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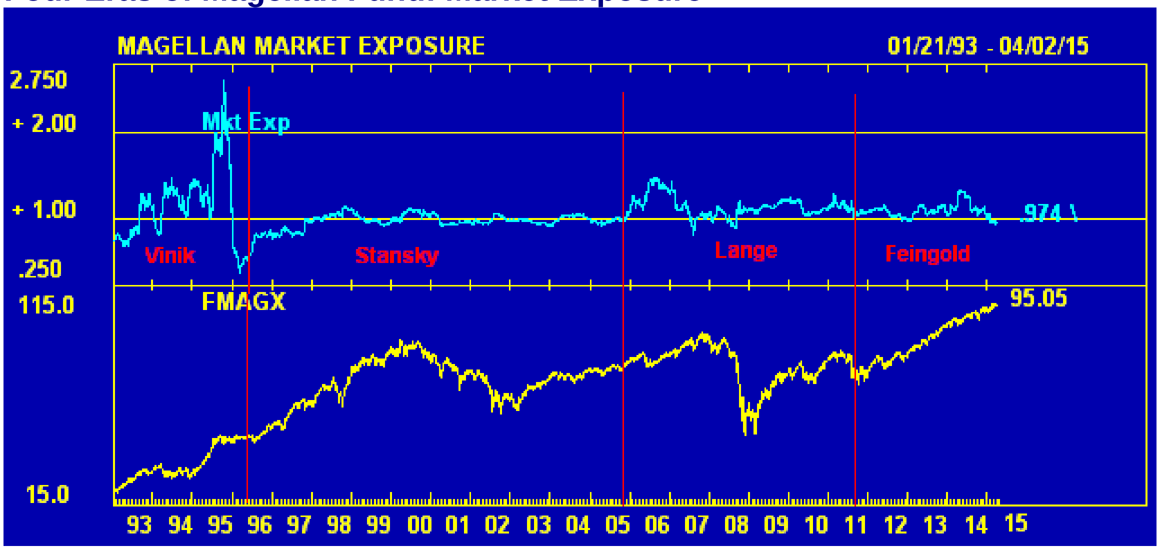
Management Style Analysis: Four Magellan Eras

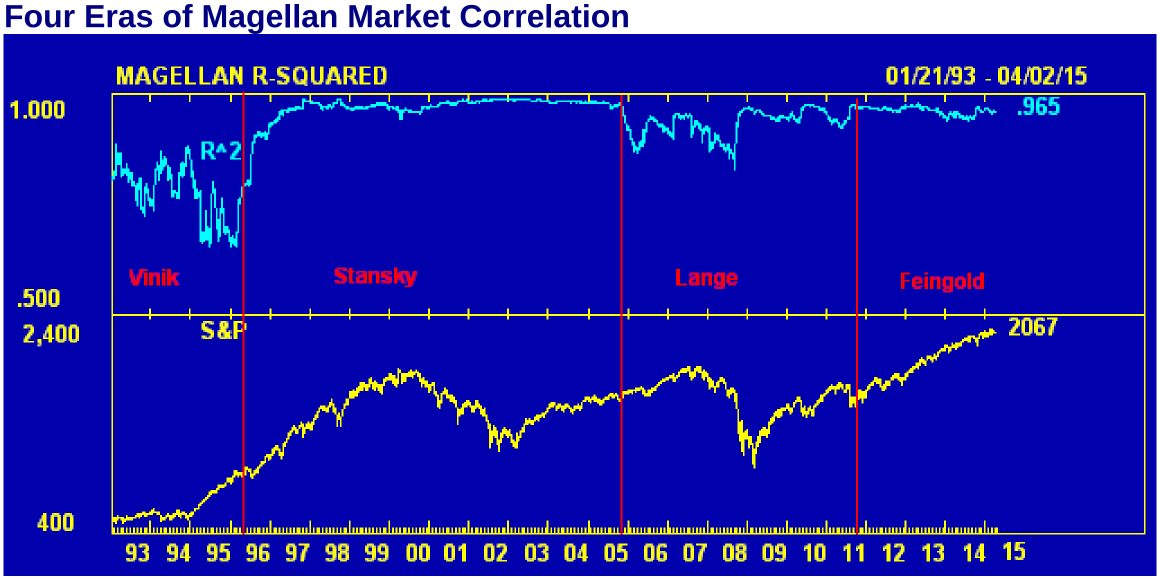
Carpenter Analytical Services
April 2015

Four Eras of Magellan Fund: Market Exposure



Jeffrey Vinik was the manager cowboy, with huge focused bets and a substantial component of market timing. (His final huge bond bet shows here as way below-parity equity path.) Stansky's job was to stabilize, which he did (taking a year or two from takeover), with exposure staying pretty close to unity (1.00). Harry Lange got mildly back into the timing business, but with deviations from market parity pretty much only on the upside. Feingold's exposure looks pretty much like a continuation of Lange's modest timing regime. But that's not the whole story….

