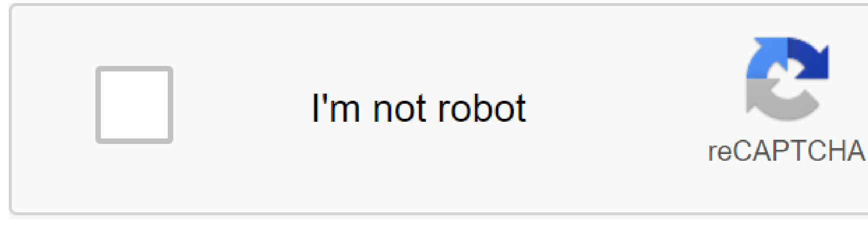
Beating the street by peter lynch pd



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Describes how readers can invest in twenty-two companies selected for the 1992 roundtable. Peter Lynch ran the Fidelity Magellan Foundation from 1977 to 1990, when he was one of the most successful mutual funds of all time. He then became vice chairman of Fidelity and recently became a prominent philanthropist, especially active in the Boston area. His books include One Up on Wall Street, Beating the Street, and Learning to Earn (all written with John Rothschild). John Rothschild was previously a financial columnist for Time and Fortune magazines. Chapter 1THE MIRACLE OF ST. AGNESAmateur stockpicking is a dying art like a baking pie that loses out of packaged goods. An extensive army of mutual fund managers paid nicely to do for the portfolios that Sarah Lee made for the cakes. I'm sorry this is happening. It bothered me when I was a fund manager, and it bothers me even more now that I have joined the ranks of non-professionals, investing in my spare time. This decline in amateurs accelerated during the big bull market of the 1980s, after which fewer people owned shares than at the beginning. I was trying to determine why it happened. One reason is that the financial press has made us Wall Street types into celebrities, a notoriety that has been largely undeserved. The stock stars were treated like rock stars, giving an amateur investor the false impression that he or she could not hope to compete with so many geniuses with an M.B.A. degree, all wearing Burberry cloaks and armed quotrons. Rather than fight these Berberryed geniuses, a large number of average investors have decided to join them by putting their serious money into mutual funds. The fact that up to 75 percent of these mutual funds have failed to perform even, and the stock market on average proves that genius is not reliable. But the main reason for the fall of the amateur stock should be losses. It's human nature to keep doing something as long as it's nice and you can succeed in doing it, which is why the world's population continues to grow rapidly. In addition, people continue to collect baseball cards, antique furniture, old fishing lures, coins and stamps, and they have not stopped fixing houses and reselling them, because all these activities can be profitable as well as enjoyable. So if they're out of the stock, it's because they're tired of losing money. It is usually the richer and more successful members of society who have the money to put in stocks in the first place, and this group is used to getting into school and patting on the back at work. The stock market is one place where high achievement is regularly displayed. It's easy to get an f here. If you buy futures and options and try to stomae the market, it's easy to get an all f, which should be what's wrong with a lot of people who mutual funds. This does not mean that they stop buying stocks in general. Somewhere down the road they get a tip from Uncle Harry, or or overhear the conversation on the bus, or they read something in the magazine and decided to take the pilot on a dubious run, with their play money. This split between serious money invested in funds and playing money for individual stocks is a recent phenomenon that encourages the stockpicker's whims. As stockpicking disappears as a serious hobby, techniques like to evaluate the company, revenues, growth rates, etc., are being forgotten right along with old family recipes. With fewer retail clients interested in such information, brokerage houses are less likely to volunteer it. Analysts are too busy talking to institutions to worry about educating the masses. Meanwhile, brokerage house computers are busily collecting a wealth of useful information about companies that can be spewed in almost any form for any client who asks. About a year ago, Fidelity's director of research, Rick Spillane, interviewed several leading brokers about databases and so-called screens that are now available. A screen is a computer list of companies that have basic characteristics, such as those that pay dividends for 20 years in a row. This is very useful for investors who want to specialize in this kind of company. At Smith Barney, Albert Bernazati notes that his firm can provide 8-10 pages of financial information about most of the 2,800 companies in the Smith Barney universe. Merrill Lynch can make screens on ten different variables, Value Line's investment review has screen value, and Charles Schwab has an impressive data service called Equalizer. However, none of these services are used. Merrill Lynch's Tom Reilly reports that less than 5 percent of its customers use stock screens. Jonathan Smith of Lehman Brothers says the average retail investor doesn't use 90 percent of what Lehman has to offer. In previous decades, when more and more people were buying their own shares, the stockbroker itself was a useful database. Many old-fashioned brokers have been students of a particular industry, or a particular handful of companies, and can help teach clients all and every go. Of course, you can go overboard in glorifying an old-fashioned broker like the Wall Street equivalent doctor who made house calls. This happy notion contradicts opinion polls, which usually rank a stockbroker slightly below the politician and seller of used cars on the scale of popularity. However, the departed broker has done more independent research than today's version, which is likely to rely on information obtained at the home of his or her own firm. Newfangled brokers have many things besides shares for sale, including annuities, limited partnerships, tax havens, insurance CDs, bond funds, and stock funds. They need to understand everything. Products are at least good enough to make the box. They have neither the time nor the inclination to track utilities or retail or the automotive sector, and since few customers invest in individual stocks, there is little demand for their stockpicking tips. Anyway, the largest broker commissions are made elsewhere, on mutual funds, underwriting, and in-game options. With fewer brokers offering personal guidance for fewer stock pickers, and with a climate that encourages fractious speculation with fun money and exaggerated reverence for professional skills, it's no surprise that so many people come to the conclusion that choosing their own stocks is hopeless. But don't say that for students in St. Agnes.THE ST. AGNES