Saving a Company, Building a Colossus, Preserving a Culture

Reflections on the History of Vanguard

By John C. Bogle, Founder

Marking the Completion of 65 Years

In the Mutual Fund Industry

July 9, 2016

Today I complete 65 years in the mutual fund industry—essentially with the same company, including more than 30 years as CEO. I'd be surprised if that span did not set a record for longevity, and for leadership, in our field. So it is a fitting time to remind us all of the extraordinary history of this unique financial institution we call Vanguard, and to consider the remarkable changes in the nature and composition of our business over these six-plus decades of our history since I joined Wellington way back in 1951.

The Vanguard that we know today is a colossus. Worldwide, we manage more than $3.5 trillion on behalf of some 20 million clients. Our fund assets now total more than those of our two largest competitors, *combined.* During the past two-plus years alone, investors have entrusted an average of some $1 billion to our care *on each business day.* Such an amazing endorsement is beyond imagination, and without precedent in our industry. But it is also a solemn reminder of the fiduciary duty that we owe to our client/owners.

At our firm's founding in 1974, this resounding success was far from assured. Then, our fund assets totaled $1.4 billion. *The Economist* recently quoted my use of a line from the hit musical *Miss Saigon*: Vanguard was "conceived in Hell and born in strife." But we survived and then we prospered. Why? Largely because, over my long career, we changed our enterprise so dramatically, in so many respects. And now we—yes, we at Vanguard—have together changed the public perception of the very nature of successful investing. In today's world of creative destruction, we are the creative destroyers of a flawed investment system.

This essay is an edited and expanded version of my remarks to a group of Vanguard crew members on June 23, 2016. I thank CEO Bill McNabb for his generous introduction of me at that early celebration of this remarkable 65th anniversary.

Our story is a saga of turmoil and triumph, and I'd like to share a bit of that complex story of challenge and change. Back on September 7, 1981, I spoke to our tiny crew of about 280 at a celebration of the coming of Vanguard's $4 billion asset mark. (Yes, in those early days I gave speeches to the crew at each $1 billion milestone!) As we struggled to gain traction and reverse unremitting cash outflows as our investors liquidated their holdings of our funds' shares, my theme was an optimistic one: time changes all. I citied this quotation from Marcus Aurelius:

> *Time is a sort of river of passing events, and strong is its current; no sooner is a thing brought to sight than it is swept by, and another takes its place, and this too will be swept away.*

Our Shifting Asset Base

Then, the world of investing was in crisis. But it was also our moment of opportunity. Extraordinary changes in our asset base would soon take place, some the result of market tides, others the result of our own decisions. When I began my career at Wellington, we managed a single fund. Today we manage 175 mutual funds, with a dominant concentration in index funds.

- From 1928 until 1958, our only mutual fund was a conservative balanced fund, Wellington Fund—100% of our asset base. During that 30-year span, the fund grew from $100,000 to $605 million. Even in 1965, when Wellington's assets reached an interim high of $2.05 billion, the fund accounted for 95% of our assets. But its era of growth had ended, only to return in 1985, three decades later.

- Windsor Fund—our first equity fund—was introduced in October 1958. By the end of 1980, assets of Windsor, along with the other equity funds that we later offered, became our largest segment, accounting for 53% of our $3.3 billion in client assets. Even modest positive flows of money into our equity funds represented a nice buffer against the 19 consecutive *years* of cash outflows (ouch!) that Wellington Fund suffered, beginning in 1966.

- Money market funds bailed out the fund industry after its near collapse in the 1974 bear market. Total fund assets fell by almost half, from $60 billion to $34 billion. But the money funds that we formed bailed us out too, and soon became our major asset category. Their assets rose to almost 40% of our then-$55-billion in assets under management in 1990.

- By 1992, bond funds had replaced money funds as our largest asset class, accounting for 33% of our then-$97 billion of assets. (At the time, that seemed like a huge number.)

