Lynch, Peter (with Rothchild, John) – Beating the Street

Simon & Schuster, 1993, [Equity Investing] Grade ★★★★

During the summer InvestingByTheBooks will review some older books that we never got around to writing about although we think they are important. The legendary fund manager Peter Lynch wrote his classic *One Up On Wall Street* while still managing the Magellan Fund at Fidelity. This somewhat neglected sequel is instead written as a retrospective view of Lynch's career and methods after he retired. The purpose is to once again argue for investing in stocks instead of bonds – "Gentlemen who prefer bonds don't know what they are missing" – and further that the amateur investor should pick his own stocks. With simple common sense methodologies, as those used by Lynch, he can beat the professional investors.

There are two main parts to the text. In a number of chapters Lynch looks back at his career at Magellan and reflects on the factors that contributed to his success. Then the author exemplifies his investment strategy by a number of chapters that go through a portfolio of 21 stocks that he once recommended to Barron's readers, discussing the reason for their inclusion. There is an amusing anecdote where Lynch in 1984 visits the investment bank Carnegie in Sweden only to learn that the firm's only equity analyst never had visited Volvo which was the largest company in the country at the time. Attracted by the fact that the market capitalization equaled the company's net cash Lynch as the first ever foreign investor pays Volvo a visit. The encounter causes quite a stir and Lynch gets to meet all of the management and is treated to a factory tour.

In his previous book Lynch divided companies into six categories. Even though this categorization is not repeated here it's clearly visible from the discussed portfolio that Lynch preferred to own what he called Fast Growers in stable industries as long as their PEG-ratios were below one (this was after all the 1980s…), Turn-Arounds (the best companies in disliked industries) if they had good balance sheets and started to show signs of improvement and occasionally high quality Cyclicals when their margins were slim, profits small and PE-ratios high.

Both parts of the book are sprinkled with advice and the author throughout the text presents 21 fairly humorously written principles for investment and in the end he subsequently lists a further 25 golden rules of investing (they're actually 26). The book is focused on methods for bottom-up stock picking and Lynch argues that the greater stock market cannot be predicted and that investors' vane attempts to time the market are causing them to unnecessary losses. Intimidated by pundits investor's lose sight of the big picture that over time economies and companies continue to build value as people go to work, companies innovate and capital gets allocated to its best use.

One can argue about whether the eclectic Lynch was a growth investor or a value investor but the reality is that he was both and more. His diversity is one of his strengths and this plain-language book gives plenty of clues of how he came to be an investment superstar. Underlying everything Lynch did is a massive focus on time consuming fundamental research and corporate contacts to get an edge over competition and to get the conviction to stick to holdings even though wise and competent people will argue against them. Lynch wisely ended his career as a portfolio manager after only 13 years arguing that he had to prioritize ever seeing his family. Even though Lynch tends to focus on smaller, easy to understand companies from the investor's own environment and points to the institutional handicaps of institutional investors, I would say that his methods might be too labor intensive for most amateur investors. This doesn't take away the fact that *Beating the Street* is full of good advice.

This book is almost as good as its forerunner and that makes it excellent. It gives further depth to understanding one of the all-time masters.

Mats Larsson, Aug 5, 2015