









# ONE UP on WALL STREET

How to Use

What You Already Know

to Make Money

in the Market

**PETER LYNCH**

with John Rothchild

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*To Carolyn, my wife and best friend for over forty-seven years, whose support and sacrifices have been critically important to me.*

*To my children, Mary, Annie, and Beth, whose love for each other and their parents has meant so very much.*

*To my grandchildren—Erika, Luke, Catherine, Jack, Charlotte, Simon, Carolyn, Marion, Josephine, and Louis—who have been so wonderful for Grandpa.*

*To my colleagues at Fidelity Investments, whose extra efforts made Magellan's performance possible but who have received none of the favorable publicity.*

*To the 1 percent of all Americans who were shareholders in Magellan, who entrusted their savings to me and who sent thousands of letters and made thousands of calls over the years, comforting me during declines in the market and reminding me that the future will be fine.*

*To Holy God for all the incredible blessings I have been given in my life.*



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**ONE UP**  
**on**  
**WALL**  
**STREET**



# **Introduction**

It's hard to believe that this book first hit stores nearly forty years ago and has sold millions of copies. The financial markets have changed tremendously since then: the Dow has grown from 2,400 to nearly 50,000 as I write this. And investing has changed more broadly as well: it used to be hard for the average investor to do research on companies and stocks, but now more information than anyone could ever need is available at our fingertips. Nevertheless, I am as confident as ever that the same guiding principles that helped me perform well at the Fidelity Magellan Fund continue to apply to investing in stocks today.

One in a hundred people in the U.S. were invested in the Magellan Fund over the time I ran it. Even thirty-six years after leaving, I encounter these people everywhere I go, and it remains a huge source of pride that I helped them reach their financial goals. I quit my life as a fund manager on May 31, 1990—thirteen years to the day after I stepped up to run Magellan. My daughters, Mary, Annie, and Beth, were fifteen, eleven, and seven at the time. “Work is still fun for me,” I told my beloved wife, Carolyn, “but spending time with you and the girls is a lot more fun.”

There was more to it than that. My father had died at age forty-six, and I truly didn't know how much time I had left. I didn't want to spend

the rest of it crouching over 10-Qs and annual reports. As it turns out, I got pretty lucky and have remained alive (and feeling pretty good) on this earth for more than three and a half decades longer than my father did. Carolyn went to heaven more than a decade ago, and while I miss her more than I could ever describe, I see her spirit live on in our daughters and in the ten grandchildren I now spend over 90 percent of my days with.

What else fills my life? I'm proud to still be working part-time with Fidelity analysts, associates, and fund managers, and with the independent trustees of the Fidelity Funds. I've also spent much time over these decades serving on nonprofit boards and raising money for fine causes, including the Inner-City Scholarship Fund, where I helped bring in more than \$14 million annually in partial scholarships (and built a \$145 million endowment over twenty years) for very needy children in the Boston area—of all faiths and backgrounds—to attend inner-city Catholic schools. Through The Lynch Foundation, along with other charitable vehicles, my wife and I have given away more than \$250 million to more than a hundred different causes. This number is well in excess of my own personal net worth, and I can't fully describe how much joy it provides me to know that my giving is helping the lives of others.

Among that money is all of the royalties from this and my other two books (and the audiobook editions as well). I stand behind these books as truly valuable for investors; they help people realize that when you get behind a stock, you need to think of yourself not as a gambler, but as an athlete who constantly must study and learn and improve. I *despise* the saying “playing the market,” because it's not playing, or at least it shouldn't be. You don't make money playing the market; you might as well go to the casino. Instead, you succeed as an investor by doing your research and making intelligent, informed decisions—like people do all the time when they buy a house or a car or even a washing machine. For some reason, people don't apply the same effort to stock picking, despite the fact that the same process works.

In this book, I view myself as something like a ski coach or a golf coach. My coaching job is to make you the best investor you can be. What that means is helping you understand the basics. The book, of course, gives you lots of stories and examples to help guide your

thinking, but as I sit here almost four decades after first writing it, what I think may be most valuable as you dive in are a few principles to understand up front. Think of it as a little “cheat sheet” built on a lifetime of investing wisdom; here are ten tips to launch you into the rest of this volume with the right attitude and the right perspective:

1 | The best time to get started investing is when you’re young. This may require you to cut back on spending and do some saving. How much money you put to work by saving and investing it will determine your future prosperity. And the related point: you want to get in as early as you can and not wait for some kind of drop before you jump in at what you can tell yourself is a low price. More money has been lost anticipating declines than during declines themselves.

