The Vanguard Story: "Luck, Leadership, and Strategy"

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Stern School of Business, New York University
by John C. Bogle
Founder, The Vanguard Group
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Henry Kaufman Distinguished Visiting Professor of Business
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I love to talk with young people, and especially students who represent the next generation of business leaders of our nation and our globe. You honor me with this opportunity to address you. With the remarkable changes taking place in the world of business and finance in this New Era of information, technology, commerce, and science, surely you can respond, after Shakespeare, "Why, then the world's mine oyster, which I with sword shall open." Your studies here are sharpening your intellectual swords, and I know you'll all too soon be ready to find, and then earn, your place.

Nearly 50 years ago, I too came into the business world at a time of remarkable opportunity, and I've spent that half-century trying to make the most of it. I hope that by telling you the Vanguard story, I'll help you build confidence and readiness, for it is a story of luck, leadership, and strategy, my theme today.[1] At least from my totally subjective view, luck, leadership, and strategy have all played an important role in whatever success Vanguard has enjoyed. But it's hard to distinguish how much each of those elements have contributed to that success. In her paper, Dr. Henderson raises this very issue: "How can we distinguish competitive advantage that results from a combination of initial conditions and random environmental shocks from competitive advantage as a result of any kind of managerial foresight and strategic insight?" Perhaps the Vanguard case will present a useful illumination of that question.

I. THE LUCK

It's fair to say that the ideas that comprise Vanguard's intellectual foundation—the rock on which we stand—go back to a piece of luck some 50 years ago. It led to the 140-page senior thesis that I researched and wrote at Princeton University during 1949-1951, and those founding ideas were, at least arguably, expressed right there in "The Economic Role of the Investment Company." The Introduction to my thesis baldly asserts that "the prime responsibility of mutual funds must always be to their *shareholders*." The Conclusion demands that funds must *serve*—"serve both individual and institutional investors . . .serve them in the most efficient, honest, and economical way possible." And the intervening text urges funds to reduce sales charges and management fees, to exercise their responsibility of corporate citizenship, to refrain from excessive claims of management ability, and to "make no claim to superiority over the market averages."

Today, it's easy for me to make two diametrically opposed statements about those prescriptions and proscriptions: 1) They represent the mindless prattle of an idealistic, immature college student, unwise in the ways of the world; and 2) they represent a carefully thought-out philosophy and a remarkably prescient design for the firm I would found 23 years later. Fuzzy ideals or practical ideas? Some of each? You'll have to decide after you hear the story.

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[1] My theme was inspired by a recent paper published in *Advances in Strategic Management* by Rebecca Henderson, distinguished Professor of Management at the Massachusetts Institute of Technology.

The Beginning

That original piece of luck from which all else would follow was an article on the mutual fund industry in the December 1949 issue of *Fortune* magazine, which I happened upon in the reading room of Princeton's then brand-new Firestone Library. My thesis led me directly into a career in this industry, for it was read by Walter L. Morgan, fellow Princetonian, legendary fund pioneer, and founder in 1928 of Wellington Fund. While its assets in 1951 were but $125 million, it was one of the larger funds in the industry, and when I graduated, Mr. Morgan hired me. With few experienced executives in the organization, my ascent was rapid. By 1965, at age 35, I was named Executive Vice President, becoming his obvious successor. He told me to "do whatever it takes" to fix the firm's problems—notably: (1) its reliance on a single, highly-conservative balanced (stock and bond) fund; (2) the lack of an aggressive equity fund during that booming "go-go" era in the stock market; (3) a paucity of investment management talent at the firm; and (4) a complete dependence on the mutual fund business.

Lady Luck, or so it seemed at the time, favored me again. Brash, overconfident, and impetuous, I found a way to solve all four problems in one fell swoop early in 1966, and I was able to merge Wellington Management Company with Thordike, Doran, Pane and Lewis, Inc., an aggressive equity manager located in Boston. With the merger, we added their "go-go" Ivest Fund to our "product line" (as I *used to* refer to it); acquired the talents of their four founders, a remarkable group of highly-talented (as I *used* to think) young money managers; and brought their burgeoning private investment counsel business into the fold. In the merger, however, I relinquished much—too much for my own good, as it turned out—of the voting control of Wellington Management Company.