- In 1997, our index funds—then with assets of a mere $100 billion—became our largest single category, 31% of our $320 billion asset base. Index fund domination of our business hardly stopped there. Assets of our index funds now total $2.3 trillion, fully 73% of our stock and bond fund asset base . . . and still growing.

So, here's a firm whose book of business over the years morphed from 100% in a single actively managed balanced fund to almost 75% passive index funds, along the way dominated by equity funds, then money funds, and then bond funds. So we well know what Marcus Aurelius' river of change is all about—*a river of passing events where a thing is swept away and another takes its place.*

One major change, or course, was of our own making. Intentionally or not, we created a new industry. Our formation of the first index mutual fund in 1975—now widely recognized as a game-changer for the fund industry—was accompanied by catcalls and jeers, and named "Bogle's Folly" by our detractors. But no longer. During the past seven years, equity index funds have drawn $1.5 trillion of net capital *inflows* from investors, while actively managed equity funds have had to deal with $500 billion of net *outflows*. Such a $2 trillion swing in investor preferences is without precedent in our field.

The equity index revolution should not blind us to the smaller bond fund uprising that we also created. Our introduction of the industry's first *defined-maturity* bond funds in 1977 (essentially, short-, intermediate-, and long-term segments) has helped us to earn industry leadership in bond funds. The $800 billion in bond funds now under our aegis in the U.S. alone represents fully 20% of the industry's total.

Our crew members, with your skills, your brains, your dedication, and your commitment, have played a major role in the successful implementations of these industry-changing innovations of the mid-1970s—essentially, index funds and bond funds—and made them work for our clients. Thank you!

Crisis Calls Forth Leadership

Many on our crew may be familiar with the shifting dominance in our fund asset classes, although perhaps not equally familiar with the litany of percentages and dollars that I have cited. But few, I think, are familiar with the great crisis that almost doomed our firm before it even began.

Some students of leadership believe that a crisis is essential for leaders to establish their credentials. In modern history, think of Washington, Lincoln, FDR, Churchill—all great leaders who faced extraordinary crises. I fully recognize that the crisis that Wellington Management Company faced in the mid-1960s was but a pale imitation of the crises confronted by those great men. But when a firm's very existence is threatened by a raging storm, strong leadership is required if it is to survive.

During my first decade at Wellington, our focus on a single balanced fund was our great strength. In the investment community, Wellington was the respected leader of the balanced fund sector. But in 1965, the fund industry gradually began to move away from its traditional focus. Gone was the focus on a small handful of middle-of-the-road equity and balanced funds, replaced by a focus on a far more speculative group of high-flying equity funds. Good-bye mainstream! Hello new era!

As our motto of the day put it, Wellington Fund offered "a complete investment program in one security." Metaphorically speaking, we were the industry's *bagel*—hard, crusty, and nutritious. But by 1965, the industry had turned to the *donut*—sweet, soft, bereft of nutritional content. Donut shops proliferated, and buyers in bagel shops almost vanished.

As the dominant leader in its category, Wellington was the ultimate bagel. We could only watch helplessly as the balanced fund share of industry sales fell from a high of 40% in 1955 to 17% in 1965 to 5% in 1970. By 1975, it would tumble to a mere 1%.

Those times would come to be known as the "go-go" era, during which many established fund managers began to offer funds investing largely in speculative stocks, stocks with sweet stories but backed by neither substance nor nutrients.

Fidelity was the leader of the go-go era, and two of its funds proved to be gold mines . . . for Fidelity's management, not for its fund clients. Financial buccaneers also began to jump on the junk bandwagon. Marginal accounting standards produced performance records that would prove to be ephemeral, sometimes even fraudulent. One particularly egregious example was the Enterprise Fund, which in 1967 would report a (dubious) return of 105%. In the following year, Enterprise drew the largest annual cash flow in the entire history of the fund industry.

But Where to Lead?

As he approached his 70th birthday in the early spring of 1965, Wellington founder Walter L. Morgan observed the growing trend toward speculative funds. He recognized the problem facing his philosophy and his key balanced fund. "I was too conservative," he told *Institutional Investor* magazine.

