



Reprint from December 1999 Issue

Peter Lynch and Earnings

Peter Lynch is correct when he says earnings drive the market. Third quarter earnings were substantially better (+23%) than last year. As the market shrugged off interest rate jitters and inflation concerns, investors saw these terrific earnings and jumped back into the market with vengeance. The May-October market correction was soon history as the broad market averages quickly returned to their prior range.

As a result of this strong market action, it looks like 1999 will go into the record books as another terrific year for the market. If the market finishes the year with a double digit return, it will mark five years in a row of double digit returns...quite an accomplishment!

The Prospector is quite pleased with the model portfolio's 35.2% ytd return and hopefully readers following the Prospector's investment strategy have experienced similar above market average returns.

LYNCH'S RECORD

As manager of Fidelity's flagship Magellan Fund, Peter Lynch produced an enviable performance record. During the 13 years of Lynch's watch, he posted a 29.2% average annual return outperforming the market by over 13.4% annually. That's quite a feat considering the Magellan fund grew from \$20 million in 1977 to over \$14 billion in 1990.

How did Lynch accomplish this remarkable record? From reading his books it appears he has a great mind for business and excellent intuition. In addition, I also believe Magellan's flexible investment charter contributed significantly to his success.

He wasn't bound by a market cap or style restriction and he could invest anywhere he found opportunities. Sure, he had lots of analysts and support, but in the end, he relied on common sense, intuition and strong company earnings.

News, Views
And Investment
Information
From the
Prospector



There's Gold Somewhere!

The Prospector's
charter is to
provide a simple,
easy to follow,
mutual fund
investment
strategy
providing solid,
long-term
results

RIGID CHARTERS & FIXED ALLOCATIONS

I believe the ability to invest in any market cap or use any valuation style gives fund managers a better opportunity to capitalize on their stock picking skills. Funds with rigid charters are often restricted to invest in narrow market segments. If a sector is out of vogue and underperforms for extended periods of time, as value style has most recently, these managers, their funds and investors take it on the chin.

Fixed asset allocation investment strategies are similar to rigid charters. Market history may exhibit some patterns, but history never exactly repeats itself. Allocation strategies based on the last ten, twenty or fifty years and cast in stone, will simply not outperform the broad market averages.

Flexible investors like Peter Lynch can outperform the market, while rigid investment strategies are destined to underperform the averages. These results are well documented in *A Random Walk on Wall Street* by Burton Malkiel. See the review on pg 11.

The Prospector's dynamic allocation strategy is flexible and follows the current trends in the market. It isn't restricted by market cap or investment style. It is also a combination of common sense and intuition. So far it is outperforming the market and remains a work in progress.

Stay flexible and follow the Nuggets!

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