Ed D'Agostino:

You met David Bahnsen earlier in the conference, and of course he was with us last year as well. David is the managing partner and CIO at The Bahnsen Group, where he manages well over $2 billion in client assets. He is consistently named one of the top 100 investment advisors in the country. Today, he brings with him an investing legend. David, I'm going to let you do the honors here, introducing your special guest. Thanks for joining us.

David Bahnsen:

Thank you Ed for that very nice introduction. And, of course, I'm really pleased to be able to welcome our next guest and to be privileged enough to be the person interviewing him. For those of you who don't know, Ron Baron is of course the founder of Baron Funds, and as I mentioned the other day on the panel I was on, at my company, we manage a significant amount of our $3 billion of assets in dividend-growth equities. But when it comes to things like small cap, emerging markets, and other different asset classes, we use outside managers, and Baron Capital is the manager that we've used for that small and mid-growth arena for quite some time.

The Baron Growth Fund has over $8.5 billion of assets, and I'll let Ron tell you where they were 30 years ago in that category, and how much of that growth of assets has not just come from new fund flows but from actual organic growth of total return. But the whole shop manages over $50 billion of assets now, and Ron is one of the premiere growth managers in the history of our industry.

And I've been privileged to get to know him over the last several years. Each year, I spend a couple hours with him, just one-on-one, talking about his fund and his world view, and that's what we're going to do today, is talk about his background and how he sees growth investing in this present environment.

And so, I'll kick it off with the first question Ron, and let you do the bulk of the talking here today. But maybe tell the audience out there here virtually a bit of your background and how you came to be running Baron Funds and where it all started just a few decades back.

Ron Baron:

Well, the history of the firm is I came to New York in 1970. I didn't have a job. I was in debt, living in my friend's basement. I became an analyst. It was very hard to get a job. There were 5,000 analysts, and half were unemployed. 1980, I had made $1 million for the first time in the year and became a millionaire. And starting 1982, I began Baron Capital. So at the time we started, we had 10 million under management—that's with an “m”—10 million, and it all came from one of my clients in the 1970s, who was buying research from me for commissions. He gave five or six people five million apiece, my five million had grown to 10. That was George Soros. His favorite five analysts. The 10 million had grown to 100 million in 1992, and it's now 51.5 billion.

And what's interesting to me is that we've made our clients more than $49 billion in profits. So the 51.5 billion isn't the flood of money coming in. We made $49 billion in profits, the realized and unrealized for our clients. And when I began in debt, now my family and I are the largest investors in these funds with approximately 5% of the assets over $2.5 billion, we have invested alongside of our clients. Our business has grown. When we started, we had a book value of $100,000. That was it, $100,000. And selling research the first month, we made $30,000. There were two employees, myself and Susan Robbins. She still works with me. She's a healthcare analyst. And Linda Martinson joined a few months later. So the three of us started the firm, and we're all still here… pretty amazing. But now instead of three people, there's 171, 172, and there's 40 or 41 analysts and portfolio managers, and most of them have been here a very long time as well.

It's very unusual to find... I hate being called a legend as opposed to an all-star. I like being an all-star, legend sounds like Babe Ruth. So I'd rather be right now. The idea that we have is that there's very few people who've been able to do better than the stock market for a long time, and so the result is that's what gives a rise to passive investing. So we think that's a really good idea for most people, to invest consistently year after year after year, be long term, and I have a good index fund, one of the best in the S&P 500.

And so, for example, if you're a young person, invest $5,000 a year, and you get the historic rates of return for the stock market, then $5,000 a year becomes $100,000 in 10 years. That's 7% or 8% a year, and then becomes $300,000 at the end of 20 years, and becomes $800,000 at the end of 30 years. So basically you get to obviously be a millionaire by investing $5,000 a year and doing it for 30 years and getting 7% or 8% a year.

We happen to have done better than the stock market, and we're one of the few who has. And 98.3% of our assets, I believe the number is, have done better than the indexes we compete against. 98.2 are top 22% of the mutual funds, and I think it's some 70% or 71% are in the top 7% or 8%. So we have this really strong record. But our funds that have done this, Baron Partners Fund started in 1992, and it's a $7 billion fund, and is a concentrated focused fund, so it's a riskier fund than most that we manage. But it's the number two fund out of 2,295 funds since it started. So number two out of 2,295.

Baron Growth Fund, which he spoke about before is about a $9 billion small-cap fund, except Morningstar says you're not small cap anymore because you have all these investments that are now mid-sized, and that's part of the concept that we have being a long-term investor. And that fund happens to be number 13 out of 573.

