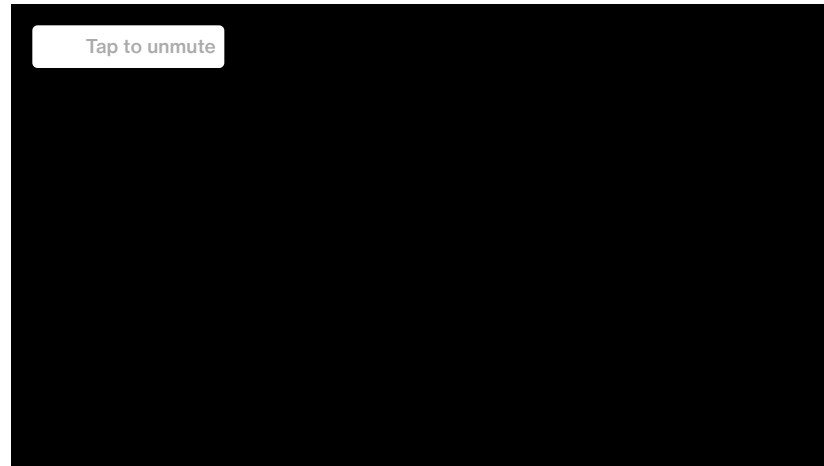


Investor Who Made \$4 Billion From Tesla Expects an Additional 300% Return

Elon Musk's companies are 'innovating at the speed of light,' Ron Baron says in an interview with David Rubenstein.



Ron Baron Bet Big on Tesla and Made \$4 Billion

By [Donald Moore](#)

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In 2016, Ron Baron predicted Tesla Inc. would become one of the most valuable companies in the world. His firm, Baron Capital Management, was among the electric automaker's largest investors at the time, with a 1% stake in the company.

The bet has resulted in a \$4 billion profit, but Baron thinks it's just the start, and sees the possibility of tripling that over the next 10 years. He also predicts similar success for SpaceX, another Elon Musk-led company. The same qualities that made Tesla successful – willingness to try new things in an industry wedded to old ideas and a focus on driving costs down – will help the rocket maker revolutionize a potential \$1 trillion satellite broadband market, he said.

“They’re innovating at the speed of light,” Baron, 78, said in an episode of “Bloomberg Wealth with David Rubenstein.” “And they’re doing that with the cars. And they’re doing that with space.”

Baron Capital's success as an old-line mutual fund firm is an anomaly at a time when stock pickers are being increasingly displaced by index funds and ETFs. He started the company in 1982 with \$100,000 and now has \$56.7 billion in assets under management, split equally between individual and institutional investors. He and his family own about 5% of the firm's assets, which are almost entirely invested in publicly traded stocks.

His Baron Partners Fund has outperformed 99% of retail peers over the past three years, according to data compiled by Bloomberg, while the Baron WealthBuilder Fund has done better than 90% of competitors over that time period.

Still, if it were up to his parents, he'd never have become an investor. They wanted him to go to medical school, but a summer job working the overnight shift at a hospital near his hometown of Asbury Park, New Jersey, convinced him that a white coat wasn't in his future.

“I hated it,” he said.

After majoring in chemistry at Bucknell University, Baron got a fellowship to Georgetown University – “I didn't want to go to Vietnam” – and sold Fuller brushes to make extra money. He later attended George Washington University Law School at night while working as an examiner for the U.S. Patent Office during the day.

His first financial job was at Janney Montgomery Scott, where he was fired after only a year when a negative report he wrote about a company got published in the Wall Street Transcript. Baron soon got an offer to be an analyst, and then joined with a buddy from law school to sell research to institutional investors before starting his own firm.

Baron said he isn't worried about a financial downturn and views stocks as a good hedge against inflation. Instead of timing trades, he said he believes that a long-term holding strategy leads to the strongest results over time.

Baron also gave his views on cryptocurrency and index funds, where he'd put \$100,000 today and the best investment advice he ever received. The interview has been edited and condensed.

For more insights from the biggest names in investing, watch "Bloomberg Wealth With David Rubenstein." Baron's interview airs Tuesday, Sept. 14 at 9 p.m. ET.

You were a big believer in Tesla and a big believer in SpaceX before everybody else. What did you see in Tesla early on? And what do you see in SpaceX now?

