**Is There Life After Babe Ruth? Peter Lynch Talks About Why**
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# Is There Life After Babe Ruth?

## Peter Lynch Talks About Why He's Quitting Magellan

"I AM just missing so much of it. I went to a soccer game with one of my daughters and I think they lost seven-to-nothing, and I had a great time. I went to one soccer game; I missed seven. I will tell you how bad things are. I used to read a book every two weeks. I haven't read a book in the last 18 months. In the last two years, I saw *The Flying Dutchman*, I saw *La Boheme*, I saw *Faust*. That's three operas. During this time, I go to zero football games. I know there is something wrong with my life when it's three-to-zero, operas vs. football games."

That was Peter Lynch's characteristically succinct reply when asked why, come May 31, he was quitting Fidelity's **Magellan Fund**, which, in 13 years, he has built into the nation's largest, best-known and, in strictly investment terms, most astonishingly successful mutual fund. Peter is a member of *Barron's* Roundtable, and without question, the best portfolio manager ever to grace the mutual-fund business. Disclosure last week that he was, as he puts it, "turning in his Quotron," immediately touched off a wave of speculation as to the "real" reason he was bidding goodbye to the investment scene. Particularly pronounced was the suspicion that he was making a market call, that, in effect, he was leaving at the top and, presumably, before the onset of a nuclear winter on Wall Street, or at least a long and painful bear market.

Not so, snorted Peter, when *Barron's* suggested as much to him. Rather, a world-class workaholic, he wryly confessed that he found himself setting new records for long hours in recent years, especially the last 18 months. And, in the process, he cheated himself of the pleasures of hearth and home. "Anne, our middle daughter," Peter exclaims, "you know how when kids are born, you take a zillion pictures and then you stop? We haven't even put her album together yet, from being born. And she'll be 12 on May 15!"

Peter pauses, sorting through his store of metaphors and similes for the precise one to describe his mood. "It is like—one hot fudge sundae is great, two are okay and five just makes you sick. I love this job. I love outside activities. I love my family. There's just too much of it." He pauses again and then races on. "If Congress would legislate a nine-day week, it would be great. I could work six days, it would be great." Then he chuckles, "I'd probably work eight."

Still, the instant reaction to Peter's leaving among investment wise-guys was, as suggested, that he was timing the market and, a year from now, he'd be back doing business, if not at the same old stand, at another one much like it. That, said Peter, was just nonsense. ("Nonsense" wasn't actually the word he used.) "I have had all these incredible offers to do a $1 billion fund, $2 billion fund on the outside," he confides. "And there'd be a 5%-6% load—'We'll give you half,' they promised. 'And it'll be closed-end, so no matter how badly it does, you will always be getting a management fee.' The Lynch Fund—I'd have my name on it. But I know what I would do: I would work 90 hours a week. All I would get would be a bunch of money. I have no interest in that."

When the questioner expresses a certain skepticism that the world had seen the last of Lynch the Money Manager and would, in his stead, be forced to make do with Lynch the Two-Book-A-Week-Reader or Lynch the Faithful-Soccer-Fan, Peter laughs and concedes, "I will be managing a small fund. But it will have five shareholders—my three daughters, my wife and myself—instead of a million. We have set up a pretty good-sized foundation. There's a lot of money going into it. We'll manage that. I am on the finance committees or boards of seven charities, where they have endowments. Some weeks, I might work 80 hours on the stock market. Some weeks I might go 20. . . . I might take a four-week vacation."

The prospect of a four-week vacation sets Peter off on remembrances of vacations past: "I took a vacation in Europe. Europe is not bad because you could finish skiing at 3 p.m. and you could make calls from 4 to dinner at 7 and after dinner, at 9, you would make calls again. There I am. I am calling from all these countries." He reflects in palpable wonder. "I am on vacation and I'm calling Chrysler to see how they're doing!"

As Peter, in his unfailingly frank fashion, observed last week, his father died of cancer some 36 years ago at age 46—which is exactly how old Peter is. One needn't be a devotee of Freud to discern some psychological connection in the coincidence of the chronology. In any case, it was evident to more than one participant in *Barron's* Roundtable in mid-January that Peter, an eternally restless sort, appeared more harried than usual and even a mite distracted. Which is merely to say that his explanation for leaving—namely, that he was anxious to escape from the hours, the workload and the pressures of managing a huge portfolio in his peculiarly personal and intense way—rings true.