Baron Focused Growth Fund is number 86 out of 3,557. Baron Wealthbuilder Fund, which is a fund that invests in other Baron Mutual Fund, is number one out of 154. So that fund is where we measure how our firm overall has done. It's three years old, and it compounds 25.7, and the index is 15.1 in that three-year period of time. But overall, we've averaged about 400 or 500 basis points better than the indexes for a long time, and that's what I tell the people we work for that we're expected to do, outperform for a long time by using the process and by hiring great people and training them and keeping them.

I don't hear you.

David Bahnsen:

[00:07:35] I fell for the same thing that I've been warning other people against, the infamous mute button. When you talk about the Baron Growth Fund, Morningstar classifying it as a mid cap, and of course, you were buying originally a lot of small-cap companies, and one of the things we found in our due diligence on your fund is that many of the now mid-cap holdings you purchased as small cap and they've grown up to a mid-cap level. And that was the last thing that we thought a fund should be punished for, achieving that kind of substantial capital appreciation. Tell me a little bit about your philosophy that has generated these returns you speak of, that's generated both relative and absolute results specifically in the growth area of US small and mid cap. What is your differentiating philosophy?

Ron Baron:

Well, what we try to do is find businesses that we think have a chance to grow a lot. There's something about the businesses that gives them a competitive advantage, that makes it very difficult for other people to do the same thing. We try to invest in exceptional people and then we differentiate ourselves by investing in those businesses for the long term. So everyone could look at a growth opportunity, but very few people are able to understand or care about a business culture or what its competitive advantages are, and very few, even fewer can invest for the long term. And the reason for that is that it's not so easy to find a Charles Schwab and to invest in it in 1992 and have a cost of 60 or 70 cents a share, and it's now $70… and we still think it's going to 100.

Or to find a Robert Half that we invested in 1990 at less than a dollar a share, and it's $60 or $70 right now. Or find an Elon Musk in Tesla and invest in it for four or five years, when the stock went up and down dramatically. We invested $380 million. Market cap then was 35 billion. So we invested $385 million, which was at the time we had a 21 billion of assets under management, so it was 1.5% of our assets. And people would say, "Why are you investing in that crazy, man? Why are you investing in that company, it's so volatile?" And what happened is that business over the next... we invested between 2014 and 2016, we bought and since it's split five for one.

So our cost for eight million shares was about $43, $44 a share, and the stock would go up and down like a yo-yo. But the business grew 10 times from 2014 when we bought it, 2014–2016 over those two years and grew 10 times as of last year in business and in revenues. But the stock price almost was unchanged, then all of a sudden it went up 20 times. Now it's up 15 times. Now it's about 650, 620, 630. I think it's going… but it's down from 900, but we never... the only stock we've sold is for our clients. We've sold 20% of our shares at an average price of 650. And the reason for it was from 450, 650 and 850. But the reason we sold was not because we were pessimistic about the prospects for the business, it had just become too large of a position for the investments for the clients who were holding it. a couple of instances, 50% of the portfolio up 20 times in a year. You can see how that can happen. But for myself, I own a million shares, 1,150,000 actually, that I bought after all of our clients bought. I have not sold a share personally, and I don't expect to for 10 more years. So how can someone be willing to hold a stock that he thinks in the short term or she thinks in the short term could go from 900 to 600 and not worry about getting fired? And I don't worry about getting fired because I'm not going to fire myself until clients do.

So we think that in the case of Tesla, we're going to make another triple in the next 10 years, not 20 times, a triple, maybe four times. SpaceX is the one I'm really excited about now that we invested in, started about two or three years ago, started with a market cap of about 35 billion. It's now 75 billion. I think that we're going to make 30 times in the next 10 years. So that's a $70 billion market cap presently, and I think has a chance to be two trillion. It's certainly going to be one trillion. So 15 to 30 times to 40 times, I don't think I'm going to ever sell that stock in my lifetime. But…

David Bahnsen:

Can I ask you about a couple of the other names you mentioned. I think the Tesla story is fascinating, and I think Tesla is discussed all the time in media and there's a lot of misnomers, misunderstandings, but you've been both publicly and privately really consistent about your thesis. But you mentioned like Charles Schwab, Robert Half… I know of your background… Vail Resorts. Will you talk about stocks you bought for a dollar or less split-adjusted 30 years ago and where they are now… and you're still holding them? Although the growth story is played out magnificently… and this is a question I think a lot of listeners must be interested in about the mentality of an all-star growth investor. The thesis has to have changed multiple times in the last 30 years. The entire business of Charles Schwab is different over 30 years. So how do you, as a growth manager, adjust when the entire paradigm of what your initial ownership thesis was has changed in some of your standout company holdings?

