2/6/96, 4:29 PM ET
Peter Lynch 02/05

Moderator (Speaker)

Welcome to our special Guest Spotlight chat with mutual fund superstar and author of the best-sellers, "Beating the Street," "One Up on Wall Street," and the new "Learn to Earn: A Beginner's Guide to the Basics of Investing and Business," PETER LYNCH! Peter will be answering your finance, business and investment questions here tonight, so fire away! Thanks for joining us Peter!

Peter Lynch (Speaker)

I'm really enjoying this. I hope to be able to assist you in becoming a more skilled investor tonight. One point that I'd like to make is that a lot of times, people wait until they're in their mid-30s before starting to invest -- and then they do some foolish, unpolished, "playing" in the market. That expression, "playing the market," has done more damage to investing than anyone can imagine. People are careful when they buy a refrigerator, or VCR, or a house... but they'll put $5,000 on some stock that they heard about on a bus, on the way to work -- without doing any research. I'm looking forward to answering as many questions as I can tonight.

Moderator (Speaker)

It's a pleasure to have you in Guest Spotlight, Peter....we've got plenty of finance-minded members here tonight, so let's get to the first Q&A! Our first one comes to us from member "BBK22."

BBK22 (PRODIGY Member)

Hi Peter, Thanks for changing my life with your books. I've "backed the truck on Outback Steakhouse and Microsoft. What do you think?

Peter Lynch (Speaker)

If you know something about the restaurant business and can stay in touch with it, you'll know when Outback Steakhouse is not competitive, or has saturated the market. On the same basis, in the last 30 years, you could have seen McDonald's, Taco Bell, Kentucky Fried Chicken, Pizza Hut, etc. that worked, and lots of companies that didn't work. And you would have known the ones that were "one year wonders" and lost it, long before the so-called professional investors. So the basic reason you bought the stock -- it was a superior restaurant, for example -- once that started to deteriorate, you should have eliminated your holding. That's fundamental analysis.

Peter Lynch (Speaker)

By the way, if anyone has a question about the market, forget it. It would be very useful to know what the market is going to do. But unfortunately, of all the market corrections that have ever come, no one has ever been able to predict them. I would love to see next year's Wall Street Journal. That would be useful.

What's really important is to understand that the market, over time, has been better than investing in bonds, CD's, or bank accounts.

Peter Lynch (Speaker)

The markets had a 10 or 11 percent return, compounded over the last 40 or 50 years, let's say. But the returns are quite volatile, inter-year. For example, there have been 95 years so far this century. Fifty times, the market has had a decline of 10 percent or more. This does not mean 50 "down" years -- the market might have been up 26 percent at one point in the year, finished up 4 percent for the year, and had a correction in the middle. So in 50 declines in 95 years means that about once every 2 years, the market has a 10 percent correction. That's going to be over 500 points on the Dow Jones. That's going to get your attention, and it's probably going to scare a lot of people.

Peter Lynch (Speaker)

Of the 50 declines of 10 percent or more this century, 15 have been a decline of 25 percent or more. Fifteen declines in 95 years is about once every 6 years. That's going to be over 1,200 points on the Dow. That certainly will get your attention. I haven't seen much in human nature that's changed in the last 400 years, so there will be these corrections every 2 to 6 years. And what are you going to do when that happens! If you're prepared for it, you don't panic.

Moderator (Speaker)

Peter Lynch is one of the few investment superstars who can explain the basic principles of finance using clear, everyday language. He is the former manager of the Fidelity Magellan Fund and co-author (with John Rothchild) of the current bestseller "Learn to Earn: A Beginner's Guide to the Basics of Investing and Business." Lynch also co-wrote the bestsellers "Beating the Street" and "One Up on Wall Street."

Roccocco (PRODIGY Member)

A pleasure, sir. I bet you've seen on Strategic Investor, the "On Up On Wall Street" model portfolio. Whacha think? Also, where does an investor go on-line to find good info?

Peter Lynch (Speaker)

I have a whole chapter ("Stockpicking Tools") devoted to this -- online resources -- in my book, "LEARN TO EARN." Some of the resources -- and there are pages of them -- are online, and some are 800 numbers. Personally, I haven't seen the model portfolio that you mention, but I know that Strategic Investor is an excellent tool.

Moderator (Speaker)

Now for more member Q&A's... Next up: SqueegeeDude!

