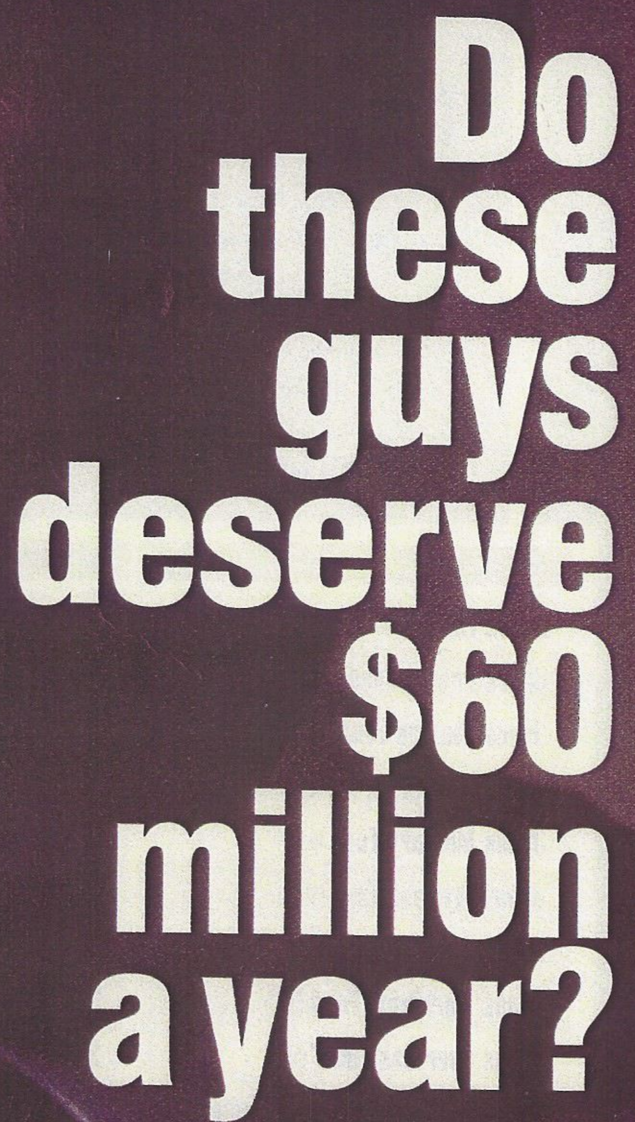


Do these guys deserve $60 million a year?

By William Green

Photographs by Brian Smale

Or are the Kaufmann Fund managers poster boys for the problems plaguing the mutual fund industry?

In a few months, Larry Auriana will move to his dream house in Greenwich, Conn. It's a grand colonial on four acres of idyllic countryside, with a swimming pool and a tennis court in the yard. Auriana, who will live there with his wife and daughter, has added a ballroom to what was already a 6,300-square-foot house.

His most striking addition, though, is a spectacular garage designed to look like a carriage house. He'll use it to display his collection of more than 30 Italian racing cars, including Ferraris, Maseratis and Lamborghinis. The collection is almost complete. "I need two great Ferraris," he says. "But it's really hard for me to cross the line and spend $1 million on a car. I don't want to go overboard."

Starting in 1987, Larry Auriana (opposite) and Hans Utsch built the best-performing mutual fund of the next decade.

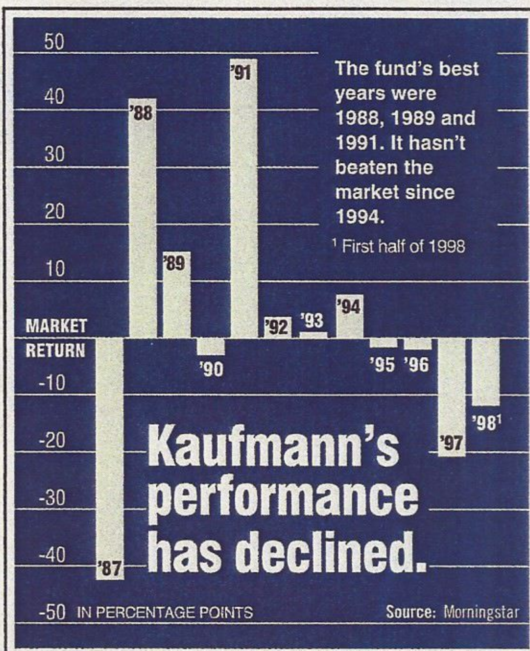
Nowadays, it takes him less than two weeks to earn $1 million. But Auriana, who grew up in a slum in Harlem, says he finds it hard to accept how rich he's become: "I thought money bought you freedom. It really brings you responsibility."