Ron Baron:

Well, it hasn't changed as much as you think. In the case of Charles Schwab, they were building a platform that enabled businesses like mine, a mutual fund company which couldn't raise any assets on its own because it was too complicated to send money to North Carolina, not be able to buy the fund until we opened the envelope, cashed your check, you couldn't get your money back to give us a signature guarantee… and to get on this platform, which is available to thousands of advisors, to buy our funds for their clients. That was a big piece for us to be able to do it. And then when we were on it, and all of a sudden, we saw the flows coming in, it was so obvious. And then, what they've done is they always have their whole thesis: do it better. Always look at your business from your client's eyes. Always see what it is you're doing for your clients that other people can't do, or that you have the client's interests before your own.

And they walk the talk, or talk the walk, or whatever you would say, and that's their concept. And initially, you would have to buy brokerage firms… you would buy mutual funds through brokerage firms and their interest would be in selling, getting the highest commission. And Schwab's interest was having the ability for advisors to be able to do research on funds, and other services they can offer to their clients, and do it better than anyone else. So everyone that we've invested in, it hasn't been dramatic. With Tesla, their idea is that you switch to EVs. And they were the leader there, and they are now. And they have a better battery than anyone else, and the battery keeps coming down in cost. And they want to ultimately have a business that's going to be able to sell cars for 25 or $30,000 a car, and then sell subscriptions like Apple does for the services that you're getting from your Apple phone.

So a Tesla car is sort of like a giant iPhone. But everything we look at… Penn Gaming, we've been investing in Penn Gaming since the 1970s. And he came public with a racetrack that was bankrupt from his dad for $25 million IPO. We invested in it a few years later. He ultimately sold the business for seven billion. We invested in ManorCare… and then the financial crisis took place, it crashed, and then we bought it back again. And now, this is investing with Peter Carlino, a spectacular guy, and he has our interest… you know, talk about, thinking about... Buffet says, is he your partner or are you being snuckered? And he's like a partner. Whatever he says he'll do, he does.

Jay Pritzker, Tom Pritzker, we've been investing with him. He has these great sites on his property, and now he's selling off his properties, Tom is, and selling properties and getting revenues on a continual stream from them… and Choice Hotels. Manorcare. When I was in law school, I worked in the patent office in the daytime as an examiner and went to law school at night, and ManorCare was going public. And 1965, they had passed Medicare and wanted to invest in companies who would benefit from that. And I read about the Bainum Family, and I somehow got together $2,000, opened a [inaudible 00:16:57] account and at the time I invested in ManorCare, it had a book value of $12 million, and it went public. It was $18 million market cap, $18 million market cap, $18 million. And came public at 12.

So in the 1970s, we were recommending the stock to our institutional clients. In the 1980s, we became the largest shareholder institutional in the company, owned probably 15%, 20% of that company. And they were ultimately sold to Carlyle Law Group for $4 billion. $18 million, that's where it started. $4 billion. So investing in Stewart Bainum… and then before he sold, he spun out Choice Hotels. We are invested in Choice Hotels, and our cost there is less than $3. We have some stock less than a dollar. It's $115 a share. So we have stock after stock after stock.

Recently, we've been investing… I've been telling our biotech analyst, I said, "I don't really [inaudible: 00:18:02] bring a guy PhD," and I was saying, "I don't really understand. Why do we still have to do experiments on the bench? Why do we have to do it in the laboratory instead of on computers?" And he comes to me about two or three or four years ago and says, "I got this really neat company, I think you're going to like it. It's called Schrodinger's." David E. Shaw was the founder of it about 20 years ago, 30 years ago, then Bill Gates came in and funded it. And now, they're thinking about going public in a year or two. So I said, "Yeah. Would you like to invest?" I said, "I'd love to meet them." They come in and then we meet with them. And I said, "Yeah, I want to invest in these people. This is a great idea."

So we invested a small amount so we could learn about it. And since it's been public about a year, it's up 10 times since it's been public. And we could have invested more actually when it was private, but we chose to invest $10 million. So initially, just so we could learn, and we did. Northvolt, happens to be a battery company. With the transformation of our cars from gasoline cars to electric vehicles, there's going to be need for a lot of batteries, and you're going to need a lot more batteries than we have capacity to produce.

And we got called because of our investment in Tesla, because our interest there, we were called. One of my friends is the head of private investments at Goldman Sachs. He said, "Listen, I know you have an interest in Tesla. You might have an interest in Northvolt. They make batteries and they have just signed a contract for Europe, for Volkswagen and the European car companies, don't want to be relying completely on China and Asia for batteries. And they have low-cost energy in Norway to make these batteries. They can make them cheaper than others. They came from Tesla. These people came from Tesla. So the rest of the industry needs batteries, and you're going to be one of the major suppliers."

