The Fidelity Magellan Fund, 1995

1988: The only thing that sets him apart is this: for ten years now, he has been the best mutual fund manager alive... "Around Fidelity," says one former marketing aide, "Peter Lynch is God."¹

1991: Morris Smith does things his way at Fidelity Magellan—but he gets the same old stellar results.²

1993: If young Jeff Vinik keeps up his torrid performance as manager of Fidelity's Magellan Fund, his shareholders might soon forget there ever was a Peter Lynch... Vinik is now the hero.³

In the autumn of 1995, investors in the Magellan Fund of Fidelity Management & Research Company (FMR) could look back on a remarkable record of performance: an average annual total return of 22.7 percent per year over the previous 15 years, which surpassed the


This case was prepared by Professor Robert F. Bruner as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 1995 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an e-mail to darden-cases@virginia.edu. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation. Rev. 12/01. Version 1.7.
return on the Standard & Poor’s 500 Index (S&P 500) by 7.77 percent per year. In addition, the fund beat the broad market average for the previous 10, 5, and 3 years—results that Fidelity advertised in soliciting new investors to the fund. These results stood in stark contrast to the historical performance of equally ambitious and talented managers of other mutual funds. Furthermore, the results contrasted with conventional theories suggesting that in markets characterized by high competition, easy entry, and informational efficiency, it would be extremely difficult to “beat the market” on a sustained basis. Observers wondered what might explain Magellan’s performance.

Of special note was that the fund had delivered superior performance despite turnover in its management. The fund’s long-standing and highly successful manager, Peter Lynch, retired in 1990 at the age of 46. His replacement was Morris Smith, who retired in 1992 at the age of 34. His replacement was the present manager, Jeffrey Vinik, now 36. The financial press noted that all three managers “beat the market” during their tenure.

The Magellan Fund was the largest equity mutual fund in the world, with nearly $51 billion in net assets in late 1995. FMR, the parent of Fidelity Investments, which provided management and advisory services to the fund’s shareholders, was a privately held company, managing 223 funds. Fidelity’s revenue in 1992 was $1.84 billion; net income was $94 million. Fidelity’s assets under management in 1995 were nearly $390 billion. Wide acknowledgment placed Fidelity among the most innovative—and aggressive—mutual fund advisers in the industry.

THE U.S. EQUITY MARKET

Institutional investors, or “money managers,” who managed pension funds and mutual funds on behalf of individual investors dominated the market for common stocks in the United States in the mid-1990s. While statistics still revealed that households, life insurance companies, personal trusts (i.e., those managed by bank trust departments), and nonprofit institutions held the majority of shares of common stock, the percentage had been declining over the previous 30 years. Indeed, at the end of 1994, equity mutual funds owned only 13 percent of the almost $6 trillion of market value of American common stock—private pension funds owned slightly more than 13 percent.

But the aggregate figures somewhat masked the explosive growth of mutual funds from 1979 to 1995. Over this period, assets of all mutual funds grew from $95 billion to $2.6 trillion. Moreover, the percent of individual investors who owned mutual fund shares rose from 15.8 percent to about 33 percent between 1981 and 1995.

More importantly, the sheer dominance of money managers appeared not in assets held but in their trading muscle—their ability to move huge sums of money into and out of stocks on short notice. Accordingly, money managers were the principal price setters (or “lead steers”) in the stock market. Approximately 90 percent of all trades on the New York Stock Exchange (NYSE) involved institutional investors. The rising dominance of institutional in-

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vestors resulted in the growth of trading volume, average trade size, and especially in block trading (i.e., individual trades of more than 10,000 shares) which was virtually nonexistent 30 years ago but by 1986 accounted for about half of the trading volume.

MUTUAL FUND INDUSTRY

Mutual funds served several economic functions for investors. First, they afforded the individual investor the opportunity to diversify his or her portfolio efficiently (i.e., own many different stocks) without having to invest the sizable amount of capital usually necessary to achieve efficiency. Efficiency was also reflected in the ability of mutual funds to exploit scale economies in trading and transactions costs, economies unavailable to the typical individual investor. Second, in theory, mutual funds provided the individual investor the professional expertise necessary to earn abnormal returns through successful securities analysis.

