Peter Lynch Resource Page

Although, Peter Lynch is not a pure value investor, I would feel that the legendary value investors page would be lacking without a page about Lynch. Lynch took a fundamental approach to investing, and his methods have been utilized by many value investors. He invented the famous PEG ratio (price to earnings growth), which measures a stock based on both growth and valuation.

One quote from Lynch which confirms his contrarian nature is “I've found that when the market's going down and you buy funds wisely, at some point in the future you will be happy. You won't get there by reading 'Now is the time to buy.'”

Profile

Peter Lynch is an investment guru who, during his 13 years as head at Fidelity Magellan, from 1977 till 1990, managed to realize annual returns of 29 percent. When he first took over the firm only had $20 million as assets but Lynch was successful in increasing it to $14 billion in 13 years. During his time in charge of the firm, they effectively outperformed the S&P 500 index every year, except for two years.

Lynch was born on Jan. 19 in 1944 and graduated from Boston College in 1965. Before the launch of his career, Lynch was a caddy to the president of Magellan along with other investment bankers at the Brea Burn Country Club. After befriending the president, he was provided the opportunity to intern at Fidelity Magellan in 1966.

As an intern, he served as an analyst in the paper, chemical, and publishing industries of Fidelity. From 1967 till 1969 Peter Lynch joined the army to serve his country. In 1969, after returning from the army, he was hired permanently at Fidelity Magellan and was made head of their textiles, mining, metals and chemicals investment sector. In 1974, Lynch was named the director of research at Fidelity and three years after that, in 1977, he was made portfolio manager.
As the head of Fidelity Magellan, Peter Lynch worked assiduously, working 6 to 7 days a week. With the help of two assistant researchers, he was capable of investing in as many as 1400 stocks at one time. He himself used to personally meet with various brokers, company managers and analysts to acquire first-hand knowledge regarding the financial market. His hard work and ambition paid off with historical growth in company assets and annual return of 29.2 percent during his 13 years.

Lynch retired in 1990 and since then has been actively participating in various humanitarian activities. He believes philanthropy is a form of investment. He is the founder of the Lynch Foundation which supports research in education, religious organizations, hospitals and medicine, and various cultural and historical organizations. He donates to various organizations privately, through the Lynch foundation, Fidelity Charitable Gift Fund and two other charitable trust funds.

Lynch is currently serving as a Vice Chairman at Fidelity Management & Research Co. which is an investment adviser to Fidelity Investments.

Furthermore, during his retirement, Lynch authored three books on investment along with John Rothchild. These books ‘One Up On Wall Street’, ‘Beating the Street’ and ‘Learn to Earn’; the first two books were phenomenal pieces of work, and best sellers.

**Investment Philosophy**

Peter Lynch firmly believed that individual investors had advantages over professionals when it came to research, because unlike the latter, individuals had more freedom to act independently and explore the market without being tied down by committees, trustees and superiors.

According to Lynch, this flexibility to act gives small investors an edge as they have a better ability and potential of discovering profitable investments. He encourages the adoption of the bottom-up approach to discover good investment opportunities. He suggests digging up possible investment options one-by-one, then getting familiar with the company business and lastly conducting the fundamental analysis to verify growth and profitability potential.

‘Local knowledge’ is what Lynch preached and claimed as the key element to successful investment. His well-known investment principle of ‘Invest in what you know’ is still deemed as being one of the most essential lessons for any serious investor.

What he adopted was a ‘story’ approach to investment. He believed the more one knew about the company, its business, its products, and its competitors, the more chances there were of finding a good ‘story’ which had high possibilities of coming true. Additionally, he also considered small or emerging companies as good investments as they have higher growth prospects than more mature companies. However, Lynch stressed strongly that having a good company is not enough, you have to research the fundamentals, and look at the valuation.
He presented six types of possible ‘stories’ for companies. They include the Slow growers, Stalwarts, Fast-growers, Cyclicals, Turnarounds and Asset opportunities.

Slow growth companies are the least preferred among the six, stalwarts serve as good protection, fast-growers come with considerable risks, cyclicals are highly depending on timing, turnarounds do not perform in accordance with the market trends and therefore require substantial research, and lastly, Asset opportunities are the most preferred out of all the above mentioned company ‘stories’ as they are concerned with the profitable assets which the Wall Street analysts have overlooked.

Having a proper understanding of a business and their assets can prove to be the most profitable.

He believes in investing on a long-term basis, ignoring the short-run market fluctuations. To him, it was important to stay fully invested and not hold cash. As the head manager at Fidelity, he focused on investing in stocks which promised above-average profit opportunities.

There are three essential qualities that Lynch looked at, which included: profitability, price and good business model. According to Lynch, attractive companies which have been proven to have high growth and profitability prospects and have a P/E ratio below the industry average, and below the company’s historical average. Furthermore, the company should preferably have a have a steadily growing dividend over the span of 20 to 30 years. The company debt should be low, and the net cash to share price ratio should be high.

On a more general note, spin-offs, fast-growing companies in no-growth industry, companies producing goods with inelastic demand, companies with limited analyst coverage, low institutional share in the company, and companies with insider buying, are all potentially attractive.

Peter Lynch is also famous for his introduction of the ‘PEG’. Peg is a ratio which determines if the stock is cheap, while keeping in consideration the growth of the stock. The ‘Peg’ is determined by dividing the company’s P/E ratio by the historical growth rate. According to Lynch, the faster the company is growing, the higher the P/E ratio you should be willing to pay for its stock.

