

A fund manager who's beaten 81% of his peers in the last decade shared the investing process that's made him so successful — and 3 growth stocks that are set to double

James Faris

- A leading portfolio manager shared how he scores strong returns while minimizing risk.
- Smaller growth stocks are often overlooked but can provide impressive long-term gains.
- Here are three equities that have up to 177% upside right now.

Fund manager Randy Gwirtzman may be hungry for fast-growing stocks, but he's no gambler. The 25-year market veteran recently told Business Insider that he wants his investments to double in value every three to five years, requiring annual returns of 14.4% to 24%.

But robust gains rarely arrive quickly, despite what the success of Nvidia — which is up another 79% this year after a 239% surge in 2023 — may suggest. Gwirtzman carefully handpicks his stocks and then is patient with them, even if they're on the market's bad side.

"We take a long-term perspective to investing, so we truly are investors rather than speculators," Gwirtzman said in an interview.

A willingness to take risks and persevere in downturns has helped Gwirtzman's growth-focused Baron Discovery Fund (BDFFX) outperform in the past decade. The fund, which Gwirtzman has run alongside Laird Bieger since late 2013, is in the top 19% of its



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Randy Gwirtzman

category in the last 10 years, according to Morningstar. It also has risen more than 20% in a year five times since 2016.

How to maximize returns while limiting risk

When searching for stocks, Gwirtzman keeps his strategy simple.

"What we're trying to do is the old-fashioned, fundamental research — getting to know quality management teams at quality growth companies that we think have competitive advantages in the market and have big markets to exploit where there's not a lot of penetration," Gwirtzman said. He added that a reason-

able valuation based on earnings projections is also a top priority.

Not all companies with robust revenue growth are candidates for the Baron Discovery Fund. Gwirtzman focuses on smaller, less proven stocks that have gone unnoticed by other investors, hence the word “discovery” in his fund’s name. Naturally, this rather aggressive approach often leads to heightened volatility, the fund manager said, so it isn’t for those with weak stomachs.

Instead of straying away from riskier stocks, Gwirtzman and his co-manager take steps to mitigate risk. The pair diversify their assets across 57 positions, and their concentration in their 10-largest holdings is 29%, which is meaningful but not staggering. Their bets are also spread across a riskier high-growth segment and a more mature growth-at-a-reasonable price group.

Another way Gwirtzman manages risk is by strategically selling when an investment hits a certain price target or valuation threshold. Taking some money off the table can lead to regret if the stock continues to

rise, but nothing hurts more than watching a winner turn back into a loser.

“With small-cap companies, if you’re aiming for perfection over a four-year period — at some point — you’ll be proven wrong, probably,” Gwirtzman said. “And so we’re very careful that way.”

Gwirtzman continued: “That said, we want to keep companies that we believe can continue to compound for a decade. We’re going to continue to hold, but we might change the position size a little bit. But valuation is critical at the time of purchase, and it’s critical on an ongoing basis.”

3 boom-or-bust stocks to buy now

Besides outlining his favorite qualities in an investment and how he manages risk, Gwirtzman spoke about three companies that have more than 100% upside from current levels, in his view.

On the next page are those names along with their tickers and market capitalizations, as well as Gwirtzman’s price target and thesis for them.

1. Kratos Defense & Security Solutions

[HOME](#) > [STOCKS](#) > [KRATOS DEFENSE & SECURITY SOLUTIONS-STOCK](#)

KRATOS DEFENSE & SECURITY SOLUTIONS INC

Stock, KTOS

18.19 +0.02 (+0.11%)

After-market 04:19:11 PM NAS

18.17 +0.35 (+1.96%)

Official Close 04:00:00 PM NAS

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Dividend Calendar

Intraday

1w

1m

6m

Ytd

1y

3y

5y

Max

Volume ▾

Mountain-Chart ▾



Markets Insider

Ticker: KTOS

Market cap: \$2.7B

Price target: \$45 (148% upside)

Thesis: This San Diego-based drone-maker is fresh off a capital raise, which is a sign that management is looking for more cash to fuel future growth. Kratos also produces defense electronics that power missile systems and help improve satellite communications in space.

The fast-growing company is already cash-flow positive and will continue to win contracts as its technology improves and demand for defense systems remains robust, Gwirtzman said.

2. Montrose Environmental

[HOME](#) > [STOCKS](#) > [MONTROSE ENVIRONMENTAL GROUP-STOCK](#)

MONTROSE ENVIRONMENTAL GROUP INC REGISTERED SHS

Stock, MEG

36.09 + (+%)

After-market 04:02:03 PM NYSE

36.09 -0.01 (-0.03%)

