THE UNLIKELY KING OF EXTREME INVESTING

JEFF VINIK KNOWS ABOUT RISK. HUGE GAMBLES WRECKED HIS REPUTATION AT MAGELLAN—AND NOW THEY'RE MAKING HIM AND HIS HEDGE FUND INVESTORS VERY, VERY RICH.

BY WILLIAM GREEN AND JOAN CAPLIN

LAST SPRING, JEFF VINIK PLACED a monumental bet. In just three months he snapped up stocks worth more than $4 billion, boosting his equity portfolio by 600%. He loaded up on semiconductor stocks, plunging $1.6 billion into this notoriously volatile sector. He was so sure of his judgment that he borrowed a staggering $2 billion to bankroll these wagers. ■ The gamble paid off. His hedge fund, Vinik Partners, jumped 15% in 12 glorious weeks, bagging about $500 million in profits for his gleeful investors. Vinik has virtually quadrupled their money in barely three years, and his own share of the spoils has made him a centimillionaire. ■ That's quite a turnaround, given his famous fall from grace as manager of Fidelity's Magellan fund. Ironically, it was precisely his appetite for heroically risky bets that landed him in trouble back then. In 1996 he dumped Magellan's tech stocks and stashed a fifth of its assets in bonds—then watched helplessly as tech stocks soared and bonds tanked. ■ Magellan was the world's biggest mutual fund, with more than a million investors and $56 billion in assets. So the press had a ball, portraying the supposed king of the investment world as a hapless fool. Vinik's long-term record was still enviable: He'd beaten the S&P 500 consistently for nearly eight years. But he resigned from Fidelity in the spring of 1996 with his reputation tarnished. ■ His downfall neatly confirmed one of the fundamental laws

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VINIK: In three years, his firm has grossed about $500 million—and investors have nearly quadrupled their money.

of investing: It's enormously difficult to beat the market without taking outsize risks—and when you take outsize risks, you're liable to fall on your face.

That's one reason why investors are often advised to emulate Warren Buffett's approach to investing: Buy and hold brand-name blue chips, avoid tech stocks, never try to time the market. This strategy has made Buffett a billionaire, but it seems out of step with today's fast-moving, tech-fueled market. Meanwhile, Vinik has had brilliant success by taking risks that would give Buffett palpitations. He rarely owns a stock for more than a few months. He piles into volatile small-caps, especially tech stocks. He sells stocks short, gambling that they'll nosedive. And he races into hot sectors, riding them hard while they're soaring, then trying to jump clear before they crash.

Vinik is intensely secretive and has refused all interview requests since leaving Fidelity, but MONEY has been able to uncover how his brand of extreme investing works—and how profitable it has been in this overheated market. Before fees, his fund made 95% in 1997, 59% in 1998 and 38% in the first nine months of 1999—trouncing the S&P 500, as well as hedge fund giants like Julian Robertson and George Soros.

As his demise at Magellan proved, Vinik's investing style can be dangerous. But his performance inspires awe among his peers, who speak of his uncanny feel for the market and his genius for picking growth stocks. Larry Greenberg, a hedge fund manager who worked with him at Fidelity, declares simply: "Jeff is the best money manager I've ever seen."

VINIK DOESN'T QUITE fit the image of the swashbuckling, multimillionaire speculator. At the age of 40, he's a chubby guy with spectacles and a shy, unassuming manner. He dresses casually, seldom wearing a suit or tie to work. He prides himself on leaving the office by 5:30 p.m. to spend time with his three kids (though he works for three more hours once they're asleep). He vacations at Disney World with his family. He shuns publicity. A NO TRESPASSING sign is nailed to a tree at the foot of his driveway in Weston, Mass.

He leads a life of quiet, almost banal routine. He drives himself to work each day in downtown Boston, usually arriving by 6:30 a.m. On his way to the office, he grabs coffee at a characterless dive with the words CAFÉ LA BRIOCHE emblazoned in orange neon in the window. He chats with the manager about their kids or sports (Vinik is a huge fan of Duke University's basketball team). He often orders lunch from Café La Brioche too, invariably eating the same dish: a fried chicken cutlet with tomato sauce on a hot roll. Price: $3.95. It's hardly the meal of Wall Street titans, but Vinik is a "creature of habit," says Nick Liakas, the café's manager.

