



Artem Fokin

Caro-Kann Capital

For this week's Top 50 Microcap Investor, we present Artem Fokin, Founder and Portfolio Manager at [Caro-Kann Capital](#) LLC. When asked to describe his investment strategy as simply and as concisely as possible, he has managed to respond with just three words: "hunting for multi-baggers".

A Russian native who spent his childhood in Siberia, Artem now lives in beautiful Marin County (just outside of San Francisco) and jokes that he spent too much time in extremely cold weather as a child to move out of California.

His path to professional investing is also an interesting one. He earned several law degrees - a Juris Doctorate equivalent from the Higher School of Economics in Moscow, a Master in Law (LL.M.) in International Taxation degree from New York University School of Law, and even wrote and defended a PhD thesis at Moscow State Institute of International Relations (while working full-time in New York at a major US law firm!). The PhD dissertation was converted into a book and published in Russia in 2009; that book was recognized to be the best book published in Russia that year in its category - Financial and Tax Law.

At the age of 22, he started his professional career in New York as an international tax attorney. But after practicing for a few years, he left NYC and started his MBA studies at the Stanford Graduate School of Business. "I was really-really young when I started practicing law. I have never seen official data, but I guess that I am in the youngest 1% or even less of people who passed the New York State Bar Exam. I would be very curious to know the exact percentage. In any event, because I was young, I thought that I have time to go to business school once I realized that I was interested in investing. Most people start at their legal careers at the age that I was leaving after having practiced for ~3.5 years."

After graduating from the Stanford Graduate School of Business as an Arjay Miller distinction given to the top 10% of the graduating class, Artem entered the investment profession in 2011 and launched Caro-Kann Capital LLC in 2015.

Artem's analytical work and research have received public accolades: his work was featured in Barron's and he was a winner of SumZero's Top Stocks of the Year for three years in a row: 2017, 2018, and 2019. "And then I quit participating," he laughs and then adds, "as far as I know, nobody has repeated my hat trick but I have not checked for a year or so."

Given Artem's highly unconditional life and career trajectories, we were really curious whether his answers to our questions about investing would be equally as unconventional, and we were not disappointed.

When asked about his **major investment mistake**, Artem gave a surprising answer: spending too much time early in his early years as a portfolio manager on businesses with only modest (50% to 100%) upside. “Usually, it takes as much time to find and then analyze an opportunity with a 50% upside as to do the same for an opportunity with a 5x or 10x upside potential. In my view, the key metric for a hedge fund manager is **return on time** – i.e., a percentage return for the entire portfolio a manager can generate per every 100 hours (or pick any other number) of work spent on sourcing and research. If the input (e.g., time spent) is roughly identical, I want to maximize the output – the return!”. With more experience and years as a portfolio manager under his belt, Artem has become **a lot more demanding about the upside**: he wants to see **a strong path to 3x in 3 years** and a **plausible path to 5x to 10x in 5 years**.

We have wondered whether such investments are riskier. According to Artem, not necessarily. What's the most predictable way to achieve 5x to 10x share price appreciation for a company? - he asks. According to him, a company that adds tremendous value to its customers by providing its product or service and has a long growth runway is most likely to build a very large substantial intrinsic value. “If I find such companies that delight their customers and would continue doing so, I am likely to do extremely well as an investor as long as I do not overpay,” he concludes.

Artem follows a research process centered around this core investment premise: it is the customer who ultimately defines the density of the business. Thus, he first and foremost “focuses on the customer.” Here is his simplified playbook:

1. Understand the pain point that the company solves. The better the pain, the better.
2. Figure out whether the customer value proposition is compelling.
3. Understand the unit economics of the business.
4. Determine how many potential customers (i.e., people or businesses who suffer from this point out there) and what needs to happen for them to become paying customers. The more people out there experiencing this pain point, the better.
5. Build scenarios of what the company in question would look like a few years from now – customer count, revenue, profitability.
6. Understand the valuation a few years out.

Devil is in the details, of course, but this broad framework has helped Artem to uncover several multi-baggers.

We also asked Artem which element of portfolio management he finds most difficult, and once again his answer was not necessarily what we expected: **managing the winning investment**. The urge to sell after the first 100% or 200% upside is tremendous and sometimes it is indeed the right thing to do. But if you always sell after generating 2x or 3x return, you will never have a multi-bagger. Judging when to sell and when not to sell is incredibly difficult, not an exact science, and a journey of constant, never-ending improvement. It really boils down to good judgment, and exercising good judgment consistently is difficult.