Although it seems like much longer, Peter has been managing the Magellan Fund for just 13 years. He broke in at Fidelity in 1966 as a summer intern after graduation from Boston College. Or as Peter remembers, "I came into the business in '66. I had been buying a few oddball stocks for my own account before that. I came to Fidelity as a summer student. I had interviewed with Gerry Tsai in '65 and Ned Johnson. I had a great love of the stock market." Peter went on to Wharton, did a hitch in the Army and, in 1969, just as a roaring bull market in both stocks and mutual funds was peaking, joined Fidelity full-time as an analyst. He was named director of research five years later, during the worst bear market since the end of World War II, and in 1977 took over Magellan.

Peter started with $20 million in 1977 and Magellan boasts some $13.3 billion in assets today. He showed an absolute aversion to cash right from the start, an attitude that proved somewhat embarrassing during the 1987 Crash, when there was a run on Magellan by panicky shareholders and he had to do some hurry-up selling to meet redemptions. To forfend a repeat of that experience should shareholders redeem in any ponderable numbers because of his prospective departure, Peter has been quietly raising the fund's liquidity in recent weeks. Cash now reportedly represents something like 14% of Magellan's assets—which normally would be an unthinkably high proportion, since, as intimated, holding that much cash is strictly against Peter's investment religion.

Peter's performance during his 13 years at the Magellan helm has been truly amazing. Between 1977, his first year, and 1983, he beat the market, as represented by the Standard & Poor's 500 Index, by 26 percentage points a year, on average. And even after the fund reached gargantuan size, his remarkable ability to pick stocks and sectors kept it handsomely outperforming the averages, during a time, moreover, when most professional money managers lagged those averages by substantial margins. Over the past 10 years, he has averaged a total return of 28.5% annually, far ahead of the S&P 500's 17.5%. During the past five years, he has averaged a 20.54% return vs. 15.86% for the S&P 500, and last year, he was up a whopping 34.6% vs. a 31.6% rise in the S&P. Over the 13 years he handled Magellan's portfolio, its assets grew by 2,475%. That compared with a 508% rise in the S&P 500 and a 427% gain by the Dow Jones Industrials.

Peter views his performance with manifest pride, made palatable, however, by its wrapping of traditional Yankee pragmatism. "Magellan is up 26-fold in 13 years. But no one was in it 13 years ago. In 10 years, it is up nine- or 10-fold. But no one was in it 10 years ago. Five years ago, it was the biggest fund in the country and in the past five years, it is up 154.4%, while the S&P is up 117.96%. So it has beaten the market by 6% a year for the last five years. And it beat 99.5% of all funds for the last five years." After a moment's reflection, he says quietly, "I'm much more satisfied with its performance over the last five years than the last 10 or the entire 13 years."

Nudged to turn from past glories to more philosophical contemplation—what strikes him most about the investment condition, its current state and

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how it has changed since he was a barefoot boy on Wall Street—Peter exults in the opportunity and doesn't miss a manic beat in seizing it: "What you're asking reminds me of the story of a similar question being put to a 100-year-old man. 'If you could do it all over again,' they asked him, 'what would you do?' The 100-year-old-man answered, 'Take better care of my teeth.' Imagine! What a line! I guess what amazes me is the attitude of the public since I came into the business. There you have people, smart people, although I don't mean that college graduates are any smarter than dropouts, who have taken courses in logic or epistemology or metaphysics and they say the market is dominated by institutions and therefore we, the public, the individual investor, doesn't have a chance. That really bothers me. I think the public has a better chance than they had 10 years ago, a better chance than they had 15 years ago."

Why?

"Because," Peter answers emphatically, "the institutions are so bad."

Peter rushes on, breaking free of the bridle of the interview, "You've had eight years of an up market and the public is out of it. They think of the so-called professionals, with all their computers and all their power, as having all the advantages. That is total crap. Obviously, if all you needed to make money in the stock market was a Cray computer, everybody would have a Cray computer and everybody with a Cray computer would be a billionaire. The S&P 500 for the five years through February is up 117.96%. The average mutual fund is up 81.4% for the last five years. People who own the funds think they have done well. They have made almost a double in five years. That is terrible. The market is up 117.96%. I can brag now: Magellan is up 154.4%. But look at 10 years, Magellan is up 971.4%; the S&P is up 343.8%. That is a fourbagger. That is for 10 years. The general equity funds are up 283%. So it's getting worse, the deterioration by professionals is getting worse. But the public thinks they are doing great because the average fund is up 283% in 10 years. They have made over four times on their money. But they'd be better off in an index fund. My only assumption is that the public is doing dreadful on their own. All I can think is that the public has managed to lose money in the last eight years." Eight years, Peter reminds, of one of the great bull markets in history.