He decided on a radical step. It was time for new leadership, he concluded, and he named me as his successor. I still remember the exact words of his mandate: "Jack, I want you to do whatever it takes to solve our problems."

I was but 35 years old. (I looked a lot younger!) But Mr. Morgan had come to trust my judgment. Perhaps overly self-confident, the solution seemed obvious. Let's say that you run a bagel shop and your customers are all deserting you for the donut shop across the street. If you want to survive, you must start selling donuts yourself. I determined to begin our quest for survival by merging with a fund firm with a strong equity presence, and build from there.

I quickly approached three firms that I believed offered such an opportunity. While none of the three managed the kind of aggressive fund that was the fad of the era, all would have immediately reduced Wellington's dependence on a single balanced fund. We would then build our firm from a stronger foundation.

First, the American Funds group, in Los Angeles—then and now a large and respected manager of equity funds. Failure. Next, Incorporated Investors, a stand-alone stock fund in Boston. Again, failure. Next, Franklin Custodian Funds, a then-tiny multi-fund complex with assets of but $17 million. Another failure. (Owner Charles Johnson made a wise decision; the remarkable growth of the Franklin Templeton funds—now managing $415 billion in assets—has made his family billionaires at least ten times over.)

By happenstance, a fourth candidate was brought to my attention. The small Boston firm, Thorndike, Doran, Paine and Lewis, was owned by four young managing partners who ran a largely successful go-go fund named Ivest with just $17 million of assets and a growing investment counsel business. On the surface, this option seemed best of all. Success! (For a while.)

On June 6, 1966, Mr. Morgan approved the deal. The merger terms were set; the price was paid not in dollars but in shares of Wellington Management Company (then with substantial public ownership). Collectively the Boston partners held the largest share of Wellington's voting control. Each of my new partners would control 10% of the firm's vote. I would control 28% of the vote. Public shareholders would own the remaining 32%. As CEO of the combined firm, I was confident in my ability to set our course and steer the new ship successfully.

The Inevitable Comeuppance

The merger, completed in April 1967, was a triumph. Our company's cash flows stabilized. The price of Wellington Management's public stock leaped from a low of $22 in 1966 to a high of $50 in

1968. During the five years ended in 1967, Ivest Fund earned among the highest returns in the entire fund industry, a gain of 290%, surpassing the +245% gain by Fidelity Trend Fund and the +223% gain by Fidelity Capital Fund. In contrast, the S&P 500 Index rose by "only" 79%. Ain't new eras grand!

But that triumph lasted only until it didn't. By 1968, the go-go era of illusory returns faded, replaced by the "Nifty Fifty" era of buying and holding large growth stocks (often known as the "Vestal Virgins"). That era was based on a different kind of foolishness: the price of a stock was more important than its intrinsic value; and if the price were high, a firm's earnings growth would eventually justify it. (Deep down, I knew how stupid that was. But I hoped that I was wrong.)

The craziness of 1965-1973 ended not with a whimper but with a bang. In the great Bear Market of 1973-1974, the S&P 500 was down -50% from high to low. Ivest fell -65%, the hot Fidelity twins also tumbled—Trend Fund -62% and Capital Fund -64%—and Enterprise Fund declined 60%. Under the aegis of my new partners with whom, sadly, I had merged the company, even the decline of 48% by the once "too conservative" balanced Wellington Fund almost matched the fall in the all-stock S&P 500.

Wellington Management Company's business fell apart. Fund assets plummeted by almost half, from $2.6 billion in 1972 to $1.4 billion in 1974. Cash outflows in flagship Wellington Fund, ruined by its new managers, began hemorrhaging unremittingly, year after year. The outflow continued through 1984 before at last turning positive. The stock price of publicly-held Wellington Management Company tumbled from that 1968 high of $50 to a low of $4.25 in 1975.

The corporate politics that were the obvious consequence of our unusual merger made strange bedfellows. And the positive economics that wilted under the pressure of the bear market made me the target of those bedfellows. The aggressive money managers that I brought into the firm via the merger had presided over the God-awful returns that plagued our mutual funds. But they combined their voting power and fired me as CEO of Wellington Management Company. It looked like my career was over . . . 42 years ago!

