

Magellan Sails Again

New York - Sixteenth-century Portuguese explorer Ferdinand Magellan set out from Seville, Spain, to circumnavigate the globe in 1519. One of his five ships and 18 of his original crew of about 250 eventually did make it back to Europe, but Magellan only made it as far as the Philippines, where he was killed in 1521.

Like its namesake navigator, the Fidelity Magellan fund has seen its share of glory, though for the past several years the once mighty mutual fund has been a study in mediocrity. A manager change on Oct. 31, however, has several top Fidelity watchers giving Magellan a fresh look and--for the first time in a long time--making upgrades.

The most enthusiastic response comes from Jim Lowell, editor of Fidelity Investor, who immediately upgraded the \$51 billion Magellan fund from a "sell" to a "buy." Lowell has been a big fan of new Magellan manager Harry Lange, who had deftly managed the Capital Appreciation fund (FDCAX) to market-beating returns during his tenure.

"Harry Lange's investment style is cut from the classic go-anywhere cloth that made Peter Lynch's Magellan something to write home about," says Lowell, referring to the legendary Lynch's 13-year tenure as Magellan's manager from 1977 to 1990, when the fund returned an average annualized 29% a year. It's been dead money, however, since 1998 and has underperformed the S&P 500 by nearly 300 percentage points since 1990.

"Consistent underperformance isn't what we pay an active manager to deliver, nor what we pay an active management fee for," says Lowell, who applauds Lange's succession of outgoing manager Robert Stansky, who had managed Magellan since 1996. "I'd look for the following immediate portfolio changes at Magellan: a significant increase in technology stocks and a significant decrease in financials." Lowell also believes Lange will boost the portfolio's exposure to energy.

Also impressed by the change of skipper at Magellan, but not enough to rate it an outright buy, is John Bonnanzio, group editor of Fidelity Insight, who elevated it from "OK" to "sell" to "hold." Like Lowell, Bonnanzio also looks for big changes from Lange, including more small- and midcap stocks in the

portfolio; portfolio holdings to grow from 200 to upwards of 500; and higher turnover. Also look for Lange to boost Magellan's international exposure from Stansky's 4% closer to Capital Appreciation's 26%.

Bonnanzio points out that "hold" isn't the euphemistic "sell" that it is at most brokerage houses, since it's telling Magellan holders to "stay put" and continue to make periodic investments into the fund. He holds out the possibility of a making a "buy" recommendation after seeing how the fund performs compared with its peers and what the new composition ultimately looks like. The top five holdings in Magellan are currently big blue chips: General Electric (GE), Microsoft (MSFT), American International Group (AIG), Exxon Mobil (XOM) and Home Depot (HD).

Similarly, Jack Bowers of Fidelity Monitor upgraded Magellan from "sell" to "hold" after Stansky stepped down. "It will take some time for Lange to reshape Magellan, perhaps as long as a year. My advice would be to wait until its year-over-year is at least a few points ahead of the S&P 500 before buying in," says Bowers. "At this stage Contrafund is still a better bet among mega-fund choices."

Some other top fund pickers are taking the wait-and-see approach. "If Lange can turn Magellan into a top-performing name, then we'll sit up and take notice," says John Schloegel at the momentum-based All Star Fund Trader. "We let the performance speak for itself."

"Over the past five years, Magellan performed like an expensive S&P 500 index fund. With a fund of this size, making big changes takes time, sort of like turning a supertanker around," says **John Morgan of Fidelity Navigator**, who says he'll be watching that supertanker closely to see where it's headed.

-John Dobosz- 12.21.05



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