Liakas describes Vinik as likable and down to earth. Others agree. David Whitford, who used to write shareholder reports at Fidelity, says Vinik "was treated with deference by everyone there" but didn't act as though he was "above the pack." He was "soft-spoken, calm and a gentleman," says Whitford (now a writer at *Fortune*), whereas other Fidelity fund managers often seemed like spoiled professional athletes: "too young, too rich, too arrogant."

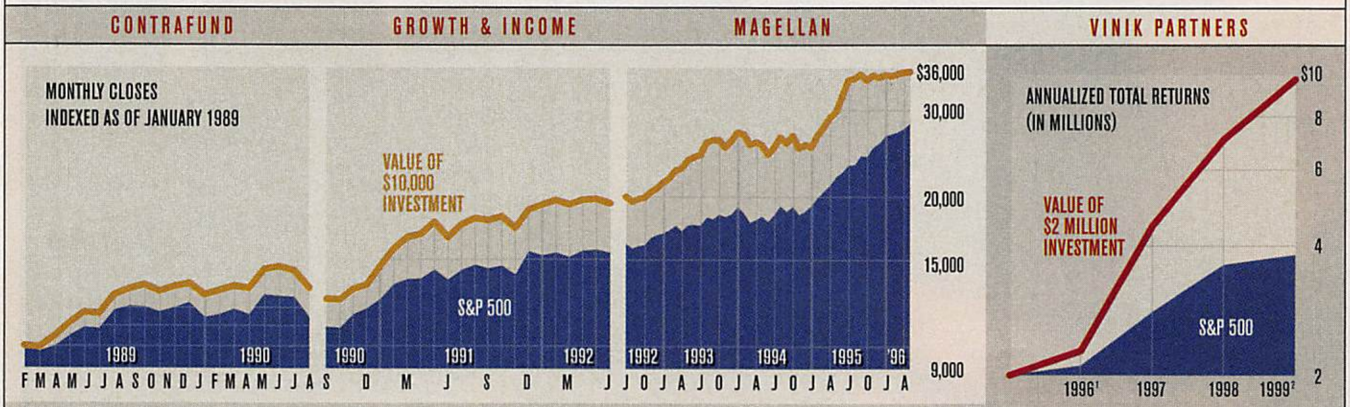
Vinik grew up in suburban New Jersey, the son of a successful equities trader. As a teenager, he attended the exclusive Riverdale Country School, where he excelled in math and science and captained the varsity baseball team. A friend from his class remembers him as a "completely ordinary" boy who collected baseball cards. "He was definitely not in the cool crowd, but I don't think he gave a damn. Everyone was taking drugs back then, and he didn't. He worked hard."

Vinik studied economics and engineering at Duke, to which he's since donated over $6 million. He then spent two years as a securities analyst at Value Line, where he learned to favor companies with heady earnings growth. He worked for Richard Ozaroff, who was struck by Vinik's intellect, his "strong personality" and his self-confidence. Ozaroff suggests that this last trait was what tripped Vinik up at Magellan: "I thought finally he was too smart for his own good. He thought he could time the market."

After Value Line, Vinik picked up a Harvard M.B.A., spent 10 months as an equities trader at First Boston and then joined Fidel-

TROUNCING THE MARKET

If you'd invested $10,000 in Fidelity Contrafund when Vinik took over in 1989 and moved your stake when he moved, to Growth & Income and Magellan, you would have had $36,000 (before taxes and expenses) when he left Fidelity. At his hedge fund, the minimum investment of $2 million in November 1996 has surged to more than $9 million.



Notes: All fund data are before taxes and expenses. [1]Beginning Nov. 1, 1996. [2]As of Sept. 30, 1999. **Source:** FidelityInvestor.com.

WHEN HE WAS TAPPED TO RUN MAGELLAN, VINIK HEADED TO WENDY'S TO SEARCH HIS SOUL OVER A BURGER. HE WORRIED THAT THE JOB MIGHT WRECK HIS FAMILY LIFE.