So we invested about a year ago, and this is my $10 million investment. And now, they're just doing a second round and now it's $30. It's tripled in the past year. It's now tripled. And at this new offering, which they initially were planning to raise, I think... actually am guessing I'm not supposed to talk about it. But it's tripled, and they were tremendously oversubscribed. So that one is tripled so far, and I think there's a lot more to come. Denali. I was also interested in Alzheimer's. How are we going to cure Alzheimer's? And they come to me with an idea… also our biotech healthcare analyst, he says, "Ron. I've got this really neat idea for you. It's started by the head of MSK and that person is … that's Memorial Sloan Kettering in New York… and now he's the head of Prin… Stanford." And he says, "He also has this company that is his that he started, and he hired these amazing people, and I think you'd like to meet him."

And one guy said, "Bring in these four men, five men, a woman, and one [inaudible 00:21:18] was the head of Amgen Research, one was head of Genentech Research, and they're all 39, 40, 41 years old. And I'm saying, "I don't understand you have your whole careers, your whole life in front of you, your family, you're protecting them and you have a job that's... I can't imagine a better job. And you pick up and leave those jobs to go form Denali. What is this?" And they say, "Well, what we do is normally companies start up and they have one or two or three targets, and that's enough to raise capital and start a business. We have 50 targets, 50. Five O. So we all left. And why did we leave? Because we figured out a molecule that can get through the blood-brain barrier and carry on some kind of therapy that now we have a shot at Parkinson's and Alzheimer's. We have a shot at being able to treat those diseases."

So Zymergen. We've been investor in Illumina for, I don't know, 10 years, made a ton of money. One of these multiples, gene sequencing, and they were the first and the best, and the biggest. And the chairman retired and then he calls me up and he says, "Ron, I have this really interesting company that I've just joined the board of and made a small investment in it. And I think you'd be interested in investing in it also." So I said, "Tell me about it." And he does. And what they're doing is they're taking a bacteria or a microbe from the ground and re-engineering them, and then fermenting them. And then he says, "DuPont used to make new glasses all the time, new plastic. Now they don't do it anymore. They just try to improve a little bit. And what we can do is we can do everything, fermenting, like beer companies do with these microbes, a mix of gook… and we can make glass and we can make plastics and we can make this and this in thousands and thousands, anything we can do."

And so we invested in that, and that has just gone public. We invested again this $10 million that I've just... maybe 15. And they just came public, I guess a couple of weeks ago, and it's three or four times, five times our cost. So the bigger thing I've learned is that instead of making $10 or $15 million investments, I'm going to start making $15 and $20 million investments because this is a way for Baron Growth Fund, where if any of these companies go public, they're way higher than I can buy them for, because I only buy small-cap companies in Baron Growth. But they're a way above the price that we can pay. So this gives us a chance to get in early and to learn about them. And if we want to, we can add to the positions before they get to a level that we can't buy them. Growth fund only invests in small companies, has all these mid-sized companies, but only invests in small ones. [inaudible 00:24:12]

David Bahnsen:

Now. So Ron, all of your comments so far reflect the fact that you guys are a true bottom-up equity shop. And it is so rare these days, not only because of all the indexing that is taking place in asset management, but even in a lot of active shops, there's a heavy top down focus where everything that you and I talk about privately and everything you've talked about here so far in our time together, is this a tremendous bottom-up story around individual companies that you've invested in either more recently or many years ago. Where does, if at all, top-down considerations fit into your investment thesis? Do you guys carry a macroeconomic outlook into your valuation of a bottom-up stock purchase?

Ron Baron:

The big picture that we have... So I don't worry about, well, prices or inflation or who's going to become the president or the programs they're going to try to increase pass if they become elected. That's not of concern. The big idea that I have though is about inflation, and I've always had it. And I've always said that the big programs that government follows has one purpose, and that's to de-value your currency, to make your money worth less every single year. So people tell you that there's no inflation, and that's not the case at all that the value your money has falls about 3% or 4% a year, every single year. And it falls in half every 17 years. And prove it to yourself that in 17 years half of that falls, and half again in 17 years, half that falls in half again.

So my dad, in 1948, we buy our first house, and it's $5,000. And before that, we were living in a garage apartment in Bradley Beach, New Jersey, just outside of Asbury Park. And the apartment's too small to get the refrigerator in the kitchen, had to be outside in the porch. 1948, we buy a house. It was $5,000, I'm five years old, and he sells it in 1955 for $10,000. I went to visit that house, I don't know, two years ago, three years ago, $350,000. 1122 Grismer Avenue, $350,000. And so real estate is... and that's not because he was such a brilliant investor in houses. It's just because the value of your money falls 3% or 4% a year. And in real estate, it probably increases on average of 4% or 5% a year. And 1955, that's 65 years ago. So there's a bunch of doubles in there that you get.

