

94/08-The Stock Market Hit Parade

What do the great successes of the past 20 years tell us? It's the company, stupid.

By Peter Lynch

What can we learn from the hit parade of the stock market, the top 100 winners over the past decade -- and the decade before that? The first thing I notice is the lack of household names. Coca-Cola, Gillette, Disney, and Wal-Mart crop up, and also PepsiCo and Blockbuster Entertainment, but celebrity issues are in the minority. Wal-Mart and Blockbuster began their winning decades small and uncelebrated.

If there was ever a doubt that small stocks make big moves whereas big stocks make smaller moves, the hit parade ought to put it to rest. The star performers on Wall Street come straight from nowhere. Most of them never got into the Fortune 500. At the outset of each of the two decades, only a handful of the eventual winners could be found in the Standard & Poor's 500.

A few are unknown to me even today, and I'm the guy who once managed a portfolio with 1,500 different stocks. How did I miss some of these? Nautica Enterprises, almost a 9,000 percent gainer? Genovese Drug Stores? Whitehall Corp.? New Hampshire Ball Bearings? Who would have thunk it?

In the 1973-83 period, small companies were doing so well that it took a 25-fold gain to make the hit parade. Meanwhile, the Dow industrials performed dully, rising from 850 to 1248. No wonder so many mutual fund managers outperformed the market averages in those years: They were picking above-average small stocks that turned in spectacular gains.

In the more recent period, the situation is somewhat reversed. The Dow tripled, going from 1258 to 3751, while small companies slumped a bit -- it took only a tenfold gain to make the second hit parade. So it's hardly surprising that the vast majority of fund managers in the 1980s were outdone by the so-called index funds that ape the averages.

Going down the two lists of winners from the past two decades (see the lists following this article), you get a quick read on the modern U.S. economy and the direction in which we've been headed. Disney and Coke are the only two Dow stocks. There are no aluminums, ores, or chemicals in either of the top 100s and only one paper company (Wausau), a lone steel company (Worthington), a small oil company (Holly), and one tire maker (Cooper). You have to search to find the cyclicals.

So what does this say? For one thing, since we are no longer a gritty industrial nation, we aren't likely to get spectacular returns from gritty industrial investments. And it's the rare cyclical that performs well enough over long stretches to make a hit parade. You can't go to sleep holding cyclical stocks for a decade and expect to be richly rewarded. The rich rewards are in growth stocks and special situations.

As you can see by the evidence, great growth companies come in endless variety. This is a point that can't be repeated often enough. Banks, S&Ls, supermarkets, biotech, carpets, bubble gum, ballpoint

pens, sugar, and health care are all represented in the top 100. There are a few casino gambling companies, a few stodgy financial companies, and a couple of insurance companies to boot.

Investors who put on blinders and ignore entire categories of companies, such as the stodgy utilities, or the lousy airlines, or the silly candy makers that only sell to a bunch of kids, are missing out on some great deals. Stodgy utilities? Not General Public Utilities, the owner of Three Mile Island, which almost made the hit parade with a 1,000 percent gain on its stock in the latest decade. The lousy airlines? A lot of people will tell you never to put a penny into that mess. Yet here we find three airlines -- Comair, Atlantic Southeast, and Southwest, with the latter two high on the winner's list. Southwest's stockholders made 12,000 percent from 1973 to 1983.

If it's a choice between investing in a good company in a great industry, or a great company in a lousy industry, I'll take the great company in the lousy industry any day. Good management, a strong balance sheet, and a sensible plan of action will overcome many obstacles, but when you've got weak management, a weak balance sheet, and a misguided plan of action, the greatest industry in the world won't bail you out. Here's my investment motto of the month: It's the company, stupid.

Notice the number of bank stocks on the recent winner's list? Eleven, by my count. The period from 1983 to 1993 was the best of times for some banks and the worst for others. There were S&L; fiascoes and bank failures galore, but a long drop in interest rates and an accommodating Federal Reserve helped many banks to record profits. And look who made the most of it. You don't see Citicorp or J.P. Morgan on the hit parade. You see River Forest Bancorp and Trustco Bancorp of New York, and a couple of obscure S&Ls; Tompkins Country Trust Co. of Ithaca and National Commerce Bancorp of Tennessee. Imagine all the Ithacans who bought Dow stocks to be in the big time with proven winners and missed Tompkins Country Trust in their own backyard.

The retailers make a strong showing on both lists: the Gap, Blockbuster, Home Depot, Bombay Co., Circuit City, and Heilig-Meyers (a furniture seller) on the later, and Wal-Mart, Mac Frugal's Bargains Closeouts, the Limited, Charming Shoppes, Dunkin' Donuts, Hechinger, Pep Boys -- Manny Moe & Jack, Tandy (owner of Radio Shack), and Service Merchandise on the earlier.