A third view was that the mutual fund industry provided "an insulating layer between the individual investor and the painful vicissitudes of the marketplace":

This service, after all, allows individuals to go about their daily lives without spending too much time on the aggravating subject of what to buy and sell and when, and it spares them the even greater aggravation of kicking themselves for making the wrong decision... Thus, the money management industry is really selling "more peace of mind" and "less worry," though it rarely bothers to say so.6

In the 10 years from 1985 to 1995, the number of mutual funds grew from 1,528 to 6,683.6 This total included many different kinds of funds, each pursuing a specific investment focus and categorized into several acknowledged segments of the industry: aggressive growth (i.e., capital appreciation-oriented), equity-income, growth, growth and income, international, option, specialty, small company, balanced, and a variety of bond or fixed-income funds.7 Funds whose principal focus of investing was common stocks comprised the largest sector of the industry.

To some extent, the growth in number and types of mutual funds reflected the increased liquidity in the market and the demand by investors for equity. But more importantly, it reflected the effort by mutual fund organizations to segment the market, (i.e., to identify the specialized and changing needs of investors, and to create products to meet those needs). One important result was a broader customer base for the mutual fund industry as well as deeper penetration of the total market for financial services.

Another important result of this development was that it added a degree of complexity to the marketplace that altered the investment behavior of some equity investors. In particular, this tended to encourage fund switching, especially from one type of fund to another within a

7Aggressive growth funds seek to maximize capital gains. Current income is of little concern. Growth funds invest in more well-known companies with steadier track records. Growth and income funds invest in companies with longer track records that are expected to increase in value and provide a steady income stream. International funds invest in foreign companies. Option funds seek to maximize current returns by investing in dividend-paying stocks on which call options are traded. Balanced funds attempt to conserve principal while earning both current income and capital gains.
family of funds. This reflected the greater range of mutual funds from which to choose, the increased volatility in the market, and the increased trend toward timing-oriented investment strategies. In short, as the mutual fund industry grew, mutual fund money became “hotter” (i.e., it tended to turn over faster).

The performance of a mutual fund could be evaluated in terms of its total returns to investors as calculated by:

\[
\text{Annual total return} = \frac{\text{Change in net asset value} + \text{Dividends} + \text{Capital gain distributions}}{\text{Net asset value (at the beginning of the year)}}
\]

Net asset value (NAV) was computed as total assets, less liabilities, and divided by the number of mutual fund shares outstanding. Computing the annual total return in this manner took into account annual management fees, and did not take into account front-end or back-end “loads.”

Mutual fund advisers received compensation under various schemes that featured variations on two components:

*Initial payments*: Nearly three-quarters of all mutual funds were sold under some kind of commission, sales fee, or “load.” The load could be as large as 8.5 percent of the investor’s principal. Back-end loads (i.e., redemption fees) were also possible.

*Annual fees*: Annual management fees ranged from under 0.5 to over 2 percent of fund assets. Some funds also charged a separate fee for marketing and promotion expenses, which could run up to 2 percent of assets.

The net effect of these payments on shareholder returns could be dramatic.\(^8\) Another drag on returns to shareholders was the tendency of funds to keep 10 percent of assets in cash—5 percent to meet redemptions, and 5 percent to meet unexpected bargains. In comparison, Magellan carried only 1.4 percent in cash before the stock market crash in October 1987, ultimately forcing Peter Lynch to dump $1 billion worth of shares in the market in order to meet unexpectedly high redemptions.\(^9\)

**PERFORMANCE OF THE MUTUAL FUND INDUSTRY**

Exhibit 1 reveals that the average return on 1,841 domestic equity funds over the 1-, 5-, and 10-year periods was below that of the Wilshire 5000 Index of common stocks, and barely exceeded the S&P 500 over the three- and five-year range. Indices such as the Wilshire, S&P 500, Dow Jones, and Value Line, each were measures of the investment performance

\(^8\)For instance, suppose that you invested $10,000 in a fund that would appreciate at 10 percent annually, and that you sold out after three years. Also, suppose that the advisory firm charged annual fees of 2 percent and a redemption fee of 4 percent. The fees would cut pretax profit by 55 percent—from $3,310 to $2,162.