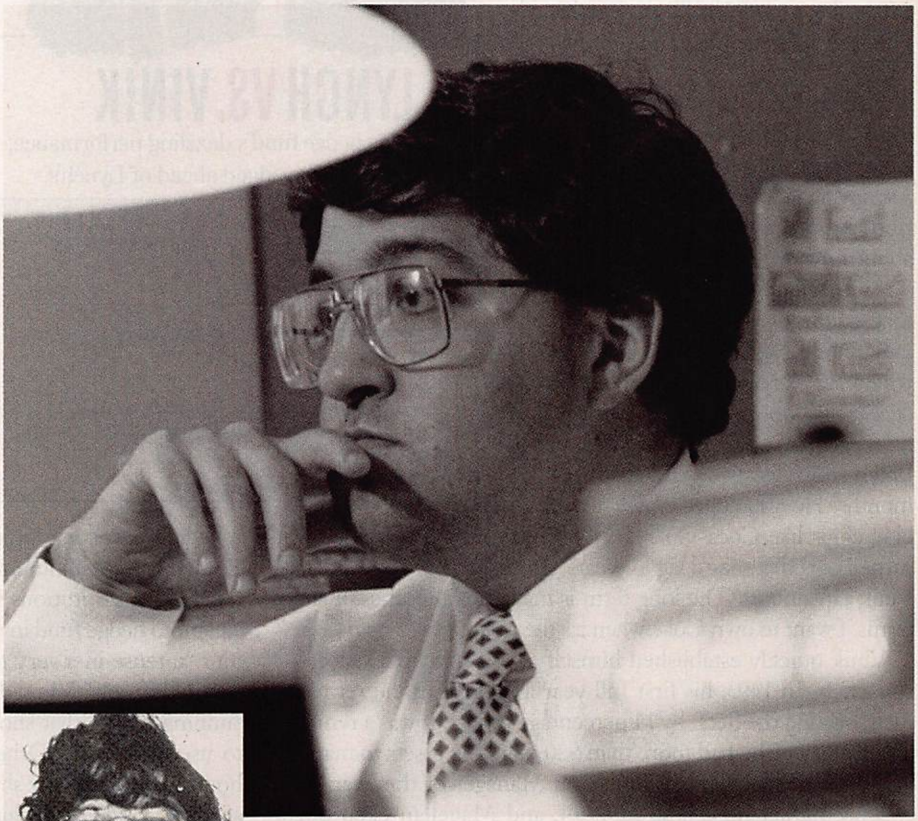
ity. He was a classic Fidelity recruit. The fund giant has always favored young, aggressive stock pickers out of Harvard or Wharton, advancing them rapidly: At 27, Vinik took charge of the Fidelity Select Energy Services Fund, which he ran for almost three years. He also worked as an assistant on Magellan under Peter Lynch, who helped teach him to analyze growth stocks.

Vinik joined the major leagues in 1989, taking over the Fidelity Contrafund. Morningstar editor John Rekenthaler interviewed him in 1990 and was impressed by how much Vinik knew about his holdings, by his passion for aggressive small-caps and by his precocious faith in his own judgment. While other fund managers were herding into telephone stocks, Vinik "was just ragging on them, saying how overvalued they were," says Rekenthaler. "He was very skeptical about the market, and he had lots of cash." Vinik averaged 23% a year at Contrafund, vs. 12% for the S&P 500. He stormed ahead of the index again as manager of the Growth & Income Fund. Then, at 33, he was tapped to run Magellan.

His performance figures had clearly set him apart, but his temperament was equally key. Lynch had resigned from Magellan in 1990, when he was only 46. His successor, Morris Smith, lasted just 25 months before dropping out to live in Israel and spend more time with his family. Tracey Gordon, who then worked in public relations at Fidelity, recalls: "After Morris, they didn't want to make a mistake. One thing I kept hearing was, Jeff was not emotional. He was like a machine. You would not want to play chess with this guy."

Vinik told reporters that he "went into shock laughs" when he was offered the job. He spoke to his father and his wife, trying to decide if Magellan would wreck his family life. And he headed out to Wendy's in the middle of the day to search his soul over a "double-burger plain." Finally, he agreed to run the largest mutual fund in history.

Peter Lynch, who'd returned 2,700% in 13 stunning years at Magellan, bestowed his blessing, telling the *Wall Street Journal*, "He's an independent thinker. He loves the market. I think he'd work for free."



AN "ORDINARY" GUY: Vinik, left, as a high school senior. "A very clean kid," recalls one classmate. Above, as a rising star at Fidelity.

