

Mid-cap outlook

Insider
Q&A



Chuck Severson

Who he is: Senior portfolio manager, Baird MidCap fund (BMDSX)

What he suggests: Stocks can keep rising in 2013

Mid-cap stocks had a strong 2012, and the S&P 400 index of mid caps rose to a record high this month. Chuck Severson says mid-cap stocks can keep climbing this year, lifted by stronger earnings. His mutual fund ranks in the top 14 percent of all mid-cap growth stock mutual funds for five-year returns.

After a solid 2012, do you think it's fair to expect 2013 to also be a strong year for stocks?

I do. It's our expectation that corporate profits will continue on a reasonably good path upward. It's interesting when you think about all the handwringing that we had last year over Europe and the elections and the fiscal cliff: The market plowed right through that. Our expectation is we'll have more handwringing,

but we find plenty of businesses that are going to continue to grow their earnings

Where's the growth coming from?

There are three or four good pockets of strength. One is certainly housing. There is also some infrastructure spending for construction: There are a number of big highway interchange projects nationally, for example. All of the spending going on around energy is also still very strong – both onshore and offshore. And we've gone through the last couple of years of China's economy slowing down and Europe being a mess. But it's our feeling that with the leadership change in China, it's more likely that their growth re-accelerates. In Europe, they'll muddle along, but you can get some stability there.

You own Dollar General and O'Reilly Automotive, which sell to consumers looking for deals. But you also own Tiffany?

We try to position the portfolio that way so that we have diversification in product, geography and demography. Dollar General is growing very strongly and out-profiting their dollar-store peers. In the case of O'Reilly, they're still benefiting from an acquisition that they did a number of years ago, and they've been able to buy back a tremendous amount of stock.

Tiffany was added last year, and it was a way for us to get exposure to the high-end consumer, and it was also a geographic play. The flagship store is in New York, but Europe and Asia are very important to Tiffany's growth. It started

as a small position, and we expect that they should see an improvement in their business as the economy heals, especially in Asia.

What stocks have you bought recently?

The most recent position we added was PVH (the apparel company behind Calvin Klein and Van Heusen). Not long after we made the initial investment, they made a significant investment to buy Warnaco, which gets them even more exposure in Europe, but also an opportunity to really improve that business. We think there's going to be meaningful earnings accretion in that acquisition.

Answers edited for content and clarity.