The past decade has brought dizzying responsibility to Auriana and his partner, Hans Utsch, who co-manage the Kaufmann mutual fund. Starting out in 1987 as unknown portfolio managers, they had $3 million in assets under management—so little that they couldn't afford to pay themselves a salary for several years. By now, though, the Kaufmann Fund boasts nearly $6 billion in assets and about 300,000 shareholders.

The fund's growth has been driven by a combination of brilliant stock picking and relentless marketing. Ubiquitous advertisements have trumpeted Kaufmann as America's "#1 General Equity Fund for the Ten Years Ending 3/31/98." Its average annual return over those 10 years was 26%, trouncing the S&P 500's average of 18.9%. The fund's cumulative return over that period was 906%—almost double that of the S&P 500 index.

And yet, the managers' performance has deteriorated of late. In the past three years, the fund has badly lagged the S&P 500, returning 69% vs. 121% for the index. Despite this underperformance, Auriana and Utsch have grossed a total of $186 million in management fees during the three years that ended in 1997. They are now attempting to sell the fund's management company, a transaction that could net each of them $200 million more.

For all their riches, Utsch and Auriana risk becoming poster boys for a wave of discontent that is beginning to ripple through the mutual fund industry, as many actively managed funds repeatedly lag the market. Has Kaufmann, like other once dazzling funds, become so bloated that it's doomed to underperform? Why are Utsch and Auriana advertising so heavily when the fund already seems too big? Do they care more about enriching themselves than their shareholders?



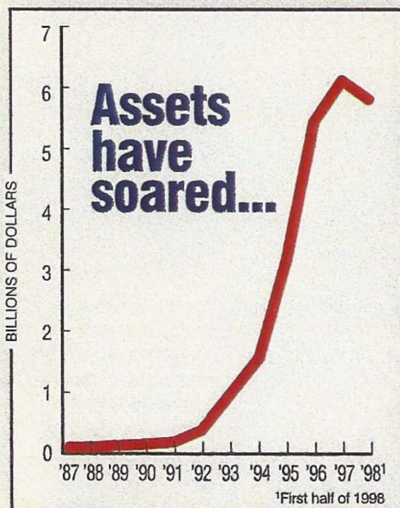
One troubled shareholder recently posted a message on an investment Website, asking if he should move his money to a "more productive fund." He received a blunt response from another investor: "This is the most money-gouging fund in the world. High mgr. expenses, high 12b-1 expenses, and very poor record last three years. They have gotten toooooo big for a small cap fund. But...these guys will never close the fund, because all they see are $$$$$$ before their greedy little eyes...."

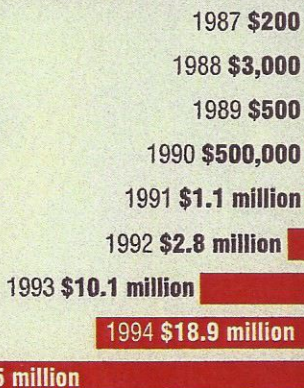
THEY DON'T PLAY THE GAME

It's early June, just another day at work for Hans Utsch and Lawrence Auriana. They have a splendid view of Manhattan from their perch on the 43rd floor of a midtown skyscraper. But their office is drably functional. The waiting room is decorated with a couple of small plants, an old sofa and a poster of a painting by Toulouse-Lautrec. Most of their furniture is secondhand. "People fall out of the chairs in our conference room because the wheels fall off," laughs Utsch.

A tall, lean 62-year-old with intense blue eyes, Utsch is decked out in a pinstriped suit with a white handkerchief in his coat pocket, a pale blue shirt, a yellow silk tie and striped suspenders. He looks like a staid country club type, but he's a volatile and charismatic man—opinionated, witty and brusque. In professional situations, "he can get worked up into a frenzy," says John Leibee, a broker at Salomon Smith Barney.

When the conversation turns to a car dealership company, the famously outspoken Utsch declares: "It's a shitty business. If you put a dime in that, you've got to be sick." Talking to Auriana about a stock that's grown too expensive, Utsch barks, "Keep selling. Come on. What's the matter with you? Christ almighty."