Success, then Failure

The merger was an extraordinary success. But only until the end of the go-go era—an era in the stock market eerily reminiscent of the recent boom in technology and Internet stocks—and the subsequent onset of a great stock market crash. From the 1973 high to the 1974 low, stock prices tumbled 50%, perhaps itself a precursor of the precipitous 40% drop (so far) in the NASDAQ since its mid-March high. In that earlier decline, our aggressive funds and, sadly, even the conservative Wellington Fund (which my new partners had been made more aggressive than ever before in its history) tumbled even more than the market. The aura of omnipotence surrounding our managers vanished, and money began to pour out of our funds and our counsel accounts alike, a net liquidation that was to persist for 82 long months until June 1980. Bad times always put pressure on tenuous partnerships, and at the company's board meeting in Valley Forge on January 24, 1974, in the midst of the bear market, my four partners banded together to fire me as chief executive of Wellington Management Company.[2]

I had experienced my first major failure. But my firing turned into another lucky break. Here's how it happened. The Board meeting of the Wellington funds—the collective name we used to identify those mutual funds that were managed by Wellington Management Company—was held in New York the very next day, on January 25. And it was there that I proposed the implementation of a plan I had actually described to the entire senior management staff of Wellington Management Company in 1971. My plan would have "mutualized" the funds, by having them purchase all of the stock of both the management owners and public stockholders of the Management Company. Then, the Company would be owned by the funds themselves and operate at cost, serving solely the interest of the fund shareholders, at last bereft of the inevitable conflict of interest involved when two masters must be served—what was then, and is now, universally the case in the mutual fund industry. While my rivals also served on the fund boards, they were in the minority, and I hoped to pull off this remarkable reversal of fortune quickly.

[2] Curiously, by the way, the new Wellington Management Company we had created by the merger was to become one of the most respected and professional "blue chip" advisory firms in the field.

One-Third of a Loaf

Alas, cautious corporate directors are likely to break neither old precedent nor new ground, and the fund board deadlocked. But I finally persuaded the directors that the fund shareholders needed at least a dedicated voice of advocacy, a staff of their own, and the ability to establish an arms-length relationship with Wellington Management, the funds' investment adviser and share distributor. So in August, after seven months of tedious, stressful negotiations, the fund board agreed to retain me as a full-time fund president, in charge only of administration—accounting, legal, shareholder recordkeeping, etc.—but continuing to retain Wellington as fund advisor and fund marketer. It was a victory of sorts, but, I feared, a sort of Pyrrhic victory.

Why? Because success, as it were, in the fund field is *not* driven by how well the funds are administered, though they must be supervised and controlled with dedication, skill, and precision. Rather, success is determined by what kinds of funds are created, by whether superior investment returns are attained, and by how—and how effectively—funds are marketed and distributed. We had been given one-third of the fund loaf, as it were, but it was the least important third. It was the other two-thirds that would make us or break us. While we were permitted by the Board to create a new administrative company and provide a new corporate identifier for it, however, we were formally prohibited from performing the critical functions of portfolio supervision and distribution.

A Felicitous Name, and a Date with Destiny

Despite that gloomy start, a bright light quickly turned on: The name "Vanguard." Through another stroke of luck, in early September, as I was contemplating a name for our new enterprise, a dealer in antique prints happened by my office. I bought from him four prints showing various naval battles of Great Britain during the Napoleonic War Era. He gave me the book from which they had been removed, and I happened upon the text describing the Battle of the Nile, at which Lord Nelson had demolished the French fleet while losing scarcely a British ship. Right before my eyes was Nelson's dispatch to the Admiralty, announcing the glorious victory and praising his crew. At the top, he had written the location of his flagship: "*Vanguard*, off the mouth of the Nile." I knew I had the name of my new enterprise! Our incorporation on September 24, 1974, was our first date with destiny.