SqueegeeDude (PRODIGY Member)

Can you [or would you] name one good fund manager and his fund?

Peter Lynch (Speaker)

The real problem is not finding a good fund manager -- it's finding the right time horizon for your investing, and what your temperament is for volatility. Everyone says they're a long-term investor until the market has one of its major corrections. If someone has saved a lot of money to send their child to college, and it's one year away -- and then they decide to put $50,000 into equity mutual funds, for example -- that would be a terrible mistake.

Peter Lynch (Speaker)

What the market does over one or two years is entirely random, and if it goes down, you can't add another $50,000 to take advantage of a decline. If you're investing in mutual funds, you should look at 5, 10, 15-year horizons and then select investment styles that fit your personal temperament. You should decide whether you want to buy international mutual funds, emerging growth mutual funds, conservative balanced funds, an index fund of the Russell 2000 (small stocks), etc.

Moderator (Speaker)

A columnist for WORTH magazine, Peter now devotes his time to nonprofit work and continues to serve as a member of the board of trustees of the Fidelity Group of Funds in Boston.

Joansie (PRODIGY Member)

Hi Peter Do you think we should add JOHNSON & JOHNSON to our class portfolio...we know you recommended it back on the MP show.... ST. AGNES WALL STREET WIZ KIDS

Peter Lynch (Speaker)

Rather than suggest specific stocks, it's better to learn how to take advantage of your knowledge, where you live, the industry your involved in, etc. In "LEARN TO EARN," I give examples using Johnson & Johnson and also Nike, using public information that you could have used to take advantage of some great opportunities.

Peter Lynch (Speaker)

Stocks are not lottery tickets. Behind every stock is a company. If the company does well, the stock does well. Coca-Cola, the company, has done terrific over the last 30 years; earnings have gone up over 30-fold, and the stock as well. Bethlehem Steel, the company, has done poorly over the last 30 years; profits are lower than they were, and the stock is 1/2 the price it was 30 years ago... If the Dow Jones today was, let's say, 500 instead of 5,400, you still would have made a lot of money with Coca-Cola. And if it was 54,000 instead of 5,400, you would have done crummy with Bethlehem Steel.

Moderator (Speaker)

While offering a vivid historical and economic overview, "Learn to Earn" delivers solid, hands-on advice on how to make today's earnings work for tomorrow. Through clear, everyday language, Peter Lynch and John Rothchild cover the five most common investment categories: savings accounts, money market funds, certificates of deposit, collectibles, houses or apartments, bonds and stocks. Also included are tips for amateur stockpickers.

SqueegeeDude (PRODIGY Member)

Today you have to be either very rich or very poor, if you are in the middle you get squeezed. I would prefer the former, how do I DO IT?

Peter Lynch (Speaker)

The key is to save as much as you can, as early as you can. And if you're willing to put money into tax-deferred savings accounts, like a 401K or your own IRA, you can build up a sizable nest egg for your retirement. Savings is the key to creating wealth. If you do a mediocre job with lots of savings, it's better than doing a very good job with a small amount of savings.

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Moderator (Speaker)

Peter Lynch and John Rothchild's LEARN TO EARN also includes easy lessons on how to read a stock table in the daily newspaper and a company's annual and quarterly reports--with an eye toward tracking a company's level of debt, as well as its sales, earnings and prof its.

CarPlane (PRODIGY Member)

How do you think the presidential election will effect the stock market this year?

Peter Lynch (Speaker)

Since WW II there have been 7 recessions. We've had two major wars (Viet Nam and Korea), we've had the Persian Gulf crisis, we've had major changes in the Supreme Court, in Congress, changes in Presidents. Everyone whose attempted to make money by trying to predict these events, or the ramifications of these events, has wasted their time. What people should do is follow 5 or 6 companies that are in their industry, that they know very well -- well enough that they could lecture about these companies. They should at least be able to write a paragraph on why they purchased these stocks. If all they can say is "the sucker's going up" -- that usually doesn't work. Buying stocks this way is like playing poker without looking at your cards.

MrMotorCity (PRODIGY Member)

How much longer do you think this bull market will last?

Peter Lynch (Speaker)

No idea. When I ran Magellan Fund, the market had 9 declines of 10 percent or more in those 13 years. I had a perfect record. All 9 times, my fund went down. I didn't spend any time predicting the economy, or the stock market -- I spent all my time looking at companies.