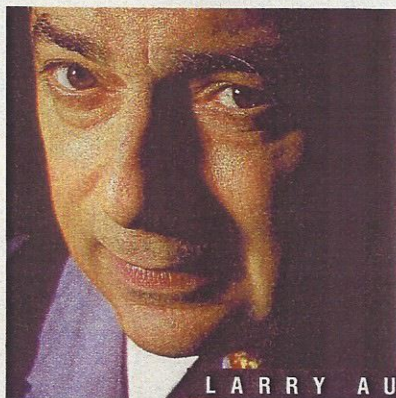




Do these guys deserve $60 million a year?

Auriana, a gregarious, 54-year-old Italian-American with a gravelly voice and a raucous chuckle, is dressed in a similar uniform: pinstriped suit, green suspenders, perfectly polished shoes. But he still sounds like the fast-talking, street-smart kid he once was. A Wall Street outsider, he speaks dismissively of "fancy Ivy League M.B.A.s." He lacks any pretension. Sitting in a Chinese restaurant recently with Utsch, he said, "Order for me, Hans. Just don't give me anything gooey."

This afternoon, Auriana and Utsch are meeting with the CEO and the chief scientific officer of Vitex, which sells blood products such as plasma for transfusions. Vitex is on the verge of going public, and the company wants Kaufmann to invest in its IPO. Auriana and Utsch have a remarkable record of spotting promising ventures, investing heavily in their IPOs, then holding them for years. They bought Altera at its 1988 IPO for a split-adjusted price of $1.38 and still own it at $38. They've made 24 times their money on Viking Office Products since its IPO in 1990.



LARRY AURIANA

"I don't think we're greedier than anyone else in this business."

During a typical IPO "road show," a company might visit 40 money managers in two weeks. The meetings have a dully preordained pattern, beginning with a presentation accompanied by slides. Coached by its investment bankers, the company makes an upbeat pitch, then fields polite questions. But Utsch and Auriana don't play that game.

It happens that Vitex's CEO, John Barr, used to work for Haemonetics, a firm whose stock Kaufmann owns. Utsch begins by deriding Barr's former boss, the ex-president of Haemonetics: "What was wrong with the guy?"

Vitex's management launches into its standard pitch, but Utsch interrupts: "What about this nice old lawsuit?" He's referring to a Justice Department antitrust investigation into the blood sales industry—not something a CEO wants to discuss when he's touting his stock. Utsch listens intently, then attacks from another flank, suggesting that Vitex's manufacturing facility is inadequate. Then Auriana pounces: "You did have a problem with production, didn't you?"

When the executives try to steer the conversation toward their slide presentation, Utsch refuses to listen, declaring, "We've seen too many of those things." And so it continues, with a battery of tricky, minutely detailed questions. After a couple of hours of interrogation, Auriana still has doubts about the CEO. But the technology looks promising, and Utsch thinks the chief scientist is "world class."

Kaufmann invests nearly $7 million; the stock surges by 40% within weeks.

SHORTING AMAZON

Not everybody who has been through the Kaufmann wringer has fared so well. And unlike most mutual fund managers, Utsch and Auriana will risk shorting stocks they don't like.

One outfit that failed their test was Neuromedical Systems, a Pap smear producer that Goldman Sachs took public in 1995. The stock soon raced from $15 to $27. But Neuromedical's Pap smear test was "much too expensive," says Auriana, and the technology was "questionable." While others piled gleefully onto the bandwagon, Kaufmann bet the stock would crash. Neuromedical now trades at $1 a share.

Amazon.com, one of the hottest stocks of the past year, also failed to impress. After making a slick presentation, the company refused to answer detailed questions, citing concerns about confidentiality. Says Joy Covey, Amazon's CFO: "The last thing we want to do is provide a road map for our competitors." The attitude, Utsch rails, was, "You've got to trust me."

Kaufmann has shorted this stock too, which has doubled since the fund bet against it. Still, Utsch remains convinced that it'll plummet: "It now sells for a higher valuation than Borders and Barnes & Noble combined."

This attitude of aggressive skepticism has been key to Kaufmann's success. "In some cases it creates real animosity," says Larry Marsh, a director of equity research at Salomon Smith Barney. "I've seen situations where CEOs turn red in the face and sputter answers.... The ones who tell a good story but don't run a good company tend to react the worst."