So as 1974 drew to a close, what was in place was a tiny company with a staff of 28, responsible for only the administration—nothing more—of $1 billion-plus of mutual fund assets, a name with a proud tradition, and a *mutual* structure without precedent in the industry—a structure in which the funds would be operated solely in the best interests of their shareholders. While these might seem rather meager credentials, that structure set in motion all that was to follow. For, as I have often said about Vanguard's mission*: Strategy follows structure*.

II. STRATEGY

And so strategy would follow structure in Vanguard's case. Consider what logically follows when mutual funds are owned and controlled by their own shareholders. First, a passionate desire to serve shareholders with candor, fairness, and honor. *Treat your clients as your owners, simply because they are your owners*. Second, importantly, a focus on the management of existing assets, not on the gathering of new assets by the marketing of shares, nor on the creation of funds that respond to transitory investment fads rather than enduring investment principles. Third, a high level of economy and efficiency; operating at bare-bones levels of cost, and negotiating contracts with external advisers and distributors at arms-length. For the less we spend, the higher the returns—dollar for dollar—for our shareholder/owners.

A Second Date with Destiny

While we had the *structure*, however, we could not control the *strategy*. I had realized all along that the narrow mandate that precluded our engaging in portfolio management and distribution services would give Vanguard insufficient power to control its destiny. But I concluded that a third a loaf was better than none. Nonetheless, we promptly set about seizing the other two-thirds. With remarkable speed, we seized the initiative over fund creation—after all, *we were the funds*—and within less than two years after we began operations we had begun to manage our first fund and had taken over control of all the distribution. Doing so involved a generous dose of opportunism, spiced by what might be described as a touch of disingenuousness.

The new fund was the first index mutual fund, modeled on the Standard & Poor's 500 Stock Index and now named Vanguard 500 Index Fund. The index fund was an idea that my thesis had hinted at (remember, funds can "make no claim to superiority to market averages") and whose basic merit had become obvious, first in academia (Paul Samuelson, Burton Malkiel, and Charles Ellis were then writing about it) and then in the media (a strong endorsement in *Fortune* magazine). When I proposed the idea, the directors viewed it with jaundiced eye. But I assured them that since the fund was not actively managed and thus did not require traditional stock-picking and portfolio supervision, we would not be exceeding our narrow mandate. Sound logic or not, the directors agreed, and approved our entry into the field of, well, investment management just four months after Vanguard began. The world's first index mutual fund was incorporated on December 30, 1975, our second date with destiny.

A Third Date with Destiny

Our third date with destiny was soon to follow. Given our structure, I had no doubt that Vanguard could fairly quickly reach a level of unit operating costs (i.e., mutual fund expense ratios) that was the lowest in the world. But how valuable an asset would that be in a marketplace in which investors still had to pay a sales commission—then nearly 9% of the amount invested in the fund—when they bought their shares? Wellington Fund shares had been distributed through broker-dealers in that manner for nearly a half-century. And no-load funds were the exception rather than the rule.

Ever the cheapskate, however, I had always had an affinity for the no-load business. What is more, as I pondered the future, it was easy to recognize some obvious trends: The American population was growing. As productivity grew, family wealth would grow. Higher education would rise in importance, and, with growing wealth, an interest in economics and finance would grow too. With more information and more knowledge, millions of families would become more aware of the benefits of lower costs, and develop the confidence to make their own decisions. Every one of those patently obvious ideas pointed to a no-load distribution network as the logical choice for a firm with our simple investment principles and rock-bottom costs. I concluded that we had to enter the no-load field and take over distribution.

While most of the directors shared my sympathy for a no-load system, all were aware that it could be seen to abrogate our charter restriction. They also were concerned about whether we had the skills to make it work (the no-load business was but a small part of the fund business then), and whether angry brokers, having sold Wellington shares, wouldn't redeem them, leaving our firm in a risky "no-man's land." But we persuaded them that the opportunities vastly outweighed the risks. With another dose of opportunism and another touch of disingenuousness, we also persuaded them that we weren't *becoming a distributor*. We were simply eliminating *distribution*. My proposal that we eliminate all sales loads and abandon our life-long dealer network—another decision without precedent in mutual fund history—would bring to Vanguard control of our distribution system, essentially completing the move from an

administrative service company to a mutual fund complex providing all three of the essential services. By a narrow margin of 8-5, the Board approved the proposal on February 9, 1977, our third date with destiny.

