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## A Fad With Staying Power

By Peter Lynch

You've got your eye on a fine company. All the signs are favorable, but there's this nagging doubt that keeps you away from the stock. So you stand by with cash in you pocket as the company continues to thrive, and you watch the stock price rise accordingly. This leads to Unbuyer's Remorse, which I can't help feeling every time somebody mentions the CML Group. CML sells NordicTrack, and my nagging doubt about the future of living room skiing caused me to ignore the good news that has led to a tenfold gain in the stock price from late 1990 to 1992. I missed the entire move. But, in fact, there were many points along the way that an investor could have bought the stock and made money.

My relationship with CML (the monogram of the founder, Charles M. Leighton) goes back to the early 1980s, before CML had anything to do with menswear, Caroll Reed women's wear, and Boston Whaler. The corporate strategy was to reach the 30 to 50 age group at work and at play. CML had figured out that this group was growing four times faster than any other age group in the population, and that it had a lot of money to spend.

I didn't own a Boston Whaler at the time (my family has since corrected this error by giving me one), but this was the most frequently sighted boat along the coastline, and I'd ridden in enough Whalers to be fully convinced of the superiority of the product. Meanwhile, on a trip to Baltimore, I was in need of a suit and I bought one at Britches of Georgetowne and wore it on "Wall Street Week" with Louis Rukeyser.

Still, wearing a CML suit and having ridden in CML boats did not cause me to recommend CML stock on Rukeyser's program, although CML was among the hundreds of holdings I'd acquired for the Magellan Fund, so I liked it well enough to have bought a sizeable chunk.

CML was one of those scattershot enterprises in which success in one division was counteracted by failure in another, so on the whole it didn't get very far. There was a stretch when Britches and Boston Whaler both did well, and CML made a big profit from Sybervision, which produced videotapes of athletes so that weekend hackers like me could improve our games by osmosis. Meanwhile, Caroll Reed was a drag on earnings, and Britches was expanding in too many directions at once. CML also had a lot of debt.

My favorite CML subsidiary was The Nature Company--where else can you buy your children a tyrannosaurus tooth? These award-winning stores reported a remarkable \$600 per square foot in annual sales, a record that no other retail operation bigger than a hot dog stand could hope to match. Alas, there weren't enough Nature Company outlets to bail out the other CML businesses, especially during 1988-'89, when boat sales began to slump and Britches began to slip and Sybervision was no longer the rage. By the end of the decade, CML's financial condition had not improved. For several years, the stock had sold in a narrow range: \$3 to \$8. (I say narrow only because of the spurt that was about to occur, which carried the stock price to \$33.50 as of this writing.)

This is where it pays to keep in touch. CML sold Boston Whaler and unloaded Sybervision and Carol Reed in order to reduce debt and devote itself more fully to NordicTrack. The NordicTrack division had been rapidly gathering momentum since CML acquired it in 1986. In the first year, NordicTrack sold 30,000 exercise machines; in the third, 30,000; and, 140,000 by their fifth year. People who never skied cross country or even across the street were skiing in their living rooms.

We had a NordicTrack at home, and my wife, Carolyn, continued to use it regularly. I admired it from a distance, as a piece of sculpture, but I could see that it was well-built, and much less bulky than a rowing machine.

In late 1990 I was in a perfect position to take advantage of the positive developments. I knew that the company had restructured and that NordicTrack now accounted for over 90% of the earnings. I knew that NordicTrack sales were increasing at a phenomenal clip. I knew that NordicTrack was opening numerous retail outlets and kiosks where people could try out the equipment.

Prior to this, the only way you could buy a NordicTrack was by mail order or by calling an 800 number shown on the TV ads. Hundreds of thousands of customers had bought the \$600 product sight unseen. There had to be millions more who would never purchase an expensive item from a TV offer but who would respond to a personal demonstration.

I was also getting positive recommendations from two professionals who had given me good advice in the past: Dick Goldstein, a successful private money manager based in Denver, Colorado; and Harry "Skip" Wells III, an analyst at Adams, Harkness & Hill, a regional brokerage firm in Boston. Goldstein told me CML had become his largest position. Wells had been following CML for almost a decade, even though he was getting little attention from Wall Street. In his CML reports, Wells gets so excited about fitness that he makes you want to stop reading and start doing sit-ups. He also gets very excited about the prospects for CML, since in his view we are at the beginning of a "fitness-wellness megatrend" and the potential market for NordicTrack equipment is huge.

So here I had two experts egging me on, NordicTrack sales increasing at 15% to 100% a year, the company reducing its debt, plus the dramatic new developments of the kiosks and the retail stores. Yet I avoided even thinking about buying CML stock, or about recommending it to any of the charities on whose investment committees I serve.

My Nagging Doubt Lobe was telling me that NordicTrack was a fad and not a megatrend, that most people attracted to exercise machines already owned one, and that they weren't likely to purchase a spare. Moreover, I imagined that thousands of former floor skiers had gotten tired of sliding their legs back and forth and had returned to the Jane Fonda workout tapes.

Many companies give investors a lot to worry about, but there are genuine worries and then there's the "bogeyman in the closet" variety. The bogeyman hasn't come out yet, and you're not sure he's in there, but you aren't about to poke around in the dark to prove that he isn't.

I've often alluded to the fact that the collapse of the housing market was the bogeyman in the closet that scared investors away from Fannie Mae, a solid company that on close inspection was a great investment and less risky than most. I'm constantly reminding people that for 15 years, the bogeyman of

too many McDonald's restaurants has been scaring investors away from that wonderful enterprise, even though the stock has gone up tenfold since people began to worry about a fatal glut. Yet here I was, worrying about the glut of NordicTracks and not doing the homework that might have put this fear to rest.

In hindsight, I wish I had dragged myself out to the Chestnut Hill Mall to visit the new NordicTrack retail store. I would have seen firsthand the array of new products--the NordicFitness chair, the NordicFlexGold body building machine, NordicRow TBX, the recumbent bike exerciser, and the various advancements in stationary skiing.

If I had watched the customers try out this equipment, perhaps i would have understood the importance of these retail outlets, which by 1992 accounted for about 25% of NordicTrack sales. Perhaps I would have taken Skip Wells's megatrend projections more seriously. Of the 10 million "fitness enthusiast households" in the United States, fewer than 4% currently own a NordicTrack, and on top of that, there are 45 million "fitness aware households" and 31 million "couch potato households" that might finally decide to start exercising.

One of the benefits of visiting a retail outlet is that it brings the numbers alive. You can study a company's earnings potential all day long, but bullish forecasts always seem more believable after you've seen the evidence in person at the mall. But I never gave myself a chance to view the evidence. I stayed at home and ignored all the positive signs, as CML's stock price rose from a low of \$3.50 in late 1990 to \$33 by the end of 1992.

Whenever you have a nagging doubt about a company that's doing well, it's human nature to think you're the only person who feels that way, but the truth is that every other would-be investor is as worried as you are. The bogeyman that causes you to ignore the good news is having the same effect on everybody else. The very existence of doubt creates the conditions for a big gain in the stock once the fears are put to rest. The trick is to put your fears to rest by doing the research and checking the facts--before the competition does.

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