I've always been partial to retailers (a poorly kept secret), and to find them on a hit parade is no surprise. Retailing is easy to keep track of, and there's great potential for earnings growth by expansion. All a company has to do is take a successful store and clone it. What sells in Pomona is an odds-on favorite to sell in Phoenix, and in Peoria, etc. Meanwhile, if somebody improves on the idea and opens a similar but better store in Philadelphia, so what? The new rival isn't going to hurt business in Pomona until the competitor puts a store in Pomona, and that may never happen in this lifetime.

With retailers, you can see the competitors coming, and you can see when a company has reached the saturation point with a store in every mall and on every other street corner. That's the time to think about selling the stock, but until that point is reached, a successful chain of stores can multiply its sales and its earnings at an exponential rate. It happens again and again.

It tells you something that only two companies made the top 100 in both decades. Fast-growing companies can't be expected to keep up the pace forever. Eventually, they reach middle age and lose some of their oomph, just like the rest of us. They encounter obstacles.

But it also tells you something that of the two repeat performers, Circuit City is a retailer and Hasbro is a manufacturer that sells to retailers. Successful retailers have a lot of staying power. They can grow for a lot longer than people think. If they run out of room in the U.S., they can go overseas, just like McDonald's has, and Coke, and PepsiCo, and Toys 'R' Us. McDonald's doesn't show up among the winners, but it's been an outstanding growth company and a terrific stock -- a 100-bagger in 25 years.

On both lists, there's no lack of high-tech stuff, companies with names like E-Systems and Pneumo Corp., Matrix and Teledyne, Scimed and Gentex , EDO and Biomet , Amgen and Alpha. In hindsight, it would have been nice to have owned these stocks, but my advice is: If you don't know what it means, don't put money into it. Why take chances with a Biomet when you can do just as well or better with a Wrigley's or a Tootsie Roll?

Did you notice that among all the high-tech issues, biogenetic companies, science labs, etc., there's not a single computer? Computer parts, yes; support services, yes; the software and the chips are all represented, but there's no IBM or Digital or Compaq or Apple. It's one more example of how the suppliers to a hot industry, the residual players, can fare better than the main competitors who are engaged in a desperate struggle to knock each other off.

In the end, what's most gratifying about these two lists is they prove that there's equal opportunity on Wall Street. Small companies can come out of humble circumstances and rise to the top, creating jobs, creating wealth, creating a better world for everyone. What long-distance company is on the hit parade? Not AT&T; but LDDS Communications. The winning airlines are the three regional carriers mentioned above.

It's Horatio Alger all over again -- small companies outdoing the big companies and taking up the slack when the big companies lay off workers. More than 2.1 million small companies were started in the U.S. in the 1980s alone. If each one, on average, employs ten workers, that's 21 million new jobs!

Europe has small companies, but not nearly the number we have, which may explain why the European recession has been more severe than ours was. Small companies may be our greatest national assets. There's no doubt they are our greatest investments.

----- Peter Lynch writes the Investor's Edge column for each issue of Worth. From 1977 to 1990 he managed the Magellan fund , the best performing of all mutual funds over a 15-year period, and he is a vice-chairman of Fidelity Management and Research. His latest book, Beating the Street, is published by Simon & Schuster.

TABLE: The Stock Market Hit Parade

The following table is a companion to "The Stock Market Hit Parade" by Peter Lynch. It lists the top 100 stocks from 1983 to 1993 and the top 100 from 1973 to 1983, ranked according to total returns over those periods, including reinvested dividends.

(NOTE: To view this table more clearly on your computer, you may wish to use a monospaced font, such as Courier. Using a monospaced font will cause the columns to line up correctly.) -----