The "First Mover"

While the term did not exist in 1974, in its own modest way Vanguard had become a "first mover." From the very structure that logically demanded that we focus solely on the interest of shareholders, and with the express objective of becoming the world's lowest-cost provider of financial services, everything else would follow. Of course we recognized—as our competitors must also have recognized—that there are powerful odds against beating the financial markets themselves. After all, *before* the deduction of the costs of the financial intermediaries, beating the markets is a zero-sum game for all investors as a group. And *after* the costs of all those who provide financial services are deducted, beating the market becomes a loser's game. Since those costs are considerable in the mutual fund industry (probably amounting to 25% of the financial markets' historical rates of return), the gap is wide. As a result, the odds against any particular mutual fund gaining a significant edge over the market in the long run are, by my reckoning, something like 50 to one.

Thus, the honest steward who charges least, wins most—not for himself, but for those who entrust their assets to his care. *It is not all that complicated*. While investment costs *always* matter, they matter most where they are at once very large, compounded over time, and directly proportionate to the value of the services provided (i.e., the value added by investment managers). Thus, once the decision to be the low-cost provider is made, the decision of *what kinds* of mutual funds should be at the centerpiece of the business is obvious. One: Money market funds, in which quality must not be compromised and maturities must be short. Two: Investment-grade bond funds in series, each with a pre-set maturity (usually long-term, short-term, and intermediate-term). Three: Highly diversified stock funds that track market indexes, in which virtually the sole difference is relative expenses. (That passively-managed stock funds must outperform most actively-managed stock funds over time is, to say the least, a significant extra bonus.)

Two Important Firsts . . . For Investors

While we did not create the first taxable money market fund, our money funds are now the largest in our field. We *did* create, in 1977, the first multi-series bond fund—a once-novel structure that has now become the industry standard—a strategy that has enabled us to lead the field in that category as well. And that early strategic decision to form the world's first index fund proved almost inspired: Vanguard 500 Index Fund is today the largest mutual fund in the world.

Together, the Vanguard funds following these three simple, basic strategies are the powerful engines that have driven our growth. Their assets now total $410 billion—70% of our $580 billion asset base—and have accounted for 90% of our net cash inflow over the past three years. What is more, we have also applied the principles on which they are based—an emphasis on rock-bottom operating cost, minimal portfolio turnover, no sales charges, diversified, investment-quality portfolios, and clearly-defined objectives and strategies—to substantially all of the remaining $170 billion of our assets, largely actively-managed equity funds. Importantly, our strategies are mutually-reinforcing in the marketplace of intelligent long-term investors—individual and institutional alike—that we choose to serve. Over the years, I have come to realize that such a mutually-reinforcing, internally-consistent strategy is one of the keys to business success. Our "first mover" advantage placed us "in the vanguard" of what would become an important change in the world of finance.

Why Vanguard?

How was it that it was Vanguard that became the first mover? In "Luck, Leadership and Strategy," Dr. Henderson cites the words of Jay B. Barney, Professor of Management and Human Resources at Ohio State: "To be a first mover by implementing a strategy before any competing firms, a firm must have insights about the opportunities associated with implementing a strategy that are not possessed by other firms in the industry." While the conclusion sounds reasonable enough, I'm not at all sure it applies in Vanguard's case.

Yes, we had the insight to recognize the opportunities associated with implementing a low-cost, structured-portfolio strategy. But, given the elementary mathematics of the market, that insight is so startlingly obvious that it *must* have been shared by many other firms in our industry. But while all of our rivals had the same *opportunity*, we alone had the *motive,* just like the prime suspect in a murder mystery. Because of our very *structure,* the finger of guilt, as it were, pointed directly at Vanguard. We *sought* low costs; our rivals, because they earn their profits from the amount of fees they receive, aren't exactly eager for fee reductions. So our structure played not only a vital, but essential, role in shaping our strategy.