2 | Searching for companies to invest in is like turning over rocks. If you look at ten companies, you’ll probably find one that’s interesting. If you look at twenty, you’ll find two. The person who turns over the most rocks wins the game. The market is smart, and figuring out what it doesn’t know already isn’t easy. The good news is that you really only need those one or two winners to make your whole investing portfolio a success. After all, you’re looking for stocks in which you make at least ten times your money—what I call “tenbaggers,” borrowed from the baseball term (a “twobagger” is a double; a “fourbagger” is a home run). When you’re wrong about a stock, the most you can lose is your entire investment, but when you’re right, you can make back many times that initial outlay. If you’re right just a few times out of ten, you’re a winner. And the scale of my biggest winners was often a huge surprise to me after the fact. Do you think I ever expected to make fifty times my investment in TJX, the off-price department store corporation that owns TJ Maxx, Marshalls, and HomeGoods, or the insurer Aflac (I always loved that duck)? I did not! It’s an art, not a science.

3 | There are two ways you can make money in the stock market. One is by looking for great companies whose stocks you can hold for a long time, such as Costco or Home Depot (a story about them coming up). The other way is through turnarounds: looking for companies or industries that are really in trouble and potentially going to zero. You don't want to buy them when they're truly crappy—because then they may well go all the way to zero—but when they've moved from crappy to semi-crappy and you sense they have much farther up to go. You don't want to hold these forever, because they may turn crappy again, but if you can hold a stock from semi-crappy to great and then get out (maybe a one-, two-, or three-year run), you can make a ton of money. I think recently about industries like disk drives and memory chips. These stocks did nothing for a long time, and in the past twelve months, due to demand related to artificial intelligence, they're soaring—tenbaggers after going nowhere for years. You do have to wait for the turn though: I learned from the apparel industry that things are always darkest . . . before they're pitch black. When things are terrible, they can end up terrible to the power of six. Wait until you see the light and then grab them.

4 | I'll use another baseball term: figure out what inning a company is in. The second or third inning of a company's lifecycle is the ideal time to buy the stock. That means they're established, but they still have room to grow. And typically, you want to get out by the seventh or eighth inning—which can be decades in, or, in the case of technology, sometimes much, much sooner. To put some specifics on this, I think about Walmart, which I discuss a bunch in the book. Walmart's second or third inning was when they were in a bunch of small towns and at one point covered just 18 percent of the country. Then they moved into the big cities, opened up Sam's Club, and the stock—which had already gone up about five-fold in the first decade after it went public—

went up *more than a hundred-fold* after that. That's right: even if you thought you were getting in the game late, after the stock had been public for ten years and made investors plenty of money, you were still so early. Same story with Costco. Same story with a lot of great companies. You worry the game is over but you're actually still in the early innings.

5 | Invest in what you know—and know what you own. Learn as much as possible about the companies you've chosen. Understand their industries. Study what makes them tick. Look at the balance sheets. Imagine two companies losing money: one has \$250 million in cash, no debt, and is losing \$20 million a year, and the other has \$5 million in cash, \$100 million in debt, and is losing that same \$20 million a year. Yes, they're both losing money, and they may well have a similar valuation, but one of those companies is clearly in much better shape than the other. That second company is almost surely not going to make it—so don't buy it! I tell investors to actually write down several bullet points listing why they believe a stock is a good investment (“sucker's going up” is not a reason!) and update their reasoning every three months, six months, two years. Companies are dynamic and things change. Start with a paper portfolio and test yourself before you start risking your money. Remember, you have to really get what makes a company great. I like to use Visa as an example here: what's great about Visa is they take no credit risk. They get a small percent on every transaction but leave much of the actual risk to the banks that issue their credit cards. It's one of the greatest businesses ever (and yet I missed it as an investor—how?). You should know the secret sauce for every stock you invest in.

