<u>One up on wall street by Peter Lynch</u>

Just finished reading one of the greatest books on investment “One up on wall street” by renowned money manager Peter Lynch. Thought of penning down take aways from the book.

I would start with stating that the book is a great example of common sense approach to investing. Simplicity, lucidity and the flow of book is absolutely amazing. Lynch has very generously shared tons of his experiences and investment philosophy, in simplest of language, while managing the money at Fidelity from 1977 to 1990 (famous Magellan fund), with all of us. Some of the important messages are:

When one (buys) sells in desperation, one always (buys expensive) sells cheap. It also means, when one (buys from) sells to desperate, one would always (buy cheap) sell expensive.

Common sense approach to investing is being observant. Look at the developments around, search for products/services attracting and wowing customers! May be there lies a potential opportunity for investment.

Financial experts are different from experts in Engineering and or Medical fields. When 10 engineers/doctors suggest the same solution to a problem, that is the way to go; but, when 10 financial experts suggest the same stock, stay away from that (probable, that is too hot!). It reminds me what Strategy Guru Garry Hamel said once – “Most of us are blind the same way. We look at the same thing and ignore the same thing”.

Visiting stores and testing products/services is one of the critical elements of analysts’ job.

“The stocks I try to buy are the very stocks that typical fund managers try to overlook” (off the radar stocks – we may call it contrary approach to investing!!). “In other words, I continue to think amateur as frequently as possible.”

Segregated businesses in various categories – Slow growers (very large corporations), Stalwarts (Large corporations with very strong pedigree), Fast growers (small, aggressive, new entrants growing at 20-25% per annum), Recession Protection (Education, Medical etc.), Turnarounds, Cyclicals and Asset Plays. By putting stocks into categories, one would have better idea of what to expect from them.

Always write the thesis for buying a business (Just a para covering rational behind decision). Hold as long as thesis is in play, irrespective of highs or lows of the market.

Big companies have small moves and small companies have big moves.

“Any idiot can run this business” is one characteristic of a perfect company. Other features are – simple, serving to basic necessity, has clearly defined competitive advantage/niche. It reminds me what Warren Buffett said “We like mundane businesses with ultra slow rate of change”.

Hottest stocks in the hottest industries are better avoided. Probably, they are too expensive deals.

Book value in Balance Sheet could be quite deceptive – Debt is real number and assets may be worth less than the amount they appear for in balance sheet.

It takes years, not months, to produce big results.

Distrust diversifications, which usually turn out to be diworseification.

Lynch advises to suspend some of the following common thoughts from the mind:

- If it has gone down this much already, it can’t go much lower (It may go, probably, to 0)
- Stock has already hit bottom. (New bottoms may surprise you!)
- If it has gone up this much already, how can it possibly go higher (New heights may surprise you!)
- It is so low priced stock, what can I lose (probably, entire invested capital!)
- When it rebounds to Rs. 100 (say), I would sell. (Absolutely frivolous. Question to ask is whether it is a good business at the current price to buy? If yes, hold. Otherwise, just sell and free up capital. That is the reason, I always say that hold is a frivolous recommendation).
- Look at all the money I have lost: I did not buy it (It was someone else’s money. No point wasting time on this thought!)
- The Stock has gone up, so I must be right. Or, The Stock has gone down, so I must be wrong (You are not right or wrong just because others are willing to take the prices up/down!!)

Lynch coined the term “Multibegger”. He states “It takes remarkable patience to hold on to a stock in a company that excites you, but which everybody else seems to ignore. You begin to think everybody else is right and you are wrong. But, where the fundamentals are promising, patience is often rewarded”.

To summarize, I would state that Lynch’s approach to investing was catch them young approach (early stage investing. See above fast growers!). While there are reflections of contrarians and value investing philosophies as well in his approach. It may be noted that risks with the early stage investing could be significantly higher than investing in slow growers and stalwarts; But, that is where you have unseen so called “multibeggers” in Lynch’s language.

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