The Gazette

My investment hero shares his wisdom

BY FRANCOIS ROCHON, FREELANCE FEBRUARY 15, 2011

It's not every day that you get to meet one of your heroes. I had that incredible fortune last week when I got to spend a few hours with Peter Lynch, one of the best investors of all time. My business partners and I asked him dozens of questions and Lynch was open to sharing his wisdom, experience and view on equity investing. I now have a chance to share that wisdom with you by revisiting his investment philosophy.

First, a little background information.

I first became interested in stocks in early 1992. Throughout the year, I tried different strategies (even technical analysis) to make money in the market. Near the end of the year, I came across a book titled One up on Wall Street by Peter Lynch. I found it so exciting I read it straight into the night. I have found the book to be, along with Benjamin Graham's The Intelligent Investor, the best ever written on investment. The book helped me discover a passion for the stock market that has never left me. From then on, I tried to read everything I could find by and about Peter Lynch. He also got me interested in reading about Warren Buffett ("the greatest investor of all" in Lynch's words). Who knows what I would be doing today had I not read the book that year?

Peter Lynch became famous by managing the Fidelity Magellan Fund from 1977 to 1990. During that period, Magellan averaged a 29-percent annual return. Lynch wrote his first book, One up on Wall Street, after the 1987 crash to help investors better understand the stock market and learn how to succeed by using common sense.

I had not read the book for many years, but I took the time to browse through it during the weekend. There are many stock examples, some I did not remember (what exactly is Shoney's restaurant chain?). But chapters two through five are about principles for sound investing that are as vital today as they were then.

The first principle is obvious, although many people -in the heat of the financial battle - tend to forget it: "A share of a stock is not a lottery ticket. It is part ownership of a business." He also points out that the stock market fluctuates and is impossible to predict. Since stocks do better than any other financial assets, Lynch stresses that the key to making money is by owning stocks for the long run and then forgetting about the economy and the market. But not any stock at any price!

Lynch also delves into investors' behaviour. He explains why they always seem do the wrong thing at the wrong time. He says most people invest in stocks without doing research (both on the financial statements and on the field) or paying attention to valuation. He likens that strategy to playing poker without looking at the cards. He also insists that people are always worried about something that makes them sell or avoid stocks. His answer to that problem is simple: "There is always something to worry about." He adds: "When it comes to predicting the market, the important skill is not listening, it's snoring. The trick is not to learn to trust your gut feelings but rather to discipline yourself to ignore them."

As for choosing stocks -and he has bought hundreds over the years -Peter Lynch is a master. His capitalist antennae are always up. When shopping, he looks at what stores are full of people and those that are empty. When eating out, he tries a new concept to discover before Wall St. does. He told us about talking to a Sears salesman excited about recent carpet sales. He bought carpet stocks right after. Steel prices are going up according to a car company executive? Let's take a fresh look at steel companies; they are probably doing better. Even after being retired for 20 years, Lynch is still passionate about stocks and he owns 300 of them in his portfolio.

But of all the wisdom and teachings he has to offer, the most important quality Lynch has is humility. After 45 years of equity investing, Lynch told us that 40 per cent of purchases are mistakes. When he finds 10 interesting ideas, if he tries to pick up the two best, he always misses. So he just buys the 10 stocks, accepting in advance that four of them will be losers. And he accepts losses without emotions. He sells them and goes to the next ideas without anger or regrets.

He summarizes it in his book: "It's important to be able to make decisions without complete or perfect information. Things are almost never clear on Wall St., or when they are, then it's too late to profit from them."

This constant humility is the most important lesson that I re-learned by talking to one of my investing heroes.

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