6 | Don't water the weeds and cut the flowers. In other words, don't sell your winners. You'll see this line in the book, but what the book doesn't tell you is the rest of the story. Not long after publication, I got a phone call at

home. “This is Warren Buffett from Nebraska,” the caller said. “I read your book. It’s great.” I thought someone was playing a trick on me, but it really was Warren Buffett, calling me cold. “My annual report is due in two weeks. Can I use your line?” he asked. “What line?” “The one about watering the weeds and cutting the flowers. My greatest mistake is selling my winners.” Of course I said he could use the line. “And please come out to see me in Omaha,” Buffett said. “If you don’t, your name will be mud in Nebraska.” So I visited him for lunch—he used to auction off lunch with him, for charity, and the last one in 2022 went for \$19 million, so I really got a bargain—and we played bridge the day after. I came back the next year with Carolyn, an actual world champion bridge player, and we played again. Unless you conclude that the company is entering the eighth inning, or the fundamentals you monitor are deteriorating, whether you believe Warren Buffett or you believe me, the advice holds true: don’t sell your winners!

7 | Stand out from the crowd. Fund managers and analysts spend most of their time studying companies that everybody knows. I’m talking about companies like Microsoft and Johnson & Johnson. These were and still are good businesses with strong balance sheets and predictable patterns of paying dividends. That’s why they’re popular investments. The thing is, hundreds of professional investors evaluate the fundamentals of stocks like these every day. What might you be able to find that hasn’t been discovered yet—and are there opportunities out there simply waiting for someone who’s paying attention? I like to use the example of Vistra, a Texas utility and power company that became a tenbagger over the past five years. People think of utilities as slow growers. And so, for a long time people just lumped Vistra into that category. But if you did the work, and used your own judgment, you would have seen that the company had incredible assets and unrecognized earning power. It was

all there. You're not supposed to make ten times your investment on an electric utility—but, then again, sometimes you can.

8 | In the stock market, the most important organ is the stomach, not the brain. Accept that you can lose all your money on a stock (I have!), but you can also make ten- or twenty- or even fifty-fold on a winner (I have!). There were more than a dozen market declines of more than 10 percent when I ran Magellan, and I went down more than the market in each of them. Because I had the fortitude to wait it out, when the market came back I went up by even more than the market did. Even good stocks go down. And what you have to remember is that the stock does not know that you own it and definitely doesn't care. People take it personally if a stock goes from ten to six, but you need to separate your emotions—ignore the fear in your gut—and stick to the underlying facts. Worry (and sell) because a company's fundamentals are deteriorating, not because the sky (or the share price) is falling.

9 | Don't try to predict the economy, interest rates, or the direction of the market. If you spend thirteen minutes a year thinking about economics, you've wasted eleven of those minutes. It's a futile exercise. Market strategists have predicted fifty-seven of the thirteen U.S. recessions since World War II. We would all pay a lot of money for next year's *Wall Street Journal*, but no one's selling it. The economy is going to do what it's going to do, and you just have to trust your decision-making process.

10 | Be patient. Success in stock picking is all about thinking long term . . . and the same is true about life! It can take time for investments to pay off. That's a big part of why you can't use the money you'll need in the next one to two years to buy stocks. As the market goes down, which it does quite often, you will be forced to sell when you'd really like to buy. Some of my best stocks went

down before they went up, and you can never know what will happen in a given year. The average NYSE stock has a more than 100 percent range in its high and low in a given year. A stock might start at ten, and at some point in the year be above fifteen—but also below five. There is a ton of volatility, and if you need your money back quickly, you won't be able to buy more when the price is low, which is what you really want to do.

