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BI PRIME

## The manager of the best small-cap fund of the past 20 years explains why he's betting big on a consumer recovery — and shares his top 4 stock picks in the struggling sector

Marley Jay

- **Ken Korngiebel runs the Wasatch Micro Cap Fund, which Kiplinger ranks as the best-performing small-cap mutual fund of the last 20 years.**
- **He used the market's slide in February and March to bet on retailers and other companies focused on consumers, reasoning that they'll benefit the most when the economy recovers.**
- **Korngiebel says he looked for stocks that had been oversold and for companies that are likely to be in better competitive position than they were before the current recession.**

All investors hunt for bargains, and those who specialize in smaller companies are enjoying a rare opportunity today.

Ken Korngiebel is one of them. He manages the Wasatch Micro Cap Fund, the best small-company fund of the past 20 years based on its annual return of 11%.

He's not coasting, either, as he's still outperforming the market in 2020 and has maintained an annual return of 11.6% over the last three years. That puts it in Kiplinger's top ten over that time.

Because he invests in companies worth at \$1.5 billion or less, the market plunge unexpectedly brought some stocks onto his radar screen. While he's looking to buy low, he notes that the quality of small-cap stocks has gone up because the group now includes companies with more revenue and stronger balance sheets at depressed valuations.

"As the bear market goes on and the punishment inflicted becomes greater, we think there are opportunities to sift through those stocks that have underperformed the most and see if there's opportunities where babies have gotten thrown out with bath water," he told Business Insider in an exclusive interview.



WASATCH GLOBAL INVESTORS

Korngiebel says he's focused on two kinds of opportunities today: Companies that have been unfairly punished and simply fallen too far, and companies that will be in better competitive position once the crisis ends.

The surprising result of that combination is that he's making bigger bets on consumer-focused companies just as consumer spending is getting crushed by the coronavirus pandemic, the spike in unemployment, and the restrictions governments have imposed to stop the outbreak.

"I have not owned a lot of consumer in the last couple of years and that's something I'm actively looking for in the way of potential investments," he said. "If you can look out and assume that there is going to be some kind of recovery in the next year or two, this is likely where you make a ton of money."

To help deal with the risks the sector faces, Korngiebel says he's only buying stock in companies with strong balance sheets and enough cash on hand to stay in business for at least two years. Here are four companies that clear that barrier and Korngiebel's other must-have criteria for investments.

### **(1) Boot Barn**

Korngiebel says he thinks Western apparel company Boot Barn Holdings has been successful at developing its own brand as well as selling boots made by other companies, and it's a bit better-protected from online rivals than other clothing retailers because trying on boots is a necessity.

But he says the big draw is that it's a market leader up against a lot of smaller rivals.

"What you want to be on the lookout for in this environment are companies that are going to take share in a downturn and become stronger," he said. "What you typically are looking for is who's got a dominant position in a fragmented industry, because the mom and pops are going to be really challenged coming out the other side of this."

### **(2) Allegiant Travel**

Shares of parent of budget carrier Allegiant Air have dropped almost 60% this year, bringing it into small-cap territory. And Korngiebel says Allegiant Travel should be an eventual beneficiary from the turmoil in the airline industry.

"We believe that it has a competitive advantage in terms of its cost structure, and should be able to take share," he said. "So if you believe the travel will resume next year, then Allegiant should see its way out of this mess and could be one of those stocks that rebounds the most aggressively."

### **(3) Chuy's**

While restaurants have been shuttered or forced to stay in business purely on takeout, Korngiebel says he's brought more stock in the Chuy's chain during the current downturn.

"They've done a good job of managing their costs down, and I think they've got a differentiated concept in terms of a Tex-Mex offering that's already proven that it can migrate out of Texas," he said. "They've also developed their delivery capabilities and now have that across their footprint."

### **(4) Mastercraft**

Lastly, Korngiebel says Mastercraft Boat Holdings is a well-run company that might benefit from new trends, as boating might become more popular as people look for ways to socialize that implement some of the principles of social distancing.

"This is a business model that has very high variable costs," he said. "Their ability to lose less money in a downturn, I don't think has been widely appreciated. And so now we have an environment where I think management is going to be able to show that the flexibility of the business model is better than people expect."

Average Annual Total Returns  
For Periods Ended March 31, 2020

	1 Year	3 Years	5 Years	10 Years
Wasatch Micro Cap Fund (WMICX)	-10.02%	11.64%	8.28%	11.31%

*Data show past performance, which is not indicative of future performance. Current performance may be lower or higher than the data quoted. To obtain the most recent month-end performance data available, please visit [wasatchglobal.com](http://wasatchglobal.com). The Advisor may absorb certain Fund expenses, without which total return would have been lower. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost.*

*Wasatch Funds will deduct a 2.00% redemption proceeds fee on Fund shares held 60 days or less. Performance data does not reflect the deduction of fees or taxes, which if reflected, would reduce the performance quoted. For more complete information including charges, risks and expenses, read the prospectus carefully. The Total Annual Fund Operating Expenses for the Investor Class shares of the Micro Cap Fund are 1.66%.*

MICRO CAP FUND — TOP 10 HOLDINGS  
AS OF DECEMBER 31, 2019

Security Name	Percent of Net Assets
Kornit Digital Ltd. (Israel)	3.6%
Medallia, Inc.	3.2%
Kadant, Inc.	2.9%
Upland Software, Inc.	2.6%
ICF International, Inc.	2.5%
Alamo Group, Inc.	2.4%
Tabula Rasa HealthCare, Inc.	2.3%
Construction Partners, Inc., Class A	2.2%
Transcat, Inc.	2.1%
UFP Technologies, Inc.	2.1%
Total	26.0%

*Portfolio holdings are subject to change at any time. References to specific securities should not be construed as recommendations by the Fund or its Advisor. Current and future holdings are subject to risk.*

The best performing small-cap fund of the last 20 years, according to Kiplinger, is based on total return over the previous 20 years for small company stock funds as of 3/31/2020.

**RISKS**

Investing in small cap funds will be more volatile and loss of principal could be greater than investing in large cap or more diversified funds. Investments in value stocks can perform differently from the market as a whole and from other types of stocks and can continue to be undervalued by the market for long periods of time. Investing in foreign securities, especially in emerging markets, entails special risks, such as currency fluctuations and political uncertainties, which are described in more detail in the prospectus. The *Fund's* investment objective is long-term growth of capital. An investment in the Fund involves risk, including loss of principle

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