John Abbott (page 135); David Katzenstein (top)

TO VINIK, THE ESSENCE OF investing comes down to this: A company's earnings ultimately drive the price of its stock. The key, then, is to predict whether that company will beat Wall Street's consensus earnings expectations. If it does, the stock is likely to soar; if earnings disappoint, it's likely to get clobbered. This obsession with quarterly earnings runs deep. In 1995, Vinik told the *Financial Times*, "Hopefully, you could ask me about any company in the S&P 500 and I could tell you whether we could have a positive or negative earnings surprise this quarter."

Vinik's wager on semiconductor stocks in the second quarter of 1999 was a classic example of his earnings-oriented approach. The price of chips was surging; sales were booming. As earnings surpassed expectations, Vinik bet nearly $500 million on three stocks: Applied Materials, Xilinx and Teradyne.

Likewise he'd moved decisively into gaming stocks earlier in 1999. The sector had produced dismal earnings for three years, but revenues revived in January as visitors flocked to Las Vegas to gamble and paid higher rates for hotel rooms. Vinik rode the upward momentum as analysts boosted their earnings estimates.

By late March, he'd bet $122 million on Mandalay Resort Group, Harrah's Entertainment and Mirage Resorts. When growth slowed, Vinik promptly bailed out. By June he'd slashed his holding in Mandalay from $50 million to $2 million, cut his Harrah's stake by 72% and dumped Mirage entirely.

"He doesn't fall in love with a sector or a stock," says Elizabeth Hilpman, a hedge fund expert at Global Asset Management. "You don't often find people as ruthless and cold about how they invest."

As manager of Magellan, Vinik focused on earnings growth with this same intensity, purging vast holdings whenever earnings seemed set to decelerate. Soon after taking the helm, he liquidated a $750 million stake in Philip Morris, which cratered within months. He also culled widely loved blue chips like Coca-Cola and Pfizer, predicting (wrongly, as it turned out) that they'd lag for years. An ex-Fidelity analyst recalls Vinik explaining, "The long term is made up of a series of short terms. I want to own Coke when it's the right time to own Coke."

Vinik quickly established himself as a formidable successor to Lynch. In 1993, his first full year at Magellan, he returned 25%, beating the S&P by 14 percentage points. It was a remarkable feat, since he had more than $20 billion in assets to maneuver. Morningstar named him Fund Manager of the Year.

The market hit a wall in 1994, and Magellan eked out a return of 1%. To many, the threat of a bear market loomed ominously. But an ex-colleague says Vinik summoned a group of Fidelity fund managers and proclaimed, "I'm more bullish today than I've ever been." Vinik thought tech stocks were ridiculously cheap, and by March 1995 he'd staked 42% of his fund on them—an astoundingly aggressive move. On *Wall Street Week with Louis Rukeyser*, he declared, "I expect to be with these stocks for quite a while." But he soon turned bearish, cutting his tech holdings to just 3.5% in early 1996. He also stashed 19% of Magellan's assets in bonds, turning Fidelity's flagship stock fund into the nation's biggest bond fund.

It's hard to imagine a better lesson in the perils of market timing. Vinik missed a huge run-up in tech stocks, and his bonds got slammed as interest rates rose. Fidelity's freewheeling culture, which had given him the latitude to bet the house, suddenly smacked of recklessness. Never again would Fidelity fund managers be allowed to stray so drastically from their mandate; in the future, a stock fund would remain a stock fund.

To make matters worse, Vinik landed himself and Fidelity in a messy lawsuit. Investors in Micron Technology accused him of touting the stock publicly while selling it secretly. The widely reported charges sullied his image, even though the Securities and Exchange Commission found no evidence of wrongdoing. (The investors' suit was settled.)

LYNCH VS. VINIK

Thanks to his hedge fund's dazzling performance, Vinik's numbers have edged ahead of Lynch's.

DURING 13 YEARS AS MANAGER OF MAGELLAN	DURING 11 YEARS AT FIDELITY AND VINIK PARTNERS
29% Average annualized returns	32% Average annualized returns
11.6 Percentage points better than the S&P 500	12.2 Percentage points better than the S&P 500

Source: FidelityInvestor.com.

Vinik resigned in May 1996, saying he'd long dreamed of running his own investment firm. Despite the criticism, he'd returned 85% in four years at Magellan, outpacing the S&P 500 by two percentage points. "During the time I have managed Magellan, the fund has grown from about $20 billion to more than $50 billion," he announced. "I take great pride in the job I've done."