"I WANTED TO MAKE A LOT OF MONEY"

Utsch and Auriana are in an Italian restaurant in Manhattan, eating dinner and reminiscing. With his usual candor, Utsch says they have "just a professional relationship." But after two decades of working together, they behave like brothers. When the waiter brings Utsch a salad, he turns it away and tells Auriana, "I'll take a couple of bites out of yours." Auriana replies, "Very good, Hans." When Auriana's bowl of beans arrives, Utsch—without asking—keeps digging out the garlic with his fork. "Hans loves garlic," Auriana explains calmly.

Given the difference in their backgrounds, it's remarkable that they ended up as partners. Auriana's father spent 40 years supervising a hospital mail room, saving just enough to send his son to a private Catholic school. Auriana graduated from Fordham University, then interviewed for a job as a stock analyst at General Re. "It was a blue-blood firm, but they gave a kid from Spanish Harlem a chance," he recalls.

Auriana soon found it stifling: "They invested only in blue-chip companies. I wanted to get involved in more speculative emerging growth stocks, because I wanted to make a lot of money. I thought I would make $1 million by the time I was 30, retire and study philosophy." He left for a start-up brokerage firm that doubled his salary to $15,000: "I couldn't resist."

Utsch came from more privileged stock. His grandfather, the mayor of a German town, had a chauffeur, maids and a footman. Utsch's father, who settled in America in the 1920s, owned a successful currency-exchange business in New York City. After growing up in the wealthy suburb of Scarsdale, Utsch studied at Amherst College and received an M.B.A. at Columbia University. Along the way, he earned a pilot's license and bought his own single-engine plane. "He used to love to fly his dates out to Nantucket for the weekend," says George Wiegers, a classmate at Columbia. "Everyone was scared to death...but Hans was supremely confident, never reckless."

In 1962, Utsch took a job at Goodbody, then the third largest retail brokerage in America. He made a name for himself by picking speculative stocks like Kentucky Fried Chicken. He knew investors who had gambled on Xerox when it was still unknown: "They found one stock and they all retired. So we all said, 'We're going to find the next one....' We wanted to find that one bright, shining star."

Stocks soared in the 1960s, and Utsch reveled in his success. He bought a share in a teak sloop that had belonged to Cornelius Vanderbilt. He flew his plane to Martha's Vineyard and Vermont, and partied at a Manhattan disco called Le Club. He married a beautiful woman, and they bought a palatial apartment on Park Avenue.

Utsch left Goodbody and launched his own multimillion-dollar hedge fund in 1971. He focused on aggressive growth stocks, and he leveraged his returns by borrowing money to buy additional stock. He, his sister and his father invested heavily in the fund. "This," he recalls thinking, "was a one-way ride to prosperity."

And then came the 1974 crash. Utsch's fund imploded, plummeting 70% before he closed it down. Stripped of his wealth, Utsch sold his plane, his sailboat and later his Park Avenue apartment. Utsch's wife, Wiegers recalls, "had a harder time accepting the reality of an ordinary life. There was quite a bit of emotional letdown." She divorced Utsch and won custody of their two young sons. Utsch moved into a one-bedroom rental and battled on as a stockbroker and analyst at his father's old company. He kept waiting, he says, for "that one day when we could pick a good stock and make some money again."

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"Performance sells," says Auriana, who splashed ads everywhere.

THE LONG SHOT

Auriana went to work for Utsch's family firm in 1975 as an analyst. He was 31, but no closer to being a millionaire. It was a bleak time on Wall Street. All around them, brokerage firms were going bust. Nobody wanted to own the speculative high fliers that captivated Auriana and Utsch. "Stocks seemed statistically cheap, and they just got cheaper and cheaper," says Auriana. "They went to valuations you could never imagine."

Scrambling to get by, Utsch dabbled in investment banking, raising money for small companies. Peter Lerner, who worked for him, recalls: "Very little came to fruition.... We lacked the resources to get respect from clients." Another problem, says Lerner, was that Utsch "wasn't himself for several years after his wife left."

Utsch had, at least, learned lessons that would later contribute to the Kaufmann Fund's success. One investment that had hurt him in 1974 was in a company that built parks for mobile homes. It had been growing so fast that Utsch failed to notice the weakness of its balance sheet: The company generated negative cash flow. When times got tough, it ran out of money and went broke. Utsch has remained obsessed with cash flow ever since.