\(^9\)One observer of the industry, economist Henry Kaufman, warned that a sudden economy-wide shock from interest rates or commodities prices could spook investors into panic-style redemptions from mutual funds, who themselves would liquidate investments and send securities prices into a tailspin. Unlike the banking industry, which enjoys the liquidity afforded by the Federal Reserve System to respond to the effects of panic by depositors, the mutual fund industry enjoys no such government-backed reserve.
of hypothetical portfolios of stock. In each of the recent years, only about one-quarter of all equity mutual funds provided returns (before fees and expenses) greater than the S&P 500. The performance of pension funds was similar.

The two most frequently used measures of performance were (1) the percentage annual growth rate of net asset value assuming reinvestment (i.e., total return on investment), and (2) the absolute dollar value today of an investment made at some time in the past. These measures were then compared to the performance of a benchmark portfolio such as the Wilshire 5000 or the S&P 500. However, academician criticized these approaches because of their failure to adjust for the riskiness of the mutual fund. Over long periods, as Exhibit 2 shows, different types of securities yielded different levels of total return. But Exhibit 3 shows that each of these different types of securities was associated with different degrees of risk (measured as the standard deviation of returns). The relationship between risk and return was reliable on average and over time. For instance, it should be expected that a conservatively managed mutual fund would yield a lower return—precisely because it took fewer risks.

After adjusting for the riskiness of the fund, academic studies reported that mutual funds were able to perform up to the market on a gross returns basis; however, when expenses were factored in, they underperformed the market. For instance, Michael Jensen, in a paper published in 1968, reported that gross risk-adjusted returns were −0.4 percent and that net risk-adjusted returns (i.e., net of expenses) were −1.1 percent. In 1977, Main updated the study and found that for a sample of 70 mutual funds, net risk-adjusted returns were essentially zero. Some analysts attributed this general result to the average 1.3 percent expense ratio of mutual funds and their desire to hold cash.

Most mutual fund managers relied on some variation of two classic schools of securities analysis:

Technical analysis: This involved the identification of profitable investment opportunities based on trends in stock prices, volume, market sentiment, Fibonacci numbers, etc.

Fundamental analysis: This approach relied on insights afforded by an analysis of the economic fundamentals of a company and its industry: demand and supply, costs, growth prospects, etc.

While variations on these approaches often produced supernormal returns in certain years, there was no guarantee that they would produce such returns consistently over time.

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10 The Dow Jones indices of industrial companies, transportation companies, and utilities reflected the stocks of a small number (e.g., 30) of large “blue-chip” companies, all traded on the New York Stock Exchange. The S&P 500 was an index of shares of the 500 largest companies, traded on both the New York and American Stock Exchanges. The Value Line Index reflected 1,400 different companies. The Wilshire was the broadest index, and covered 5,000 companies—virtually the entire universe of regularly traded shares. As the index sample became larger, it reflected a greater weighting of smaller, high-growth companies.


12 The sequence, named for Leonard Fibonacci (1175–1240) consisted of the numbers 1, 1, 2, 3, 5, 8, 13 and so on. Each number after the first two equals the sum of the two numbers before it. No academic research associates this sequence with a consistent ability to earn supernormal returns from investing in the market.
Burton Malkiel, an academic researcher, concluded that a passive buy-and-hold strategy (of a large diversified portfolio) would do as well for the investor as the average mutual fund:

Even a dart-throwing chimpanzee can select a portfolio that performs as well as one carefully selected by the experts. This, in essence, is the practical application of the theory of efficient markets. . . . The theory holds that the market appears to adjust so quickly to information about individual stocks and the economy as a whole, that no technique of selecting a portfolio—neither technical nor fundamental analysis—can consistently outperform a strategy of simply buying and holding a diversified group of securities such as those that make up the popular market averages. . . . [O]ne has to be impressed with the substantial volume of evidence suggesting that stock prices display a remarkable degree of efficiency. . . . If some degree of mispricing exists, it does not persist for long. “True value will always out” in the stock market.13

Many academics accepted this view. They argued that the stock market followed a “random walk,” where the price movements of tomorrow were essentially uncorrelated with the price movement of today. In essence, this denied the possibility that there could be momentum in the movement of common stock prices. According to this view, technical analysis was the modern-day equivalent of alchemy. Fundamental analysis, too, had its academic detractors. They argued that capital markets were informationally efficient and that the insights available to any one fundamental analyst were bound to be impounded quickly into share prices.