But go look up what... when I worked in the patent office, and first out of college, I didn't get into medical school. I wanted to be a doctor… at least, my parents told me I wanted to be a doctor… and I didn't get in because I was messing around with my fraternity. And then in 1966, I got a job in United States Patent Office and my salary was $7,729. I first had a scholarship at Georgetown Medical School, PhD, and they were paying me $1,600 a year. $1,600 a year. And so I had to work as a bartender, a waiter to make extra spending money. But then in 1966, I got a job in the patent office as an examiner, I'm making $7,729 a year.

And I thought this was the greatest. I couldn't imagine being more successful than that. But that job now is a $70,000 a year job. And my apartment then was $100 a month or $80 a month living in a basement. And now, I don't know what it would be... a couple thousand I guess, $1,500. But everything is devalued. So I always think about in terms of the money falling in value and trying to protect ourselves against that. And that's what I was talking before about investing in an index fund and you make 7% or 8% a year, and you double your money every 10 years from what you started with.

In Baron Partners Fund… if you invested in an index when I started it in 1992, and invested $1,000 in the index, it'd be worth $20,000. If you invested $1,000 with us, it'd be worth $80,000. So $80,000, and that's the difference between 500 basis points. That's the difference about earning 16.5% a year instead of 11% a year. So, always thinking about being long term, the only perspective I have is that we have a really neat country, unbelievably fortunate to be born here and to live here, the rule of law, they encourage capital formation. You go through wars, and you go through pandemics, and you go through financial panics and... but the country just keeps chugging along and growing. And there's always programs, and sometimes Republicans get in and they cut taxes, and they cut spending. And if that doesn't work, then the Democrats get in, and they increase taxes and they increase spending. And if that doesn't work, then they go back and forth so it swings back and forth.

Sometimes you get someone in the middle like a Clinton, but other than that, you swing back and forth. So I just assume that whatever they try will work for a while. And then when it doesn't work anymore, the public fires him, and then they get new people to come in and run the country. And then that works for a while and then they fire them, and they get the other guys. So [crosstalk 00:30:09]

David Bahnsen:

Ron, let me just ask one top-down question, and then we'll move on. There's one exception to the back-and-forth thing you've talked about. The spending and the debt level of the government doesn't seem to go back and forth. It only seems to go one way. And I just wonder if that affects your growth outlook for the country. You're right, the Republicans could have added a 15% or 20% capital gain tax, and maybe they're going to end up going to a 39% capital gain tax. I certainly hope they don't. But the tax thing has gone back and forth throughout the 40, 50 years you're talking about. But does 25 to 27 to 30 trillion of national debt change your view on growth expectations any more than when the number was a lowly $10 trillion, way back when, 13 years ago?

Ron Baron:

Well first of all, taxes. When I was young, 1970s, 1980s, the tax rate would change constantly on capital gain. You'd go from taxing the whole gain at a discount, and then it would tax it if you held it for a long enough period of time, then it would go to 50% of the tax of the gain was exempt. So it changes all the time, it always has. But as far as the debt being an impediment, I think that one idea that you should be keeping in mind is that in 1945, right after World War II, the soldiers were returning home, our soldiers, and people were afraid we were going to go back into the Depression again because they wouldn't find a job. And so they have extremely stimulative fiscal and monetary policies in 1945, but debt then was 110% of GDP. 110%.

And then they kept the rate of interest below the rate of inflation for the next 30 years, for the most part. And in 1960, debt had fallen from 110% to 45% of GDP. So you make the economy grow faster. The late ‘70s, you had a lot of inflation. In 1960, debt had fallen to 45% of GDP. And in 1975, it was 22% or 23% of GDP. There's not a penny that’s ever been repaid. On the other hand, the way the government continuously defaults on the obligations they have for indebtedness, is they make sure that inflation is higher than the rate of interest, and that makes the value of your currency fall. That's what I was describing before, that 17-year a cycle about making your money worth less. So that's a big idea that the debt will get to be a smaller percentage of the economy if the economy grows faster than the rate of interest.

David Bahnsen:

Okay. And so that perspective that has largely been the case in the past, you expect to stay into the future. Speaking of the past, a couple of questions [crosstalk 00:33:30]

Ron Baron:

