MONEYBEAT | THE INTELLIGENT INVESTOR

The $108 Billion Man Who Has Beaten the Market

Will Danoff PHOTO: JONATHAN KOZOWYK FOR THE WALL STREET JOURNAL

By Jason Zweig
Oct 21, 2016 10:30 am ET

65 RESPONSES

Even in the era of index funds, humans have fundamental investing advantages that no machine will ever replace. So says Will Danoff, manager of Fidelity Investments' $108 billion Contrafund, the biggest actively managed stock or bond mutual fund run by one person.

Since he took over on Sept. 17, 1990, Contrafund has averaged a 12.7% return annually, according to Morningstar, outperforming the S&P 500 index by 2.9 percentage points a year. If you'd invested $10,000 in the fund then, you'd have had $231,207 at the end of last month; the same amount in the S&P 500 would have grown to $118,184.

[**RELATED:** The Passivists: A Series Exploring the Rise of Passive Investing]

In that way, Mr. Danoff stands out -- the rare big-company fund manager to best the indexes.

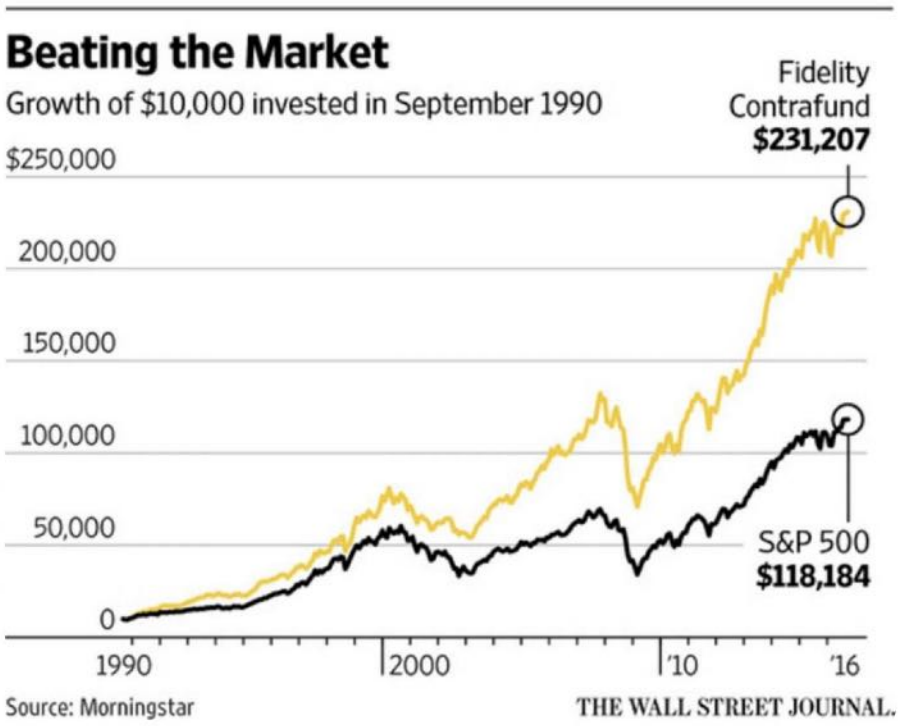
Yet, recently, Contrafund has been struggling. For the past five years, the fund has trailed the market by just over half a percentage point annually on average, although it outperformed in 2015 by more than five points.

"For the average active manager, the index has been tough to beat in the last five or six years as central bankers have moved interest rates to extraordinarily low levels," says Mr. Danoff. "I have managed through these cycles before and believe that experienced active managers will make up a lot of ground quickly when the pendulum swings."

Mr. Danoff still practices investing largely as an artisanal task. He shows up to a recent interview at Fidelity's Boston headquarters lugging an old notebook that looks as if it has been run through a clothes dryer a few times. In this and other battered notebooks, he has logged ticker symbols and other details from every company he has met with over the past quarter-century -- almost 35,000, he reckons. A rumpled page shorn from a legal pad pokes out of his shirt pocket.

Beating the Market

Growth of $10,000 invested in September 1990



Mr. Danoff, 56, was trained by the formidable Peter Lynch, who managed Fidelity's Magellan fund until 1990. "Peter believed in turning over more rocks than anybody else," Mr. Danoff says. "The more companies you see, the more opportunities you will find."

In September, Mr. Danoff says, he spoke with managers from roughly 100 companies, mostly face-to-face. This past week, he says, he met with three billionaire chief executives (no, he won't name them). "I learn from shrewd executives about their businesses every day," he says, "and this knowledge will help us make the right long-term investments for our shareholders."

In his four or five daily meetings with managers, he sponges up insights about their companies and their suppliers, competitors and customers, as well as coming technological changes that could hurt or help a business.