Dismayed at the individual investor's evidently dismal performance, Peter is also—and here he displays a perennial streak of affecting ingenuousness—perplexed by the public's perception that the sheer size of the institutional investor carries with it a huge corresponding investment edge. "They say, gee, with all your money, when you buy a stock, you make it go up," he mimics. After momentary rumination on man's capacity for standing truth on its head, Peter sighs: "They don't understand that if I start to buy a stock at 7 and wind up paying 11 for it . . ." The enormity of the misunderstanding leaves him suddenly—and unwontedly—at a loss for words.

But he quickly finds them again. If the public fails to grasp the problem of a big buyer accumulating stock, it also, Peter goes on, eager to complete the symmetry of ignorance, fails to grasp the difficulty a large institution has in selling a stock and the comparative advantage, on that score, the individual investor enjoys. "I'm pushing billions; the average person has only to buy or sell a few hundred shares. I have to sell two million. He has got to sell 200, or max 2,000. He goes to buy a stock at 8, maybe buys it at 8⅛. I go to buy a stock at 8, maybe it takes me nine months and maybe it costs me 9. He goes to sell it at 12 and he gets 12. I go to sell at 12 and maybe I get 11."

What further puzzles Peter—although obviously not for the first time—is this: In view of the inability of most institutional portfolio managers to outperform the market, or even come close to matching its performance, and the disadvantages the institutions have vis-a-vis the individual in taking a position or liquidating one, why does the individual feel a compulsion to imitate a professional money manager? Why does someone in the steel industry—Peter reaches for an illustrative example—who knows six to nine months ahead of the world and certainly Wall Street what's happening in the steel industry not take advantage of that lead by investing in steel stocks rather than "buying an oil company because he heard Boone Pickens is going to take it over or buying biogenetics because that's the thing of the future?" What moves people, in short, to disregard what they know in favor of such staples of institutional investing as takeover rumors and buzzwords?

Among the venal sins Peter cites as responsible for the public's sorry experience in the stock market over the past eight, mostly booming years are a weakness for playing options, a promiscuous use of margin and a conviction that the stock market "is like the lottery." This last particularly incenses him. "The stock market," he asserts with something startlingly approaching belligerence, "is not the lottery. You have the company on your side if you own a company. You have **Bristol-Myers** with 40 years of up earnings and no debt, and a great balance sheet. You have **American Home Products**, 35 years of up earnings, a 4% yield, a great balance sheet. You have time on your side when you own these companies. It is not on your side when you have a three-month option. It is not on your side when you are on margin."

The "common knowledge" imperative, which Peter invokes when he uses the person in the steel business buying steel stocks as an example of how individuals should invest, is a refrain on the main theme of his book, *One Up on Wall Street*. And it's a refrain he's quick to sound over and over: "Anybody who has kids knows **Toys 'R' Us**. You say, listen, they are better than Child World. You own it, you just keep watching it." And veering off for a second, he becomes once again the portfolio manager: "Toys 'R' Us is still a powerful story. Can you imagine when they go to Japan? Their price there will be a third of prices in Japan now. They are just entering Japan. They can do 100 stores there. They are going to blow Japan apart."

Peter catches himself, resumes his homily on how individual investors should approach the stock market: "They see local companies like **Dunkin' Donuts** or they are in the computer industry and they see **Compaq** come along or they are in the hotel industry and they say, 'My God, this **Marriott** is an incredible company.' Or they are in the airline industry and they say, '**American Airlines** is beating the hell out of everybody.'"

Besides a refusal to use their experience, their "common knowledge," in deciding which stocks to buy and sell, Peter is struck by, and mildly aghast at, the casualness with which individuals commit their dollars. "Now just think this through. If you buy a refrigerator or you buy an automobile and it's a dud, who do you blame? You blame yourself. I should have looked at four other refrigerators. I should have called four other refrigerator users. I should have looked at seven automobiles. Yeah, you are not so happy about the refrigerator maker, but in reality you say, 'That was stupid.' If you buy a stock and it goes down, you don't understand that the same thing applies to a stock that applies to a refrigerator. People will put $10,000 in some stock they don't know a thing about. But they'll do hours and hours of research to buy a microwave oven. It is mind-boggling. They lose big money on a stock and four days later they are spending seven hours to save 28 bucks on a roundtrip airline ticket to Hawaii." He lapses into a silence composed partly of frustration and partly of dismay. "If they keep doing what they are doing, they are going to continue to do miserably."

Besides such lamentable deficiencies, which, in Peter's eyes, include the reluctance to understand that an investor need only follow six or seven stocks and to have two or three big winners every decade to be successful, he singles out the vanishing broker as a root cause of the public's disappointing performance in the stock market and its consequent disenchantment with it.