By the way, every single democracy for 2000 years, 3000 years, has done the same thing. They have always devalued your currency. The Romans did it, they took silver out. The Greeks did it, they cut the value of your money in half. The Israelis did it. Everyone does it. And they say, "We're just not doing it." So we're saying we're taking your money and making it worth less. We're just doing it by creating inflation. And if you think that the government, when they're buying $120 billion a month of indebtedness, why is there so much money around? Because the government has put all this money out there. They want to make sure we don't have a financial crisis. They want to make sure we don't have a financial crash. So they put the money out there and they've learned. Though in 1932, they actually tried for a while to make money more sound, tie it to the value of gold, but gold was one of the factors that potentially could have caused the Depression. And what they did with gold, is that people didn't trust the banks… so taking money out of the banks and buying gold. So instead of expansionary policy, gold is a contractionary policy. So what Franklin Roosevelt did when he came in, and people were taking money out of the banks to buy gold, he says to Americans, "Hey guys, you're not allowed to buy gold anymore. Turn it in." They had to turn in, everyone who owned gold had to turn it back to government. Dollars weren't convertible into gold any longer. So it's sort of the same thing with the Bitcoin. We have two trillion dollars at Bitcoin out there, and Bitcoin and other cryptocurrencies. And you have the Federal Reserve balance sheet, it's $7 trillion, up from $3 trillion, up from one or $2 trillion. And so with Bitcoin, if people are taking money out of dollars and buying Bitcoin, that has the same kind of impact that gold does, whether you're positive or negative on Bitcoin, that is a contractionary element in the economy, which serves to bring down inflation.

But the bottom line is there's going to be inflation. You're going to make money worth less. Stocks are a hedge against that. Stocks on average increase 7% or 8% a year. Real estate is 4% or 5% a year. Gold is 2% or 3% a year. So we just think about historically stocks are a great thing to buy. And the reason we've outperformed is that we buy businesses that instead of going 7% or 8% a year ago, 15% a year. And over the long term, if you stay with it and they keep growing at that rate, you'll do way better than the market.

David Bahnsen:

When you look back over the years, and there's so many of these success stories that the sum of parts equals the returns you've talked about. However, I have to think there's been some mistakes made over the years, and maybe there hasn't been a lot because the results net-net have been what they are. But even apart from some of the fascinating stories you've shared about really home-run type success stories, are there one or two maybe mistakes that were made that you could tell us about, and maybe what you learned from those mistakes?

Ron Baron:

Well, for a long time, I thought the biggest mistake that I had made was investing in Sotheby's in 1999. And we bought a very large percentage of the company. We invested $500 million. At that time we had $8 or $9 billion under management, less than 500 million in Sotheby's at $20 a share. And my idea was that they could take this physical auction house and put it online. And then for the next two years, the stock price doubled. It went from $20 that we paid for it to $40. And I was pretty happy, but I still couldn't figure out how it was getting out of my stock unless they sold the company or unless they took some of my ideas, which they weren't prone to do. And so, for the next year, for that whole period of time, maybe it was a year, year and a half, I would go on a regular basis trying to get eBay and Amazon and Jeff Bezos to buy Sotheby's. So I visited Bezos three times, spoke to him every month on the phone. I would talk to Meg Whitman from eBay, same idea but I didn't visit her. But I spoke to her regularly on the phone, three or four times in a year. Bezos, I talked to every month. And then the chairman of Sotheby's got indicted for price fixing with Christie's, and he went to prison, and the stock price went from... and there was a controlled stock compared to non-controlled stock. So I had no way out. And the stock went from... no power… because I trusted him. And the stock went from $40 to $10.

So this $500 million investment that I was so happy, we'd made $500 million. We ended up losing $200... I sold at the bottom, $250 million. So I always regarded that as my biggest error, but a much bigger error than that was sitting next to Bezos for an entire year in that corner conference room he had all glass out and hearing his crazy laugh, and not investing in Amazon. Trying instead to sell him my junky stock in Sotheby's, and ignoring the fact that here's this guy changing the world and I wasn't investing in him, how crazy is that.

And that's one of the reasons I was able to make the investment in Tesla when I did, is because I said, "My mistake was seeing him up close and not investing with him, that will never happen to me again." And when I met Tesla, Elon Musk, I said, "Yeah, this is it. This is like the second coming." So I ultimately invested with him, and so far we've made a $380 million. He's made $4.5, $5 billion. And I think we're going to make another triple. And I think, as I said, in SpaceX where we now are having this private company, we have an investment of about $600 million. And I think in that one, in the next 10 years, we can make 20, 30 times. We're going to make billions.

David Bahnsen:

Now you talked about Elon, you talked about Bezos, but you've invested in a lot of companies. And you stated early on one of the competitive advantages of Baron has been your process that focuses on the competitive advantages, the companies you buy, and you specifically said investing in quality people, which I assume you're referring to management. And there's superstar guys like Musk and Bezos, but tell me what you're able to do to assess the management talent that you invest into. And is that as unique of a differentiator as it sounds? I hear very few people still talking about how important it is, the talent they're investing in in the C-suite?