I was dismissed at the Management Company board meeting on January 23, 1974. (It actually ended after midnight.) I knew that I was about to be fired. I fought hard against my impending dismissal, but I lost anyway. Only one other director voted to retain me.

By curious coincidence, the meeting of the (separate and somewhat different) board of the Wellington funds would take place in New York City the very next day, January 24. Exhausted and disgusted by the events of the previous day, I boarded the 6 a.m. train from Philadelphia to New York. There I delivered an extraordinary message to the funds' board. "Industry convention has the

management company call the shots, and you'll be asked to fire me too," I said to the funds' board. "But don't let another company decide on who should be *your* CEO."

Changing the Structure of the Firm

My initial proposal to the board: the funds themselves should acquire the mutual fund business activities of their investment advisor, Wellington Management Company, unscrambling the flawed omelet that had been created eight years earlier. Yes, such an acquisition had never been made in our industry before, let alone even considered. But I was fighting for what was right, for declaring the independence of the funds to serve their shareholders as their highest priority. (Imagine that!) But I was also fighting for my own survival, to preserve my own career in the company and in the industry that I knew and loved.

On such short notice, the board was not about to approve my radical proposal at that meeting. But the directors voted to retain me as their CEO, and authorized me to undertake a study of the pros and cons of my extraordinary proposal. As logical as it was, it also was without precedent. I respected their caution. (Up to a point!)

The battle between me and those who had just ousted me (two of whom also served on the funds' boards . . . that made for interesting meetings!) lasted for seven long months. At the end, the funds' board had watered down my proposal almost to the vanishing point. But the directors finally approved my plan to create a new subsidiary, owned by the funds (and, in substance, by the fund shareholders themselves). The first truly *mutual* mutual fund organization, operating on at-cost basis, was born.

The board's decision, however, was to create a company *responsible solely for the funds' administrative activities*. We were bound by a Memorandum of Understanding between the funds and Wellington Management Company not to engage in the provision of the funds' investment management, nor in distribution and marketing services. Despite these absurd limitations, I knew (but didn't say) that in order to flourish, the new company would have to undertake both of these crucial functions. It was not easy, but we took our first step into investment supervision in 1975 and our first step into marketing in 1977. (I'll explain those changes shortly.)

"The fly in the ointment." The board gave my rivals the right to keep the name "Wellington," a colossal misjudgment. (I was furious!) We'd have to pick a new name for our new firm. The name I

chose—no surprise here!—was "Vanguard."[1] We began operations on September 19, 1974, even before we were incorporated on September 24, 1974.

That's the short version of the story of how the firm that we all serve today began.

Building a New Firm, Inch by Inch, Step by Step

Building a new firm is always a challenge. But when a firm is born under the circumstances that Vanguard faced, the challenge is monumental. We were joining a beleaguered industry; facing cascading outflows of client investments; operating under severe fiscal constraints (our first annual budget was $627,000); bearing a name previously unheard of in our business; having endured years of poor investment performance for most of our funds; and were still dependent on the provision of essential investment advisory and distribution services from the firm that had just fired the funds' leader ... well, you get the picture. So what did we do? Amazing things! Again and again, we broke new ground, and prepared our little firm for the long-term. Here's a list of our major decisions:

1974. Created a Unique Mutual Structure. That *structure*—clients first, with our low costs reflected in higher returns for them—led to our *strategy* of focusing on mutual funds that would provide "relative predictability" of returns. The idea was to parallel the returns of our peers *before* the deduction of costs, thereby almost certainly whipping them over time *after* costs were deducted. ("Performance comes and goes. Costs go on forever.")

1975. Formed the World's First Index Mutual Fund. Our first step to be directly engaged in investment management was our 500 Index Fund. It was the apotheosis of relative predictability, matching with precision the returns of the S&P 500 Index, net of minimal costs. Such relative predictability was designed to mitigate surges in cash flows from investors, and build a durable shareholder base. It succeeded, most notably with our broad-market index funds.