"By casting a wide net, and being flexible and willing to admit and learn from mistakes," Mr. Danoff says, "active managers at big firms can beat the index over time." It's big firms, because not all fund managers command the heft to get such access to top executives.

Andrew Clarke, chief financial officer of C.H. Robinson Worldwide, a transportation and logistics company based in Eden Prairie, Minn., met with Mr. Danoff in January and was "amazed" when he pulled out notes, handwritten on yellow legal pad, from a meeting with Robinson's management team in 1997, when the company first sold its stock to the public.

"He can see the entire arc of our growth story," says Mr. Clarke, "because he's able to go back and see exactly how it's unfolded."

From such meetings, says Mr. Danoff, "you accumulate executives." When a favorite manager moves to a new company, he often invests there, too.

He describes investing in one company on the basis of ideas he gets from another as a "bank shot," like a basketball bouncing into the hoop. "My ability to look beyond just the numbers to see all different types of bank shots is something that can't be replicated by a spreadsheet," he says.

MORE IN THE INTELLIGENT INVESTOR

- How Your Brokers Can Make 10 Times More on Your Cash Than You Do
- No One Needs Paper Piles; SEC Should Get Smart About Broker Disclosure
- Free Trips Under Fire: SEC Wants Your Broker To Work For You
- Earnings Surprises: The Stock Market's

As of Aug. 31, Mr. Danoff had 6.6% in Alphabet, the parent company of Google -- a stock that accounted for 2.4% of the S&P 500. He had 6.1% in Facebook, or quadruple its share within the S&P 500, and almost 5% in Berkshire Hathaway, triple its weighting in the index.

He expects to add "a couple dozen" small and mid-sized companies to Contrafund's 340-plus

Most Popular Articles

1. Trump Allies Explored Buyout of Newsmax TV as Fox News Alternative
2. Doctors Begin to Crack Covid's Mysterious Long-Term Effects
3. As Covid-19 Surges, the Big Unknown Is Where People Are Getting Infected
4. Covid Is Resurging, and This Time It's Everywhere
5. Biden Turns Up Pressure for Administration Recognition

logistics company based in Lake Forest, Illinois, met with Mr. Danoff in January and was "amazed" when he pulled out notes, handwritten on yellow legal pad, from a meeting with Robinson's management team in 1997, when the company first sold its stock to the public.

"He can see the entire arc of our growth story," says Mr. Clarke, "because he's able to go back and see exactly how it's unfolded."

From such meetings, says Mr. Danoff, "you accumulate executives." When a favorite manager moves to a new company, he often invests there, too.

He describes investing in one company on the basis of ideas he gets from another as a "bank shot," like a basketball bouncing into the hoop. "My ability to look beyond just the numbers to see all different types of bank shots is something that can't be replicated by a spreadsheet," he says.

MORE IN THE INTELLIGENT INVESTOR

- How Your Brokers Can Make 10 Times More on Your Cash Than You Do
- No One Needs Paper Piles; SEC Should Get Smart About Broker Disclosure
- Free Trips Under Fire: SEC Wants Your Broker To Work For You
- Earnings Surprises: The Stock Market's Worst-Kept Secret
- I Found Wall Street's Platitude Poem
- Congrats, Investors! You're Behaving Less Badly Than Usual

As of Aug. 31, Mr. Danoff had 6.6% in Alphabet, the parent company of Google -- a stock that accounted for 2.4% of the S&P 500. He had 6.1% in Facebook, or quadruple its share within the S&P 500, and almost 5% in Berkshire Hathaway, triple its weighting in the index.

He expects to add "a couple dozen" small and mid-sized companies to Contrafund's 340-plus holdings "to provide more growth in a low-growth environment."

So far in 2016, the fund has lagged the market by just over three percentage points. Investors withdrew $4.5 billion from Contrafund through Sept. 30, Morningstar estimates.

"It's an open door," says Mr. Danoff. "I feel good that most of my shareholders have stuck with me."

As for portfolios based on exchange-traded funds, rather than stock pickers, he says: "If someone can replace Contrafund with a model, God bless 'em."

Is outperforming harder than ever because of the unrelenting comparison to index funds?

Mr. Danoff sighs. "It's more competitive, no question about that." He adds, "Contrafund needs to beat the S&P, or I'm going to be replaced by... John Bogle's products," he says, referring to the Vanguard Group's index funds. "I feel the pressure, but I feel like I'm a pretty good manager."

He pushes back from the table and leaves the room at a near-trot. After all, executives from several companies are waiting to meet with him down the hall.

Write to Jason Zweig at intelligentinvestor@wsj.com, and follow him on Twitter at @jasonzweigwsj.