees, you really should be [comparing it with] people charging 60 to 80 basis points but trading a lot. This is a really important point. The average portfolio turns over 90% or 100% a year. We have 5% to 7% turnover in Baron funds. Turnover penalizes your clients by 30 to 50 basis points a year. We don’t have that cost. That’s one reason we do better.

**Tell us your other secrets.**

Being a long-term investor, I don’t worry about the news. We have proprietary research. Companies want us to invest, so they spend an incredible amount of time teaching us. Anyone can see growth prospects, but a competitive advantage and the talent of the people—that’s something unique.

How is an individual going to invest in a Tesla without the kind of research we do? We have 36 investment professionals and 170 employees, and we’ve never had a layoff. We invest in

the people in our business. That’s a tremendous advantage.

**What is your process?**

The value of stocks in general doubles about every 10 years. If you’re young and you’ve got \$5,000 a year, go invest it in an index fund. We invest in businesses, not stocks. I hate commodities. I don’t like materials. I just want to invest in growth companies—businesses that can grow at a much more rapid rate than the economy, where we like the people, we don’t think they’ll cheat us, and there’s a competitive advantage that prevents others from doing the same thing. Then we hang on for the long term.

Most analysts can’t recommend a stock if there’s no clarity on profitability, so we have the field to ourselves. We have 480 investments. Our top 40 investments represent 56% of our assets. The cost of those top 40 was \$5.1 billion. The market value is \$19.6 billion.

**Are those growth rates even achievable in the future, given how much stocks have already risen?**

We’re going to do better in the future than we have in the past. Because the cost of money is so low, it is readily available, and technology is improving costs, making people more efficient and producing new opportunities. I’m optimistic about the rule of law, about our society, and about the cost of money. In Europe, there are negative interest rates. That shows you how incredibly worried

people are about the economy. But my point is that the most unsettled times, which we’re in right now, are the times you get the best opportunities. I have so many more stocks to buy than I have money to invest. It’s unbelievable.

**Tesla was your best idea when we**

**last spoke. These days, it’s stratospheric.**

It’s just starting. We purchased nearly all our shares from 2014 to 2016: 1.62 million shares at an average price of \$219.14. Our cost was \$355 million. We were widely criticized. Last summer, the stock was something like \$230. Now it has tripled. The company went from annual revenue of \$2.5 billion in 2013 to \$25 billion last year. This year, it could reach \$33 billion. In 2024, Tesla could have \$100 billion to \$125 billion in revenue, and be worth \$300 to \$400 billion. It is now selling for \$150 billion. That is only the beginning. In 2030, it could have revenue of \$750 billion to \$1 trillion, with operating profit of \$150 billion to \$200 billion. By then, Tesla could be worth \$1.5 trillion, ultimately putting it among the largest and most valuable companies in the world.

**Aren’t you worried that Musk is too distracted by SpaceX or picking fights on Twitter?**

No. Just the opposite. He has built all this with no advertising. You saw Hummer and Porsche commercials on the Super Bowl. Tesla doesn’t do that. It’s very, very difficult for other people to compete. Car companies have a couple of challenges. They spend research money on motors, not batteries. We believe \$200 billion to \$300 billion has been invested in their internal combustion-engine plants. Those are stranded assets. Challenge two, how will they sell them? Dealers make money not from selling, but from servicing. Electric cars have a fraction of the parts. The guys selling your cars aren’t incentivized to sell electric cars. Then there are communications between the car and the cloud. Tesla’s correcting and changing your car every time you get into it. The dealer isn’t involved.

Tesla’s becoming capital-light. Suppliers like it so much they give them extra terms. [Musk] sold 367,000 vehicles last year. He’ll do a million in two years. There are more than 90 million cars per year sold presently. I think

**Baron’s Picks**

**Tesla**  
**TSLA**  
Recent Price:  
\$696.74

**Hyatt Hotels**  
**H**  
Recent Price:  
\$79.38

**Iridium**  
**Communications**  
**IRDM**  
Recent Price:  
\$28.22

Source: Bloomberg

he'll do at least 10 million per year.

**Even if it's just the beginning of its story, Tesla's rise has certainly helped your funds.**

You have to have balance in your portfolio—you can't own only these disruptive businesses like Tesla, or SpaceX, or Zillow [Z]. You might make a lot of money, but you would have no clients. Maybe 30% to 40% of the portfolio is these rapidly growing businesses, offset by more stable businesses like real estate, financial, and core growth companies.