With Tesla, I thought the opportunity was to convert the cars that we make in the U.S. from gasoline to electric. And that hadn't been accomplished before.

In order for this to happen, you had to be a spectacular engineer, and a great leader and have an understanding of technology. And then you had to fight the entrenched interests, which were the car dealers and the automobile companies and the oil companies. I was betting on Elon Musk and most people bet against him.

We invested \$380 million between 2014 and 2016, which was 1.5% of our assets at the time. So far, we've made \$4 billion in profit and I think we're gonna make maybe three or four times that in the next 10 years.

Is SpaceX the same as Tesla?

It's the same idea. You're disrupting a cost-plus industry, so all of the aerospace companies didn't do research and they didn't want to innovate. What they would do is subcontract out the work on these rockets so they became more and more expensive. And the government would just pay it.

So Elon comes along, and says, 'I got a cheap way to get to space. And the cheap way is by using the rockets over and over and over again.' And everyone else said that was impossible.

But our man did it. And as a result, he's able to get to space cheaply. And now there's an opportunity for a \$1 trillion satellite broadband market. Half the people in the world don't have broadband.

Doesn't it make you nervous, that one person is driving both companies? You wouldn't normally invest in somebody who is running two companies at the same time, would you?

The risk of one person running two companies is he's working ungodly hours, totally dedicated, doesn't need very much sleep. I was speaking to a director of SpaceX two nights ago and I said, 'How is Elon doing?' And she says, 'He's doing unbelievably. He lives in this small cottage, two bedrooms, on this desert property.' And he works all but five hours a day.

Do you have a Tesla?

Yes, four of 'em.

And when you drive them and you say, 'Maybe something could be better,' do you call up Elon and say, 'Can you fix this?'

Actually, we do. When we bought the first one, my wife was complaining, "There's no makeup mirror here." So I call him up. And I say 'Well, my wife is complaining about this car, that there's no makeup mirror.' He says, 'Yeah, we've had to do a special extra mirror.' So that was my wife's idea.

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Elon Musk Works All But Five Hours a Day, Ron Baron Says

Let's talk about how you got started. Did you say, 'I want to be in the investment business?' Or did you want to be a professional baseball player?

My parents wanted me to be a doctor. But one summer I worked as a lifeguard during the day, and then from 11:00 to 7:00 I worked in the emergency room of a hospital. People would come in and they'd have been shot, and I would have to hold them on the gurney until the next of kin gave permission to operate. I also had to clean bed pans and when people expired, I would have to wrap them and put them into refrigerators. I hated it.

So you decided not to go to medical school.

Right.

So where'd you go to school?

I went to Bucknell University – undergraduate chemistry major. And then I had a fellowship at Georgetown in biochemistry for a year, because I didn't want to go to Vietnam. And that summer I was selling Fuller brushes door to door to make extra money.

I was a waiter, a bartender. I was making \$1,600 a year and living in a basement in Rock Creek Park. Once I knock on a door and a guy answers and he's wearing real clothes – suit, slacks and a shirt. And he has his wife cooking dinner for him in the kitchen. And furniture. And I said, 'What do you do? How come you're not in Vietnam?'

And he says, 'I'm a patent examiner. It's a draft-exempt job.' I said, 'How do you get to be a patent examiner?' He says, 'Well, you take the law boards. And if you get a good grade, you apply to the United States Patent Office.' So I take the law boards. Got a good grade. Went to George Washington Law School at night and worked in the Patent Office at daytime. So this guy changed my life.

How did you go from George Washington Law School, being a patent examiner, to the investment business?

After my bar mitzvah, I was interested in the stock market because I had friends who had been given stock from their grandparents. And I said, 'I wanna do that.'

I would go to this brokerage firm, it was called McDonald & Co. They were right by Asbury Park High School. I would go after school and all these guys, old guys, they're sitting on these green chairs and looking at a tape that

hardly moved.

I got a report on Monmouth County National Bank. It was around the corner where I lived outside of Asbury Park.

And I told my father why I want to invest in it. And he let me invest. And the stock was \$10 a share, 100 shares. And then the stock – every day for the next six months, seven months, every day it either stayed the same or went up an eighth. And then it got acquired at \$17 a share. So my \$1,000 became \$1,700. I said, ‘Man, there’s nothing to this. I wanna do that.’