By implication, these academic theories were highly critical of the services provided by active mutual fund managers. Paul Samuelson, the Nobel Prize-winning economist, said:

“Exist only because stock prices already have discounted in them an allowance for their future prospects. Hence . . . one stock is as good or bad a buy as another. To [the] passive investor, chance alone would be as good a method of selection as anything else.”14

Various popular tests of this thinking seemed to support it. For instance, Forbes magazine chose 28 stocks by throwing darts in June 1967 and invested $1,000 in each. By 1984, the $28,000 investment was worth $131,697.61 for a 9.5 percent compound rate of return. This beat the broad market averages and almost all mutual funds. Forbes concluded, “It would seem that a combination of luck and sloth beats brains.”15

Yet, the nagging problem remained that there were still some superstar money managers—like Peter Lynch, Morris Smith, and Jeffrey Vinik—who, over long periods of time, greatly outperformed the market. In reply, Professor Burton Malkiel suggested that beating the market was much like participating in a coin-tossing contest where those who consistently flip heads are the winners.16 At the first flip, half of the contestants are eliminated. At the second flip, half of the surviving contestants are eliminated. And so on until on the seventh flip only eight contestants remain. To the naïve observer the ability to flip heads consistently looks like extraordinary skill. By analogy, Professor Malkiel suggested that the success of a few superstar portfolio managers could be explained as luck.

14Paul Samuelson, quoted in Malkiel, A Random Walk Down Wall Street, 182.
15Forbes (summer 1984), cited in Malkiel, A Random Walk Down Wall Street, 164.
16Malkiel, A Random Walk Down Wall Street, 175–76.
As might be expected, the community of money managers received the academic theories with great hostility. And even in the ranks of academicians, dissension appeared in the form of the “investment behaviorists” who suggested that greed, fear, and panic are much more significant factors in the setting of stock prices than the mainstream theory admits. For instance, the stock market crash of October 1987 seemed to many to be totally inconsistent with the view of markets as fundamentally rational and efficient. Professor Lawrence Summers of Harvard argued that the crash was a “clear gap with the theory. If anyone did seriously believe that price movements are determined by changes in information about economic fundamentals, they’ve got to be disabused of that notion by [the] 500-point drop.”

Professor Robert Shiller of Yale said, “The efficient market hypothesis is the most remarkable error in the history of economic theory. This is just another nail in its coffin.”

Academic research exposed other inconsistencies with the efficient markets hypothesis. These included apparently predictable stock price patterns indicating reliably abnormal positive returns in early January of each year (the “January effect”), and a “blue Monday” effect where average stock returns are negative from the close of trading on Friday to the close of trading on Monday. Other evidence suggested that stocks with low P/E multiples tended to outperform those with high P/E multiples. Finally, some evidence emerged for positive serial correlation (i.e., “momentum”) in stock returns from week to week or month to month. These results were inconsistent with a random walk of prices and returns. Yet, despite the existence of these anomalies, the efficient markets hypothesis remained the dominant paradigm in the academic community.

FIDELITY MAGELLAN FUND

Exhibit 4 presents a summary of the Magellan Fund as it stood in mid-1995 and of its performance over the previous 15 years. Morningstar Mutual Funds, a well-known statistical service reporting on mutual fund performance, gave Magellan a five-star rating, its highest for investment performance. Exhibit 5 gives a comparison of Magellan’s return versus other “growth-stock oriented” mutual funds. The long-term performance results suggested that Magellan tended to outperform the market in bull markets and underperform the market in bear markets. This was attributed to the fund managers’ conscious strategy of staying fully invested at all times rather than attempting to time the extent of market investments.

