

GROWTH INVESTOR | GROWTH-STOCK MOMENTUM INVESTING

Richard Driehaus Bought Strength When Wall Street Still Worshiped Cheapness

Richard Driehaus turned an uncomfortable idea into an institution: buy companies already moving higher, demand accelerating earnings, cut deteriorating positions quickly, and accept volatility as the price of catching exceptional growth.

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Richard Driehaus's career is defined by buying strength, demanding earnings acceleration, and turning momentum investing into an institutional growth discipline.

In brief

Richard H. Driehaus was one of the most influential institutional champions of growth-stock momentum investing. From modest Chicago roots and an early fascination with markets, he built Driehaus Capital Management into a growth boutique whose philosophy linked earnings acceleration, positive surprises, relative strength, and disciplined selling. His record earned him a place on Barron's mutual fund All-Century team, but his method also carried recognizable hazards: high valuations, liquidity risk, turnover, factor crashes, and the danger of confusing price action with durable business change. His continuing relevance lies in the tension he made explicit: the market often rewards strength before it looks reasonable, yet the same force can punish investors who mistake momentum for permanence.

- Driehaus mattered because he helped legitimize institutional growth-stock momentum as a disciplined investment style rather than a speculative habit.
- His central inversion of Wall Street's bargain-hunting instinct was to buy stocks already making new highs when earnings, sales, market demand, and industry strength confirmed the move.
- The Driehaus process combined bottom-up fundamental research with price momentum, relative strength, earnings surprises, estimate revisions, and close monitoring of companies and sectors.
- His risk controls were rooted in selling: cutting losses, abandoning deteriorating fundamentals or price patterns, and accepting high turnover when it prevented larger damage.
- The method's weaknesses are also clear: richly valued growth stocks can fall sharply, small-company liquidity can vanish, concentrated exposures can amplify losses, and academic evidence shows momentum strategies can suffer sharp crashes after market stress.
- Driehaus's legacy extends beyond performance into institution building, philanthropy, historic preservation, and the continued presence of Driehaus Capital Management as an active growth-equity boutique.

Performance markers

Driehaus Capital Management assets under management	Approximately \$32.2 billion Reported by Driehaus Capital Management as of June 30, 2026 across growth-oriented equity and alternative investment strategies.
Micro Cap Growth Fund 10-year annualized return	23.53% Driehaus Micro Cap Growth Fund return as of June 30, 2026, compared with 10.79% for the Russell Microcap Growth Index over the same period.
Micro Cap Growth Fund since-inception annualized return	19.10% Reported as of June 30, 2026; the since-inception calculation includes predecessor limited partnership performance beginning January 1, 2003, with fund disclosures noting differences from registered fund operation.
Emerging Markets Growth Fund Investor Class 10-year annualized return	11.22% Reported as of June 30, 2026, compared with 10.07% for the MSCI Emerging Markets Index and 10.60% for the MSCI Emerging Markets Growth Index.
AAII Driehaus Revised screen since-inception return	17.7% versus 7.6% for the S&P 500 AAII reported this screen performance since its 1998 inception through May 29, 2026; the screen is an interpretation of the strategy and not a managed fund record.

Charts and timelines

Risk		Timeline	
Growth-stock valuation risk	Potential may not be realized	First stock purchase	Paper-route savings invested in stock
Small-company liquidity risk	Less liquid, less established issuers	DePaul education	B.S.C. and M.B.A.
Concentration and non-diversification	Larger position-level impact	A.G. Becker start	Institutional trading department
High turnover	Higher costs and taxes	Driehaus Securities	Small-cap research and trading firm
Momentum crash risk	Losses after stressed markets rebound	Driehaus Capital Management	Investment adviser founded
		First mutual fund	Mutual fund launch and international expansion
		Lead PM transition	Stepped away from lead PM duties for non-affiliated client assets
		Barron's recognition	Mutual Funds All-Century Team

Philosophy		Performance	
Buy strength	Buy high, sell higher	DMCRX 10-year annualized	23.53%
Demand business acceleration	Differentiated earnings growth	DMCRX since inception	19.10%
Use catalysts	Earnings surprises and upward revisions	DREGX 10-year annualized	11.22%
Sell deterioration	Cut losses, let winners run	DREGX since inception	11.20%
Stay flexible	Discipline without rigidity	AII Driehaus Revised screen	17.7% annualized

The wager hidden in a new high

The most revealing feature of Richard H. Driehaus's career is not that he liked growth stocks. Plenty of investors did. It is that he wanted to buy them when most cautious investors were already uncomfortable. A stock near a high, a rising multiple, a sudden earnings surprise, a sector drawing fresh capital - these were not automatic signs of danger to him. They were evidence that the market might finally be waking up to a business whose prospects had been underestimated.