You started your firm with how much capital?

Baron Capital was really Baron lack of capital. It had \$100,000 of book value.

Every night, do you worry that the stock market is gonna go down and your assets will go down? And people are gonna call you up to complain? Or do they basically say, “I’m happy”?

They say they’re happy. Last night we were at a dinner at a restaurant. As we were walking out, a man walked over to me, said, ‘Thank you very much. You paid for my daughter to go to college.’ And basically I get that all the time. It’s the most unbelievable thing. That’s my job.

So what do you think about index funds?

We’ve outperformed indexes by about 500 basis points since inception. It’s very rare that mutual funds outperform their index. And that’s because everyone thinks that they know better and they can predict when the market’s gonna go up or down because they know what interest rates are gonna do. But it’s rare that they’re gonna be able to take advantage of that information sufficiently to be able to do better than the market.

What do you look for with a CEO who’s coming in to pitch you on an IPO?

I want someone who’s really smart, works really hard, has integrity. I trust them. They have a vision for their business. And they’re good leaders.

Suppose you buy their stock and it just performs really, really poorly. Do you ever give up and just say, ‘I gotta get outta this stock?’

I give up because we made a mistake on the business, not because of the person. I don’t give up because a stock doesn’t perform. The stock performance isn’t a measure of whether the business is successful or not. The stock performance is just the measure of the stock performance.

But generally when you buy a stock, you intend to hold onto it. What is the average time it takes for you to say, “I made a mistake and I wanna get out?”

It’s not the time. It’s the fundamentals of the business. And I could own a stock for a number of years and not make a return on it, and that wouldn’t bother me as far as making me think I had made a mistake. We were an investor in Tesla for four or five or six years and didn’t make a return. And then, all of a sudden, we made seven times in a year. So it’s not the time that does it. It’s the fundamentals.

What is it that you like about investing?

I love what I do. When I get to meet and talk with people who run businesses that are changing the world and explain to me how they’re doing it, it’s so much fun. My wife says, ‘All of my friends, their husbands don’t work anymore. How come you work?’

I think that if anyone had a chance to do what I’m doing, they’d do it instead of playing golf.

You have two sons who are in your business. Are they going to continue the business?

I sure hope so. I’ve been brainwashing them since they’re four years old.

Many people think the stock market's is really fully valued. Are you nervous about that? Do you worry about a downturn?



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I don't worry about it. The only things I am certain of is our economy and our country. But I think that the value of my money will fall in half every 17 or 18 years. That means that everything I want to buy is going to double in price every 17 or 18 years. I regard stocks as a hedge against that depreciation on my currency. So I want to own stocks, shares of businesses that can outpace inflation.

What do you think about cryptocurrencies?

That's a commodity. And I don't invest in commodities. I don't own gold. I don't own cryptocurrency.

What is the best investment advice you've ever been given?

When I came to New York, one person told me, 'Don't worry about earnings per share. They make up those numbers. Worry about sales.' That made sense to me. The only way you're gonna get fooled by that if it's a fraud.

What is the most common investment mistake that people make?

They think that because they can open up an account at a brokerage firm, then they can buy and sell stocks and do as well as anyone else. And I think that's a fallacy. Just like I wouldn't want to fly an airplane or be a dentist or even cut my own hair.

If somebody came to you and asked how they should invest \$100,000, what would you tell them?

WealthBuilder. That's a fund of Baron Funds.

And if you were to advise somebody about investment opportunities, generally, would you say public equities are a good bet?

Yes. Invest for the long-term. Figure out how much you're going to invest, and do it every single year.

Your annual shareholder's meeting is known for having a lot of famous people there. I don't know if you're allowed to say who they were, but they're great entertainers.

McCartney, Barbra Streisand, Billy Joel, Elton John, Jerry Seinfeld. We have a lot of entertainers and I pay for that. If investors have at least \$25,000 invested, they can come to that meeting.

So is it easier to negotiate with a CEO or Paul McCartney and Barbra Streisand?

Man, you can't believe what it's like to negotiate with some of these performers. The crazy thing is, well I shouldn't say crazy. They're very reasonable things that they ask for.

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