THERE WAS A SENSE within Fidelity that a dazzling era of high-stakes investing came to an end with Vinik's departure. A fund manager who'd worked there with him recalls, "Internally, we said, 'They killed the cowboy.' "

But the cowboy was still very much alive, rustling up investors for his new hedge fund, Vinik Partners. The minimum investment would be $2 million, so he focused on institutions with deep pockets. George Van, a consultant to hedge fund investors, met Vinik in Nashville and found him "intense in a very quiet way. He was very composed, very sure of himself." Van didn't invest since Vinik had no experience running a fund that shorted stocks, a risky strategy he planned to use extensively. Others were swayed when Vinik explained how he'd successfully shorted stocks in his personal investment account at Fidelity, which had been worth about $20 million.

Determined to stay nimble, Vinik accepted $800 million in assets and then closed his fund, refusing all additional investments, even from existing shareholders. His investors included the brokerage firm Donaldson Lufkin & Jenrette and George Soros, who steered about $100 million into the fund. Vinik laid out his strategy for them in a 54-page "confidential memorandum" that MONEY has obtained. He'd essentially be free to do whatever he wanted—from "short-term trading" to dabbling in bonds or futures. "Markets change," he noted, and he wanted the freedom "to capitalize on attractive opportunities wherever they might be." (In practice, he's invested almost exclusively in U.S. stocks.)

When it came to stock picking, Vinik said he'd continue to focus on companies that he expected "to achieve earnings above consensus expectations." He would also look for "outstanding management, underappreciated potential and attractive valuation." He'd short stocks that he expected "to achieve earnings below consensus expectations."

Vinik made his shareholders agree to lock up their money in his fund for a minimum of 26 months; after that, they could cash out only once a year, with 45 days' written notice. So far, they've been richly rewarded. Tom Gimbel, who analyzes the fund's performance for DLJ, says Vinik has averaged 51% a year while successfully controlling risk. In August 1998, for example,

Illustrations by Drew Friedman

"HE DOESN'T FALL IN LOVE WITH A SECTOR OR A STOCK," SAYS ONE OBSERVER. "YOU DON'T OFTEN FIND PEOPLE AS RUTHLESS AND COLD ABOUT HOW THEY INVEST."

the S&P 500 fell 14%, while Vinik's fund dropped only 3%.

A hedge fund consultant who follows Vinik's fund counters that it's "very risky because it involves a great deal of market timing," with Vinik rapidly trading in and out of sectors. (See the charts below.) His SEC filing in September 1999 shows just how aggressive these sector bets can be: About 30% of the $3.6 billion he'd invested in stocks was riding on 30 semiconductor companies. The sector accounts for just 4.5% of the S&P 500's market value, so he was overweighting it nearly sevenfold. His biggest semiconductor holding? Micron Technology, the stock he'd once been charged with manipulating.

Chances are he won't own it for long, though. The Carson Group, which tracks Vinik's holdings, says he has a turnover rate of more than 300% a year, meaning that on average he sells a stock within four months of buying it—three times faster than the typical mutual fund manager.

Occasionally, Vinik does hold a stock for a longer stretch. One enduring favorite was Consolidated Graphics, which does commercial printing for firms like IBM. What set it apart was its torrid growth, with earnings surging by 80% in 1996. Vinik started buying the stock late that year on the very day he launched his fund. "He saw our growth rate," says Ronnie Hale, treasurer at Consolidated. Vinik remained a major shareholder until recently, when its growth rate slowed and he cashed out, after more than doubling his money.

By his standards, that's a long love affair. But even here, he was hardly a typical buy-and-hold investor. Documents he filed with the SEC show that he bought 5% of the firm in November 1996, pruned his stake in December, sold heavily in January 1997, then owned 9.5% of the firm by February.

