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Sam Stewart Picks Stocks the Way He Always Has

At 76, the founder of Wasatch Funds is working at a new company, with his sons. But he still believes in growth stocks.

By Chuck Jaffe

Sam Stewart says even with AI and other tools, a manager's job hasn't changed. PHOTO: JAMIE MOESSING

Sam Stewart got hooked on the stock market at an age when he should have been into baseball cards. The son of a stockbroker, Mr. Stewart wasn't yet a teenager when he heard George Romney, then chairman of American Motors Corp., extol the virtues of selling compact cars and told his father, "You need to buy some American Motors stock."

His father didn't heed the advice, but Mr. Stewart watched as American Motors shares rocketed from $5 to $90 in about a year, on the strength of the company's small cars. "From that moment on," he says now with a laugh, "I was hooked.... It wasn't long before I knew that I would die someday at my desk, picking stocks."

These days, Mr. Stewart's desk has a new location and his investment career a new life.

The founder of Wasatch Funds left that business and its $17 billion in assets after 43 years to join his son Spencer in 2018, opening Seven Canyons Advisors in Salt Lake City. Another son, Josh, also left Wasatch to join the new firm.

But what was most unusual was that Mr. Stewart, who had sold his Wasatch stake to the firm before he left, was able to bring the two mutual funds he personally managed from his old firm to the new one. Wasatch let shareholders of the two funds decide if they wanted to keep him as manager at his new firm or keep the funds at Wasatch under a new manager. Mr. Stewart carried the vote, and Wasatch Income (WASIX) and Wasatch World Innovators (WAGTX) became Seven Canyons Strategic Income Investor and Seven Canyons World Innovators, respectively, though they kept their old ticker symbols.

In his new digs, Mr. Stewart, 76 years old, focuses on what he likes most and does best—picking stocks—while offering his sons advice on running the new family business. He focuses on stocks of companies whose growth potential he feels the market hasn't fully recognized. That often means smaller companies, because they grow faster than large ones historically and he believes there are greater inefficiencies in the market for small-cap shares.

Edited excerpts from a recent interview follow.

The spark

WSJ: *Is there any one thing that really pushed you toward your investment approach?*

MR. STEWART: I started focusing my research on returns on capital over multiyear periods and found that I not only narrowed the list of which stocks to look at, but it resulted in a very high probability of, "This stock is really going to work."

But after I started Wasatch,

(over please)

[Nobel Prize-winning economist] Gene Fama came to the University of Utah and gave a talk about how a stock's price is its value, and its value is its price. This was right after the '73-'74 crash, and I went up to him afterward and said, "So what you are telling me is that the value of General Motors fell in half in something like the space of 12 months?" He said yes, and I said I didn't believe it and you couldn't convince me.

His insistence that the market was perfectly and completely efficient ignited all of the tinder in me.... I had no thought of building a large firm or making lots of money, I just wanted to prove that there are ways to beat the market.

WSJ: More investment firms these day focus their efforts on computer research, but you've always focused on people. Why?
MR. STEWART: In the early days of Wasatch, I met a guy who told me, "You have more people per asset by far than any firm I've ever seen." He was being critical, asking, "What are you doing with all of these people?"

It turns out, I'm a people collector. I look for people who have a talent or something unique, and I want to figure out how to get the most from them. We wanted each person to make the firm better, and we wanted them focused on the research because that is where you separate yourself from everyone else.

WSJ: So the advent of computers over the decades of your career hasn't changed investing?
MR. STEWART: The tools have changed, but the tasks haven't. Yes, there is algorithmic trading and artificial intelligence and much more, but a manager's job hasn't changed. No matter the analysis methods, the fundamental question is still, "Where is a company going and is it going anywhere the market doesn't see or expect?"

Starting again

WSJ: When Spencer decided to start Seven Canyons, why did you want to join him?
MR. STEWART: At first, I didn't. I've done my startup; the frustrations of a new company make you crazy.... But Spence kept twisting my arm, and eventually he convinced me to give it a try, and I'm glad I did.

WSJ: With Wasatch, how did you picture the end of your career?
MR. STEWART: I never thought I'd retire from the market, because it is my avocation in addition to being my vocation. So I take time off, take vacations, but I figured I'd do this until I keel over at my desk.

WSJ: And now that you're at Seven Canyons?
MR. STEWART: I'm energized and having fun.... But, if anything, liking this so much probably makes it more likely that I'll die at my desk someday—and probably sooner now, too, because all of those startup things that I didn't want to face, I'm living through them all over again.

Mr. Jaffe is a writer in Boston.