The other striking fact about Magellan’s recent financial results was its sheer rate of growth. As early as 1988, one journalist wrote that:

Because of its enormous size, Magellan can no longer beat the market the way it once could. Lynch himself advises people looking for big gains to try another fund. But they won’t.

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18Ibid.
19A “bull market” was a period of time in which stock prices were generally rising. A “bear market” was a period of time in which stock prices were generally declining.
Yet, despite its size, the fund continued to outperform the broad market averages. In 1995, however, one pension fund consultant said,

The fewer stocks in a portfolio, the more stock selection drives performance. The more names, the more performance is driven by [industry] sectors. And funds [like Magellan] that were built as stock selection vehicles become far less so as time goes on. Magellan in the early 1980s had eye-popping numbers that just cannot be repeated, even with big sector bets.\(^{21}\)

One popular explanation for the fund’s performance was the unusual skill of its managers. Peter Lynch was an adherent of the fundamental analysis approach to investing. In his book on equity investing, he wrote:

It seemed to me that most of what I learned at Wharton, which was supposed to help you succeed in the investment business, could only help you fail. ... Quantitative analysis taught me that the things I saw happening at Fidelity couldn’t really be happening. I also found it difficult to integrate the efficient market hypothesis ... with the random walk hypothesis. ... Already I’d seen enough odd fluctuations to doubt the rational part, and the success of the great Fidelity fund managers was hardly unpredictable. It also was obvious that Wharton professors who believed in quantum analysis and random walk weren’t doing nearly as well as my new colleagues at Fidelity, so between theory and practice, I cast my lot with the practitioners.\(^{22}\)

The following are Lynch’s “favorable attributes” of stocks to invest in:

1. It sounds dull—or even better, ridiculous.
2. It does something dull.
3. It does something disagreeable.
4. It’s a spin-off.
5. The institutions don’t own it, and the analysts don’t follow it.
6. The rumors about it: it’s involved with toxic waste and/or the Mafia.
7. There’s something depressing about it.
8. It’s a no-growth industry.
9. It’s got a niche.
10. People have to keep buying it.
11. It’s a user of technology.
12. The insiders are buyers.
13. The company is buying back shares.\(^{23}\)

In summary, Peter Lynch said, “I continue to think like an amateur as frequently as possible.” After accumulating an impressive performance record, Peter Lynch retired on May 31, 1990, at the age of 46. He confessed to being burned out by 80-hour weeks that left him without enough time for his wife and three daughters, and noted that his father had died of cancer at the age of 46.

Morris Smith assumed the helm of the Magellan Fund just months before the market slump beginning in late 1990. At the time, Magellan’s assets were $13 billion. He had been hired by Fidelity in 1982, and rose to manage its OTC Portfolio Fund, which posted an out-

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\(^{21}\) Lappin, “Fidelity Grapples with Gigantism,” 83.


\(^{23}\) Ibid., 122–36.
standing performance record during his tenure. In contrasting his investing strategy with Peter Lynch's, Smith said,

I've never been married to one strategy, and I always try to interpret the market as it is. Peter and I are both bottom-up types of investors... visiting companies, a lot of hands-on research... [It's difficult for me to analyze what the differences are.]

Still, investors were skeptical that Peter Lynch's performance would be maintained: "The probabilities aren't in favor of anyone doing as well as Peter Lynch," wrote Charlie Hooper, editor of *Mutual Fund Strategist*. Indeed, the *Boston Globe* instituted a "Morris Watch" column in its Sunday business section, tracking Magellan's performance each week, looking for the stumble that would differentiate him from Peter Lynch.

The stumble never occurred. Smith configured Magellan's investments conservatively, and successfully rode out the market decline of 1990-91. Indeed, in 1991 he beat the S&P 500 by 10.5 percent. Then in April 1992, Smith stunned the investment community with the announcement that he would retire from the fund. The 34-year-old manager, an Orthodox Jew, planned to move to Israel to spend more time with his wife and children and study the Talmud. He claimed not to have had the time to read a book for leisure since 1982.

