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PREMIUM

MARKETS

John Rogers became a legend by building a portfolio of cheap and overlooked stocks that's cumulatively returned 4,550% over 35 years. He told us how the COVID crash cemented his approach, and the market trends he's watching for future gains.

Marley Jay

- **John Rogers' stock-picking acumen became legendary in the 2010's, and he's still thriving today.**
- **His Ariel Fund is about to turn 35 years old, and has returned more than 4,550% to investors.**
- **Rogers told Insider what he's learned over the years and what the COVID crash drove home for him.**

John Rogers has spent 35 years piling up investing wins, and this month he added one on the basketball court.

One of the most famous value stock pickers of the day, Rogers is the chairman, co-CEO, and investment chief at Ariel Investments, where he ran the best mutual fund of the last bull market. A former college basketball player who never lost his love for the game, he's also a part-owner of the WNBA champion Chicago Sky.

This meant he got to join the title parade and hold the trophy the team won.

"I've never had any experience like that in my life," he told Insider in an exclusive interview. "I've watched a million celebrations because I love basketball. Never thought I'd actually be in the middle of one."

You don't get a parade for great investing returns unless you pay for it yourself, but if they were awarded like titles, Rogers might be in line for one. Two weeks from its 35th anniversary, the Ariel Fund had cumulatively returned 4,557% to investors as of Wednesday, according to Morningstar. An investment of $10,000 at its inception would be worth $465,717 today.

Even before the Sky triumphed in the WNBA Finals, Rogers was getting good news, as his fund beat 90% of its mid-cap value competition last year and is bringing in bigger returns than the top 87% of its peers in 2021.

Some of that performance was driven by a dramatic recovery in value stocks that lasted from November 2020 through May of this year. But the lessons Rogers learned in the COVID crash and from past crises were another big reason.

ARIEL INVESTMENTS

John Rogers is the chairman, co-CEO and investment chief of Ariel Investments, and has managed its flagship fund for 35 years.

"One key lesson we've learned is that you have to be very conservative with your balance sheet work," he said. "If you're going to build bigger positions in those names or build a position at a new name, you've got to make sure they have the financial strength to weather the storm, to get to the other side."

Value investors like Rogers are known as bargain hunters who swoop in to buy a stock when it's much cheaper than it should be. But nearly 40 years after he founded Ariel, Rogers says he's learned to be less aggressive when he's examining a stock that's recently cratered.

"We've become much, much more patient and building a new position or adding to a position when they've had recent earnings disappointments," he said. "We've learned that analysts anchor in their old estimates and it takes a while for companies' earnings estimates to really truly reflect the new environment of a company."

Even after a company gives a plainly disastrous report that tanks a stock, he says, it takes time before Wall Street has fully assimilated the bad news. Jumping in too quickly could mean buying a volatile stock that's going to fall further.

Compared to the early days, Rogers says he pays much more attention to behavioral finance and being conscious about his own biases as an investor. He and his colleagues have worked with an outside firm to learn how to ask better questions of companies and even examine the body language of executives to determine if they are trustworthy.

Sometimes shifty answers and movements will tip the balance as they decide against buying a particular stock.

Another value comeback?

About that value comeback, Rogers acknowledges that much of investors' attention is still on growth stocks and on cryptocurrencies and meme stocks. But he thinks that as stock performance picks up and the market environment changes, that's going to shift.

"I do feel that in the small and mid-cap value space ... kind of boring, mundane companies are kind of orphaned," he said. "But that's where the opportunity is. That space is still neglected."

Rogers says that's going to change as interest rates march higher, as they've done in recent weeks.

"Ultimately that's my strong feeling, that higher rates will be what will be the catalyst to get people to reassess these high flying growth stocks," he said.

He adds that a second factor will push investors to look elsewhere for returns, as larger companies will become victims of their own success.

"It becomes harder and harder to get double-digit growth or explosive growth," he said. "People just say, 'Why am I paying 40, 50 times earnings for a company that's growing 10% when the company used to grow 30%?' Over time, it's just hard for these companies to sustain themselves indefinitely."