**For example?**

Hyatt Hotels [H] is the most rapidly growing hotel company. It has a great balance sheet. Goldman Sachs took it public [in 2009], and that's when we became a big investor, at \$25. We own 4% of the company. Hyatt has been aggressively repurchasing its shares. It sells hotels it owns and uses the proceeds to buy other hotels, which it fixes up, introducing its reservation system so operations improve, then selling at a big profit. It looks like revenues have fallen a lot, but it has become a more

valuable, capital-light franchising/licensing business. I think it is worth \$120 today, and it's selling around \$80. In five years, it will be worth \$150.

**What else do you like?**

Iridium Communications [IRDM], the satellite phone company that went bankrupt. It reorganized because the U.S. government was its core client, using its satellites as a backup system. If the Russians or Chinese had targeted those geostationary satellites, the country could go dark and we'd be in big trouble. So new management came in. I talked to the CEO, Matt Desch, on the phone for two hours on a Thursday in 2015. He visited us the next day, answering our questions so we had information about satellites. On Monday and the following Friday, we made our first purchases at an average \$6.10 per share. For three years, the stock price didn't change much. After its satellites launched in 2017, the shares went to \$25 in 2019. When they fell to \$20 soon afterward, we increased our holdings. The stock is now \$30.

What's interesting is the Internet

of Things business. There are tens of billions of connected devices right now, which we expect to grow rapidly over the next several years. Iridium has 800,000 connected devices as customers, growing at a phenomenal pace. It has the capacity to provide mobile services to millions of devices. In three to five years, someone probably will buy this company, because it used to have a huge amount of capital spending, but now it's only \$40 million a year.

**What is Iridium worth?**

Revenue could go from \$600 million to \$1 billion, and the stock could be worth at least \$40 or \$50 in five years.

**Have you sold anything recently?**

No. A couple of colleagues came to me and said, "Shouldn't we sell a little bit of Tesla now? We just tripled our money." I said, do whatever you want, but your clients will look back, and you're never going to be able to buy the stock again. This is the reason people pay us. We're going to make 10 times our money from here.

**Thanks, Ron.**

### Corrections:

Ron Baron also manages Baron WealthBuilder Fund (BWBIX).

As of 12/31/2019, 15 funds, representing 98.8% of Baron Funds' assets under management have outperformed their respective passive benchmark since their inception.

Tesla's annual revenue went from \$2.1 billion in 2013 to \$25 billion last year.

### Disclosures:

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*Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectuses contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting [www.BaronFunds.com](http://www.BaronFunds.com). Please read them carefully before investing.*

**Baron Growth Fund's** annualized returns for the Institutional Shares as of December 31, 2019: 1-year, 40.50%, 3-year, 20.31%, 5-year, 12.18%, 10-year, 14.28%, since inception, 13.46%. The annual expense ratio for the Institutional Shares as of September 30, 2019 was 1.04%.

**Russell 2000 Growth Index** annualized returns as of December 31, 2019: 1-year, 28.48%, 3-year, 12.49%, 5-year, 9.34%, 10-year, 13.01%, since inception, 8.13%.

**S&P 500 Index** annualized returns as of December 31, 2019: 1-year, 31.49%, 3-year, 15.27%, 5-year, 11.70%, 10-year, 13.56%, since inception, 10.22%.

*The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2030, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit [www.BaronFunds.com](http://www.BaronFunds.com) or call 1-800-99BARON.*

As of 12/31/2019, Tesla, Inc. comprised 16.87% of net assets in Baron Partners Fund, 14.35% in Baron Focused Growth Fund, and 4.31% in Baron Opportunity Fund. Space Exploration Technologies Corp. comprised 5.15% of net assets in Baron Partners Fund and 4.22% in Baron Focused Growth Fund. Zillow Group, Inc. comprised 1.00% of net assets in Baron Asset Fund, 4.53% in Baron Partners Fund, and 1.26% in Baron Real Estate Fund. Vail Resorts, Inc. comprised 3.27% of net assets in Baron Asset Fund, 6.85% in Baron Growth Fund, 8.13% in Baron Partners Fund, and 12.25% in Baron Focused Growth Fund. Hyatt Hotels Corp. comprised 1.06% of net assets in Baron Asset Fund, 8.55% in Baron Partners Fund,