The linkage between structure and strategy hardly ends there. If our structure is designed—as it is—to serve the shareholder, we can hardly forget the client service function. While the technology required today to be the industry leader in service is expensive, we cannot afford *not* to provide our clients with extraordinary standards of service excellence. Our client focus also demands that we act as responsible stewards of our funds. It follows that we must offer only funds with sound, dependable, and long-term investment policies, not funds that merely respond to will-o-the wisp investment concepts and the fads and fashions of the day. (The boom—and subsequent bust—in Internet stocks is but one recent example).

The low-cost *operator* must be the low cost *distributor* too, uniformly offering its funds without sales charges. (In recent years, many fund firms have added new series of funds to their no-load line-up carrying sales commissions.) It also follows that we hold advertising to the bare minimum. It adds no value for our existing clients. (Indeed, I've often wondered whether we shouldn't stop advertising altogether.) Happily, however, we've made up for the lack of the conventional and costly weaponry of modern marketing by gaining the attention of the media. Given our unique shareholder-focused—not manager-focused—perspective, we used to find ourselves opposing the industry's conventional wisdom, and the press, thriving on controversy, gave us frequent coverage. As a result, our name recognition developed quickly and naturally. It's all of a piece, the internally consistent and mutually reinforcing nature of the strategy that flows from our structure.

The Proof of the Pudding

Now let's take a look at what the combination of our mutual structure, our simple strategies, and our first mover status have meant to our enterprise. From our humble beginning with but $1 billion of assets and 28 crewmembers in 1975, Vanguard's assets have grown to $580 billion, its crew to 11,000. We have become the second largest fund complex in the world. And while we have been blessed to have followed the implicit precept of Harvard Business School Professor Michael Porter—"choose a good industry"—the growth of our industry in these robust financial markets explains but $150 billion of that increase. The remaining $430 billion has come from the expansion of our market share from **2%** to **8%** of industry assets, a competitive accomplishment based largely on the sheer good luck and the common sense strategy that I've just recounted for you.

That growth in market share came importantly because of our no-load bet. No-load funds, perhaps **12%** of industry assets before we converted, now exceed **30%**. Our market share of that "direct

distribution" segment of the industry has also soared. While Vanguard represented just **15%** of the assets of directly distributed no-load funds 15 years ago, our share now exceeds **25%**, a 10 percentage point increase that compares rather favorably with segment leader Fidelity, whose market share rose by four points to **30%**. The three other firms in the original "Big Five" of this segment have foundered, with #3-ranked T. Rowe Price falling from **10%** to **5%**; Scudder dropping from **5%** to **2%** (and now reported on the verge of abandoning the no-load segment and converting to a dealer-distribution system); and Dreyfus, after threatening Fidelity's leadership with a **20%** share in 1985, now holds a market share of just **2.6%**, a fall from grace that is truly astonishing. Dreyfus, too, is working both the load and no-load sides of the street (as Fidelity has always done), and T. Rowe Price is also moving in that direction, leaving Vanguard the sole "pure no-load" complex among that original Big Five. In the meanwhile, a strong new entrant has leaped into the fray. Driven by funds which focus on technology stocks, Janus has produced powerful performance during the high tech/Internet stock boom. With a **10%** share, up from **½ of 1%** in 1985, Janus now commands third place.

The Vanguard Book of Business

It is the three areas in which Vanguard originally staked its hegemony that have driven our market share gain: Money market funds; taxable and tax-exempt bond funds with asset classes clearly defined by quality and by maturity; and, of course, index funds. Given the powerful, direct, and observable role of cost in shaping returns in these areas, its small wonder that it is the first mover that still holds the winning hand. Our market share has grown steadily over the past 15 years, and continues to grow. Consider how our funds have grown in share among the direct distributors in the six principal components of the fund business.

