

Small stocks are out of favor these days. But T. Rowe Price's Debra Diamond has found plenty of them worth buying.

Searching for small gems



T. Rowe Price portfolio manager Debra Diamond
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Gamoran Davidson

By Ruth Simon

SMALL-COMPANY STOCKS have underperformed the market for the past five years, and institutional interest in them has almost vanished. That has been bad news for most managers of funds that buy shares in companies with small market capitalizations, but T. Rowe Price's Debra Joseph Diamond is enjoying the situation.

Why? "My personal compass goes haywire when there's too much enthusiasm and people lose perspective," says Diamond, 36, portfolio manager for the \$44 million T. Rowe Price New Frontier Fund and the \$28 million T. Rowe Price Frontier Limited, two small-cap funds offered to European investors.

A contrarian attitude and some astute stock picking has made Diamond's New Frontier Fund a top-performing small-cap fund. Since its inception not quite four years ago, it has delivered a total return of 121%, which compares with just 45% for the average small-company fund and 87% for the S&P 500, according to CDA Investment Technologies. (T. Rowe Price Frontier Limited has been in business for just two months.)

Diamond's specialty is the smallest and most obscure small companies. To make it into her Frontier portfolios, a company's market capitalization generally can't exceed \$50 million, and less than 30% of its stock can be owned by institutions.

"We're getting in on the ground floor with these companies," says Diamond. "If you have any stock-picking abilities, the gains can be substantial." That's because the gains from rapid earnings growth can be compounded by an expanding multiple as a previously unknown stock captures Wall Street's attention.

A good example is Intervoice, a maker of computer-based voice systems that automatically answer telephones, route calls and provide information. Diamond paid \$4 a share for the stock four years ago. Intervoice zoomed to about \$18 a share this year after Wall Street caught wind of the company's technology. Wall Street's brief flirtation with United Education & Software, a manager of technical training schools, enabled Diamond to triple her investment.

Being a step ahead of the pack isn't all that unusual for Diamond, who earned an M.B.A. from George Wash-