

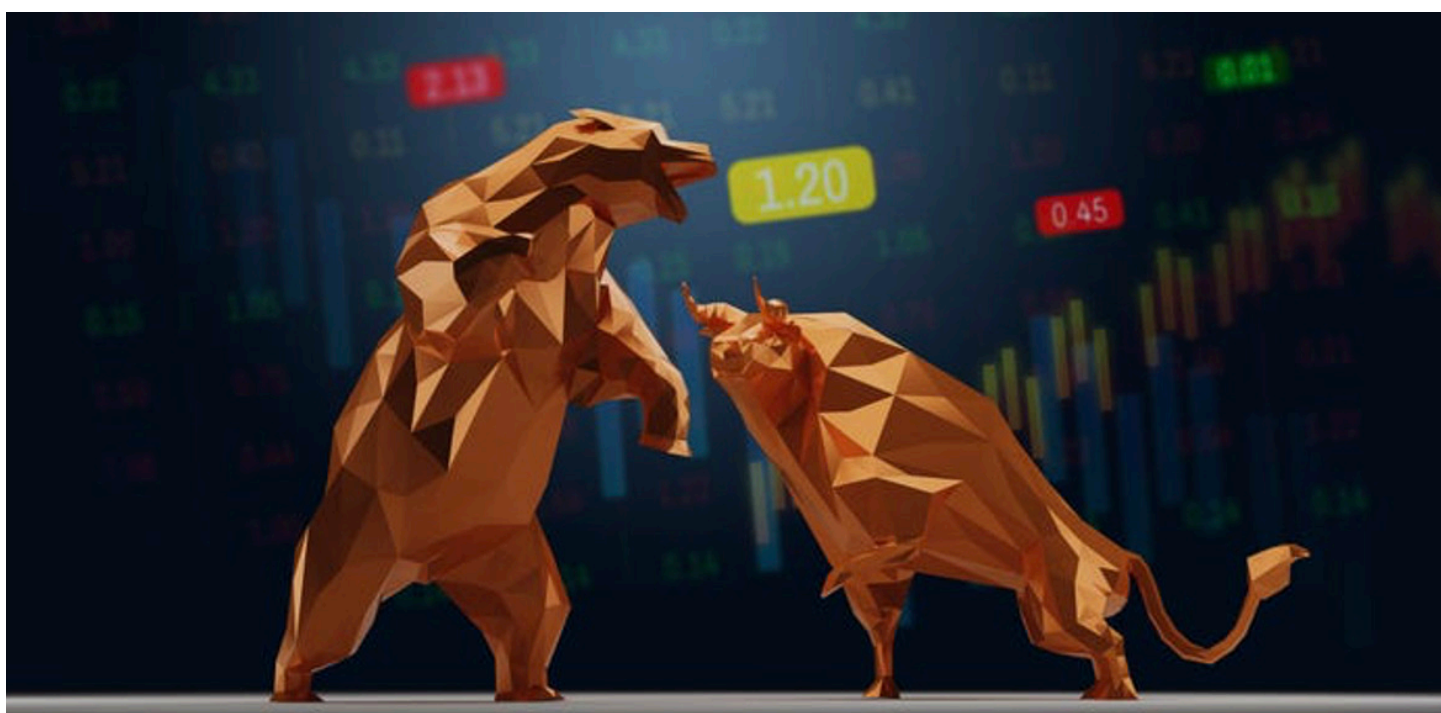
BUSINESS INSIDER

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PREMIUM MARKETS

A top-7% fund manager shares his strategy for winning in both up and down markets — and names 5 of his favorite stocks to buy during the rally to all-time highs



GETTY IMAGES/SUPPLIED BY WASATCH

A leading fund manager has a way to generate gains in bull or bear markets.

James Faris

- **Mick Rasmussen rode a long/short strategy to a 27% gain and top-7% finish in 2023.**
- **The fund manager explained how he profits by betting on or against companies.**
- **Here are five stocks that are destined to rise this year, according to Rasmussen.**

Investors seem to be growing more confident as US stocks reach record highs.

Bullish investment firms are rethinking their year-end S&P 500 targets while chart-wielding oracles and professional traders alike are mapping out paths for further gains.

But fund manager Mick Rasmussen of Wasatch Global Investors isn't going all-in on stocks. He explained in a recent interview that there's not enough clarity around geopolitical conflicts, the outcome of the US elections, and even the trajectory of inflation to warrant a bullish market call.