Additionally, Lynch advised against diversification of portfolio if it reduces the ability of the individual to efficiently research on and analyze the existing stocks. Even though he owned 1,400 stocks, they made up a small fraction of his portfolio. Lynch also mentioned that it is wise to sell the stocks of the companies once the ‘story’ has played out as expected, or if it is not heading in the expected direction.

Books

"One Up On Wall Street" (1989) This is the first book written by Peter Lynch which is considered to be one of the "must reads" for all the serious investors. A best-seller, the book highlights the investment mantra of Lynch. He stresses the fact that small individual investors can be as
profitable in the investment field as any other professional if a little research is done. They have
an upper hand as they have the ability to detect profitable investment before it is noticed by
institutions on Wall Street. The book, which is now known to many as one of the classic books
on investment, covers all aspects that need to be known by any individual investor. He
introduces the concept of the ‘10 bagger’ in the book while mentioning some of his 10, 20 and
30 bagger investments. These are those stocks which reap returns 10, 20 or 30 times the initial
investment. Moreover, he devotes an entire chapter on which stocks to avoid which can be in a
nutshell described as the hot stocks which is under the eyes of Wall Street, which hardly ever
live up to the expectations. Additionally, the book points out 13 characteristics every investor
should look out for when investing, some of which include; insider buying, spin-offs,
technologically advanced companies, relatively inelastic demand for the company products, and
companies overlooked or unnoticed by large institutions.

"Beating the Street" (1994) This second book of Lynch is a compilation of his work experience
at Fidelity. The book elaborates on how and why he chose to invest in the stocks he invested in
during his years as the fund manager, and exactly how he managed to beat the S&P 500 and
other mutual fund managers. The book additionally summarized and mentions various Golden
rules and principles of investment. Some of the principles state how a monopoly is better than
having competition, the stores or companies which we normally like are probably the ones
whose stocks we will be interested in investing in, and how when the government is privatizing a
company you can make a profit. The book is interesting and is written in an amusing tone,
making the book a stimulating read overall.

market and helps beginners understand how the market and the companies work. The book
covers a vast number of topics related to the financial world, starting from the history of
capitalism to basics on how to easily understand the financial publications. After reading the
book, an individual would have acquired some knowledge to be able to distinguish companies
with potential growth from that with stagnant or diminishing growth.

**Quotes**

"Go for a business that any idiot can run – because sooner or later, any idiot is probably going
to run it."

"Investing without research is like playing stud poker and never looking at the cards."

"If you spend more than 13 minutes analyzing economic and market forecasts, you've wasted
10 minutes."

“Everyone has the brainpower to follow the stock market. If you made it through fifth-grade
math, you can do it.”

“The person that turns over the most rocks wins the game. And that’s always been my
philosophy."

“You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets.”

“There are substantial rewards for adopting a regular routine of investing and following it no matter what, and additional rewards for buying more shares when most investors are scared into selling.”

“Investing is fun, exciting, and dangerous if you don't do any work.”

“Never invest in any idea you can't illustrate with a crayon.”

**Interviews**

Peter Lynch interview with PBS

A Good Place To Be

Q&A with legend of mutual funds: Long-term view key, Lynch says

**News**

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Learning from the Legends (2009)

Star fund manager Peter Lynch agrees to settle SEC 'gifts' case (2008)

Scandal hurts Lynch more than Fidelity-analysts (2008)

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Lynch sticks with stocks (1996) (Limited View)

Lynch defends downsizing (1996)
Lynch takes stock of the market (1993) (Limited View)

Lynch believes small investors can outpick the pros (1993)

Peter Lynch on: Stocks, bonds, mutual funds, and living well until you’re 89 (1993) (Limited View)

Lynch Joining Fidelity Coaching Staff (1992)

Mutual Funds: Catching Up With Peter Lynch (1991) (Limited View)

Magellan’s Manager To Retire: Peter Lynch Built Largest Mutual Fund (1990)

The Curious Timing of Peter Lynch’s Retirement (1990)

MARKETWATCH Peter Lynch Trades Career for Family (1990) (Limited View)

IS THE MAGELLAN FUND WORTH HOLDING WITHOUT LEGENDARY LYNCH AT ITS HELM? (1990) (Limited View)

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How two money pros compare: Smith nearly a Lynch clone (1990) (Limited View)

WHO WILL SUCCEED SUPERSTAR LYNCH? (1990) (Limited View)

Magellan’s new helmsman ready (1990) (Limited View)

Magellan’s Lynch leaves today (1990) (Limited View)

Small investor praised, prodded to stay in stocks (1989) (Limited View)

SECRETS OF A CHAMPION INVESTOR Peter Lynch, builder of the superstar Magellan fund, has written one of the most readable -- and sensible -- investing books ever. (1989)

Magellan’s Peter Lynch discusses investing secrets (1989)


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Big mutual fund winners played it safe (1985)


A SUPERSTAR AMONG FUND MANAGERS: PETER LYNCH (1984) (Limited View)

Videos:

Sir John Templeton and Peter Lynch

Peter Lynch On Stock Market

Peter Lynch On Bottom Fishing

Peter Lynch Induction and Speech - Academy of Distinguished Bostonians

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