That idea cut against a long Wall Street inheritance. Generations of investors had been taught to look for discounts, low price-to-earnings ratios, and the emotional comfort of a bargain. Driehaus did not dismiss analysis, but he distrusted the reflex that made investors equate cheapness with safety. In his 2014 DePaul remarks, he described price as an imperfect expression of value, heavily influenced by emotion, market dynamics, and changing information.

The result was a career built around a paradox. Driehaus was a growth investor with a trader's respect for time, a stock picker with an unusual interest in price behavior, and an institutional manager who made the act of buying strength sound less like speculation and more like disciplined recognition. His reputation rests on that inversion: the best opportunities often look expensive before their earnings power has been fully understood.

Why Driehaus matters

Driehaus matters because he helped move momentum investing from the edges of trading culture toward the center of professional money management. He was not the first investor to notice relative strength, nor the first to buy companies with accelerating earnings. His significance was in combining those ideas into an institutional growth-equity philosophy, building a Chicago firm around it, and making the language of price strength respectable among clients accustomed to valuation discipline.

His firm describes him as the architect of its growth-equity investment philosophy and notes that he founded Driehaus Capital Management in 1982. The firm's history records a steady broadening from domestic growth equities into mutual funds, international and emerging-markets equities, institutional mandates, responsible-investment policy, and newer global and alternative strategies. As of June 30, 2026, the firm reported approximately \$32.2 billion in assets under management.

That scale gives the story continuing relevance. Driehaus's core insight now lives in factor models, quantitative screens, exchange-traded funds, and institutional growth processes, yet his version remains distinctive because it was never purely mechanical. AII's contemporary interpretation of his approach still emphasizes strong earnings growth, positive earnings surprises, relative strength, industry strength, and the need to monitor when momentum fades.

Chicago roots and the first taste of markets

Driehaus's origin story has the sturdy texture of midcentury Chicago. He was born in 1942 and raised on the city's southwest side, in a family that knew pressure before it knew affluence. Horatio Alger's profile of him describes a childhood in which his father, Herman, worked as a mechanical engineer designing coal-mining equipment, and his mother, Margaret, returned to work after his father's health declined.

The market entered his life early. Driehaus Capital Management's biography says his first exposure to financial markets came at age 13, when he used money from a paper route to buy his first shares of stock. That detail matters because it places investing before prestige, before graduate school, before clients and awards. It was a curiosity before it was a business.

The young Driehaus did not inherit a seat in finance. After college, he struggled to find work and even placed a classified advertisement in *The Wall Street Journal* to attract an employer's attention. Horatio Alger records that the ad cost \$52.75 and led to a job at \$450 a month. The episode would become part of his self-made identity, but it also foreshadowed a trait central to his investing: when conventional channels failed, he was willing to try the uncomfortable route.

From DePaul to A.G. Becker

DePaul University was central to Driehaus's formation. He earned a B.S.C. degree in 1965 and an M.B.A. in 1970, later receiving an honorary doctorate from the university in 2002. In his 2014 speech at DePaul, he recalled transferring from a junior college and being struck by how organized and welcoming the university had been to him. His master's thesis, he said, was titled *Growth Investing: A New Investment Theory*.

His professional ascent began at A.G. Becker, where he started in 1968 in the institutional trading department. The official biography says that within two years he became the firm's youngest portfolio manager and ranked among the top 1 percent of portfolio managers measured by the A.G. Becker Fund Evaluation Service. That early validation gave him something more valuable than a credential: evidence that an aggressive growth philosophy could work in competition with other managers.