“There’s a lot that could happen here, both as positive and negative catalysts,” Rasmussen said. “And I think we would say we have a lot of humility when it comes to making macro calls. And frankly, right now, we’re trying to limit as much of a directional bet either way, knowing what we don’t know.”

Instead, the mind behind the Wasatch Long/Short Alpha Fund (WALSX), which Morningstar noted had a top-7% finish in 2023, is keeping a close eye on stocks to buy — or bet against.

“We’re finding a lot of interesting businesses, and we’re able to successfully hedge away a lot of the stuff we don’t want and think that what we’re going to be left with is a really attractive risk-adjusted spread,” Rasmussen said.

For this fund, buying stocks is only part of the equation

As a long/short fund manager, Rasmussen can profit from both winning and losing stocks.

Like most of his colleagues at Utah-based Wasatch, Rasmussen begins his investing process with deep fundamental research focused on finding high-quality companies across strategies and sizes. The firms he likes can generate cash for years since excellent capital allocators run them. Sales and earnings growth in the 10% to 15% range is desirable, he added.

Stocks also stand out if they have sustainable competitive advantages, potentially due to massive scale that enables efficiencies that their peers can’t match. Such companies rarely trade at cheap valuations, but as long as they’re not unreasonable, Rasmussen doesn’t mind.

“We’re willing to pay a lot more for companies that fit those criteria for us,” Rasmussen said.

Naturally, some stocks won’t be worth buying. Perhaps their balance sheets are weak or their management team has a spotty track record. Most portfolio managers may simply discard those names and move on, but Rasmussen adds them to his portfolio — the short side of it, that is.

“Whatever we’re left with on the longs that we don’t want to take, those resulting portfolio exposures, we’re

building a really targeted hedge portfolio with quantitatively sourced shorts to make sure that we’re getting exactly the sources of return that we want and not the ones that we don’t,” Rasmussen said.

Shorting a stock involves borrowing shares of a company and immediately selling them in hopes of buying them back later at a lower price and returning them to the borrower plus interest, all while booking the difference as profit. Through this strategy, Rasmussen can make money when stocks fall instead of just avoiding losses. This strategy also helps hedge against risks like elevated interest rates or a dismal outlook for a certain market sector.

Rasmussen usually has 50 to 60 holdings each on the long and short sides of his fund, he said. His long exposure typically ranges anywhere from two to five times that of his short positions, based in part on what the market environment looks like.

“If the markets are looking relatively cheap to us through the models we look at, we’re going to have a little bit more net exposure,” Rasmussen said. “And vice versa — if markets are feeling a little bit extended, then we’re going to control our gross exposure. So how much total longs and shorts as a function of how much market volatility there is.”

Ultimately, Rasmussen relies on his stock selection process to log gains — not market swings.

“We hope that regardless of what the market’s doing, our stock-picking is going to be the biggest driver of performance,” Rasmussen said. “So that’ll be really what drives our success.”

5 stocks to buy now

Since Rasmussen doesn’t get carried away with market predictions, it makes sense that he doesn’t fall in love with certain sectors either. So while his fund is skewed toward healthcare and technology on the long side, they’re also two of the most heavily shorted groups in his fund.

Below are the five stocks that Rasmussen spotlighted. All are top-10 holdings in the long side of his portfolio, as of September 30. Along with each is its ticker, market capitalization, and thesis.

1. HealthEquity

HOME > STOCKS > HEALTHEQUITY-STOCK

HEALTHEQUITY INC Stock, HQY

77.21 + (+%)

After-market 04:20:00 PM NAS

77.21 -0.17 (-0.22%)

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: HQY

Market cap: \$6.6B

Thesis: HealthEquity provides the framework for health savings accounts and tax-advantaged savings accounts across financial firms so that employees can pay bills, see treatment options, and otherwise manage their HSA.

Shares are up over 26% in the past year because management has executed well, plus it's a beneficiary of higher interest rates. Rasmussen thinks additional growth of 15% is in the cards.

"This is a massively growing segment of retirement accounts, and HealthEquity has clearly defined itself as a market leader here," Rasmussen said.

2. RBC Bearings

HOME > STOCKS > RBC BEARINGS-STOCK

RBC BEARINGS INCSHS Stock, RBC

274.35 + (+%)

After-market 04:20:00 PM NYSE

274.35 -0.67 (-0.24%)

Official Close 04:00:00 PM NYSE

News

Analyst Data

Analyst Opinions

Insider Activity

Dividend Calendar



Markets Insider

Ticker: RBC

Market cap: \$8B

Thesis: This industrial company creates specialized metal parts for machines, including aircraft.