Ron Baron:

It's everything. And it's the same thing. But it sounds like, "Oh my God, how do they ever do that? What's special about that? How do they assess that?" And I said, it's the same thing you've been doing since you're in kindergarten; you meet people, you know who's the smartest kid in the class, you know who's a nicest kid, you know who you can trust, you know who you want to be your friend. That's what this is. That's all it is. You talk with someone and you ask them questions about their business. There's no question that you should regard… Jay Pritzker used to say, "There's no question that's a dumb question, except the one you don't ask." And so I'm not embarrassed about asking anything. When I want someone to teach me about their business and how do they face the issues that I think they're going to be facing, I want to hear their explanation. And if it makes sense, then keep pushing, keep pushing, keep pushing.

Steve Wynn spoke at our annual meeting, I don't know, 10, 15 years ago. And Jay Pritzker introduced me to him in 1970, in 1980 rather, because I was interested in investing in Atlantic City in the 1970s, and Jay did not like gaming. So he says, "This is the guy you got to meet, is Steve Wynn. And he's the best in gaming, and if you want invest in Atlantic City, this is the guy." So he introduces me and he doesn't take my calls initially. And then, ultimately, I meet him in Las Vegas and he spends time with me, and then he starts taking my calls, and we invest in 1980, and we tripled between ‘80 and ‘83, and then we make 20 times from ‘87 to 2000, and then in 2000… then he sells the company against my advice.

And then in 2001, he calls me up and he says, "I'm starting this new business called Wynn Resorts, and so it's only going to be me and another investor in Japan, and it’s a private company, and I hope you will invest with us, and you're the only other person I'm ever going to ask to invest, and I'm never going public, never going public." That kind of bullshit. Of course he's going public at some point… he needs capital, it's a capital business. And so, we go and I spend a day with him at his house. I sleep over there and go to the Wynn Bellagio, to his show, and he shows me the land, he shows me the plans, and we invest ultimately $110 million, $115 million, get back about $65 million in dividends over the next seven or eight years, and then we make $800 million on a net investment of 35 or 40 million.

When he builds in Macau, they were so excited to get him to build, that he built something for... they gave him a license. He competed against Sheldon Adelson to get it, who also is an amazing guy. And he competed, he got it. And he invested $2 billion. And for the $2 billion investment that he made, they gave him a land, more land then a license that he could sell to someone else and recover a billion dollars back. So he has a billion net invested when he opens up in Macau, he starts making a $100 million month.

So, investing with a person like that… and I can see Steve is not like Jay Pritzker, is not like Peter Carlino, or not... so everyone you have to assess, and you have to know when you're talking to someone whose interest is [inaudible 00:44:16], is not like them. But the interest he had was so strong and he was just a very, very talented visionary guy who we were investing in, but as I said, he's not the same kind of person. But[crosstalk 00:44:24]

David Bahnsen:

But these are super visionary guys that you've highlighted. What about execution? What about blocking and tackling? How do you assess their ability to be operators?

Ron Baron:

When I would go visit Steve Wynn and we’d walk in the casino… he's been challenged with retinitis pigmentosa for a long time so his eyesight has gotten progressively worse since 1987, but he's been afflicted with it since he was 29… so we walk around in the casino and there are these luxurious carpets in the Bellagio… it was Mirage. And we're walking through and he says... what's different about the way he builds, his carpet is amazing. And he looks at the flowers everywhere, and he looks at the fish tanks everywhere. And then in the Bellagio, he builds mosaic floors which costs $6 million. And he says, "Look at this Ron, $6 million for these floors." And then he looks at the corporate ceilings, massive corporate ceiling, then dark rooms. He says, "People they don't know what quality is, but they feel it."

He says, "You see those coffers up there?" He says, "They don't know what they cost. They don't know what these tiles costs. They don't know what these fish cost. They don't know the extra luxury. They don't worry about things like..." He builds Bellagio and he shows me the plans and how he's building it, he says, "Look, you get off at the curb, and then to get to an ordinary hotel room..." He spends hours and days thinking about how it can only take 60 feet to go from the curb to the check-in desk, or how to space the elevators, where to put them, and how long it takes to get around. So the people…. Detail, completely focused on detail. Sol Kerzner from Kerzner, we built the casinos in The Bahamas. He used to worry about how loud the waterfall was.

So people who... how loud… so he didn't want people to walk by or get splashed, or to feel that the water is splashing out on them, and it makes it unattractive for consumers. So the person who has the eye for everything. One person who's a very wealthy individual from Russia, one of the Putin's advisors now is an American citizen. And he came to my house in Long Island and he said, "Boy, what an amazing place!" And I said, "Oh yes." And he says, "You really had vision." I said, "I knew what I wanted. I wanted to have a house that looked like it was a hundred years old, but be fresh inside." And so everyone has an idea about what they want to do. And some people, it doesn't matter how much they have, they can have a ton of money and they can have bad taste, and it's not going to work.