I learned even more about the value of patience early on as a young fund manager. I heard about two guys named Bernie Marcus and Arthur Blank, who had been fired by a hardware retailer called Handy Dan and started their own retail operation called The Home Depot in Marietta, Georgia. I flew to Atlanta to see Arthur Blank and the company's first three stores. I was impressed with the concept of a big-box retail outlet where people could buy tools and materials to fix up their homes themselves and struck by the courteous service of their knowledgeable employees. In 1981, soon after Home Depot went public, I bought the stock and made it a big bet. The shares tripled over the three years that I held onto the stock. At that point, I figured the stock was fairly valued. Stupid me, I wasn't patient enough. I sold my Home Depot shares. Bernie Marcus and Arthur Blank went on to expand rapidly across the United States and then opened stores abroad. They laughed their way to billions of dollars in revenue and billions in personal wealth while many professional investors, including me, questioned their ability to keep growing while preserving healthy profit margins. Home Depot has returned more than 1,000,000 percent since going public. Meaning: \$1,000 invested in IPO shares would have returned more than \$10 million. This stands as my worst investment decision ever—by a large margin.

Final story: I missed an easy shot on Apple, a company whose products I love. Ever since I received my first iPod portable music player as a Christmas gift from my daughters, I've never been without it. Even better, the product was hugely profitable compared to their personal computers. If I had connected the dots, I would have realized that Apple had a goldmine, on top of strong net cash to fund its growth and weather any coming financial downturns. I should have seen that the stock was undervalued. But I failed to buy it.

What's the lesson? You'll make mistakes; we all do. But you'll also make some smart decisions, and those will power your portfolio and lead to your investing success. I leave you with these ten lessons as you dive into *One Up on Wall Street* and wish you the very best of luck on your investing journeys.

*Peter S. Lynch*  
*April 2026*

TWENTY BIG WINNERS IN U.S. STOCKS IN THE 1990s\*

<b>RANK BY STOCK PERFORMANCE</b>	<b>SYMBOL</b>	<b>COMPANY</b>	<b>BUSINESS</b>	<b>\$10,000 INVESTED AT YEAR END 1989 PRODUCED THESE RETURNS BY YEAR END 1999</b>
(1)	DELL	Dell Computer	Computer Manufacturer	\$8.9 million
(6)	CCU	Clear Channel Comm.	Radio Stations	\$8.1 million
(9)	BBY	Best Buy	Retailer	\$995,000
(10)	MSFT	Microsoft	Technology	\$960,000
(13)	SCH	Charles Schwab	Discount Broker	\$827,000
(14)	NBTY	NBTY	Vitamins, Food Supplements	\$782,000
(20)	WCOM	MCI Worldcom	Communications	\$694,000
(21)	AMGN	Amgen	Biotechnology	\$576,000
(30)	PPD	Prepaid Legal Services	Attorney Services	\$416,000
(33)	INTC	Intel	Computer Chips	\$372,000
(34)	HD	Home Depot	Building Supplies	\$370,000
(40)	PAYX	Paychex	Payroll Services	\$340,000
(46)	DG	Dollar General	Discount Retailer	\$270,000
(49)	HDI	Harley Davidson	Motorcycles	\$251,000
(52)	GPS	Gap	Retail Clothing	\$232,000
(69)	SPLS	Staples	Office Supplies	\$186,000
(75)	WBPR	Westernbank/Puerto Rico	Banking	\$170,000
(77)	MDT	Medtronic	Medical Supplies	\$168,000
(82)	ZION	Zion's Bancorp	Banking	\$161,000
(87)	LOW	Lowe's Companies	Building Supplies	\$152,000

\* This list does not include companies that were acquired by other companies.  
 Source: Ned Davis Research

# **Prologue:**

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## **A Note from Ireland**

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**You can't bring up the stock market these days without** analyzing the events of October 16–20, 1987. It was one of the most unusual weeks I've ever experienced. More than a year later, and looking back on it with some dispassion, I can begin to separate the sensational ballyhoo from the incidents of lasting importance. What's worth remembering I remember as follows:

- On October 16, a Friday, my wife—Carolyn—and I spent a delightful day driving through County Cork, Ireland. I rarely take vacations, so the fact that I was traveling at all was extraordinary in itself.
- I didn't even once stop to visit the headquarters of a publicly traded company. Generally I'll detour 100 miles in any direction to get the latest word on sales, inventories, and earnings, but there didn't seem to be an S&P report or a balance sheet anywhere within 250 miles of us here.
- We went to Blarney Castle, where the legendary Blarney stone is lodged inconveniently in a parapet at the top of the building, several stories above the ground. You get to lie on your back, wiggle your way across the metal grating that comes between you and a fatal drop, and then while gripping a guardrail for emotional support, you kiss the leg-

endary stone. Kissing the Blarney stone is as big a thrill as they say—especially the getting out alive.