Utsch and Auriana plodded on in obscurity for the next decade, keeping costs down and stashing away whatever they could save.

Marketing dollars

Here's how Kaufmann's budget for ads and direct mail stacks up against those of some other boutique fund companies.

FUND COMPANY	NO. OF FUNDS	1997 ADVERTISING EXPENSES	COMMENTS
Brandywine Funds	2	$0	Jack Fraser, analyst: "Our No. 1 focus is growing the assets of our shareholders prudently. That's what we worry about."
Kaufmann Fund	1	$16,100,000	Larry Auriana, co-manager: "We've advertised our performance. We're proud of it....We've built a brand name."
Oberweis Funds	3	$61,036	Jim Oberweis, manager: "We've probably not been very good marketers....We focus on looking at companies."
Third Avenue Funds	2	$0	Marty Whitman, manager: "It doesn't pay to advertise. We would not get heard above the noise."
Torray Fund	1	$0	Bob Torray, co-manager: "Advertising is not something I want to do. It doesn't help existing shareholders to make them pay to promote a fund."
Tweedy Browne	2	$0	John Spears, co-manager: "I don't remember the last time we spent anything on advertising....We've had growth through word of mouth."

Do these guys deserve $60 million a year?

In the 1980s, they cobbled together several venture-capital deals, helping to finance a firm called Datavision, for instance, which sold alarms for houses. It was a rare triumph, making their investors 500% in 18 months.

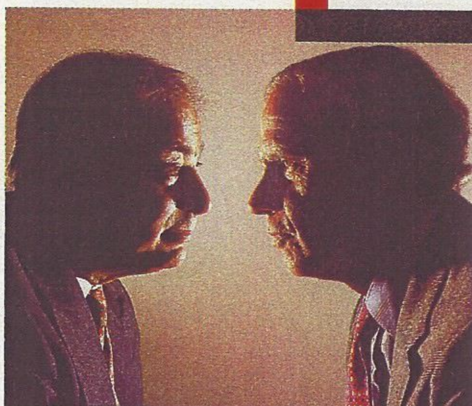
In 1986, Auriana and Utsch prepared to launch their own mutual fund. Instead of starting from scratch, they took over the shell of a defunct fund founded by a J.W. Kaufmann (hence the name). "We'd seen everything," Utsch recalls. "We'd been through the wars. We were ready."

Still, it was a long shot. The fund industry was dominated by titans like Merrill Lynch, which primarily sold funds with loads through brokers who received fat commissions. As a no-load fund, Kaufmann would have to be sold directly to the public, which remained deeply wary of the stock market. The only way for Utsch and Auriana to attract enough shareholders to cover their costs would be to perform spectacularly.

They approached some wealthy Maryland businessmen who had made a bundle on the Datavision deal. The group agreed to invest in the fledgling fund, chipping in more than $1 million. By January 1987, Utsch and Auriana had rustled together assets of $3 million.

They set up shop in a tiny Manhattan office with cockroaches and mice and broken-down furniture. Visiting executives sat on boxes. From this inauspicious beginning, Utsch and Auriana would build the best-performing mutual fund of the next 10 years.

A string of brilliant stock picks quickly established Kaufmann's reputation.



MASSIVE BETS ON TINY STOCKS

The Kaufmann Fund was always different. Knowing they had to dazzle, Utsch and Auriana took breathtaking risks. In 1987, they staked 25% of their assets on a single stock, Chantal Pharmaceutical. The company was not profitable, but it had developed a compound that was touted as a cure for everything from baldness to acne.

In its heyday, Chantal hit $28 a share. However, the stock recently traded at a less heady 4¢ a share. The product is "a snake oil," contends Evan Sturza, who publishes a newsletter about medical stocks. What did Utsch and Auriana see in this bubble stock? Utsch recalls ruefully that Chantal's product was validated by a UCLA professor who "claimed to me that he'd tested it on the kids in his Bible class, and it got rid of their acne."

Chantal plunged 75% within months of becoming Kaufmann's biggest holding. Then the stock market crashed that October. By the end of 1987, Kaufmann was down 37%, making it one of America's worst-performing funds. "A lot of people would have just closed up the fund at that point," says Don Phillips, president of Morningstar. "It was a disaster."