- **Money Market Funds – Taxable**. Our three taxable funds (regular, Federal, and U.S. Treasury), now $60 billion of assets, have seen their share grow from **6.5%** to **32.1%**, and in 2000 are accounting for **36.8%** of cash flow. Small wonder, since even our Federal and Treasury portfolio have higher yields than most competitive (but lower quality) regular funds.
- **Money Market Funds – Tax-Exempt**. A smaller business for us ($16 billion) but a similar market share pattern, up from **8.5%** to **29.2%**, with **54.1%** of current cash flow.
- **Bonds – Taxable**. Our assets total $57 billion. We are even more dominant here, with a **47.8%** share, up from **24.3%**. (Our series of bond index funds—which none of our rivals offer—account for most of the increase.) Cash flow this year is marginally negative for this segment; when it improves—as it will—I expect we'll be doing at least 50%.
- **Bonds – Tax-Exempt**. The same pattern is evident in this $29 billion segment of our business. Share has grown from **17.3%** to **38.2%**, and we've recently accounted for **28.2%** of rather subdued cash flow.
- **Equities – Indexed**. At $226 billion (compared to $430 *million* in 1985), indexed equity funds are the biggest single segment of our book of business. Virtually alone in the field in 1985, we held an **88.8%** share. Alas, six of our rivals have joined the fray, and our share has dropped to a still respectable **73.8%**. Our share of year 2000 cash flow: **63.0%.**
- **Equities – Active**. There had to be some (relatively) bad news somewhere, and here it is. While we have $192 billion of assets in the industry-dominant actively managed equity fund segment, our conviction in the merits of indexing may well have muted investor interest in these funds. Our present **12.3%** share, while third largest in the segment, is down from **18.3%**, and our share of 2000 cash flow is nominal.

These remarkable increases in share, I think, make it clear that Vanguard's strategy works not only in practice (i.e., in improved yields, and enhanced performance), but in the marketplace. In short, by endorsing our *investment* strategy, fund investors have validated our *marketing* strategy—that mutual reinforcement I spoke of earlier. I truly believe that, given the sound implementation of these strategies by our splendid crew, that outcome was preordained. What is more, when the dominance of this industry by stock funds recedes—which, when the stock market reverts to less generous or even negative returns, it will—we will be in a position to become the leader in *total* market share among direct-distribution, no-load firms. If there is a message here—and I think there is—it is a simple one. *Focus your strategy on your strengths*.

III. LEADERSHIP

Where, then, does leadership come in? Dr. Henderson deeply believes that "there *is* more than luck going on here . . . that [leaders] who have a richer understanding of the dynamics of industry *structure* can create extraordinary value, so managers who understand the nature of organizational competencies can also take advantage of this understanding to improve the performance of their organizations." (Italics added) How could anyone possibly argue against the overwhelming logic of that proposition?

I've already discussed at length the first of those issues: Understanding the dynamics of industry structure, with the focus on how Vanguard's novel structure could create such extraordinary value. But once the strategy is determined, it must be implemented. And it is here that understanding a firm's organizational competencies comes into play. For better or worse, in my founding and leadership of Vanguard. In developing our competencies, I've relied on an intuitive rather than an analytical approach. Happily, however, Michael Porter has provided an analytical view of Vanguard, with a chart on our "activity system" that appeared in an article in the *Harvard Business Review* a few years ago. In it, he outlines what he calls our five strategic themes.

- A broad array of mutual funds, with the focus on relatively conservative funds and with few international or small growth funds.
- An efficient investment management approach, offering good consistent performance, emphasizing index and fixed-income funds and focusing on investors with long-term horizons.
- Strict cost control, with low fees, and low portfolio turnover.
- Very low expenses passed on to clients, with a tight rein on expenses; crewmembers' incentives largely based on cost savings vs. competitors.
- Direct distribution, with no broker relationships and all no-load funds.
- Education and straightforward client communication. (I call it "candor as a marketing strategy.")

What makes these themes interesting—and what makes them work—is first that they are remarkably interlinked; and second that we have focused our organization on these same themes ever since Vanguard's beginning in 1974—and in particular since that third date with destiny in May 1977 when we become a fully-realized mutual fund complex. *Reinforcement is essential, consistency over time equally so*. Yet, while Dr. Porter's chart may *describe* Vanguard accurately, I do not believe it *explains* Vanguard very well.