The 1970s were his apprenticeship in research, brokerage, and money management. He worked at firms including Mullaney, Wells & Co. and Jesup & Lamont, serving as director of research and as a money manager. The route was not linear, but it gave him exposure to analyst behavior, portfolio decision-making, and the gap between a good idea and an executed trade. That gap would later become one of his recurring complaints about conventional management.

Building a boutique on Erie Street

Driehaus did not build a giant diversified financial supermarket. He built a boutique whose identity was tied to a style. The firm history places Driehaus Securities in 1980, with a focus on U.S. small-cap equity research and trading, and Driehaus Capital Management in 1982, established to manage money for his friends and family by investing in growth equities. The sequence is telling: research and trading came first, asset management followed.

The advisory firm's 2014 Form ADV described Driehaus Capital Management as a privately held, independent investment adviser based in Chicago and registered with the SEC since 1983. At the end of 2013, it reported about \$12.71 billion in regulatory assets under management. The same filing described clients that included corporate pension plans, public plans, endowments, foundations, family offices, mutual funds, pooled accounts, collective vehicles, and high-net-worth individuals.

Over time the firm became less dependent on its founder's direct portfolio management. Its history notes that in 1998 Driehaus stepped away from all lead portfolio management responsibilities for non-affiliated client assets. That transition is an underappreciated part of his career. Many investment firms built around a star struggle to institutionalize the star's instincts. Driehaus tried to turn his philosophy into a repeatable culture before succession forced the issue.

The method behind buying high

The phrase attached to Driehaus is buy high and sell higher, but the slogan can mislead. He was not arguing that price strength alone was sufficient. His 2014 speech laid out a fuller structure: buy stocks that had already made good moves, were making recent or long-term new highs, had positive relative strength, and belonged to groups showing similar strength. Demand from other investors mattered, but it needed support from improving business evidence.

AII's interpretation of the Driehaus approach captures the same blend. Its screen looks for small- and mid-cap companies with strong, sustained earnings growth, positive earnings surprises, upward-moving prices, and relative strength versus the market. It also stresses that Driehaus preferred stocks in strong industry groups, even if another company in a weak group appeared to have stronger earnings growth.

The engine of the method was the belief that the market often underestimates change. A company that is moving from good to better can look expensive on trailing numbers because trailing numbers describe the old business. Driehaus wanted to be early in recognizing acceleration, but he did not want to be early in a vacuum. Price confirmation helped show that other investors were beginning to agree.

Earnings as the driver, not the decoration

For all the attention paid to momentum, Driehaus's framework was not detached from fundamentals. The firm's Form ADV stated that its principal equity philosophy was based on the principle that corporate earnings are the primary driver of stock prices over time. In practice, that meant looking for differentiated earnings growth: growth that was difficult to replicate and that the market had not yet fully priced.

The firm's process, as described in regulatory disclosure, screened for positive change in sales, margins, earnings, operating metrics, financial ratios, earnings surprises, upward revisions, model assumptions, industry or macro developments, and stock-specific relative strength. Once an idea surfaced, the research process examined the business model, competitive position, industry dynamics, growth catalysts, financial position, macro and geopolitical influences, and valuation relative to expectations.

That combination separated Driehaus from investors who used price momentum as a stand-alone signal. In his world, price movement was the market's vote on a developing thesis. Earnings surprises were catalysts because they forced analysts and investors to revise assumptions. Relative strength was useful because it showed urgency. But the question beneath it all remained fundamental: was the growth real, sustainable, and still underestimated?

The courage to sell

The buy decision made Driehaus famous, but the sell discipline made the approach survivable. He argued that buying companies based on current information required investors to act when that information changed. In his DePaul speech, he rejected the passive rule of simply buying good companies and holding them. His alternative was more conditional: own good stocks of good companies until unfavorable changes appear.

That principle explains his defense of turnover. Driehaus said high turnover could reduce risk when it resulted from taking small losses to avoid larger ones. He did not want to hold stocks with deteriorating fundamentals or weakening price patterns. The line is important because it reframes turnover not as impatience, but as the operational cost of staying aligned with changing evidence.