Smith's successor, Jeffrey Vinik, joined Fidelity in 1987, having graduated from Duke University and Harvard Business School. Within two years, he became an assistant to Peter Lynch, and then won appointments to be the manager of increasingly prominent Fidelity funds, including Contrafund, and Growth & Income Fund. When Vinik, age 32, assumed responsibility for the Magellan Fund, its assets had risen to $22 billion. One observer said, "If you're running a $22 billion fund, you're basically buying the market," implying that investors would be better off allocating their wealth to an index fund that closely mirrored the performance of the S&P 500, and doing so with lower costs. In reply, Vinik said flatly, "My goal is to beat the S&P." He had allocated the fund's assets to nearly 500 issues of common stock, but had concentrated almost half of the fund in the technology sector. One observer called Vinik a "manic" trader, pointing to the very high turnover rates of previous portfolios he had managed—for the year to August 1995 the turnover rate for the fund was 120 percent, indicating that Vinik had executed nearly $60 billion of trades so far that year. Notwithstanding the complexity of his portfolio and his high trading volume, Vinik said that he would continue leaving the office at 5:30 P.M., limiting workweeks to 60-65 hours: "My family was the first thing I thought about when I was approached about the job. I feel like I can handle it—stress is part of the job." Vinik was reported to own at least 30,000 shares in FMR, worth about $100 apiece, and to earn more than $1 million per year.

In part, Magellan's remarkable growth in assets was due to its superior investment performance—supported by a deep talent pool of portfolio managers and a research staff

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27Ibid.
29Lappen, "Fidelity Grapples with Gigantism," 86.
over 100 strong. Internal research was supplemented with research purchased from numerous external analysts. But industry observers also credited the growth, in part, to aggressive marketing by FMR, the parent company. Roger Servison, an FMR executive said, “We want to own [the financial consumer’s] brain. We want them to think of us as their primary financial provider.”

FMR’s chief executive officer, Ned Johnson, said,

Oh, [growth] isn’t an end. It’s every day—the challenge of running and improving the businesses, being rewarded, and also providing something of value to others. It’s like collecting or like playing a professional sport. It’s a desire to win, yes, but it’s also the desire to produce something that has value to many people.

Nevertheless, other observers saw FMR as a company driven toward aggressive growth, with a highly competitive internal culture, that might lead to the firm’s ultimate downfall. One journalist wrote:

As the assets of the chief Fidelity funds swell . . . their portfolio managers may well feel compelled, in the ultracompetitive Fidelity climate, to take added risks to sustain their impressive, growth-fund-style returns. “The more money you manage and the more fields you are in,” notes the marketing head of a major competitor, “the greater the chances that you will be on the playground when a big mortar hits.”

CONCLUSION

Judged from almost any perspective, the performance of the Magellan Fund was remarkable. Its long-run, market-beating performance defied conventional academic theories. And its ability to achieve this performance in the face of the fund’s staggering size challenged most pragmatists who believed that the fund would eventually become a clone of the broad market.

Investors, academicians, and market observers wondered about the sources of Magellan’s superior performance, and about its sustainability into the future. As of mid-1995, was it rational for the equity investor to buy shares in Magellan?

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30Ibid., 78.
31Ibid., 80.
32Ibid., 82.
## Benchmark Performance

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<th>Benchmark</th>
<th>Total Return % through 03-31-95</th>
<th>Annual Return</th>
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## Index Performance

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EXHIBIT 2
Long-Term Cumulative Returns on Major Asset Categories

Wealth Indices of Investments in the U.S. Capital Markets

Year-End 1925 = $1.00
From 1925 to 1994

Index

$10,000

$1,000

$100

$10

$1


Year-End

Small Company Stocks

Large Company Stocks

Long-Term Government Bonds

Inflation

Treasury Bills

$2.842.77

$810.54

$25.86

$12.19

$8.35

Source: Ibbotson Associates.
EXHIBIT 3
Mean Returns and Standard Deviation of Returns by Major Asset Categories

Basic Series:
Summary Statistics of
Annual Total Returns

From 1926 to 1994

<table>
<thead>
<tr>
<th>Series</th>
<th>Geometric Mean</th>
<th>Arithmetic Mean</th>
<th>Standard Deviation</th>
<th>Distribution</th>
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<td>12.2%</td>
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<td>4.6</td>
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</table>

*The 1922 Small Company Stock Total Return was 142.9 percent.

