



PETER  
LYNCH  
USA



Investor profile at InvestingByTheBooks:  
The book *The World's 99 Greatest Investors: The Secret of Success* provides a unique opportunity to learn from the most prominent investors globally. In the book they generously share their experiences, advice and insights and we are proud to present these excerpts. Magnus Angenfelt, previously a top ranked sell side analyst and hedge fund manager, will be presenting one investor per month. For those who cannot wait for the monthly columns, we strongly recommend you to buy the book. The investor himself writes the first section below and then Angenfelt describes the background of the investor and comments on his investment philosophy. Enjoy.

The basic story remains simple and never-ending. Stocks aren't lottery tickets. There's a company attached to every share. Companies do better or they do worse. If a company does worse than before, its stock will fall. If a

company does better, its stock will rise. If you own good companies that continue to increase their earnings, you'll do well. Corporate profits are up fifty-five fold since World War II, and the stocks market is up sixtyfold. Four wars, nine recessions, eight presidents, and one impeachment didn't change that.

You don't need to make money on every stock you pick. In my experience, six out of ten winners in a portfolio can produce satisfying result. Why is this? Your losses are limited to the amount you invest in each stock (it can't go lower than zero) while your gains have no absolute limit. All you need for a lifetime of successful investing is a few big winners, and the pluses from those will overwhelm the minuses from the stocks that don't work out.

Nothing has occurred to shake my conviction that the typical amateur has advantage over the typical professional fund jockey.

BORN Newton, Massachusetts, USA 1944.

EDUCATION Lynch graduated from Boston College in 1965 and took an MBA at the Wharton School of the University of Pennsylvania in 1968.

**CAREER** Lynch started as an intern with Fidelity Investments in 1966, partly because he had been caddying for Fidelity's president, became an analyst, and in 1974 director of research. In 1977, Lynch was named head of the then small and obscure Magellan Fund. Lynch resigned as a fund manager in 1990 to spend more time with his family. Lynch has since taken different positions in Fidelity. At present he is vice chairman.

**INVESTMENT PHILOSOPHY** Lynch is one of history's most illustrious growth-oriented stock investors. Lynch has invented several new approaches to investing. His most famous investment principle is simply 'Invest in what you know', popularizing the economic concept of 'local knowledge' – investors learn more from visiting the local grocery shop than staring at charts. Another key innovation was PEG (price–earnings ratio compared to growth). Lynch is also considered one of the foremost advocates of GARP (growth at reasonable price), but in well-managed companies with sound balance sheets. He does not care about liquidity in the stock, and prefers small and mid-size companies. He also favors turnaround cases and asset plays. Overall he has a very flexible investment strategy, to the extent of being known as 'The Chameleon'. Companies, which invest in luxury head offices at the cost of returns to shareholders, are never admitted to the portfolio.

**OTHER** Outperforming the benchmark by over 13 percentage points in 13 years without leverage is probably a record for a mutual fund, especially when value stock performed better than growth stock during the period, and Lynch didn't invest in tech stocks such as Microsoft and Cisco, which were two of the best performing stocks in the market. The Magellan Fund increased from \$18 million to \$14 billion during his management. When he resigned, Magellan had more than 1,000 individual positions. Lynch recommends investors to stay in the stock market even when times are bad, as the risk of missing the next rally is worse. The only time to prefer other investments is when bonds give more than 6 % higher interest than dividend yield. Lynch is also the inventor of 'ten-baggers'—companies whose value increases tenfold. When managing the fund he read 700 annual reports yearly. He has written three books. Since his retirement, he has been an active participant in a variety of philanthropic endeavors.

*Sources: Peter Lynch, One up on Wall Street (2000); Fidelity Investments; Magellan Fund; Investopedia.*