- We recovered from the Blarney stone by spending a quiet weekend playing golf—at Waterville on Saturday and at Dooks on Sunday—and driving along the beautiful Ring of Kerry.

- On Monday, October 19, I faced the ultimate challenge, which demanded every bit of intelligence and stamina that I could muster—the eighteen holes at the Killeen course in Killarney, one of the most difficult courses in the world.

- After packing the clubs into the car, I drove with Carolyn out on the Dingle peninsula to the seaside resort of that name, where we checked into the Sceilig Hotel. I must have been tired. I never left the hotel room for the entire afternoon.

- That evening we dined with friends, Elizabeth and Peter Callery, at a famous seafood place called Doyle's. The next day, the 20th, we flew home.

## **THOSE PETTY UPSETS**

Of course, I've left out a few petty upsets. In hindsight they hardly seem worth mentioning. One year later you're supposed to remember the Sistine Chapel, not that you got a blister from running through the Vatican. But in the spirit of full disclosure, I'll tell you what was bothering me:

- On Thursday, the day we left for Ireland after work, the Dow Jones industrial average dropped 48 points, and on Friday, the day we arrived, that same average dropped another 108.36 points. This made me wonder if we should be on vacation at all.

- I was thinking about Dow Jones and not about Blarney, even at the moment I kissed Blarney's stone. Throughout the weekend, between the rounds of golf, I sought out several phones and talked to my office about which stocks to sell, and which stocks to buy at bargain prices if the market fell further.

- On Monday, the day I played Killeen at Killarney, the aforementioned average dropped yet another 508 points.

Thanks to the time difference, I finished the round a few hours before the opening bell rang on Wall Street, or else I would probably have played worse. As it was, a sense of gloom and doom carried over from Friday, and perhaps that explained my (1) putting worse than I

usually do, which in the best of times is terrible; and (2) failing to remember my score. The score that got my attention later that day was that the one million shareholders in Magellan Fund had just lost 18 percent of their assets, or \$2 billion, in the Monday session.

My fixation on this mishap caused me to ignore the scenery on the way to Dingle. It could have been Forty-second and Broadway, for all I knew.

I wasn't napping all afternoon at the Sceilig Hotel, as the earlier paragraph may have implied. Instead, I was on the phone with my home office, deciding which of the 1,500 stocks in my fund should be sold to raise cash for the unusual number of fund redemptions. There was enough cash for normal circumstances, but not enough for the circumstances of Monday the 19th. At one point I couldn't decide if the world was coming to an end, if we were going into a depression, or if things weren't nearly as bad as that and only Wall Street was going out of business.

My associates and I sold what we had to sell. First we disposed of some British stocks in the London market. On Monday morning, stock prices in London were generally higher than prices in the U.S. market, thanks to a rare hurricane that had forced the London exchange to shut down on the preceding Friday, thus avoiding that day's big decline. Then we sold in New York, mostly in the early part of the session, when the Dow was down only 150 points but well on its way to the nadir of 508.

That night at Doyle's, I couldn't have told you what sort of seafood meal I ate. It's impossible to distinguish cod from shrimp when your mutual fund has lost the equivalent of the GNP of a small, seagoing nation.

We came home on the 20th because all of the above made me desperate to get back to the office. This was a possibility for which I'd been preparing since the day we arrived. Frankly, I'd let the upsets get to me.

## **THE LESSONS OF OCTOBER**

I've always believed that investors should ignore the ups and downs of the market. Fortunately the vast majority of them paid little heed to the distractions cited above. If this is any example, less than three percent of the million account-holders in Fidelity Magellan switched out of

the fund and into a money-market fund during the desperations of the week. When you sell in desperation, you always sell cheap.

Even if October 19 made you nervous about the stock market, you didn't have to sell that day—or even the next. You could gradually have reduced your portfolio of stocks and come out ahead of the panic-sellers, because, starting in December, the market rose steadily. By June of 1988 the market recovered some 400 points of the decline, or more than 23%.