Many companies in RBC Bearings' sector are economically sensitive, Rasmussen noted, though he believes this firm is an exception since the products it makes are tough to replace.

"It's one of these businesses that it sounds on the surface like it's quite commoditized and maybe cyclical, but these guys have really been able to find a niche in their space," Rasmussen said. "And with 20+ years of experience building these exact products, they've been able to carve out a really nice market with huge returns on capital and a much more recurring profile to their business model than a lot of competitors in their space."

3. Pool

HOME > STOCKS > POOL-STOCK

POOL CORP. Stock, POOL

379.65 + (+%)

After-market 04:20:00 PM NAS

379.65 -3.78 (-0.99%)

Official Close 04:00:00 PM NAS

News

Analyst Data

Analyst Opinions

Insider Activity

Dividend Calendar

Intraday

1w

1m

6m

Ytd

1y

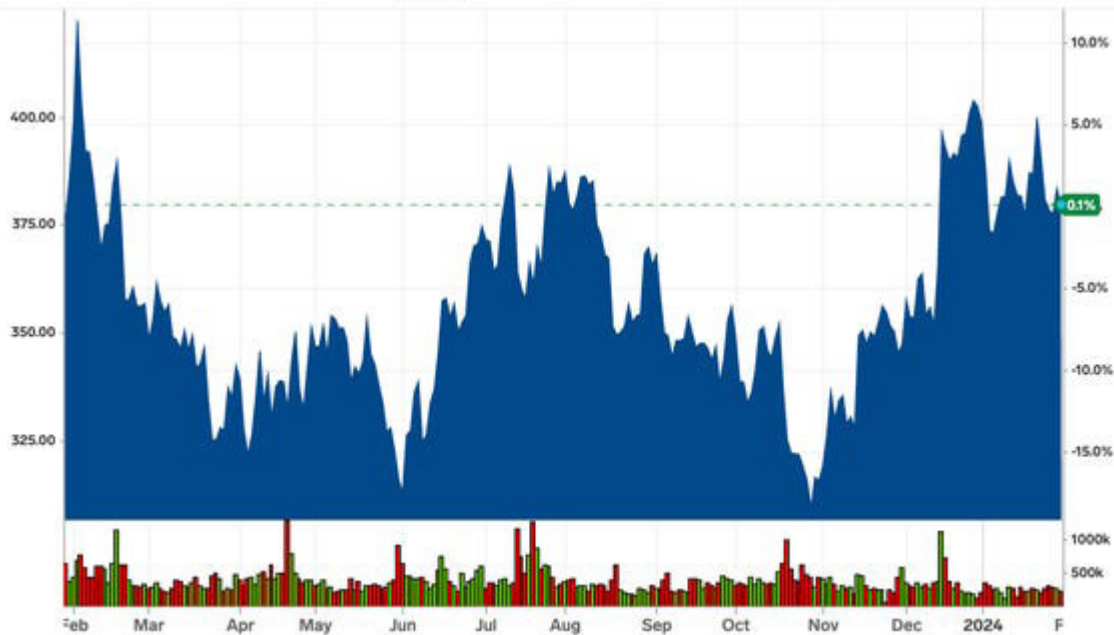
3y

5y

Max

Volume ▾

Mountain-Chart ▾



Markets Insider

Ticker: POOL

Market cap: \$14.7B

Thesis: Pool failed to make a splash in 2023, as its shares are relatively flat in the past year.

But while this swimming pool supply and equipment maker went through a drought, so did its competitors, Rasmussen said. That puts the industry leader in an even better spot going forward heading into the busier spring and summer seasons.

“This was a tough year — weather was hard; there was a lot less new build activity,” Rasmussen said. “But because of that, they’re able to increase their competitive advantages through this. And a lot of the smaller players are getting either run out of business or getting acquired. So it’s one of these that actually in times of weakness, they are increasing their competitive moats.”

Rasmussen added: “It’s true that their fundamentals are getting hit here, but still, we see it as a ton of durability in the business. It’s not like people are going to stop using pools over the next 10 years, and if and when those conditions get better, they’re just going to be in an even better spot to capitalize on all of it.”