PORTFOLIOThe fourteen stocks shown in the table 1-1 were the top picks of a spirited group of seventh-grade portfolio managers who attended St. Agnes School in Arlington, Massachusetts, a suburb of Boston, in 1990. Their teacher and CEO, Joan Morrissey, was inspired to test the theory that you don't need a quotron or wharton M.B.A., or, for that matter, even a driver's license to succeed in promotions. You won't find these results listed in the Lipper report or in Forbes, but investments in the St. Agnes portfolio model yielded a 70 percent increase over two years by pulling out the S'P 500 composite, which gained 26 percent in the same time period, on a whopping profit. In the process, St. Agnes also outperformed 99 percent of all mutual equity funds, whose managers paid significant sums for their specialist selection, while young people are happy to agree to a free breakfast with a teacher and a movie. Table 1-1. St. AGNES PORTFOLIOCompany 1990-91 Performance (%)Wal-Mart 164.7Nike 178.5Walt Disney 3.4Limited 68.8L.A. Gear -64.3Pentech 53.1Gap 320.3PepsiCo 6 3.8Food Lion 146.9Topps 55.7Savannah Foods - 38 .5IBM 3.6NYNEX - .22Mobil 19.1Total Return for Portfolio 69.6S-P 500 26.08Total Yield January 1, January 1, 1990-31 December 1991I was aware of this excellent performance through a large note sent to my office, in which seventh graders not only listed their top-rated choices, but painted photos of each of them. Invest in what you know, love and understand! twenty years in this business convinces me that any normal person using the usual three percent brain can choose stocks as well, if not better than the average Wall Street expert. - Peter LynchOne of the World Money Managers of All Time Peter Lynch, once portfolio manager of the spectacularly successful Fidelity Magellan Fund. He ran this fund for thirteen years and thousands of dollars invested in it when he started investing in something you know and love and understand! Twenty years in this business convinces me that any normal person using the usual three percent brain pick stocks as well, if not better than the average Wall Street expert. - Peter LynchOne of Wise Money Money Managers all the time Peter Lynch, one-time portfolio manager of the spectacularly successful Fidelity Magellan Fund. He ran this fund for thirteen years and a thousand dollars invested in it when he started in 1977 was eventually worth $28,000 when he retired. Genius? Just lucky? Or what? Well, luckily for us, Peter wrote a couple of stock-collecting books telling us how he did it - One Up On Wall Street and Beating the Street. He claims that the average smart investor can do better than most professional money managers using their methods. And what's interesting is it's not rocket science. It's really just common sense. And the place to start, he says, is your own backyard. What he means is that if you look around you, notice what you use and like, and what other people seem to use and like, you may have found a good company to invest in, he says, to understand what the company is doing. And he rather likes companies that do basic things rather than fancy-schmanzy high falutin's things that sound impressive, but what the hell is it? He also likes companies that serve the niche market and grow. Of course, numbers are important. You want a company whose income and profits are growing. You want a company that has low to no debt. You want a company that has been doing well in the stock market even though it hasn't been noticed by the big guys. Sure, he goes into much more detail than I can cover here, but he gives an example of what he means in beating the street. Seventh grade social studies at St. Agnes School in Arlington, Massachusetts, used his methods and own research to develop fourteen stock portfolios in 1990. Two years later, the portfolio grew by 70%, which is 70% more than the S'P 500 index, which returned only 26%. These young students invested in what they knew and liked and used including Walt Disney, Nike, Gap, Pentech (color marker manufacturers), Pepsi, and Topps (baseball card manufacturers). This led Lynch to create a new investment principle: Never invest in any idea that you don't like in pencil! Perhaps one of the best examples of this principle in action is the case of Anna Scheiber. It represents not only superb returns that you can enjoy from a skilful buy and hold strategy, but also a pluck to jump back into the game after losing everything. In 1933 and 1934, at the height of the depression, 38-year-old Anna invested most of her savings in the stock market. She let her broker brother make a choice and they were good. Unfortunately, his company went bankrupt and it lost everything. But Anna didn't give up. On her modest salary as an auditor of the Internal Revenue Service (just over $3,000 a year), she managed to save another $5,000 over the next ten years. In 1944, she invested again in the stock When she died in January 1995 at the age of 101, this modest investment rose to $20 million. It's not a typo. $20 million!!! This represents an annual annual yield of 17.5%, ranking it among the leading investors of all time. Her secret? Ms. Scheiber invested in shares of companies she knew and understood, the companies whose products she used. She loved movies. So she invested in Loew's, Columbia, Paramount and Capital Cities Broadcasting. She drank Coke and Pepsi and bought shares in both. She invested in companies that made the drugs she took - Shering Plough and Bristol Myers Squibb. And so on. And it hung on them through thick and thin for over forty years. Through the bear market 1973-1974. As a result of the 1987 crash, Ms. Scheiber left almost the entire state of New York's Yeshiva University. By the time the estate was settled in December 1995, it had grown to $22 million. Ms. Scheiber's story illustrates several important points. The thing is, you're never too old to start. She lost everything when she was 38 and scraped together another $5,000, which she invested at the age of 48. However, it will live to 101, which illustrates the second point - the time of the cost of money. Even modest investments can eventually become millions. And the third point is the Lynch principle, invest in what you know, understand, and use. ... More... More beating the street by peter lynch pdf. beating the street (1993) by peter lynch pdf. beating the street (1993) by peter lynch pdf download. beating the street (1993) by peter lynch free pdf

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