1975-1994. Slashed Advisory Fees. We successfully negotiated sharply lower fees with our existing advisers as our fund assets grew, producing large savings to our shareholders. Among some 104 fee reductions during 1975-1995: The Wellington Fund advisory free rate was cut from 35 basis points to 5; the GNMA fee from 10 basis points to 2; the Wellesley fee from 52 basis points to 7. In our industry, there have been no remotely similar fee reductions.

[1] Approval to create the new structure required strong leadership on the funds' board. It was supplied by Charles D. Root, Jr., chairman of the independent director group. Without Chuck Root, Vanguard would not have come into existence. Bless his soul! When Chuck informed me of the decision on the Wellington name, he said to me, "Jack, pick any new name you want, and then go out and make it the finest name in the entire fund industry."

1977. Took Control of Distribution and Marketing. I proposed that we abandon our long-standing policy of distribution by brokers through Wellington. Going "no-load" through Vanguard, I argued, would effectively eliminate those functions. (I'm not sure that it turned out that way!) The controversy was heated, but in February the board finally approved my proposal. Less than three years after we began, we became the fully-functioning Vanguard that you know today.

1977. Initiated a Unique Defined-Maturity Bond Fund Strategy. Another Vanguard first. (Yes, it was simple—forming three separate portfolios holding short-term, intermediate-term, and long-term bonds—but never tried before.) Almost overnight, it revolutionized the bond fund segment of our business. That new structure was first offered in our three newly-created tax-exempt bond funds (we named Citibank as the adviser) and later in our bond index funds managed by Vanguard.

1978. Fixed the Wellington Fund. Under the fund's aggressive new managers, the result of that tragic merger, Wellington's performance collapsed, falling behind its balanced fund peers by astonishing lag of -50 percentage points (-2.7% annually) in 1966-1976. By 1978, I'd had enough. The board endorsed my plan to direct Wellington Management to reduce the fund's outsized commitments to "growth" stocks and to return to the fund's original balanced strategy. The program was designed to increase the fund's dividend income per share by 68% over the next five years. (To show how it might be done, I presented our adviser with a sample portfolio of 50 stocks.) Under pressure from the firm's largest client—Vanguard—the adviser agreed, and the implementation took place.

By 1983 the dividend had increased by exactly 70%. And in the 35 years since 1981, Wellington has outpaced its peers by a cumulative positive margin of 2,082 percentage points (+2.2% annually). Talk about a turnaround! With present assets of $90 billion, the bagel that almost went out of business during the 1960s is once again one of the two largest balanced funds in the 300-fund field. My friend and fund founder Walter L. Morgan, looking down from above on his beloved Wellington Fund, must be delighted.

1980. Internalized Fixed-Income Management. Dissatisfied with the returns and costs of our municipal bond and money market funds, we terminated the contracts with our two external advisers (Wellington Management and Citibank) and built our own team of fixed income professionals. Our internal managers improved the relative predictability of the funds at far lower costs, resulting in higher returns to our clients.

1981. Recognized Excellence. We created our Award for Excellence, awarded each quarter to outstanding members of our crew. Motto: "Even one person can make a difference."

1984. Brought Every Crew member in the Organization "On Board." The Vanguard Partnership Plan was designed to create substantial annual distributions to each one of our crew members, based on cost savings to our clients and the relative performance of our funds. Our entire crew is part of that mission—it was time to show that we meant it.

1985. Substantially Eliminated Pennsylvania Franchise Taxes. Many of our funds were paying some 0.10% (10 basis points) of their assets annually to the Commonwealth, an unacceptable burden. We would either have to relocate or eliminate the tax. (If there were still such a tax, it could have increased our present expense ratio from 12 to 22 basis points—more than 80%!) It wasn't easy, but in 1985 both houses of the Pennsylvania legislature passed a bill to eliminate this onerous tax . . . unanimously! Governor Thornburgh signed the bill into law.