Regulatory disclosures show how that philosophy was translated into portfolio practice. The firm described sell or trim decisions as based on changes in the fundamental investment thesis, changes in risk and reward, a determination that a security had become efficiently priced, and portfolio exposure or risk-management considerations. It also disclosed continual monitoring of securities in separate accounts and model-portfolio implementation across strategies.

Risk he accepted, and risk he tried to control

Driehaus's approach did not make risk disappear. It relocated it. The firm warned that growth stocks are typically priced higher than other stocks because investors believe they have more growth potential, and that this potential may or may not be realized. It also warned that growth stocks tend to be more volatile than the overall market. The method could look brilliant when expectations were too low and painful when expectations became excessive.

Small- and medium-sized company risk was another structural feature. The firm disclosed that smaller companies may be less established, less liquid, and riskier than larger companies, with less management experience, fewer financial resources, narrower product diversification, and lower trading volume. That matters because Driehaus's edge often lived in underfollowed or faster-growing companies where liquidity could be less dependable.

Academic work on momentum adds another hazard. Daniel and Moskowitz documented that momentum strategies can suffer infrequent but persistent strings of negative returns, often in panic states following market declines, when volatility is high, and as markets rebound. That finding does not invalidate Driehaus's method, but it identifies one of its failure modes: after a violent regime change, yesterday's winners can become the wrong exposures at the wrong speed.

The record, with the right caveats

Driehaus's personal record is best viewed in layers. The official biography says his early A.G. Becker performance ranked among the top 1 percent of managers measured by that firm's evaluation service, and that Barron's named him in 2000 to its mutual fund All-Century team of 25 influential figures in the industry. Those are reputation markers rather than full audited return series, but they explain why his name carried unusual weight among growth managers.

The firm's later public funds provide more current evidence of the philosophy's institutional legacy, while requiring caution because Driehaus stepped away from lead portfolio management for non-affiliated client assets in 1998. As of June 30, 2026, the Driehaus Micro Cap Growth Fund reported a 10-year average annual total return of 23.53 percent and a since-inception figure of 19.10 percent, with the Russell Microcap Growth Index at 10.79 percent and 9.58 percent over comparable periods. The fund's since-inception calculation includes predecessor limited partnership performance, with disclosures about differences from registered fund operation.

The emerging-markets record is more mixed but still illustrates the durability of the franchise. As of June 30, 2026, the Driehaus Emerging Markets Growth Fund Investor Class reported 11.22 percent annualized over 10 years and 11.20 percent since its December 31, 1997 inception. Its institutional class reported 11.44 percent over 10 years and 11.27 percent since inception. AAI's Driehaus Revised screen, a model based on its interpretation of his strategy, reported 17.7 percent since inception in 1998 versus 7.6 percent for the S&P 500 as of May 29, 2026, but screens are not investable funds and do not substitute for manager records.

The academy catches up with the practitioner

Driehaus's career is also a reminder that markets sometimes validate practitioner intuition after the fact. In 1993, Narasimhan Jegadeesh and Sheridan Titman documented that strategies buying past winners and selling past losers generated significant positive returns over 3- to 12-month holding periods in their 1965 to 1989 sample. The paper became a cornerstone of the academic momentum literature.

The study's nuance matters. Jegadeesh and Titman found that part of the abnormal returns dissipated in the years after portfolio formation, and they argued that simple stories of overreaction and underreaction were inadequate. That nuance fits Driehaus better than a caricature does. He was not saying every rising stock should be owned indefinitely. He was trying to exploit a window in which fundamental change, investor underreaction, and price confirmation could reinforce one another.

Later research made momentum both more legitimate and more humbling. Carhart's four-factor mutual fund model incorporated a one-year momentum factor into performance analysis, making it harder to call momentum merely anecdotal. Daniel and Moskowitz then showed why the premium could be difficult to harvest: momentum can crash,

especially around sharp market rebounds after stress. In that sense, the academy did not merely celebrate Driehaus's instinct. It also mapped the cost of relying on it.

The criticism: expensive stocks are still expensive

The sharpest criticism of Driehaus's method is that it can sound too forgiving of valuation. He argued that there is no universal valuation method and that valuation is not the key factor in the short run. That view can be liberating when investors are using stale multiples to miss exceptional businesses. It can be dangerous when investors use momentum to rationalize any price attached to an exciting story.