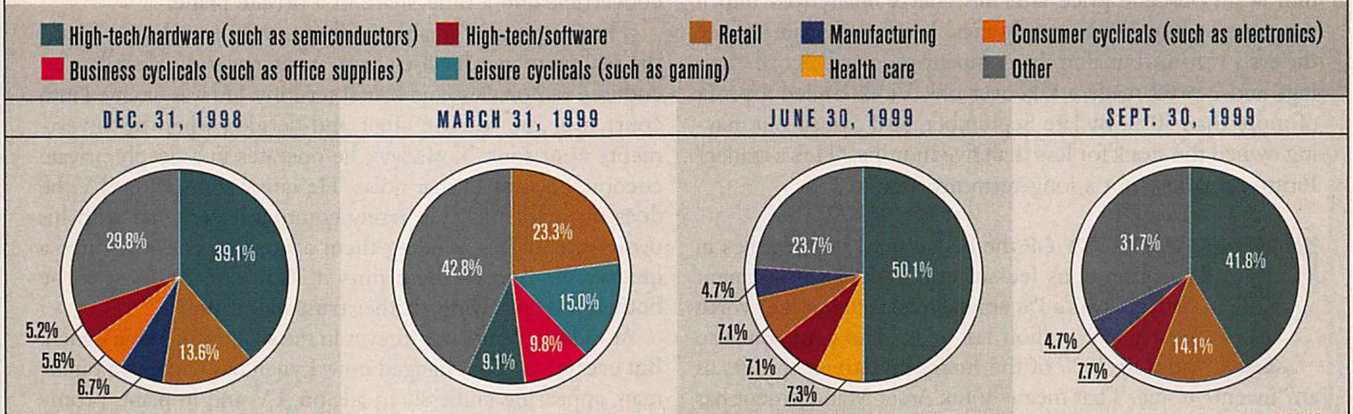
Vinik can make money trading like this because he has a rare ability to detect subtle shifts in the demand for stocks. "He can look at the volume in a stock and look at how it's trading and figure out that there's someone out there buying or selling in volume," says Eric Kobren, executive editor of the *Fidelity Insight* newsletter. Vinik has such faith in his instincts that he personally makes every decision about when to buy and sell; his traders merely execute his orders.

Like most professional investors, Vinik and his analysts spend the bulk of their time doing fundamental research: They interview CEOs, chat with analysts and scour financial statements. But Vinik is also obsessed with technical analysis, a controversial practice that involves predicting trends by poring over stock charts. As he explained in a 1993 interview with Rukeyser, "I use charts as screening mechanisms.... I'll find a chart that looks attractive to me and then I'll do the fundamental work."

Vinik often favors stocks that display what technical analysts call "relative strength." LSI Logic, a huge holding of his

VINIK'S TOP SECTORS AND STOCKS

No long-term investor, Vinik races in and out of sectors and individual stocks with dizzying speed. The pie charts below show his largest sector bets at the close of four recent quarters. Only Abercrombie & Fitch and Comverse Technology were among his top five holdings for longer than one quarter.



DEC. 31, 1998

TOP HOLDINGS	VALUE IN MILLIONS
Abercrombie & Fitch	$132
Tyco International	124
Comverse Technology	111
Electronics for Imaging	105
Nokia	101

MARCH 31, 1999

TOP HOLDINGS	VALUE IN MILLIONS
Consolidated Graphics	$71
Abercrombie & Fitch	66
Comverse Technology	61
Federated Investors	61
American Eagle Outfitters	59

JUNE 30, 1999

TOP HOLDINGS	VALUE IN MILLIONS
Rational Software	$206
Applied Materials	172
United Healthcare	168
Xilinx	166
Teradyne	156

SEPT. 30, 1999

TOP HOLDINGS	VALUE IN MILLIONS
Home Depot	$190
Micron Technology	141
Microchip Technology	127
KLA-Tencor	110
Check Point Software	103

Sources: Securities and Exchange Commission, Carson Group.

VINIK RECENTLY BOUGHT A $2.3 MILLION HOUSE IN WESTON, A RICH BOSTON SUBURB. DECISIVE AS EVER, HE NEVER EVEN LOOKED INSIDE THE HOUSE. THEN HE HAD IT TORN DOWN.

last year, was typical: It outperformed other chip stocks when the sector rose and dropped less when the sector fell. Vinik also likes charts of stocks that have gone nowhere for months and then suddenly spike up—an early signal that the company's fortunes may be changing.

Value investors usually try to buy stocks before this turnaround because that's when they're cheapest. Vinik plays a different game, generally leaping in when the stock already has upward momentum. Take Periphonics, a little-known firm that makes software and hardware that's used in automated phone systems. In early 1999, Periphonics had woeful earnings, and the stock slumped to $6. But in May, $20 million worth of new orders flooded in from customers like Vodafone.