Source: Robertson Associates.
Fidelity Magellan

Fidelity Magellan Fund scenic capital appreciation. The fund's top 10 holdings are weighted in large-cap companies, with up to 80% of assets owned in stocks of at least $1 billion in market value. It features sector underweights in cyclical industries, and overweights in the Consumer, Energy, and Financials sectors. The fund's beta is 1.0, indicating it moves in line with the market.

Fiduciary Management

Jeffrey D. Netzer, CPA, since July 1976. Jeffrey Netzer is a managing director with Fiduciary Management. He has been managing the Fidelity Magellan Fund for 10 years. Mr. Netzer is a former member of the Fidelity Investments Board of Directors. He is known for his active management style, focusing on companies with strong fundamentals, and his dedication to providing investors with long-term capital appreciation.

Fidelity Magellan Fund Performance

The Fund has consistently outperformed the S&P 500 index since its inception. It has a low expense ratio and a high dividend yield, making it a popular choice for income-oriented investors. The fund has a long history of strong performance, with a record of smooth returns and consistent growth.

Fidelity Magellan Fund Review

The Fidelity Magellan Fund is a value-oriented fund with a long track record of strong performance. It is managed by Jeffrey Netzer, a seasoned professional with a proven track record of success. The fund is well-regarded for its conservative approach and its focus on companies with strong fundamentals.

Fidelity Magellan Fund Management

Jeffrey D. Netzer, CPA, since July 1976. Jeffrey Netzer is a managing director with Fiduciary Management. He has been managing the Fidelity Magellan Fund for 10 years. Mr. Netzer is a former member of the Fidelity Investments Board of Directors. He is known for his active management style, focusing on companies with strong fundamentals, and his dedication to providing investors with long-term capital appreciation.

Fidelity Magellan Fund Performance

The Fund has consistently outperformed the S&P 500 index since its inception. It has a low expense ratio and a high dividend yield, making it a popular choice for income-oriented investors. The fund has a long history of strong performance, with a record of smooth returns and consistent growth.

Fidelity Magellan Fund Review

The Fidelity Magellan Fund is a value-oriented fund with a long track record of strong performance. It is managed by Jeffrey Netzer, a seasoned professional with a proven track record of success. The fund is well-regarded for its conservative approach and its focus on companies with strong fundamentals.
EXHIBIT 5
Performance Comparison of Fidelity Magellan Fund versus Other Growth Funds

<table>
<thead>
<tr>
<th>Fund Size (total assets in millions on Sept. 30, 1995)</th>
<th>Number of Funds in Category</th>
<th>Total Assets (in millions on Sept. 30, 1995)</th>
<th>Total Reinvested Performance (percentage increase in initial investment value from inception to Sept. 30, 1995)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>10 Years</td>
<td>5 Years</td>
</tr>
<tr>
<td>$250-$500</td>
<td>51</td>
<td>$18,697</td>
<td>306%</td>
</tr>
<tr>
<td>$500-$750</td>
<td>17</td>
<td>10,742</td>
<td>318.7</td>
</tr>
<tr>
<td>$750-$1,000</td>
<td>19</td>
<td>16,517</td>
<td>328.8</td>
</tr>
<tr>
<td>$1,000-$2,000</td>
<td>36</td>
<td>48,519</td>
<td>321.9</td>
</tr>
<tr>
<td>$2,000+</td>
<td>23(^1)</td>
<td>134,793</td>
<td>290.3</td>
</tr>
<tr>
<td>Fidelity Magellan Fund</td>
<td>1</td>
<td>46,653(^2)</td>
<td>514.5</td>
</tr>
</tbody>
</table>

\(^1\)The category of funds larger than $2 billion includes the results of Fidelity Magellan Fund in its performance statistics.

\(^2\)This is the reported balance in May 1995. As noted in the case, the assets under management in the fall of 1995 were closer to $51 billion.