Phillips, who interviewed Utsch and Auriana around that time, says he had "written these guys off.... But even then I admired them." What struck him was their passion for stocks. He also recalls that Auriana "would always talk about Utsch with real awe for his analytic abilities. He would say how brilliant Utsch was and how lucky he was to be Utsch's partner."

Auriana and Utsch didn't close the fund, but they modified the way they invested. In the future, says Auriana, they'd bank on firms "that are really profitable—not 'hope' companies." Still, the fund remained boldly focused on a handful of high-risk firms, some barely past their venture-capital phase. In 1988, half of Kaufmann's assets were riding on eight stocks—obscure names like Octel Communications and Kinetic Concepts. To boost returns further, the fund borrowed money to buy additional stock.

The gamble paid off. Auriana and Utsch tripled their money on one of their biggest holdings, a catheter manufacturer called Spectramed. Another health-care stock, Trimedyne, jumped 67% in three months. By the end of 1988 Kaufmann was up 58%, making it the best-performing fund of the year. The *New York Times* ran photos of Utsch and Auriana alongside one of Fidelity's Peter Lynch, whose Magellan Fund was then the top-performing fund over 10 years.

Utsch and Auriana kept up their stunning performance by taking risks that would have given other managers heart failure. In 1989, they staked half

Four stocks Auriana and Utsch love now

COMPANY (ticker symbol)	PRICE[1]	MARKET CAP[1] (in millions)	P/E RATIO[2]	KAUFMANN'S VIEW
Cendant (CD)	$15.00	$12,875	14.7	"Terribly undervalued....It's time to jump in."
Philadelphia Consolidated Holding (PHLY)	$20.50	$253	13.5	Fast-growing insurance firm; "very well managed"
Transaction Network Services (TNSI)	$23.00	$291	33.3	Strong franchise, healthy margins, rapid growth
J.D. Wetherspoon (JDW LN)	$4.50	$908	32.0	U.K. pub business growing 30% a year

Notes: [1]As of July 24, 1998 [2]Trailing 12 months, except Cendant: 1998 earnings estimates
Sources: Baseline, Bloomberg, Kaufmann Fund

their assets on only six stocks. T-2 Medical, a home-care infusion provider, accounted for 15% of the portfolio. It soared from $4 a share in 1988 to $67 in 1992. Kaufmann's huge bets propelled the fund to a 1989 return of 46%. In 1991, with 40% of its assets riding on only five stocks, Kaufmann rose 79%.

"Everyone said these guys are a flash in the pan," says Auriana. "And they've been saying that ever since." But Kaufmann's returns were so extraordinary that money flooded in. The fund's assets, which had fallen to a low of $2 million in 1987, climbed to $5.7 million in 1988. By 1990 Auriana and Utsch were managing $50 million.

"We broke even at $10 million," says Utsch. "When we hit $50 million, I thought, 'My God alive. Unbelievable.'"

TOUGH GUYS ADVERTISE A LOT

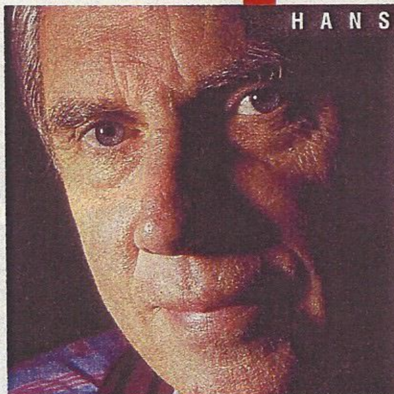
Nobody knows better than Utsch and Auriana that investing is cyclical. They had endured a crushing bear market in the 1970s, but everything was turning their way now, and they would milk their good fortune for all it was worth.

In the '90s, investors have largely forgotten the pain a crash inflicts. Month after month, they've poured as much as $20 billion into equity funds. Few entrepreneurs have exploited this boom as skillfully as Utsch and Auriana. As Morningstar's Phillips puts it, "They've been master salesmen as well as exceptionally good stock pickers."

When they started the fund, Auriana and Utsch made one assumption about how to make it a commercial success. "Performance sells," says Auriana. They couldn't afford to advertise, so they had to focus solely on picking the right stocks. But as the fund thrived, Auriana began to market it aggressively, while Utsch stuck to analyzing companies. Auriana adopted what he calls "a multimedia advertising approach."

Utsch doesn't have any of his own money invested in the fund.

