

X-Ray: Fidelity Low-Priced Stock

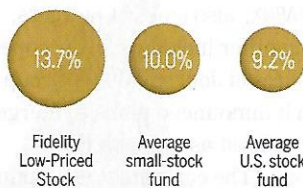
THIS HUGE SMALL-STOCK FUND DEFIES CONVENTION—AND THE ODDS. *by Ian Salisbury*

Fidelity Low-Priced Stock gets its name from a peculiar requirement: to buy only stocks trading at \$35 a share or less. That's an old-fashioned way to spot smaller, overlooked equities, yet you can't argue with the results. Legendary stock picker Joel Tillinghast has posted gains of 7.3% a year over the past decade, beating the market and his peers. While smaller-stock funds tend to shutter if assets swell—to let the managers focus on just a few of their "best ideas"—Tillinghast holds 867 stocks in a \$40 billion portfolio. Quirky for sure, but is it right for you?

No Average Joel

Manager Joel Tillinghast has consistently posted outside gains.

ANNUAL GAIN SINCE DEC. 1989 INCEPTION



➤ Tillinghast is a value investor who keeps things simple. He favors firms with business models he can easily understand and strong competitive advantages. This strategy helped him become the literal poster child for stock picking—Fidelity featured him in ads promoting active management.

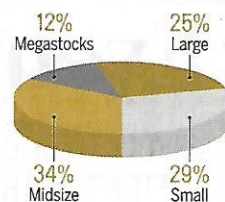
Yet Tillinghast achieved some of his success by borrowing a page from passive management. With nearly 900 stocks, his fund owns a wider array of shares than many index funds. Low-Priced also charges just 0.79% a year, only a hair above the average 0.72% fees levied by small- and midcap index funds. And he also minimizes trading costs through patience. With a turnover rate of 10%, he hangs on to stocks longer than the Russell 2000 small-company index.

SOURCE: Morningstar

Hard to Pigeonhole

The fund focuses on smaller stocks but actually owns shares of all sizes.

LOW-PRICED STOCK'S PORTFOLIO



➤ For its first 15 years, Low-Priced Stock specialized in small-company shares. But as the fund's assets grew, it became harder for a portfolio this big to just seed tiny businesses. Today, Low-Priced Stock is classified as a "midcap" fund, but even that belies its unconventional approach.

While there's still a "tilt" to smaller names, the fund also owns some megasize stocks like Microsoft and Oracle. "It helps diversify the risk," Tillinghast says. Plus about 45% of his holdings are in international equities, which have dragged performance a bit over the past year. This idiosyncratic approach means Low-Priced Stock can't neatly replace a small- or large-stock fund in your core portfolio. "It's a niche play," says Mount Sinai, N.Y., planner Peter Creedon.

The Clock Is Ticking

How much longer can investors expect Tillinghast's run to last?

MANAGER TENURE



➤ While Tillinghast's distinctive strategy has helped his fund generate stellar returns, the downside is that Low-Priced Stock relies heavily on his skills. "He's a celebrity manager," says Woburn, Mass., financial planner Kashif Ahmed. "If something were to happen to him suddenly, his fans may rush out the door, leaving real, long-term investors vulnerable."

Tillinghast, who turns 58 in June, says he has no plans to go anywhere. But he's been at the helm for 26 years, outlasting 99% of his peers. A few years ago he ceded a sliver—about 6%—of the portfolio to a group of six research analysts who can take charge when he's away. The question is, if handed the remaining \$37.6 billion, can "Team Joel" replicate Tillinghast's winning record? **M**