In the 'Fifties and 'Sixties, he recalls, "the broker really was a money manager. He or she had a few stocks they knew themselves. They really had the independence to do their own thing. They really directed their customers. Even if you and I today, hard-working as you are and hard-working as I am, if we were assigned as brokers to Smith Barney or Shearson, we would have their 50 buys. We would have 100 customers. There is no way in the world we could research SCI Systems or

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Toys 'R' Us. That wasn't the way it was in the 'Fifties and 'Sixties. They really knew why they were recommending Tampax; they knew why they were recommending Friendly Ice Cream. They knew Minnesota Mining. And they kept with it."

Peter reflects, "A broker was like a lawyer or a doctor. A stock broker was a very highly regarded person when I was growing up."

Nor, he sprints on, is it difficult to understand why a broker was highly regarded then and isn't now. "I will guarantee you if you walk in today to a broker with $10,000, no matter who you are, you say, 'I want to buy Digital Data Wax,' how many brokers in the country will talk you out of it? I think 15 years ago they would say, 'Wait a second, you shouldn't buy Digital Data Wax, you should buy **Dow Chemical**—it is a great company.' They bought the blue chips. **H.J. Heinz** has 39 years of up earnings; **Genuine Parts**, 40 years of up earnings; **Philip Morris**, 42 years of up earnings. Those are the kinds of companies that people looked at. Occasionally, an Eastman Kodak would slip. Occasionally, a U.S. Steel would move out of that category. But they weren't doing the Digital Data Wax. But today it is, 'Oh, yes, Digital Data Wax, absolutely!' Then what happens is that when Digital Data Wax explodes, the broker will say, 'Your idea, Sally, just failed; why don't we try Ram Tech?' But suppose you come in with Toys 'R' Us to a broker. It's your idea, you buy it. You thought it up. Five years go by and it doubles. The clod will say, '*We* just got a double in Toys 'R' Us. Why don't *we* buy Wang Labs?' Where's the profit to the broker if you own Toys 'R' Us for 10 years and don't make a trade?"

And the ultimate irony to Peter of this insistence on trading is that "for some reason you lose money rapidly in the stock market, but you don't make it rapidly. You can lose money very fast, in two months, but you very rarely make money very fast in the stock market. When I look back, my great stocks took a long time to work out. It was the third, fourth, fifth year I owned **La Quinta Motor Inns**, **Chrysler**, **Ford**, **Fannie Mae** that they did so well. It wasn't the third month. It wasn't the ninth month. What a tragedy if you bought three-month options in Fannie Mae or Ford or **Kemper** or whatever. **BankAmerica**. I bought BankAmerica at 16. It went to 8, and then it went to 32. If all you had was $10,000, and you were right on the company, and you buy two three-month options, at the end of it you are all out of money. And then a year later, the stock starts to move and it goes up four- or five-fold."

There was in Peter's tone just a trace of an earlier New Englander named Cotton Mather. But Cotton Mather, however he may also have been given to righteous indignation when confronted by the folly of his fellow men, by all accounts lacked Peter's sly and self-deprecating humor, his irrepressible good spirits and curiosity, and, not least, his compassion and friendliness.

When the conversation touched once more on his leaving, Peter was quick to assure that Fidelity had many bright people, whom he should credit for mightily helping his performance over the years and that Magellan would continue to flourish and astound. "This place," he said, "is like the Yankees of the 'Twenties or 'Thirties."

But they're losing Babe Ruth.

"Oh, no" he laughed. "We are losing Sam Jones."

Who was one hell of a player. ■

### From One Master to Another

WARREN Buffett, interviewed by phone in Omaha, said that he considers Lynch to be "very smart and even smarter than he was two days ago" in reaching his retirement decision. Buffett, celebrated value investor and chairman of **Berkshire Hathaway**, doesn't know Lynch well. But last year, he gave Lynch a fan call after reading Lynch's book. "It's rare to find an honest, worthwhile investment book, especially by such an able practitioner. I called him up to congratulate him and tell him how much I enjoyed the book."

Buffett claims there is no magic to the Lynch investment style. "He does what he says he does. Uses common sense. Invests in things he knows and understands which are a lot more things than I do. I'm like a ground hog who comes out of the burrow once a year for a little while and looks at a few things. Where I own only a few things, Lynch owned and followed 1,400 stocks. It just shows that there are a lot of different ways for getting to heaven."

Late last fall Lynch, on an analytic trip, got together with Buffett for dinner in Omaha. Buffett says that they talked some about all the time pressure and travel that Lynch's job entailed. "While he claimed not to mind it, I sensed that he did. Who wouldn't? The guy's energy level was just amazing. His kind of job is one where you have to be revved up all the time."

—*Jonathan R. Laing*