HANS UTSCH



Kaufmann's advertisements were splashed everywhere: in publications like the *New York Times* and MONEY, on CNN and CNBC, in subways, eventually on the Internet and even on the paper "jackets" in which Amtrak passengers receive train tickets. Last year, Kaufmann spent $16.1 million on advertising. Only giants like Fidelity, T. Rowe Price and Franklin Resources spend more.

It helped too that the fund's returns earned glowing media coverage. *Smart Money* named Kaufmann one of its "superstar funds" in 1994. *Mutual Funds* magazine featured Utsch and Auriana on a 1995 cover under the headline "Tough Guys Finish First." As part of the marketing blitz, Auriana sent glossy reprints to hundreds of thousands of potential investors. The mailings were paid for by the fund's shareholders in the form of hefty 12b-1 fees.

A buying frenzy ensued. The fund's assets ballooned from $40 million in 1990 to $1.5 billion in 1994, then jumped to $3 billion in 1995 and to $5 billion in 1996. Last year, Kaufmann hit the $6 billion mark, making it America's third biggest small-company fund. For Utsch and Auriana, this inflow of dollars was like manna from heaven. As Kaufmann grew, so did the fees for managing it: Between them, they grossed $35 million in 1995, $66 million in 1996 and $85 million in 1997.

This year, they should once again collect a fee of more than $80 million. Auriana says their profit margins are higher than 70%, so in 1998 they can expect to net some $30 million each.

WHERE DO UTSCH AND AURIANA INVEST THEIR OWN MONEY?

Yet the Kaufmann Fund has inevitably changed as it's grown. With billions to invest, it can no longer bet on just a handful of tiny, speculative stocks. In 1988, when the fund surged by 72% in nine months, Utsch and Auriana gambled 40% of its assets on only five stocks. One great pick like Spectramed, which then accounted for 12% of the fund's assets, had an electrifying impact. By contrast, Kaufmann now has 362 holdings.

With billions under management, Utsch and Auriana have also been forced to invest in larger companies, drifting away from the microcaps that made them. In 1989, when Kaufmann returned 46%, the stocks in the fund had a median market cap of only $42 million. But Kaufmann can no longer take meaningful positions in companies that small. Last year, only 14% of the fund was invested in stocks with a market cap of less than $250 million. Half of the fund was in stocks with a market cap of at least $1 billion. And Kaufmann has even resorted to investing in behemoths like Rentokil Initial, with a recent market value of $20 billion.

It's a familiar problem. As funds become hot, they attract billions from new investors and thus lose their agility. The star fund manager, who is loaded down with additional assets, resembles a sprinter with weights strapped to his ankles. The trouble is, fund companies have limited financial incentive to close funds to new investors: If a fund balloons, the fund company pockets bigger management fees.

Auriana insists that Kaufmann's size "has not been a detriment to our performance." As evidence, he points to 1995 (when Kaufmann returned 37%) and 1996 (when it was up 21%). But in both those years the fund marginally lagged the S&P 500. It underperformed more dramatically in 1997, climbing 12% while the S&P 500 rose 33%. Kaufmann is lagging again this year, up 0.9% through July 28 vs. 16.4% for the S&P 500. The fund has now underperformed the index over one, three, and five years.

Auriana and Utsch blame the small-cap market. "We haven't underperformed because we're too large," says Auriana. "It's because small-caps have grossly underperformed."

Text continues on page 116.

But Kaufmann ranks only 174th out of 312 small-cap funds over three years. Auriana concedes that Kaufmann could be "a bit more aggressive" if it hadn't grown so big. Asked if the fund's returns would be better if, say, it had closed at $500 million, he says: "That's absolutely possible."

Kaufmann's critics are more scathing. "Each year they get worse," carps William Dougherty, who analyzes funds for Kanon Bloch Carré, a consultancy that uses mutual funds to manage retirement money. Dougherty says that 53% of all equity funds have outperformed Kaufmann over the past three years. And worse, he adds, Kaufmann has underperformed while incurring more risk than the average fund: "If you knew the risk you were taking to get the return you're getting, you'd die."

Robert Schock, a private investor who has known Utsch since they worked together at Goodbody in the 1960s, was among Kaufmann's original shareholders. He still has more than $1 million in the fund, and he's convinced that Utsch has lost none of his brilliance. But Schock too is losing faith in Kaufmann: "It's not nearly as attractive now as it used to be, because it's so big.... Regardless of how great an analyst [Utsch] is, he can't perform as well." Schock has no doubt as to why Utsch and Auriana let the fund become bloated: "They want to make more money.... It's greedy. I don't like it."