1986. Took the Next Logical Steps in Index Strategy. We created the industry's first bond index fund; then the Extended Market (non-S&P 500 stocks) Index Fund (1987), the international stock index funds (1990), and the Total Stock Market Index Fund (1992).

1987. Formed the "Swiss Army." After being nearly overwhelmed by heavy telephone volumes from shareholders during a municipal bond crisis in April, we trained virtually our entire staff to be prepared to man the phones when the inevitable next crisis came. It came all too quickly. On Black Monday, October 19, 1987, the stock market panicked, failing 23% in a single day. We were ready—not perfect by a long shot, but the envy of our ill-prepared competitors.

1988. Moved to Become the Industry's Technology Leader. We retained the McKinsey consulting firm to examine our technology operations strategy with the goal of becoming the fund industry's leader both in client services and in firm operations. (At last, we had the resources to do so.) Result: a major step forward in our increasing use of processing technology.

1992. Developed Objective-Oriented Index Funds. We created the industry's first Balanced Index Fund (1992), the first Growth Index Fund (1992), the first Value Index Fund (1992) and then four LifeStrategy Funds (1994), precursors to our Target Retirement Funds (2003).

1993. Gained Flexibility in Allocating Costs among Our Funds. Shareholders approved our proxy proposal that permitted us to take into account "competitive prices" in establishing the allocation of costs among the funds, in addition to the previously approved factors (specific cost-allocation

methods, fairness, and shared benefits). Rigid constraints on our pricing flexibility vanished, and our ability to compete on price was firmly established.

1993. Facilitated Our Ability to Change Advisers and Fund Fee Schedules. Reflecting the independence of the Vanguard funds from their advisers, shareholders also approved our proposal to make changes in advisory relationships and advisory fees without shareholder approval. (In the proxy, we wrote that any fee change would represent, "in all likelihood, a fee reduction." I wish that I'd insisted that, "in the case of a fee increase, shareholder approval would still be required." My failure.)

1993. Introduced Price Segmentation with Our Admiral U.S. Treasury Funds. We sharply lowered expense ratios for our clients with larger investments, another industry first. I described that as "a shot across the bow," reminding our rivals that there was no point in their trying to compete with us on investor costs. In 2000, the Admiral concept was expanded to almost all Vanguard funds. Our low-cost Admiral shares now dominate our asset base.

1994. Built on Our Bond Franchise. We created new bond index funds focused on defined-maturity U.S. Treasury and investment grade corporate bonds, essentially completing our bond index strategy.

1995. Began Our "Go International" Effort. Our worldwide expansion started with the decision to open an operation in Australia, our first foray outside of the U.S. Our major expansion would not come until 1998, and included London, Hong Kong, and Tokyo. Today, our non-U.S. businesses are flourishing.

The need for each of these changes seemed obvious to me, not only to maintain our competitiveness in the fund industry, but to "strike while the iron is hot" and prepare the firm—as best I could—for my successors.

Communicate!

During the entire 1975-1995 period; one common goal characterized my passion for Vanguard's mission. *Communicate! Communicate! Communicate!* In 1963, even before I was asked by Walter Morgan to lead Wellington Management Company, I had come to realize that effective, clear, honest communications to our clients and crew were key to the success of our mission. For more than three decades, I wrote my own Chairman's Letters for the annual reports of each of our funds. With regular

speeches and positive messages, I kept our crew up to date on our activities and goals. And, beginning in 1993, I wrote books. Yes!

From *Bogle on Mutual Funds* to *The Little Book of Common Sense Investing* and beyond, my now ten books have had a huge positive impact on Vanguard's name and reputation. They consistently bespeak common sense, simplicity, idealism, high values, and serving investors first. They often urge much-needed reform in the fund industry and in the nation's financial system. Many hundreds of readers write me about them, and then rate them on Amazon. (On average, 4 ½ out of 5 stars.) Book sales now exceed 800,000 copies, by far the best-selling books in mutual funds history.

