

## **The Wit and Wisdom of Peter Lynch**

By [Kaushal B. Majmudar](#), CFA

We were fortunate to have an opportunity to hear Peter Lynch speak at an investment conference in New York about a year ago. Peter is, of course, the famed ex-manager of the Fidelity Magellan Fund. Under his stewardship, the Magellan Fund, which he ran from 1977 to 1990 grew from a small \$20 million fund to \$14 billion in assets when he stepped down to focus on family and other interests. In 1983 (just 6 years after he took over), the fund had grown to \$1 billion on the back of Peter's exceptional performance. More specifically, according to a secondary source quoting Valueline, Lynch achieved an average annual return of 29% per year over his 13 years running the Magellan Fund.

Besides his fame as an exceptional investor who helped thousands through the fund, Peter is also well known for writing two very good books on investing (see the [Recommended Reading](#) area in the [Food for Thought](#) section of [our website](#) for the books) that became best sellers. Peter's fund continued to perform well even as the fund became the largest equity fund in the country. Peter Lynch was only 46 when he retired (no doubt to the consternation of his many investors) at the top of his game. According to Peter, the fund continued to outperform the market for the next 7 years after he left! Also interesting to students of investing and value investors in particular is that Peter's approach featured wide diversification and opportunistic flexibility to buy any company for the Magellan Fund without arbitrary size or value versus growth limitations (in today's parlance the fund had a "core" approach).

In sharing his comments, Peter was exceptionally funny and entertaining. Though he has probably delivered some version of this talk many times (indeed he had a handout with his main bullet points on it - summarized below), he also made some comments that were clearly off the cuff. For example, the host of the conference was an investment bank that was very proud of being the bank with the highest profits per employee and after Peter was introduced, he quipped that "It makes you wonder why they don't hire more people."

In any event, the meat of Peter's comments were essentially straightforward and very common sense oriented. Peter shared his rules/observations on investing (8 of them) and proceeded to share some thoughts on each point and then talked about 10 wrong-headed and dangerous things that people say (often to themselves) about investing. It never hurts to review the fundamentals and glean insights from superstars like Peter so we took the time to share the essence of his message below.

After each of Peter's fundamentals, we provide a brief synopsis of his key comments or message relating to that fundamental. The discussion below includes our own observations on the several parallels to Warren Buffett's wisdom on investing. At The Ridgewood Group, we find it encouraging that many long-term successful investors like Peter Lynch and Warren Buffett seem to share many of the same key fundamentals since it means that other investors also have a fighting chance to learn and learn to properly apply these same fundamentals in order to become better investors.

## Peter S. Lynch's Fundamental's of Investing

- 1.) **Know What You Own** - Most people don't really know the reasons why they own a stock - you should. Ed's Note: Similar to Ben Graham and Warren Buffet's Businesslike Investing in your Circle of Competence
- 2.) **It is Futile to Predict the Economy, Interest Rates and the Stock Market (So Don't Waste Time Trying)** - "If You Spend 13 minutes per year trying to predict the economy, you have wasted 10 minutes" Focus on the "facts" now at hand rather than predictions about the future
- 3.) **You Have Plenty of Time** - to identify and recognize exceptional companies. If you bought WalMart AFTER it rose 10x in its first 10 years, you got another 60x return over the next 30 years. Bottom line: Don't be in a rush - look at plenty of stocks, but be patient. Note: Buffett's "Wait for the Perfect Pitch"
- 4.) **Avoid Long Shots** - his record was ZERO out of 25 investing in companies with no revenues but a "bright future" to sell. His advice if you run across a company that falls into this category but still excites you - do nothing and write down the name. Look at it again in 6 to 12 months and see if you still think it is good. If it is one of the good ones and went from 5 to 15 while you waited, per point #3 above, you probably still have plenty of time. Note: Following this rule could keep you out of trouble. Benjamin Graham and Warren Buffett talked about avoiding Speculations and focusing on Investments instead
- 5.) **Good Management is Very Important and Buy Great Businesses** - good management is very important - maybe even the most important consideration. It may also be the most difficult item on this list to get right. His advice: look for good companies because a good management in a bad business will probably fail. "Buy a business any fool can manage because eventually one will" Buffett has also observed that when a good management meets a bad business, it is the reputation of the business that generally prevails.
- 6.) **Be Flexible** - lots of unexpected things happen, some good and some bad. Many of his best investments happened for the "wrong" reasons, i.e. his original thesis was off, but the investment still worked out. Sometimes he was absolutely right about the growth but the investment was still lousy and he did not make any money. So be flexible and humble
- 7.) **Knowing When to Sell is Hard** - before you make a purchase, you should be able to explain why you are buying/own it in terms that an 11 year old could understand - three sentences at most. Remember this reason and sell the holding when the reason no longer continues to hold. Investing well does not take a genius - only need 5th grade math - so math has nothing to do with being a great investor
- 8.) **There is Always Something to Worry About** - and this makes things interesting. The 1950s were one of the best decades to own stocks, but from a geopolitical basis everyone was scared of nuclear war. In the early 1990s, everyone was scared about the Japanese taking over the world and beating America. Not coincidentally, more all-time worst market days occur on Mondays because people have the whole weekend to WORRY. His advice is to forget about all the global bad stuff because the key to good investing is not the brain/intellect, its having the stomach.

