

### STOCKS THAT DIAMOND FINDS IN THE ROUGH

**E**very time Debra Diamond went in search of Oshkosh B'Gosh clothes for her two young sons, the stores were invariably sold out. But if Diamond couldn't buy the bib overalls, she knew to load up on the company stock—an investment that has increased 27 percent in the last six months. A keen eye for small, dynamic companies like the Wisconsin apparel maker has helped Diamond produce the best two-year record among T. Rowe Price's twenty-five portfolio managers.

In May 1985 Diamond started the New Frontier Fund, a limited partnership capitalized with \$20 million from European investors. The current market value of the fund is \$38 million. The near-doubling of assets is all the more remarkable because the stocks mined by Diamond have generally lacked luster. "What she has accomplished has been difficult," says Edward Mathias, a Price management committee director. "It's been a blue-chip, takeover market. These are orphans of the market. She's been able to pick stocks and get good performance."

Diamond keeps files on 3,000 tiny public companies, most with market capitalizations of \$50 million or less. She looks for earnings growth of 25 percent annually, which means her best picks don't remain small-cap companies for long. The after-tax profit margin should be at least 8 percent (the S&P 500 averages 2.4 percent) and the return on equity better than 20 percent.

Even when Diamond finds a company she likes, her research may prove fruitless. "Buying and selling these stocks takes a lot of patience," she notes. "They trade by appointment. Sometimes you have to buy from management."

The managers get to know Diamond well. She stalks her picks in person, which can pay off when blocks of stock become available. Q-Med, one of her discoveries, makes ambulatory heart monitors for those who suffer "silent" heart attacks. "They said they were not salivating to sell us stock, but 70,000 shares made them do a lot of thinking," Diamond recalls. The stock has



KEVIN WEBER

*Debra Diamond's small-cap stocks provide the largest return at T. Rowe Price.*

nearly tripled from her \$7 purchase level.

In all, Diamond has fifty-seven firms in her portfolio. They are mostly obscurities like Interview Incorporated, Excelan, American List Corporation, and Intertrans, although Diamond will pick up a Reebok when it temporarily falls out of favor. Her greatest success has been with ERO Industries, which makes slumber tents and sleeping bags. A \$437,000 stake is now worth \$1.2 million.

Laggards do not stay long. Diamond bought Stereo Village, a consumer electronics retailer, at \$10, and had it shoot up to \$14. Then came a down quarter and unsatisfactory answers from management. "This raised my antennae. One quarter usually leads to two years of bad earnings," she says. By the time she sold, the stock had skidded to \$5. But her instincts were correct: the company filed for bankruptcy and the stock collapsed to 80 cents.

"I'm a very aggressive seller," says Diamond. "My reputation is at the first hint of trouble, I sell. I don't give them too many chances." To prove her point, a music score written by a coworker for her is called "Take

Me Where the Returns Are." Sung to the tune of "Take Me Out to the Ballpark," the song notes that with Diamond it's one strike and you're out.

She's also wary of initial public offerings. A freshly-minted company often "falls on its face the first year." So Diamond watches for a recovery two or three years down the road, "when they know how to behave like a public company and what the street expects of them." By then, most of the institutional money has fled and the price is more reasonable.

Formerly a health care analyst for Price's New Horizons Fund, the 34-year-old Diamond is now seen as a valuable overseas calling card for the firm. "In the long term, what she is accomplishing is giving us access to the global market," says Mathias. "It's hard enough to get to (these small companies) from here," notes Diamond. For Europeans, "it's impossible."

The New Frontier Fund will probably be closed in four to seven years because of its partnership structure. After that, Diamond may solicit U.S. investors. *Nancy Kercheval*