Official Close 04:00:00 PM NYSE

Add to watchlist

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Insider Activity

Dividend Calendar

Intraday

1w

1m

6m

Ytd

1y

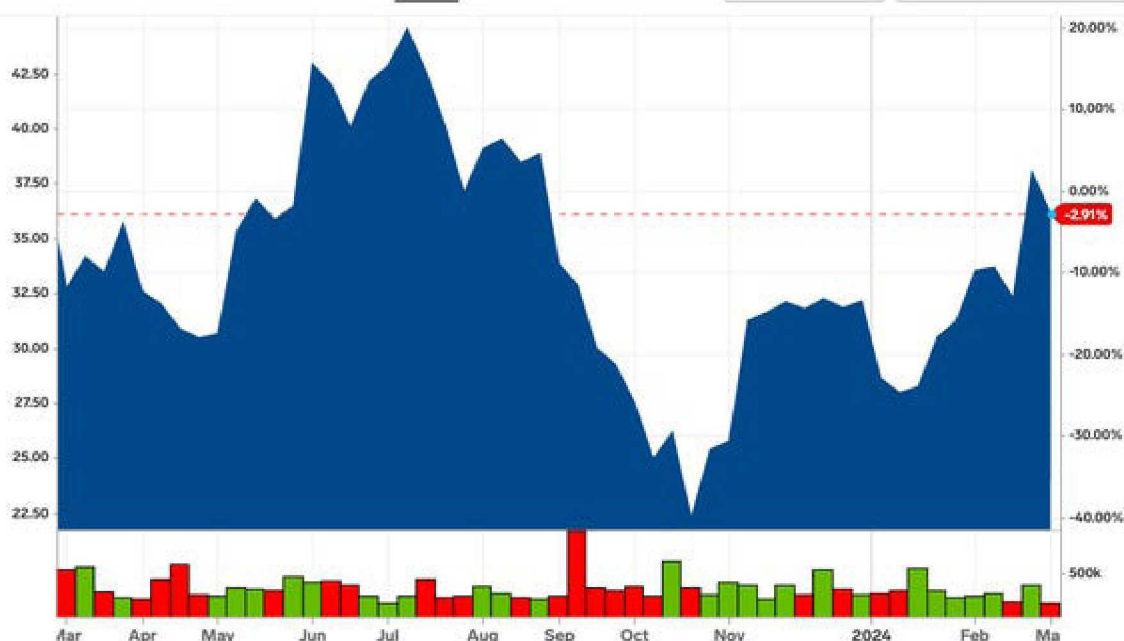
3y

5y

Max

Volume ▾

Mountain-Chart ▾



Markets Insider

Ticker: MEG

Market cap: \$1.1B

Price target: \$100 (177% upside)

Thesis: Montrose Environmental has powerful water-cleaning technology and also consults companies on sustainability — a market that Gwartzman thinks is on the verge of exploding.

“The company is a \$600-million-, \$650-million-revenue company in a market that we believe is worth tens of billions,” Gwartzman said. “So there’s obviously a lot of expansion yet to do.”

Shares of the firm soared 25% after its late-February earnings report, but the stock has given back much of those gains since. That’s a mistake, in Gwartzman’s mind, since he expects it to expand profit margins further while doubling its cash flow through 2028.

3. Silk Road Medical

HOME > STOCKS > SILK ROAD MEDICAL-STOCK

SILK ROAD MEDICAL INC REGISTERED SHS Stock, SILK

Add to watchlist

15.65 + (+%)

After-market 04:02:08 PM NAS

15.65 -1.23 (-7.29%)

Official Close 04:00:00 PM NAS

News

Analyst Data

Analyst Opinions

Insider Activity

Dividend Calendar

Intraday

1w

1m

6m

Ytd

1y

3y

5y

Max

Volume ▾

Mountain-Chart ▾



Markets Insider

Ticker: SILK

Market cap: \$613M

Price target: \$36 (130% upside)

Thesis: Silk Road Medical is a company that offers a minimally invasive procedure for carotid artery disease, which affects blood vessels near the brain. The addressable market for the firm is massive, Gwirtzman said, adding that he trusts new CEO Chas McKhann to execute.

If all goes according to plan, the fund manager said the medical device firm can grow revenue from under \$200 million to \$300 million in the coming years, which he thinks makes shares a bargain at its relatively tame valuation of under 4x sales.

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Baron Discovery Fund's annualized returns for the Institutional Shares as of December 31, 2023: 1-year, 22.58%; 5-years, 11.94%; 10-years, 11.02%. The annual expense ratio for the Institutional Shares as of September 30, 2023 was 1.06%.

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 may reimburse certain Fund expenses pursuant to a contract expiring on August 29, 2034, 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 baronfunds.com or call 1-800-99-BARON.

The Fund's 3-, 5- and 10-year historical performance was impacted by gains from IPOs and there is no guarantee that these results can be repeated or that the Fund's level of participation in IPOs will be the same in the future.

Risks: Specific risks associated with investing in smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns.

There is no guarantee that these objectives will be met.

Baron Discovery Fund Institutional Share Class is in the Morningstar Small Growth Category. Morningstar calculates the Morningstar Small Growth Category Average Performance and rankings using its Fractional Weighting methodology. Morningstar rankings are based on total returns and do not include sales charges. Total returns do account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets.

As of 12/31/2023 the Morningstar Small Growth Category consisted of 597, 563, 528, and 405 share classes for the 1-, 3-, 5-, and 10-year periods. Morningstar ranked Baron Discovery Fund in the 10th, 73rd, 36th, and 6th percentiles for the 1-, 3-, 5-, and 10-year periods, respectively.

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Portfolio holdings as a percentage of net assets as of December 31, 2023 for securities mentioned are as follows: **Kratos Defense & Security Solutions, Inc.** (2.4%); **Montrose Environmental Group, Inc.** (1.7%); **Silk Road Medical, Inc.** (0.8%).

As of December 31, 2023, Baron Discovery Fund did not hold shares of NVIDIA Corporation.

Top 10 Holdings

Baron Discovery Fund

12/31/2023

GICS Sector	Holding	% Holding
Information Technology	GitLab Inc.	3.4
Consumer Discretionary	DraftKings Inc.	3.0
Information Technology	SentinelOne, Inc.	3.0
Information Technology	Advanced Energy Industries, Inc.	3.0
Industrials	Axon Enterprise, Inc.	3.0
Information Technology	CyberArk Software Ltd.	2.9
Health Care	Axonics, Inc.	2.8
Consumer Discretionary	Floor & Decor Holdings, Inc.	2.7
Real Estate	Rexford Industrial Realty, Inc.	2.6
Information Technology	Couchbase, Inc.	2.5
	Total	29.0

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

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