Defining a Leader

To explain Vanguard, I must talk, a bit reluctantly and therefore briefly, about the role of leadership. The definitions of leader range from "one who leads or guides" and "one who has influence or power" to "the blank strip at the beginning of the tape." And with that last definition, given that at the outset Vanguard represented an untried—blank, if you will—strategy, we could define leadership as we wished. Under that circumstance, what I tried to bring to the firm I created was this definition of leadership: *Having a vision and being able to attract and excite others to share it.* For me, leadership is based not on exercising power, nor manipulating people, nor on a climate of fear, nor even on financial incentives, but on the presence of a positive, even virtuous, quality that would be shared by client and crewmember alike.

When the opportunity, albeit heavily disguised, arose to create Vanguard, surely luck was hard at work too. While I have never considered myself a "natural leader," I have come to believe that the particular set of qualities I bring to the table just happened to be a fine fit for the venture that has been my life's work for a quarter-century. My few strengths were those that would be required to get the job done. My numerous weaknesses were those that would not prove fatal obstacles in reaching our goals. Like each one of you, I am a peculiar balance of assets and liabilities, an odd bundle of contradictions. A large ego gave me the determination to succeed, and a deep humility enabled me to share my success with others. A decent intelligence (no more than that) kept me from believing I was among those who would easily beat the market, and my periodic blind spots and stupidities kept me from being intimidated by the challenges I would face. A strong self-presence enabled me to present my ideas with clarity and passion, and a profound insecurity would not permit me to rest along the way. (I've long realized that success is a journey, not a destination.) An intellectual bent that kept my eye on academic journals and investment theory, and a lack of academic depth that made me a poor candidate for the world of theory and predisposed me toward the world of practice. A *passionate* leader—if one wants to be an apostle and take on the conventional wisdom of an industry, one had better be—whose limited skills as a manager were more than compensated for by the extraordinarily able officers and crewmembers on the mighty warship HMS Vanguard who surrounded and supported my vision.

How will *you* define your own leadership? It's up to you. Be yourself. Do *you* have what it takes to be a leader? *Of course you do*. Your presence here shows you care about improving your mind; your progress here shows you've done exactly that. You may—or may not—create a new form of business that better serves clients, or a new product that makes life easier for consumers. You may—or may not—rise to lead an existing enterprise, giant or small. But please realize that leadership is one thing each of you must contribute, whether leading a small project or a big group, a department or a division, or an entire corporation. Or in a government post or in a scientific or technical or professional career. No field of human endeavor *ever* lacks leadership opportunities.

But no matter where you go, *be prepared to lead*. Be ready when opportunity knocks. Not all of you will be as lucky as I have been, in life, in family, in colleagues, and certainly in having the opportunity of a lifetime thrust upon me, an opportunity that would call on my strengths and minimize my weaknesses. It is sad when we get no breaks in this life. It is sadder still when we don't recognize them when they make their rare appearance. But the saddest thing of all is not to have readied yourself to make the most of them. So before opportunity knocks, just remember the words of Lavosier: "Fortune favors the prepared mind." And go about your work and life with style, wit, determination, and passion.

A year ago, one of our determined young Vanguard crewmembers was advancing both his mind and his career in the Executive MBA program at Wharton School. He asked me to be the subject of a paper he was writing for his business class on Leadership. When he came to interview me, I warned him, that it might be quite a challenge since, as I told you earlier, "I am not a natural leader." When he

completed his paper, on which he received an A+, he sent me a copy. It was entitled: "John C. Bogle: A Natural Leader." Go figure!

While his fine paper didn't convince me to change my self-appraisal, and it surely didn't jar me out of my humility, it reminded me again of all the luck I've had in my career, so rife with a series of abundant opportunities that led to a simple structure, a common sense strategy, and an awesome opportunity to make the world of investing just a little bit better.

Each of you future leaders have the opportunity to go out there and make the world a bit better, too. So make the world your oyster. With your sword, open it. And just as I did, perhaps you too will find your place.

Note: The opinions expressed in this speech do not necessarily represent the views of Vanguard's present management.
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