With earnings on the rise, Periphonics stock nearly doubled in two months. Most fund managers wouldn't have noticed, since the firm had a market value of under $300 million and wasn't followed by major brokerages. But Vinik understood—and liked—the telecom equipment industry, having made rich profits off a rival firm, Intervoice. After dissecting Periphonics' cash-flow statements, Vinik bought 10% of the firm. Only later did he and one of his analysts interview the CEO, quizzing him about margins and backlogs. Joseph Pititto, former head of investor relations at Periphonics, says Vinik's main interest during the conversation was "how confident we were about our revenue growth going forward."

By the time Vinik got in, some value investors were bailing out because the stock no longer looked cheap. But Vinik is no bargain hunter. In fact, colleagues at Fidelity used to joke that they could buy a stock at the bottom, then sell it to him at an obscene price after his charts finally told him it was time to buy. With Periphonics, Vinik had again missed the early run-up, but after the company reported record earnings and Nortel made a takeover bid, Vinik landed a profit of more than 50%. By late September, he'd cashed out, having owned the stock for less than five months. "He's a trader," Pititto remarks, "not a long-term investor."

THE BEAUTY OF the hedge fund business lies in its sumptuous fee structure. Vinik's investment firm collects a 1% annual management fee, worth nearly $30 million last year. The company also pockets 20% of the fund's investment profits as an "incentive" fee. That means Vinik Asset Management has grossed about $500 million in fees in three years. Vinik has to share some of that lucre with his employees, but it's standard for big-name hedge fund managers to keep more than half the spoils for themselves.

Vinik's gunslinging bets could certainly backfire. But for now, his financial future looks virtually bulletproof. With his investment gains, assets in the fund have ballooned to more than $3 billion, so his earnings potential has grown astronomically. If the fund returns, say, 20% this year, his firm will rake in fees of more than $150 million. By contrast, he's said to have scraped by on a salary of $5 million or less at Magellan. (No wonder many of the best mutual fund managers have flocked to the world of hedge funds.)

Vinik gives a portion of his fortune to charities that help children. He's funded child-care programs for underprivileged families and bought circus tickets for thousands of kids. He and his wife Penny (an ex-librarian at Fidelity) "have never said no to anything I've asked," says Marian Heard, CEO of United Way of Massachusetts Bay. "There are some people who say they do not want a plaque but do. The Viniks do not want a plaque."

Not that his lifestyle hasn't become more lavish. Ten years ago, as a fledgling fund manager at Fidelity, Vinik made do with a modest condo in Newton, Mass. By 1991, when he was 32, he could afford to buy a 6,200-square-foot house in Weston, one of Boston's priciest suburbs. It was a striking starter home, with six bedrooms, a two-story living room, a swimming pool and 1.8 acres of beautifully secluded land.

He still lives there but not for much longer. He recently bought a $2.3 million home in Weston on 4.3 acres. Decisive as ever, he purchased the house without looking inside. He then tore it down—along with the pool and tennis court—leaving nothing standing but a Japanese teahouse in the front yard. He's since hired an architect to build him something more palatial. Vinik has also bought a vacation place in Boca Raton, Fla.—a $2.6 million penthouse with a magnificent view of the ocean—not to mention a Porsche convertible and a time-share in a private plane.

The trappings of wealth are always welcome. But for Vinik, the real prize may lie elsewhere. As manager of Magellan, he endured remorseless and brutal scrutiny. He was dragged into court over the Micron affair and derided when his investments went sour. Nowadays, he operates in a deeply private cocoon, beyond all that noise. He never appears on TV; he does no marketing. He rarely communicates even with his own shareholders, sending them a brief report only once a quarter. As one of them puts it, "He doesn't want to be bothered. He's saying, 'Either trust me or don't.' "

At Fidelity, Vinik was forever in the shadow of Peter Lynch. But everything has changed now. Lynch has become a pitchman, appearing endlessly in ads on TV and in print, promising that Fidelity can "help you invest responsibly for your children, your parents and your future." He remains a legend, as recognizable and revered as ever, though he hasn't managed a fund in a decade.

Vinik has no interest in being a celebrity. And he can't promise to invest responsibly for your children or your parents. Yet he may just be the greatest investor of our day.