To all the dozens of lessons we're supposed to have learned from October, I can add three: (1) don't let nuisances ruin a good portfolio; (2) don't let nuisances ruin a good vacation; and (3) never travel abroad when you're light on cash.

Probably I could go on for several chapters with further highlights, but I'd rather not waste your time. I prefer to write about something you might find more valuable: how to identify the superior companies. Whether it's a 508-point day or a 108-point day, in the end, superior companies will succeed and mediocre companies will fail, and investors in each will be rewarded accordingly.

But as soon as I remember what I ate at Doyle's, I'll let you know.

# **Introduction:**

# **The Advantages of**

# **Dumb Money**

**This is where the author, a professional investor,** promises the reader that for the next 300 pages he'll share the secrets of his success. But rule number one, in my book, is: Stop listening to professionals! Twenty years in this business convinces me that any normal person using the customary three percent of the brain can pick stocks just as well, if not better, than the average Wall Street expert.

I know you don't expect the plastic surgeon to advise you to do your own facelift, nor the plumber to tell you to install your own hot-water tank, nor the hairdresser to recommend that you trim your own bangs, but this isn't surgery or plumbing or hairdressing. This is investing, where the smart money isn't so smart, and the dumb money isn't really as dumb as it thinks. Dumb money is only dumb when it listens to the smart money.

In fact, the amateur investor has numerous built-in advantages that, if exploited, should result in his or her outperforming the experts, and also the market in general. Moreover, when you pick your own stocks, you ought to outperform the experts. Otherwise, why bother?

I'm not going to get carried away and advise you to sell all your mutual funds. If that started to happen on any large scale, I'd be out of a job. Besides, there's nothing wrong with mutual funds, especially the

ones that are profitable to the investor. Honesty and not immodesty compels me to report that millions of amateur investors have been well-rewarded for investing in Fidelity Magellan, which is why I was invited to write this book in the first place. The mutual fund is a wonderful invention for people who have neither the time nor the inclination to test their wits against the stock market, as well as for people with small amounts of money to invest who seek diversification.

It's when you've decided to invest on your own that you ought to try going it alone. That means ignoring the hot tips, the recommendations from brokerage houses, and the latest "can't miss" suggestion from your favorite newsletter—in favor of your own research. It means ignoring the stocks that you hear Peter Lynch, or some similar authority, is buying.

There are at least three good reasons to ignore what Peter Lynch is buying: (1) he might be wrong! (A long list of losers from my own portfolio constantly reminds me that the so-called smart money is exceedingly dumb about 40 percent of the time); (2) even if he's right, you'll never know when he's changed his mind about a stock and sold; and (3) you've got better sources, and they're all around you. What makes them better is that you can keep tabs on them, just as I keep tabs on mine.

If you stay half-alert, you can pick the spectacular performers right from your place of business or out of the neighborhood shopping mall, and long before Wall Street discovers them. It's impossible to be a credit-card-carrying American consumer without having done a lot of fundamental analysis on dozens of companies—and if you work in the industry, so much the better. This is where you'll find the tenbaggers. I've seen it happen again and again from my perch at Fidelity.

## **THOSE WONDERFUL TENBAGGERS**

In Wall Street parlance a "tenbagger" is a stock in which you've made ten times your money. I suspect this highly technical term has been borrowed from baseball, which only goes up to a fourbagger, or home run. In my business a fourbagger is nice, but a tenbagger is the fiscal equivalent of two home runs and a double. If you've ever had a tenbagger in the stock market, you know how appealing it can be.

I developed a passion for making ten times my money early in my investing career. The first stock I ever bought, Flying Tiger Airlines,

turned out to be a multibagger that put me through graduate school. In the last decade the occasional five- and tenbagger, and the rarer twentybagger, has helped my fund outgain the competition—and I own 1,400 stocks. In a small portfolio even one of these remarkable performers can transform a lost cause into a profitable one. It's amazing how this works.

The effect is most striking in weak stock markets—yes, there are tenbaggers in weak markets. Let's go back to 1980, two years before the dawn of the great bull market. Suppose you invested \$10,000 in the following ten stocks on December 22, 1980, and held them until October 4, 1983. That's Strategy A. Strategy B is the same, except that you added an eleventh stock, Stop & Shop, which turned out to be the tenbagger.

