

THE RETIREMENT INCOME COMPASS

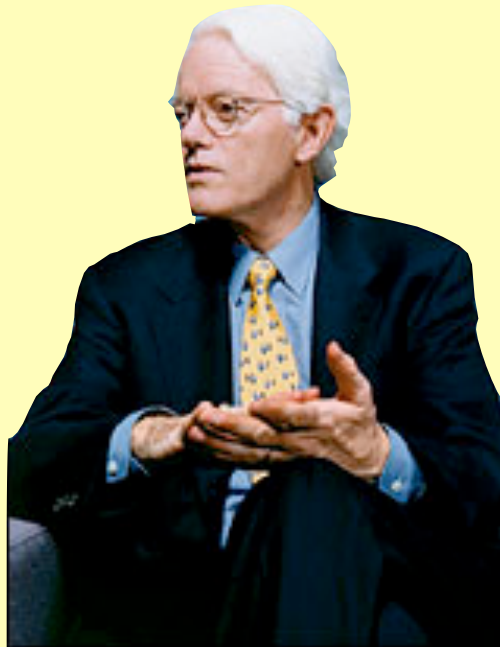
BECAUSE THERE ARE BIG RISKS ON THE ROAD AHEAD

Investing Challenge / Compass Advantage

Challenge of Picking a Stock Market Strategy

Wall Street's focus on history's outperformers is wrong-headed.

“All the time and effort that investors devote to picking the right fund, the hot hand, the great manager, have, in most cases, led to no advantage.”
—Peter Lynch



“Peter Lynch may have been more that just lucky, and inevitable (statistical outlier). There's plenty of evidence he was very smart and very skilled. But to most economists it really doesn't matter. And here comes their second critique of beating the market; that it's almost impossible to find a Peter Lynch before he racks up the great record, no matter how he does it.”

—Paul Solman

Beating the Street (Simon & Schuster, New York) pg. 60

Peter Lynch's comment belies Wall Street's propaganda that it's no big trick to outperform the market without taking extra risk.

The Fidelity/Peter Lynch Lesson

Peter Lynch's fourteen-year performance as portfolio manager for Fidelity's Magellan fund has to stand as the investment outperformance record of the 20th Century. When Lynch retired he stayed on Fidelity's board and helped pick his successor.

Since Fidelity makes its income from fund management fees, it was critical for Lynch and Fidelity to hire a manager that would maintain the outperformance. Momentum based on Lynch's record at Magellan grew the fund in 1999 to the largest in the U.S., over \$100 **billion** in assets. Management fees were over \$600 million for the year.

The four managers since Lynch have had credible records but the era of significant outperformance was history. Withdrawals have shrunk the fund over 60% to under \$40 billion. Management fees have dropped to under \$300 million. The failure to replicate Lynch's outperformance has cost Fidelity billions in fees since the Lynch effect has waned. If the likes of Lynch and Fidelity can't pick the next outperformer when so much is on the line, how can we?

The Compass Advantage

The stock market strategy in your global asset-class portfolio is expected to provide more predictable growth with market returns across ten asset classes. No hot hands. For success you don't need to find the next Peter Lynch.

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What to know...
and how to go

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