Is There Life After Babe Ruth? Peter Lynch Talks About Why He’s Quitting Magellan

“I AM just missing so much,” he says. “It was a game with one of my daughters and I think they lost seven-to-nothing, and I had a greattime. I went to see a soccer game and 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 tozero football games. I know there is something wrong with my life when it’s three operas vs. football games.”

That was Peter Lynch’s characterization of what happened when asked why, come May 31, he was no longer managing the Magellan Fund, which, in 13 years, had become 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 graces the mutual-fund business. Disclosures last week that he was, as he put it, “turning in his quarterback” in speaking of his management team, certainly was the suspicion that he was making a mark that, in effect, he’s leaving at the top and, presumably, before the crest of a peak. A clear winter on Wall Street, or at least a long and painful bear market.

Not so, moaned Peter, when Barron’s suggested as much to him. Rather, a world-class workaholic, he wryly confessed that he found himself setting a new work schedule: late recent years, especially the last 18 months. And, in the process, he chided himself of the pleasures of heath and home. “Ane, our middle daughter, Peter explains, “you know how when kids are born, you have millions of pictures and then you stop? We haven’t even put her rabbit cage in the barn. And she’ll be 12 on May 15.”

Peter pauses, sorting through his store of metaphors for the precise one to describe his mood. “It is like—one of those hours when you’re alone and the world is okay and five just makes you happy because you’re doing this job. I love outside activities. I love my family. I’ve lost too much of that. He pauses again and then races on. “If Congress would legislate a nine-day week, it would be great. I could work six days and I’d be great. That’s where he chuckles. “I’d probably work eight.”

Still, the instant reaction to Peter’s leaving among invest-

ment-wise guys was, as suggested, that he was timing the market and, a year from now, he’d be back doing business, if not as 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 offerings to do a $1 billion fund on the outside,” he confided. “And there’d be a 5%-6% load—We’d give you half,” they promised. “And it’d 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. I’d work 90 hours a week. I’d be hedging around the clock.”

Peter went on to Wharton’s hitch in the Army and, in 1969, as a raging bull market in both stocks and mutual funds was peaking, joined Fidelity full-time. He became the group’s chief analyst, a position he held for three years. During the 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 $13.2 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 panic-stricken shareholders and he had to do some hurried-up selling to meet redemptions. To forgo a repeat of that experience should shareholders redeem in any possible 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 estimated, holding that much cash is strictly against Peter’s investment religion.

Peter’s departure during his 13 years at the Magellan Fund has been truly amazing. Between 1977, his first year, and 1983, he beat the market, as represented by the S&P 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 handily outperforming the averages, during a time moreover, when most professional money managers lashed those averages by substantial margins. Over the past 10 years, he has averaged a snail’s pace of 28.5% annually, far ahead of the S&P 500’s 17.5%. During the past five years, he has averaged 31.6% 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 last 13 years he handled Magellan’s portfolio, its assets grew by 2,472%. That compared with a 509% rise in the S&P 500 and a 427% gain by the Dow Jones Industrial.

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. Ten 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 pleased with its performance over the last five years than the fact that I’ve been around 13 years.”

Nudging to turn from past past glory to more philosophical contemplation—whom strikes him most about the investment condition, its current state and Continued on Page 17

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Peter Lynch

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how it has changed since he was a barefoot boy on Wall Street—Peter Lynch. Peter was big. He was tall and muscular and he didn't move a man like he was. He was an agent in the public eye. His name was Peter Lynch and he didn't do a thing like that. He was a man of substance. You could see it in his face. He was the kind of man who knew his way around the market. He knew how to read the charts, how to interpret the numbers, and how to make sense of the world around him.

He was a man of great intelligence, and he had a way of communicating that intelligence to others. He was a master of the art of storytelling, and he could turn numbers into stories that were both compelling and memorable. His stories were filled with insights and wisdom, and they were always told with a sense of humor and a touch of irony.

Peter Lynch was a man who was respected by his peers. He was a leader, a mentor, and a role model for all those who followed him. He was a man who knew the market, and he was a man who knew how to make money in the market. He was a man who knew how to tell stories, and he was a man who knew how to make those stories stick. He was a man who was a master of the art of storytelling, and he was a man who was respected by all those who followed him.
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