Kaufmann has underperformed the S&P 500 over one, three and five years.

Auriana responds: "I don't think we're greedier than anyone else in this business....We enjoy managing the business, but we're here to make money."

Indeed, Utsch and Auriana continue to advertise the fund as aggressively as ever in the hope of pulling in even more assets. Their marketing budget for 1998 is, again, an enormous $16 million. Their ads continue to hype the fund's stellar 10-year record—although it's now merely the best-performing "small company" fund over 10 years, not the best-performing "general equity" fund. The ads don't mention Kaufmann's performance over the past three years. "It's very misleading," complains Dougherty.

Utsch and Auriana also continue to charge steep fees. The fund's total-expense ratio is 1.89%, which includes a 1.5% management fee. According to Lipper Analytical Services, only eight of 517 small-company growth funds charge a higher management fee. Utsch and Auriana have long defended their fees by saying shareholders "get their money's worth"—a less convincing argument now that Kaufmann has lagged the market over five years. "We think that we're a quality product," responds Auriana, "and we charge a premium price."

When Utsch and Auriana invest in a company, they always want to see that management owns plenty of its own stock. It's one way of ensuring that everyone's interests are aligned. By the same token, investors might ask how much Utsch and Auriana have invested in the Kaufmann Fund. Auriana admits that he doesn't have "any important amount" in the fund. Utsch says he's invested none of his own money in the fund. He says he's still spooked by the memory of 1974, when his hedge fund cratered: "I learned the consequences of having all my eggs in one basket."

What do Utsch and Auriana do with the tens of millions they rake in by managing Kaufmann? Most of it goes into municipal bonds that pay 5%.

"HOW MANY ROOMS CAN YOU LIVE IN?"

One day, Auriana and Utsch will quit the fund business altogether. "It's a very exciting life, but you don't have any balance," says Utsch. "You pay an emotional price and a price on your family."

Now married to an antique-store owner named Susan, Utsch typically gets up at 6 a.m., leaves the office at 7 p.m., then works at home until 10.30 p.m. He spends half his time on the road, meeting with companies. He plays golf a few times a year, rarely sees a movie and almost never reads a book.

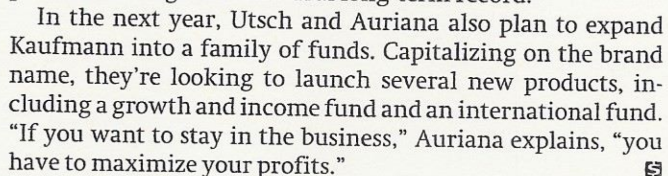
"When he's at home, all he likes to do is hang out with my mom and play with our three dogs," says his stepdaughter Sarah, a journalist. "He comes home with a huge stack of reports to read, and that's all he does. It's really sad.... I think he works harder now than when he started the fund. I think there's a lot of pressure for him to keep up his good record."

It clearly isn't just money that keeps Utsch going. He owns a farmhouse in Pennsylvania and a vacation home in Maine. But when he's in New York City, he still lives in a one-bedroom apartment. He doesn't see the point in buying something grander. "What do I need it for?" he asks. "How many rooms can you live in?"

Susan has been pressuring him to slow down. But he isn't ready to retire, and he's not the type to work part time. "You can't be on the treadmill half the time," he says. "You're either on it or off it." So he and Auriana are forging ahead with their usual intensity, determined to drive their business to even greater success.

One option they're exploring is to sell their money-management firm to another fund company, which would handle the marketing and leave them free to pick stocks. They'd stay on as managers of the Kaufmann Fund for a minimum of five years and would be richly compensated for their services. Roberto de Guardiola, an investment banker to the fund industry, says he's been negotiating such a deal on their behalf with two or three "very serious candidates."

De Guardiola thinks Utsch and Auriana will split $400 million if the sale goes through. The fund "is a gold mine," the banker rhapsodizes. "It's got almost 300,000 clients. It's very profitable. It's got a wonderful long-term record."



In the next year, Utsch and Auriana also plan to expand Kaufmann into a family of funds. Capitalizing on the brand name, they're looking to launch several new products, including a growth and income fund and an international fund. "If you want to stay in the business," Auriana explains, "you have to maximize your profits." $