CaribouH (PRODIGY Member)

Peter, I'm 100 p. into Learn to Earn and enjoying it. Q: I'm 27 and have equity of 41,000 in stocks and mutuals and IRA/401k worth another 10000. 22% of the equity is in a corpora te bond fund. Is this an appropriate fund for someone my age?

Peter Lynch (Speaker)

I would think you'd want to have maximum exposure to growth companies, either domestically or internationally. And while these will be more volatile over 3, 5 or 10 years, over a long period of time you'll see a much greater return than if you'd put the money in bonds.

ARIES7 (PRODIGY Member)

What stock areas do you think are undervalued and why?

Peter Lynch (Speaker)

In the last 3 years, 2,000 new companies have come public. That's over 2 per business day. I don't think 2,000 companies have come public in Europe since Charlemagne! Some of these companies have had temporary glitches, have declined to prices that are below their initial offering price. Many have fine balance sheets. This is an area that would be worth researching, as these stocks are neglected. If I look at 10 stocks, I'll usually find one having some element that looks interesting. If I look at 20, I'll find 2. If I look at 100, I'll find 10. The person that turns over the most rocks, wins the game!

Moderator (Speaker)

Peter Lynch and John Rothchild's LEARN TO EARN also includes easy lessons on how to read a stock table in the daily newspaper and a company's annual and quarterly reports--with an eye toward tracking a company's level of debt, as well as its sales, earnings and profits. The book also offers today's hottest tools for amateur stockpickers--complete with lists of on-line services and toll-free numbers. AND...

fascinating company success stories -- from Coca-Cola, Wrigley's and Campbell's Soup to Microsoft, Wal-mart and Home Depot.

docstrange (PRODIGY Member) What is your opinion of health care management stocks, specifically Access Health (accs).

Peter Lynch (Speaker)

If you're in the healthcare field, you might find one or two interesting stocks every few years. You could become very knowledgeable and find some winners. You only need a few rea lly big stocks in a lifetime to make a lot of money. Remember, if you put a thousand dollars in a stock and you're wrong, all you can lose is a thousand. But if you're right, you can make $10,000... $20,000... $100,000. One or two good stocks can make up for lots of losers, and produce superior results.

Moderator (Speaker)

In "Learn to Earn," Lynch and Rothchild explain in a style of accessible to anyone who is high-school age or older how to read a stock table in the daily newspaper, how to understand a company annual report and why everyone should pay attention to the stock market. They explain not only how to invest, but how to think like an investor.

leboo2 (PRODIGY Member)

Do you ever use technical analysis for stock selection? If so, what tools?

Peter Lynch (Speaker)

Technical analysis is looking at what the stock is doing, independent of the fundamentals. Usually charting price changes over short and longer periods of time. I like to find charts of stocks that have declined sharply, and then have gone sideways (within a tight band of prices) for a couple of years. Trying to purchase a stock in free-fall is like trying to catch a falling knife. I'd rather wait for the knife to stick in the wood, and stop shaking, and then evaluate it. If a stock has gone sideways for a couple of years, and the fundamentals are decent, and you can find something new that's positive in the company or their industry, then if you're wrong, the stock will probably continue to go sideways, and you won't lose a lot of money. But if you're right, that stock is going north.

Moderator (Speaker)

While offering a vivid historical and economic overview. "Learn to Earn" delivers solid, hands-on advice on how to make today's earnings work for tomorrow. Through clear, everyday language, Peter Lynch and John Rothchild cover the five most common investment categories: savings accounts, money market funds, certificates of deposit, collectibles, houses or apartments, bonds and stocks. Also included are tips for amateur stockpickers.

MoneeMan (PRODIGY Member)

A lot has been written about the attractiveness of international investments right now. What do you think about the India and Japan markets right now?

Peter Lynch (Speaker)

I've visited both countries. I think to invest in those markets, you ought to have a spouse or associate or yourself who is visiting there all the time, knows the local companies -- that's your edge. Trying to invest in stocks in some country that you know nothing about, when there are over 12,000 public companies in the U.S. -- I think is foolish. I think it's also very dangerous for people to invest in single-country funds with a short horizon. People will buy the Japanese fund for six weeks and sell it, then buy the German fund, then four weeks later they're out and into the Korean fund -- that's like going to a casino and betting on number 36 at the roulette wheel. If one truly believes in the superior growth potential of the 40 emerging countries, which will have GNP growth that is twice that of the major 10 countries, you should buy an emerging market fund and stay with it for 5, 10, 15 years -- rather than just speculating and gambling on individual issues.