TOP 100 STOCKS

From 1983 To 1993 From 1973 To 1983

1. Franklin Resources Key Pharmaceuticals 2. Nautica Enterprises Pulte Corp. 3. LDDS Communications Plenum Publishing 4. Blockbuster Entertainment Southwest Airlines 5. Unico American SCI Systems 6. Capitol Transamerica Kroy Inc. 7. Amgen Comdisco 8. International Game Tech Mac Frugal's Bargains 9. U.S. Healthcare The Limited 10. Molecular Biosystems Manor Care Inc. 11. Atlantic Southeast Air Charter Medical 12. The Gap National Education Corp. 13. Keane Inc. Resorts International 14. Mark IV Industries Metromedia Inc. 15. Bridgford Foods Corp. A.G. Edwards & Sons 16. Shaw Industries Loral Corp. 17. Superior Industries Mirage Resorts 18. Irwin Financial Corp. Gerber Scientific 19. Gentex Corp. United Artists Ent.-CIA 20. Tyson Foods Inc. Pneumo Corp. 21. Mexico Fund Galen Health Care Inc. 22. Crown Crafts Inc. Matrix Corp. 23. SCIMED Life Systems TSX Corp. 24. Holly Corp. E-Systems Inc. 25. Crompton & Knowles United Industrial Corp. 26. Stewart & Stevenson Svcs. Bruno's Inc. 27. Wm. Wrigley Jr. Co. SCOPE Industries 28. Associated Communications Coachmen Industries 29. River Forest Bancorp Circuit City Stores 30. Jones Spacelink Limited Forest Laboratories 31. Allcity Insurance Co. Optical Radiation Corp. 32. ABS Industries Inc. Zero Corp. 33. McClain Industries Inc. Financial Corp. of America 34. Tootsie Roll Industries Pandick Inc. 35. Danaher Corp. SCOA Industries 36. Wausau Paper Mills Co. Ames Department Stores 37. Ballard Medical Products Community Psychiatric Centers 38. Smithfield Foods Inc. National Convenience Stores 39. CUC International LIN Broadcasting Co. 40. Home Depot Care Corp. 41. Frozen Food Express Ind. Pall Corp. 42. Mylan Laboratories Wal-Mart Stores 43. Total System Services Tele-Communications Inc. 44. National Penn Bancshares Chris-Craft Industries 45. Cracker Barrel Old Country Pacific Scientific 46. Paychex Inc. Teledyne Inc. 47. Walt Disney Co. Worthington Industries 48. Paxar Corp. Espey Mfg & Electronics 49. Natl. Commerce Bancorp/TN MEI Corp 50. Trustco Bancorp/NY Tandy Corp. 51. Leucadia National Corp. Food Lion Inc. 52. Falcon Products Inc. Michigan Sugar 53. Tompkins Country Trust Dean Foods Co. 54. Century Telephone Ent. Fay's Inc. 55. Andrea Electronics Corp. Adams Russell 56. Circus Circus Enterprises Flight Safety International 57. Equitable of Iowa Cos. Analog Devices 58. Cooper Tire & Rubber Service Merchandise 59. Biomet Inc. Postal Instant Press 60. Comcast Corp. Charming Shoppes 61. Total-Tel U.S.A. Comm. Dreyfus Corp. 62. Bic Corp. O'Sullivan Corp. 63. Clayton Homes Inc. Advanced Micro Devices 64. Newell Co. Logicon Inc. 65. Arnold Industries Alpha Industries 66. Bombay Company Inc. Dynamics Corp. of America 67. Johnston Ind.-Del EDO Corp. 68. Modine Mfg. Co. Bairnco Corp. 69. Vornado Realty Trust Applied Data Research Inc. 70. Gillette Co. Anixter Bros Inc. 71. The Progressive Corp. G. Heileman Brewing Co. 72. Coca-Cola Co. Dunkin' Donuts 73. Financial Inds. Corp. Barry Wright Corp 74. Computer Associates Herman Miller Inc. 75. Comair Holdings Guilford Mills Inc. 76. Hasbro Inc. Russell Corp. 77. Harlyn Products Luby's Cafeterias Inc. 78. Circuit City Stores National Medical Enterprises 79. Telephone & Data Systems AEL Industries 80. PepsiCo Inc. Bob Evans Farms 81. Juno Lighting Genovese Drug Stores 82. Berkshire Hathaway Whitehall Corp. 83. Nature's Sunshine Products GCA Corp. 84. St. Jude Medical United Cable Television 85. Heilig-Meyers Co. Hasbro Inc. 86. Bemis Co. Thomas Nelson Inc. 87. Olsten Corp. Pep Boys- Manny Moe & Jack 88. Myers Industries New Hampshire Ball Bearings 89. Uniflex Inc. Sensormatic Electronics 90. Rowe Furniture W.A. Krueger Co. 91. Boston Bancorp Esquire Inc. 92. Washington Mutual Svgs Timeplex Inc. 93. Fannie Mae Veeco Instruments 94. Jacobs Engineering Group John Blair & Co. 95. First Financial Management Computervision Corp. 96. A. Schulman Inc. Lockheed Corp. 97. First Financial/Wisconsin Apogee Enterprises 98. Fifth Third Bancorp Butler Intl Inc. 99. Sealed Air Corp Hechinger Co. 100. First Empire State Corp. Subaru of America

Source: S&P; Compustat Services, Inc.