The firm's own disclosures identify the concern. Growth stocks are priced for potential that may not be realized, and their prices can be more volatile than the market. Concentrated positions, sector weightings, and high turnover can compound the problem. In taxable accounts, rapid selling can create short-term gains. In less liquid small-cap stocks, the exit may be less available than the model assumes.

AII's treatment of the strategy also adds restraint. It warns that momentum screening is only a first step, that qualitative elements cannot be captured by a computer-generated list, and that investors need to understand why a company is at its current level. That caveat is essential to a fair reading of Driehaus. His method was not a license to chase. It was a demand to keep checking whether the reasons for strength were still improving.

Institutionalizing a style without freezing it

One of Driehaus's more interesting achievements was cultural rather than numerical. He wanted discipline but distrusted rigidity. In his DePaul speech, he criticized investment processes that were too systematic to respond to changing market conditions, arguing that investors should focus on what is happening rather than what they think should happen. That phrase captures the practical spirit of his style: evidence over preference.

The firm he built tried to preserve that flexibility inside an institutional framework. Its Form ADV described bottom-up screening, thesis development, portfolio weighting based on conviction and aggregate exposures, liquidity analysis, stress testing, and monitoring of beta-adjusted sector, industry, and country weights. It also described procedures for allocation, average pricing, information barriers around Driehaus's own trading, and a code of ethics built around fiduciary obligations.

By 2025, the firm's customer relationship summary described discretionary asset management in U.S. and international growth equity, global, and multi-asset alternative strategies, with minimum separate-account sizes ranging from \$5 million to \$20 million depending on strategy. The point is not that the modern firm is identical to the founder's original operation. It is that the boutique survived by turning a founder's contrarian instincts into a process clients, regulators, and successors could recognize.

Philanthropy as another allocation system

Driehaus's money did not remain only in portfolios. His philanthropy became inseparable from his public identity in Chicago, especially in architecture, historic preservation, education, arts, and economic opportunity. The official biography says he established the Richard H. Driehaus Foundation in 1983, supported DePaul, and funded work tied to design, built environments, and civic life. He was not merely a donor with a name on a wall; he had a strong aesthetic position.

That position was visible in the buildings he restored and the prizes he funded. The biography notes his restoration of the 1883 Samuel Mayo Nickerson Mansion, now the Richard H. Driehaus Museum, as well as the 1886 Ransom Cable Mansion, which became his firm's Chicago headquarters. Through Notre Dame, he established the Richard H. Driehaus Prize for Classical Architecture, later adding international initiatives tied to traditional building and restoration.

There is a connection between the investing and the giving. Driehaus's foundation says he viewed philanthropy as a form of inquiry, a way of learning about the world. That sounds close to his investing temperament. He liked neglected fields, underappreciated patterns, and the possibility that consensus had missed something valuable. In markets, that meant companies whose growth was underestimated. In civic life, it meant buildings, traditions, and communities he believed deserved renewed attention.

What remains useful now

The useful part of Driehaus's legacy is not the command to buy whatever is rising. It is the discipline of asking why strength exists, whether the underlying business is improving faster than expectations, and whether the market's recognition is still early enough to matter. In an era of factor products and instant screens, that distinction is crucial. Momentum is easy to observe. Sustainable acceleration is harder to judge.

His approach is also a warning against intellectual comfort. Value investors can become too attached to low multiples. Growth investors can become too attached to stories. Quants can become too attached to backtests. Driehaus's best work sat between those errors. He respected numbers, price action, market psychology, and business change, but he insisted that investors adjust when facts changed. The sell discipline was not separate from the philosophy. It was the philosophy's immune system.

The dangerous part is equally clear. Momentum can crowd, reverse, and crash. Richly valued stocks can fall even when companies remain good. Small-cap liquidity can evaporate. A method built to exploit underreaction can become a method for buying the final stage of enthusiasm. Driehaus's career remains relevant because it refuses a simple moral. Strength can be information, not just exuberance. But it only becomes an investment process when paired with evidence, humility, and the willingness to leave.

Disclosure

Educational financial journalism and market research only. Not financial, investment, trading, tax, or legal advice. Market data and analysis may be delayed, incomplete, or inaccurate.

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