NE Man (PRODIGY Member)

How many stocks and how much money would be an adequate portfolio?

Peter Lynch (Speaker)

People can have a paper portfolio, with 10 to 15 stocks that they're actively researching, and own 5 or 6 that they judge to be attractive. This will be great practice, and they will learn what their strengths and weaknesses are, and in what areas of the economy they have better skills. For example, if you were a car dealer over the last 15 years, you should have seen how well Chrysler did with the Minivan and the Jeep. The stock went up over 10-fold. You would have seen that Taurus and Sable were a huge hit for Ford when they first came out. If you were a Buick, Honda or Subaru dealer, you would have seen everyone was in the Ford dealership, purchasing the Tauruses and Sables. This is fundamental information.

GranCherokee (PRODIGY Member)

Whats your feeling about tech stocks long term?

Peter Lynch (Speaker)

I think the field is going to have rapid growth, there will be a lot of new companies that are big successes, and lots of companies that fall apart. People that are users and suppliers, and involved in these varied, diverse fields -- from networking, to software, CAD-CAM, etc. -- will see these companies ahead of Wall Street. Someone that was software-literate could have bought Microsoft three years after it went public, and made 20 times their money -- knowing that they had a sizable lead in the IBM compatible world. People who saw the trends in client servers and local area networking would have seen huge opportunities. And the same goes for optical imaging, and hundreds of phases of technology as it applies to electronics, medicine, biotechnology, consumer products, education, communications...But only for people who are going to do some homework. Calling your stockbroker three times a day to get stock quotes doesn't count. You either use your edge, or don't invest in stocks.

Dr Sleepy (PRODIGY Member)

Which are the most important publications for the individual investor to subscribe to?

Peter Lynch (Speaker)

If you own tire stocks, you should be reading Tire Weekly (if there is such a thing!) or Modern Tire! Reading industry and trade association information, trade newspapers, really gives you a good insight into the fundamentals of industries that can turn from terrible to fair to good to terrific. And then repeat the process. There are opportunities to make money in the stock market when these things happen.

pigfan (PRODIGY Member)

How does the market compare to real estate?

Peter Lynch (Speaker)

People have a real edge in real estate, particularly single family housing. If you purchase a house for $100,000 and you put $20,000 down, if the house rises by 3 percent a year, you're getting a $3,000 return on a $20,000 investment -- or 15 percent. And when you sell the house, you don't have to pay taxes on the gain if you put it into a more expensive house. And after you're 55, they give you a once- in- a-lifetime exemption on $125,000 of the gain. People tend to own a house for about 8 or 9 years, and they do very good research on the house, the street, the school system, and the community, before they purchase. They are forced to be careful, long-term investors. My best stocks have been the 3rd, 4th or 5th year that I owned them -- not the sixth week.

RUS1 (PRODIGY Member)

Peter, Wouldn't a correction like that be precipitated by some event such as an interest rate rise?

Peter Lynch (Speaker)

In 1990, we had a very sharp correction in the market when Saddam Hussein took over Kuwait. Our economy went into a recession. The commercial banking system was very

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stupidz (PRODIGY Member)

What do you think about the individual investor using margin accounts to leverage their portfolio

Peter Lynch (Speaker)

I must admit, when I was young and my wife and I were both working, and we didn't have any worries about anything, I had a margin account. When you have a family, and a house, and the market is going down, and you're on margin -- it's probably too much pressure for you to do the right research and the right kind of thinking to make good decisions.

Peter Lynch (Speaker)

I really have enjoyed this, and thanks for all the old Magellan shareholders who wrote in questions. I miss the million people who were in the fund. Good night to MARE007 -- don't forget to do your Latin homework! I'll see you and mommy tomorrow night!

Peter Lynch (Speaker)

Thanks and good night!

Moderator (Speaker)

Thanks for being with us, PETER, and sharing some of those GREAT tips! Thanks to all who participated tonight, also, for submitting some excellent questions! Hope to see you again soon for more financial chats here on PRODIGY!

16:22ET