So you're judging everything. You have a prism. And so everything you look at, you're looking at through that prism about, "If I had that much money, if I was doing that, is that how I would do it?" Everything is about, "So how does that work? So Elon, how does it work?" When Shotwell, who's the CEO of SpaceX, so I would say to her, "So your advantage is that you can use a rocket over and over and over again, where someone else spends 100, 200, $300 million a rocket and throws it away after one time. It burns up in the atmosphere, and the fuel is a million dollars for a flight. So how does that work?" And so Elon would say, "Well, think about, if you go from New York to London, and every time you go you throw away the 747 you traveled in, how expensive would that trip be?" And that's the same thing we've had with rockets since the 1960s.

And so, I'm saying to Gwynne, "Well, how come no one ever does this before? And no one ever changes it? No one ever changes the paradigm." So no one ever changes it because these contracts they get from the government are cost plus. So they know how much profit they're always going to make. And it's not easy to do this, and if you do it, they've figured that they're going to sell less rockets. If you use a rocket over and over again, why do you need more rockets? Elon figured out you need more rockets to be going to Mars and... But why do you do things? So, why does it have to be this way? Is the question Elon Musk always asks. Why does it have to be this way? Why do you have to spend $100 million dollars on a satellite with geostationary, and if you have a lag time between talking as opposed to having thousands and thousands of satellites, low earth orbital, that you can replace the technology regularly and have everyone in the world covered and get internet… for $300,000 satellites, $400,000?

David Bahnsen:

So Ron, you're talking about these things that enter your buy process; their visionary status, their ability to pay attention to detail, them asking the questions as to why things have to be a certain way and their willingness to disrupt. Someone has asked the question about your sell discipline. You mentioned selling with Sotheby's about the kind of mistake made you there. You mentioned sort of just trimming the Tesla position around the sizing and a client portfolio. I know how you feel about selling a company you still believe in, but could you just give us a one-minute answer as to your philosophy of a sell discipline in your portfolio?

Ron Baron:

Well, my grandfather, one of them… they're both immigrants, and one of them owned... he was a construction worker, then he lived in the top fifth floor of a tenement in the lower East Side, it wasn't heated, with my mother, aunt, uncle and my grandmother. And he had a candy store ultimately in Brooklyn. And I remember going and seeing him one time, and there was a candy store open down the street. And he lived on top of the candy store at that time, and he was worried about his business. And so he bought in these new pink balls that we would play on the streets of Brooklyn, try to hit a nickel or [inaudible 00:50:37] go against his stoop. But he didn't sell a store just because someone else came up with a competitive idea.

So basically, when we hold stocks, we hold stocks if we think the businesses... we think that the stock market is going to double every 10 or 12 years. So all of a sudden, we have an investment in a company at a very low cost, and it's going to take us... we made 10 times our money and it's going to take more than 10 years to double our money again, that becomes a source of funds. Or if we decide that we've made a mistake [crosstalk 00:51:12]

David Bahnsen:

... Growth rate into the future is now to be less than what it had been in the past,

Ron Baron:

Then it becomes a source of funds. And then in addition to that, if it becomes too large of percentage of our assets, then we sell as well. Or if we make a mistake about anything… one thing I've learned is as soon as we learn we made a mistake, as soon as we believe that, we sell. I don't care about the price. I just want out. There's lots of things to do.

David Bahnsen:

Well, it reflects your discipline. And speaking of discipline, our moderators rejoined us to move me along the timeline. Ron, I can't thank you enough for spending some time with us, sharing your experience, your words of wisdom. I agree with you. I think the term all-star is probably more complimentary even than legend. But a lot of nuggets here to take away and thank you very much not only for all that you do for your investors at Baron, but for spending some time with us here at the conference. Your time is much appreciated. Thank you, Ron.

Ron Baron:

Thank you for inviting me. By the way, do you have David Rubenstein from Carlyle?

Ed D'Agostino:

We do.

David Bahnsen:

David appeared on Monday? Yeah.

Ron Baron:

He is spectacular. One quick note. We've been an investor in that company since it's been a public company, and one of them, I invited him to speak at our annual meeting. And so Michael Baron followed the company. And so Michael was walking David across the stage, so as they're going across the stage in the Metropolitan Opera House, and there's 5,000 people in the audience, he whispered something to Michael and then Michael comes over and he sits down next to me and says, "Dad, do you know what David just asked me?" I said, "No." He says, "He said, 'What do you want me to talk about?'" Here he's coming out, 5,000 people, and "what do you want me to..." He is one of the funniest guys I've ever met in my life. Amazing and smart

David Bahnsen:

Well. He did a great job with us as well. So thanks again, Ron. I'm going to turn it back over to Ed, and I certainly appreciate the opportunity to have been able to interview Mr. Baron here today, Ed.

Ed D'Agostino:

Thank you, gentlemen. I appreciate it.

David Bahnsen:

Thank you.