One Up On Wall Street – Peter Lynch – Lesson 1 – Market Overview, How to Invest and Find Great Companies

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The things you'll learn from the introduction summary

One of my favourite books is One Up On Wall Street by Peter Lynch. I've read it several times and I decided to do it again, plus, this time, I'll make a summary of it through videos as the book One up on Wall Street is so great that you get too much to learn so much from every single page.

You can also buy it, read it and follow the videos here to strengthen your learning and have it structured. It is one of the best investing books out there and I strongly recommend to buy it if you haven't already. PETER LYNCH – ONE UP ON WALL STREET

My book is the MILLENIAL EDITION – and I want to start by analysing the introduction that is perfectly applicable to the current market and how to invest today and in the next decade!

In the book introduction Lynch discusses **KEY THINGS** when it comes to investing:

- He gives a commentary on the current market (yes, written 20 years ago – you will see)
- He tells you how to invest in the current market (yes, written 20 years ago – you will see) by focusing what matters most when it comes to investing (easy and you have to work less) and,
- He tells you about stock market history (bull and bear markets) and how the market works (extremely important to understand not to make mistakes). This also gives you peace of mind.

All of the above from just the first 16 pages of the book!

His goal is to teach us how to invest, how to find great companies to invest and how to avoid investing in fads, exuberant stocks and to avoid speculation.

Before we start – just a quick introduction to Peter Lynch

Who is Peter Lynch

Peter Lynch was the investment manager of the Magellan fund from 1977 to 1990 where here turned $1,000 into $28,000 over 13 years for a yearly return of 29.2%. He delivered a return that was more than twice what the S&P 500 did in the period and he tells us that we can do that too in his book. The book is really a gem so we better start with it.

Peter Lynch's commentary on the current market

The millennial book introduction was written in an environment similar to the current one. Back then, it was all about dot-coms, the internet and people were paying whatever price to own parts of those businesses.

Lynch discusses something very important to keep in mind, especially when investing in such exuberant environments.

Fundamentals versus promises

Back then, in 1999, companies could reach a billion in valuation without ever having turned a profit. Perhaps today at a smaller scale, but it reminds me of the Tesla's, Uber's, WeWorks etc. Something to watch out for as an individual investor.

Lynch is warning investors to always estimate how much future growth is baked into the price and what are realistic expectations for actual business growth. For example, UBER's current market capitalization is $50 billion. In order for UBER to deliver a 10 bagger return to shareholders, it first has to become profitable and then it has to reach earnings of about $25 billion somewhere in the future. A PE ratio of 20 on $25 billion in earnings would give it a market capitalization of $500 billion and you would get a 10x return. That is a long road.

Note: a tenbagger is Lynch vocabulary for a stock that goes up 10 times. Lynch is an investor focused on finding such stocks, stocks that will go up 10 times as that is what real long-term investors seek and what drives long-term investors returns. Finding great businesses to inves tin is what you'll learn how to find through this book.

But, in order to avoid losing money, you need to avoid stocks that promise too much in relation to the price. For that, you have to invest the old-fashioned way by focusing on fundamentals (more about that in a second).

Me and other old-fashioned investors will definitely miss out on the great stocks that will become the next tech leaders but we will also avoid investing in the Webvans, GoPros, 3D printing promises that never went anywhere.

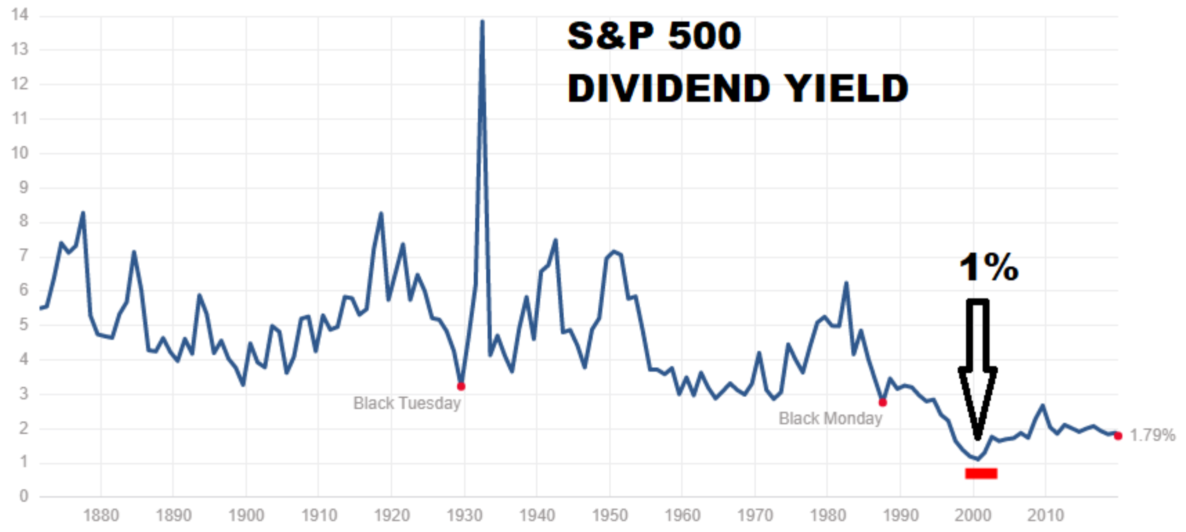
Lynch firmly believes that stock market investing results depend on ancient fundamentals.

Investing into fundamentals

"Sooner or later, earnings will make or break an investment in equities". Peter Lynch

One of Lynch's comments is on dividends and how the dividend yield of the S&P 500 fell below 1% at a certain point in 1999.

S&P 500 dividend yield – Source: [Multpl]



When dividends and earnings are low in comparison to what the market is willing to pay for them, there isn't much room for growth.

A topic that we'll get into much more in depth over the summary of this book is where did Lynch look for fundamentals. He loved unloved industries that are about to turnaround or small businesses that will expand into new markets. Such stocks offered him tenbagger returns as the price was low in relation to what happened to the earnings.

It is pretty simple, as lynch says: "corporate profits are up fifty-fold since World War II, and the stock market is up sixty-fold". This leads to the following:

Long-term investing

In order to get a 10-bagger in your portfolio, the one that makes all the difference when it comes to investing, you need to hold it between 3 and 10 years. Keep that in mind next time you buy a stock. In order to be a long-term investor, you must not think about stock prices or stock crashes.

How YOU CAN find great investments and beat the market

Peter Lynch is one of the great investors that tells people that they can beat the market and that they actually have an advantage over Wall Street.

His message is that you:

- Should not listen to professionals because you don't know what they are doing and why they have a position nor when they change their mind.
- Smart money isn't so smart and dumb money is dumb money only when it follows smart money.
- You can outperform the market by THINKING FOR YOURSELF
- Use the common knowledge you have, look around you and within your business, and then analyse the stocks you can understand. (the tools on how to do it will be shared as we continue with the book summary).

A very interesting example of how you can beat the market is that you have to own the right stock, and even if it makes just 10% of your portfolio, it can be great for you.

THE EXAMPLE:

IF YOU HAVE 10 STOCKS THAT DO LIKE THE MARKET AND THE MARKET GOES UP 50% your $100 turn to $150 in 5 years.

BUT

IF YOU HAVE 11 STOCKS WHERE 10 DO LIKE THE MARKET AND ONE BECOMES A 10 BAGGER, your $91 become $136.5 that are the 10 stocks and perform like the market, but the $9 you invested in a tenbagger becomes $90 and your return suddenly is $226.5.

Peter's message is that you have to be a long-term investor, look for such businesses where stocks can go up 10 times and hold them for that long.