Four Eras of Magellan Market Correlation



Magellan's R-squared history shows broadly similar effects, with high R-squared approaching unity (index behavior) for Robert Stansky. But seen through the lens of market conformity (high R^2), Feingold's tenure is different from Lange's era; less stock-picking deviation, more index correlation.

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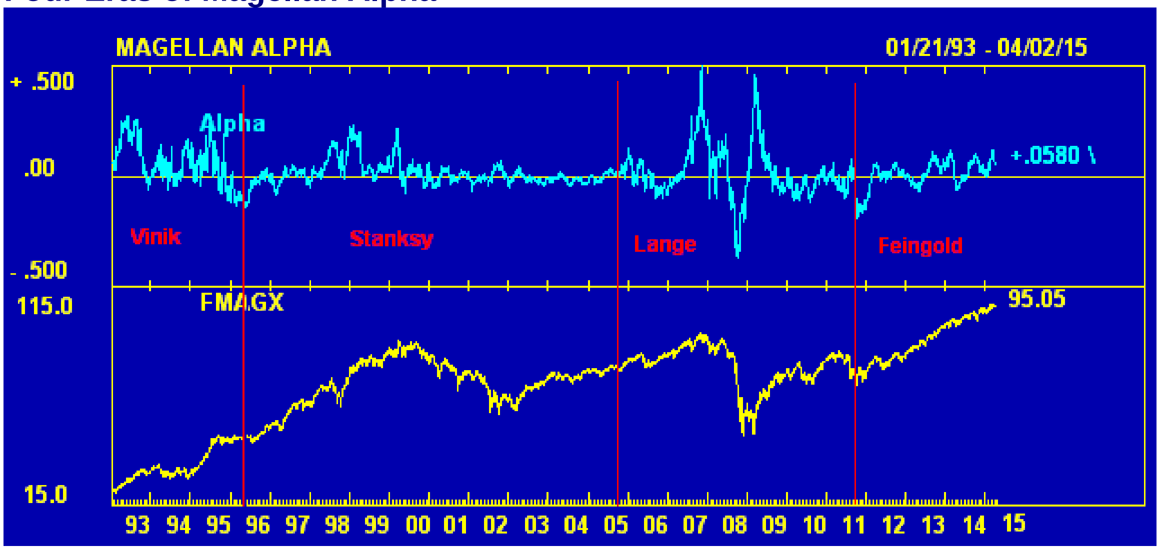
Four Eras of Magellan Alpha



The moving alpha reflects excess returns after adjustment for volatility and market trend.

Jeffery Vinik's densely positive but erratic alpha shows that he was really doing some impressive stock-picking in the early 1990s (thus the immense news trade in "What's Vinik doing?"). His timing was also widely followed (and even anticipated) until the over-sized stock and bond timing maneuvers of 1995-96 (on first page).

When Robert Stansky normalized the portfolio starting in May 1996, the alpha path started to hug the zero line more regularly. Toward the latter half of Stansky's tenure, alpha deviations from zero were statistically insignificant. "Indexation" of Magellan was nearly total (confirming the flat-lining of R^2 in those years).

The Harry Lange era had some bizarre alpha deviations, reflecting huge portfolio differences from the broad market. The 2008-2009 market conditions were so extraordinary, however, that it's hard (in a way) to ascribe the statistical behavior to management decisions. Everything was going crazy. Nevertheless, it's notable that Magellan's alpha path was climbing at an astonishing rate in 2007, when the financial crisis was only brewing, not yet casting doubt on every metric. Then all went crazy. By 2009-10-11 the alpha path had stabilized but was running in negative numbers on average.

Alpha has continued in stabilized mode under Jeff Feingold's management, and has changed from average negative to average positive numbers. (Average alpha for 2012-13-14 is +2.39%.) With stable beta, high R2 and positive alpha, Magellan's Feingold era is providing a conservative bent with successful stock-picking.

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