The result from Strategy A is that your \$10,000 would have increased to \$13,040 for a mediocre 30.4% total return over nearly three years (the S&P 500 offered a total return of 40.6% in the same period). You'd have a perfect right to look at this and say: "Big deal. Why don't I leave the investing to the pros." But if you added Stop & Shop, your \$10,000 would have more than doubled to \$21,060, giving you a total return of 110.6% and a chance to brag on Wall Street (see page 34).

Furthermore, if you had added to your position in Stop & Shop as you saw the company's prospects improving, your overall return might have been twice again as high.

To make this spectacular showing, you only had to find one big winner out of eleven. The more right you are about any one stock, the more wrong you can be on all the others and still triumph as an investor.

## **APPLES AND DONUTS**

You may have thought that a tenbagger can only happen with some wild penny stock in some weird company like Brainio Biofeedback or Cosmic R and D, the kind of stock that sensible investors avoid. Actually there are numerous tenbaggers in companies you'll recognize: Dunkin' Donuts, Wal-Mart, Toys "R" Us, Stop & Shop, and Subaru, to mention a few. These are companies whose products you've admired and enjoyed, but who would have suspected that if you'd bought the Subaru stock along with the Subaru car, you'd be a millionaire today?

Yet it's true. This serendipitous calculation is based on several assumptions: first, that you bought the stock at its low of \$2 a share in

**Strategy A Portfolio**

	<b>BOUGHT</b>	<b>SOLD</b>	<b>% CHANGE</b>
Bethlehem Steel	\$25 $\frac{1}{8}$	\$23 $\frac{1}{8}$	-8.0%
Coca-Cola	32 $\frac{3}{4}$	52 $\frac{1}{2}$	+60.3%
General Motors	46 $\frac{7}{8}$	74 $\frac{3}{8}$	+58.7%
W. R. Grace	53 $\frac{7}{8}$	48 $\frac{3}{4}$	-9.5%
Kellogg	18 $\frac{3}{8}$	29 $\frac{7}{8}$	+62.6%
Mfrs. Hanover	33	39 $\frac{1}{8}$	+18.5%
Merck	80	98 $\frac{1}{8}$	+22.7%
Owens Corning	26 $\frac{7}{8}$	35 $\frac{3}{4}$	+33.0%
Phelps Dodge	39 $\frac{5}{8}$	24 $\frac{1}{4}$	-38.8%
Schlumberger (adjusted for splits)	81 $\frac{7}{8}$	51 $\frac{3}{4}$	<u>-36.8%</u>
			+162.7%

**Strategy B**  
**All of the above, plus**

Stop & Shop	\$6	\$60	+900.0%
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1977; second, that you sold at the high in 1986, which would have amounted to \$312 a share, unadjusted for an 8-for-1 split.\* That's a 156-bagger, and the fiscal equivalent of 39 home runs, so if you'd invested \$6,410 in the stock (certainly in the price range of a car), you'd come out with \$1 million exactly. Instead of owning a battered trade-in, you'd now have enough money to be able to afford a mansion and a couple of Jaguars in the garage.

You would have been unlikely to make a million dollars by investing

\* Throughout this book we're going to be faced with the complication that occurs when companies split their shares—two-for-one, three-for-one, etc. If you invest \$1,000 in 100 shares of Company X, a \$10 stock, and there's a two-for-one split, then suddenly you own 200 shares of a \$5 stock. Two years later, let's say, the stock price has risen to \$10 a share and you've doubled your money. Yet to a person who didn't know about the split, it would appear as if you'd made nothing—the stock you bought for \$10 is still selling for \$10.

In the case of Subaru the stock never actually sold for \$312. There had been an eight-for-one split just before the high, so the stock was actually at \$39 ( $\$312 \div 8$ ) at the time. To conform with this price, all presplit levels must be divided by 8. In particular, the \$2 low in 1977 is now a "split-adjusted" 25 cents per share ( $\$2 \div 8 = \$0.25$ ), although the stock never actually sold for 25 cents.

Companies generally prefer not to have their share prices too high in absolute dollar terms, which is one reason why stock splits are declared.