4. Paylocity

HOME > STOCKS > PAYLOCITY-STOCK

PAYLOCITY HOLDING CORP Stock, PCTY

158.91 + (+%)

After-market 04:20:00 PM NAS

158.91 +0.17 (+0.11%)

Official Close 04:00:00 PM NAS

News

Analyst Data

Analyst Opinions

Insider Activity

Dividend Calendar



Markets Insider

Ticker: PCTY

Market cap: \$8.9B

Thesis: Despite its slowing growth and shaky performance in the past 12 months, including a 36% peak-to-trough decline, Rasmussen said he's sticking with payroll software firm Paylocity.

The stock can grow at a 20% clip going forward yet trades at a palatable 24x forward earnings, which Rasmussen said makes the company very attractively priced.

“They’re much more of a platform, so once you get clients on it, they have really high retention rates and cross-selling opportunities within their existing base,” Rasmussen said. “So we see this as much more of a recurring revenue stream that still has a lot of growth to it. So on a risk-adjusted basis, it’s probably one of our highest expected returns here, even though we’re going against the market a bit.”

5. Intra-Cellular Therapies

HOME > STOCKS > INTRA-CELLULAR THERAPIES-STOCK

INTRA-CELLULAR THERAPIES INC Stock, ITCI

68.39 + (+%)

After-market 04:20:00 PM NAS

68.39 -1.47 (-2.10%)

Official Close 04:00:00 PM NAS

News

Analyst Data

Analyst Opinions

Insider Activity

Dividend Calendar

Intraday

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Ytd

1y

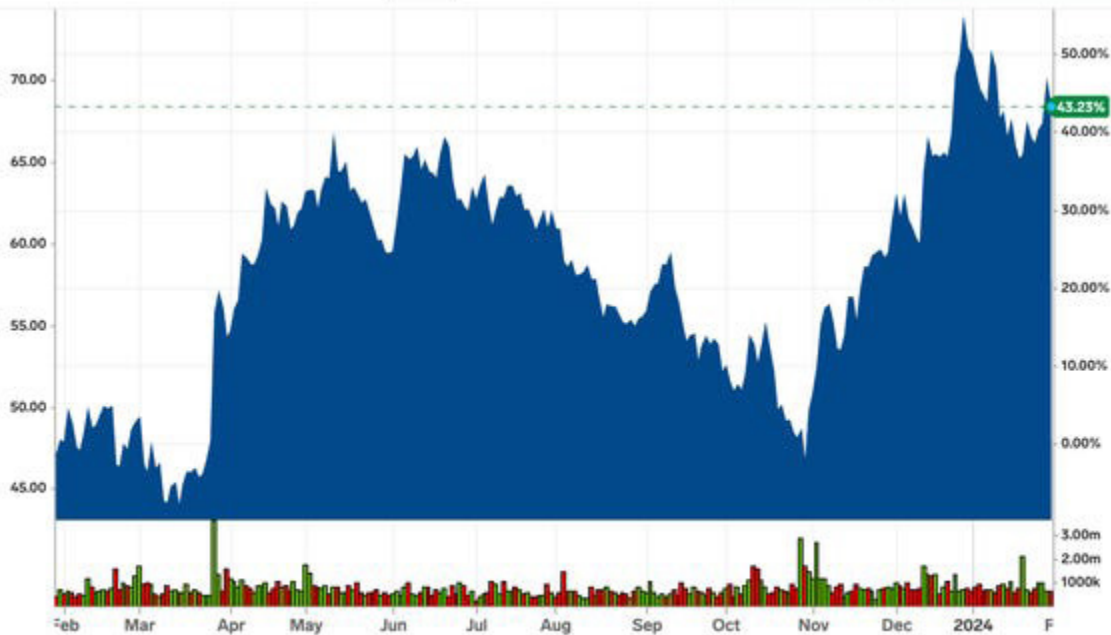
3y

5y

Max

Volume ▾

Mountain-Chart ▾



Markets Insider

Ticker: [ITCI](#)

Market cap: \$6.6B

Thesis: Unlike many of its peers in the biopharmaceutical industry, Intra-Cellular Therapies has tangible sales, largely tied to treatments for central nervous system disorders.

“It’s very different in our mind if you’re still waiting for approval on a drug and don’t have a product or a revenue stream yet,” Rasmussen said. “Intra-Cellular has a very successful product and revenue stream.”

This company has boom-or-bust potential, but Rasmussen is betting on the former. There’s a chance that it can grow at a 50% annual rate for years, the fund manager said.

“We see tons and tons of growth from here,” Rasmussen said. “So it’s unprofitable and fits into that ultra-growers type profile for us. But I think from a ‘this could be a giant company’ perspective, it’s maybe one of our most exciting ideas there, and we’re willing to own a lot more of it because of the more mature nature of its business.”