Backers of my books stand among the true elite of the financial world and burnish Vanguard's reputation. Nobel Laureate Paul Samuelson, former Federal Reserve Chairman Paul Volcker, former Chancellor of the Delaware Supreme Court William Allen, Yale's David Swensen, Princeton's Alan Blinder, economist Peter Bernstein, former SEC Chairman Arthur Levitt, former Secretary of Commerce Pete Peterson, and President William Jefferson Clinton, all have written forewords to my books. And Warren Buffett's strong endorsements of many of these books—and of our firm's index-dominated strategies—place Vanguard on a high pedestal indeed.

The frequent changes in the composition of our business lines that I described at the outset, the challenges and disruptions and discontinuities in our organization along the way, and the decisions made to improve our communications and to prepare our firm for the future have made a huge difference. Yes, many of these things have been swept along by the river of time. But no, contradicting Marcus Aurelius in a certain way, the central elements of Vanguard's success—our structure and our strategy—will not be swept away. They are here to stay.

Further, despite the staggering array of changes we have faced and created, the basic fundamental of balanced investing that characterized the firm I joined 65 years ago has remained intact. Look at it this way. When I joined Wellington Fund in 1951, its asset allocation was 67% equities and 33% fixed income. In 2016, the collective asset allocation of all Vanguard funds combined is 68% stocks, 32% fixed income. "A complete investment program is 175 funds"? Today, most of our investors—including this one—hold portfolios balanced among multiple Vanguard funds. *Success in investing demands balance*, the timeless key to long-term success.

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Why, you must be wondering, am I telling you about our long history? Because it's important, I think, for all of us to recognize the warning laid down by Carl Sandberg, which I cited in my speech to the crew when we reached the $8 billion mark in assets (yes, a speech at each billion!) on March 21, 1984:

> *When an institution goes down or a society perishes, one condition may always be found: they forgot where they came from.*

I pray that none of our crew members—past, present, and future—will ever forget where we came from.

* * *

Maintaining Our Corporate Character

On this 65th anniversary of my career, there is one other factor—a vitally important one—that I must discuss with you: the importance of maintaining the traditions and values that I've done my best to inculcate into our firm and into each member of our crew, from the humblest to the highest, including the traditions and values that were firmly in place when I joined Wellington way back in 1951.

In a talk to our crew in 1993, I reaffirmed Vanguard's three essential principles: (1) Do what's right for our clients by managing our mutual funds solely in their interest. (2) Provide them with complete, accurate, and explicit information. (They are our owners, for heaven's sake!) (3) Ensure that our funds are subject to adequate independent scrutiny. If there were other truly *mutual* mutual fund organizations (there are not), they too would be obliged to honor the same principles.

When I joined Wellington Management Company in 1951, the firm was largely owned by Walter Morgan and did not have a mutual structure. (Indeed, it would go public in 1960, creating a second set of shareholders.) *But we were guided by the values of mutuality.* Serving shareholders was our over-riding goal. We were early (and lonely) when we first reduced the fees we charged to our Wellington Fund clients. And our moral compass was our guide.

Indeed, in 1998, in my tribute to Wellington founder Walter Morgan on his 100th birthday(!), I cited the durability of his basic tenets: investment balance, conservative investing, long-term focus for our funds and clients alike; fair dealing; loyalty; and equitable and honorable relationships with those whom we serve and those with whom we serve. Yes, Walter Morgan helped to shape the high *values* we represent today—honesty, integrity, cooperation, and caring for the individual human beings whom we serve, and caring for one another.

Yet, as our organization grows, a culture of caring becomes more and more difficult to maintain. When Vanguard began, there were just 28 of us; today, we number16,000 crew members. I've been concerned about this aspect our growth since at least 1989, when I first warned our crew about the perils of enormous size, even when assets under our management were $47 billion, a tiny fraction of today's trillions. I repeat the phase I used in 1989, for it is more relevant than ever:

> *"For heaven's sake, let's all work together to make Vanguard a firm where judgment has at least a fighting chance to triumph over process."*

Our Stewards: The Vanguard Crew

Neither the corporate character that we have done our best to preserve, to protect, and to defend, nor the vast range of enhancements to our firm's structure and operations during our 41-year history would have been possible without the dedication and loyalty of you who serve on our crew, and especially our veterans. I thank you all, yet again.