In addition to the above points, Peter also shared his **Ten Most Dangerous Things People Say About Stock Prices** reproduced below. Even more than the points above, Peter's good sense of humor came through when he discussed these old saws:

- 1.) **"If it's gone down this much already, how much lower can it go?"** (answer: Zero)
- 2.) **"If it's gone this high already, how can it possibly go higher?"** (some of the best companies grow for decades)
- 3.) **"Eventually they always come back."** (no they don't - there are lots of counterexamples)
- 4.) **"It's only \$3 a share, what can I lose?"** (\$3 for every share you buy)
- 5.) **"It's always darkest before the dawn."** (Its also always darkest before it goes absolutely pitch black. Don't buy a business just because price dropped and it is cheaper now)
- 6.) **"When it rebounds to my cost, I'll sell."** (The stock does not know you own it! Don't take it so personally Note: this comment is explained by the well documented psychological tendencies called loss aversion and anchoring bias which are talked about in Behavioral Finance. If you liked it at ten, you should love it at 6 so either buy more or sell)
- 7.) **"What me worry? Conservative stocks don't fluctuate much."** (There is no such thing as a conservative stock - the average stock fluctuates between 50% to 70% from its high to its low price every year. There is a graveyard where all the "conservative" stocks get buried. Companies and businesses change!)
- 8.) **"Look at all the money I lost - I didn't buy it!"** (Don't beat yourself up about the missed opportunities because it is not productive - when he managed the Magellan Fund, he almost never owned one of the 10 best performing stocks in a given year, but he did fine anyway).
- 9.) **"I missed that one. I'll catch the next one."** (Doesn't work that way)
- 10.) **"The stock has gone up - so I must be right" or "The stock has done down - so I must be wrong."** (Technical analysis is not worth much. So many people like something at 20 and hate it at 12 - never made much sense to him).

Peter's fundamentals, like those of many other super investors are grounded in common sense and an understanding of human misjudgments and failings. At the Ridgewood Group, we draw inspiration from outstanding investors like Peter who remind us that in investing our greatest challenges are often internal and psychological.

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## More About the Author

Kaushal B. Majmudar serves as the chief investment officer of [The Ridgewood Group](#) where he uses his expertise to help others understand and implement intelligent investing and value investing. An honors graduate of both the Harvard Law School and Columbia University, Kaushal has been a devoted student of outstanding “gurus” like Warren Buffett, Charlie Munger, Peter Lynch, Philip Fisher, and others since his undergraduate days.

Kaushal is a member of the Value Investors Club, holds the CFA charter and is an active member of the New York Society of Securities Analysts. In recognition of his accomplishments, Kaushal was invited to be a contributing author to *[Create the Business Breakthrough You Want: Secrets and Strategies from the World's Greatest Mentors](#)* featuring renowned authors Brian Tracy and Mark Victor Hansen and endorsed by Ken Blanchard and Dr. Steven Covey. The book features Kaushal's contribution on the “Four Timeless Principles of Intelligent Investing.” In 2005, Kaushal and The Ridgewood Group were also recognized as a 5-star advisor, their highest rating, by Paladin Registry.