Disclosure

This interview is provided for informational purposes only and should not be considered investment advice. Please consult your financial advisor for additional information concerning your specific situation. References to individual companies should not be construed as recommendations to buy or sell shares in those companies. Current and future Fund holdings are subject to risk and change at any time.

TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2023

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
Long/Short Alpha Fund—Investor	14.09%	27.75%	N/A	N/A	12.86%
Long/Short Alpha Fund—Institutional	14.11%	27.96%	N/A	N/A	13.09%
Russell 2500™ Index†	13.35%	17.42%	N/A	N/A	-0.21%
FTSE 3-Month U.S. Treasury Bill Index††	1.41%	5.26%	N/A	N/A	2.99%

*Returns less than one year are not annualized.

**The Wasatch Long/Short Alpha Fund's inception date was October 1, 2021.

*The performance data quoted represents past performance. Past performance does not guarantee future results. 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. The Advisor may absorb certain Fund expenses, without which total returns 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. **Total Expense Ratio: Investor Class—Gross 2.85%, Net 2.67% / Institutional Class—Gross 2.71%, Net 2.34%***

Total Annual Fund Operating Expenses include operating expenses, including the management fee, before any expense reimbursements by the Advisor. The Advisor has contractually agreed to limit certain expenses to 1.75% for the Investor Class and 1.50% for the Institutional Class through at least 1/31/2025. See the prospectus for additional information regarding Fund expenses.

Wasatch Funds will deduct a 2.00% redemption fee on Fund shares held 60 days or less. The 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.

Equity investing involves risks, including potential loss of the principal amount invested. Short selling incurs significant unique risks, including potentially unlimited downside risk, high short-sale related expenses, and unavailability of securities to sell short, among others, all of which could negatively impact the performance of the Fund. Additionally, the Fund may not be able to borrow the securities it intends to sell short.

The Fund's investments in long and short equity positions expose it to changes in the value of securities, which exceed the value of the Fund's assets. Investment in the Fund will involve market risks associated with different types of investment decisions than those made for a typical "long only" fund. The Fund relies on quantitative models which entail unique risks, including the risk that a model may be limited or incorrect. These risks are described in more detail in the prospectus.

Being non-diversified, the Fund can invest a larger portion of its assets in the stocks of a limited number of companies than a diversified fund. Non-diversification increases the risk of loss to the Fund if the values of these securities decline.

The Russell 2500 TR Index is a market-cap weighted index that includes the smallest 2,500 small- and mid-cap stocks covered in the broad-based Russell 3000 of U.S.-based listed equities. The FTSE 3-Month U.S. Treasury Bill Index measures monthly return equivalents of yield averages that are not marked to market. The Three-Month Treasury Bill Indexes consist of the last three three-month Treasury bill issues.

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An investor should consider investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus, containing this and other information, visit wasatchglobal.com or call 800.551.1700. Please read the prospectus carefully before investing.

Information in this document regarding market or economic trends, or the factors influencing historical or future performance, reflects the opinions of management as of the date of this document. These statements should not be relied upon for any other purpose.

The Morningstar percentile ranking for the Wasatch Long/Short Alpha Fund was derived using the total return of the performance figure associated with their 1-year period, as of 12/31/2023. The Fund ranked against the following numbers of U.S. Fund Long-Short Equity funds over the following time periods: 167 funds in the last year. With respect to these U.S. Fund Long-Short Equity funds, the Fund received a percentile rank of 7% for the one-year period. The percentile rank is the rank of a fund among its category peers, which rank is based on a comparison of a fund's total return performance against its peers over a given time period. Past performance is no guarantee of future results.

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The Wasatch Long/Short Alpha Fund's investment objective is long-term growth of capital.

LONG/SHORT ALPHA FUND — TOP 10 LONG EQUITY HOLDINGS

AS OF SEPTEMBER 30, 2023

Security Name	Percent of Net Assets
HealthEquity, Inc.	4.1%
RBC Bearings, Inc.	3.7%
Kadant, Inc.	3.5%
Pool Corp.	3.3%
Paylocity Holding Corp.	3.2%
Ensign Group, Inc.	3.1%
Innospec, Inc.	2.9%
Intra-Cellular Therapies, Inc.	2.9%
Globant SA	2.9%
ICF International, Inc.	2.8%
Total	32.4%

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.

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