Stewardship requires stewards! And the people of Vanguard have filled their stewardship role with excellence. Yes, paraphrasing Helen Keller (you've heard this before), "Vanguard is what it has become today not only because of the mighty shoves of its leaders, but by the aggregate of pushes of each of its crew members."

Despite the onset of size and process, I'm enormously pleased with how we have been able to maintain the heart of our character. While I have not run this place for many years, every day I still go about doing my best to maintain the human element of our culture, meeting and talking with individual crew members and groups. Yes, the human beings who make this such a great place have not only helped to build it, but are the key to preserving our culture for years to come.

As My 66th Year Here Begins, A Personal Note

Forgive me for closing on a personal note. My intuition that our Vanguard culture remains solid was greatly reinforced by the hundreds of messages that crew members recently sent to me commemorating my anniversary. A few excerpts:

- *Your inspiring message about the value of every crew member resonates with me every day. We all matter.*
- *Thanks for having the courage and vision that makes us proud to say, "I work at Vanguard."*

- *You continue to make Vanguard seem like a small firm, with values like integrity and neighborly caring.*
- *You and your strong moral belief make us what we are today.*
- *Happy to come in every day, knowing that we are helping so many to achieve financial success.*
- *When you created the partnership program in 1985, you knew that Vanguard's success is to be shared. You recognized that the crew members are the heart and soul of Vanguard's culture, and the driving force of the business.*

To those wonderful words, I say, *Amen*! And to the crew members who expressed these feelings, I say, *Thanks*!

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As I look back on my long career, I've had lots more success than failure, lots more pleasure than pain, lots more laughter than tears, lots more good decisions than bad ones, lots more fans (yes, Bogleheads!) than detractors, and lots more good health than peril. (Thanks, anonymous donor of my heart!)

At this late date, I can't be sure of the goals that I set for myself when I began my career 65 years ago. But I think that it's fair to say that I hoped to make a difference; to achieve personal success; to be free of financial stress; to make a name for myself; to create and to communicate; and to do the best work of which I was capable. I hoped to achieve these goals, as it would happen, in the same way that my hero Alexander Hamilton strived to achieve his goals. In the words of Lin-Manuel Miranda, creator of the runaway Broadway hit *Hamilton*:

> *All in the strength of his writing, he embodies the word's ability to make a difference . . .*
> *The ten-dollar founding father without a father, got a lot farther, by working a lot harder,*
> *by being a lot smarter, by being a self-starter.*

These goals—the goals of youth and idealism, perhaps—may seem to be primarily self-centered. To some extent, of course they are. But as we age, wisdom and introspection grow (or ought to grow!), and call for reexamination of those early youthful goals.

As we age, goals often become less I-Centered and more Others-Centered. None of you may know this yet (maybe you have to be 85 or older), but as the sands of time pass through the hourglass of your life, you start to consider what has been really important to you in your career. For me, it is *not* creating a colossus. Nor is it fortune, nor even fame. Nor is it building a $3 trillion enterprise as such. It is

being responsible for two great investment innovations—one in structure, one in strategy—that, with a powerful synergy, are changing the world of finance to the benefit of investors and their families, helping them to achieve their financial goals.

So as I reflect with you in this late hour of my long life, it is what I have been fortunate enough to achieve with and for others that means the most to me. For our crew, and especially for my close colleagues and our veterans who have stayed the course. For the human beings who have entrusted their wealth to us to manage, assuming (correctly) that we are worthy of their trust and will honor their interests above all else.

My greatest rewards, then, have come from serving, to the best of my ability, the honest-to-God, down-to-earth human beings who comprise our crew and our clients. I look forward to the privilege of continuing to preach my simple principles for successful investing as long as time and fate allow.

To each and every member of Vanguard's crew, thank you for being a part of the wonderful history of this truly remarkable firm that has thrived simply by assuring that our client/owners receive a fair shake.

"Press on, regardless!"