The Coming Market Environment and Implications for Financial Innovation

Remarks by

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The Vanguard Group

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I'm honored by your invitation to address this 2008 Financial Planning Association Retreat. Ever since Vanguard began, now almost 34 years ago, I've considered our firm as the natural ally of your firms, for a whole variety of reasons. While I'm not here today to plump for Vanguard, I believe that understanding what these reasons were will set a firm foundation for my remarks:

1. **Common Goals**. Our primary role is to provide diversified portfolios of securities—whether stocks or bonds, indexed or not—that deliver returns that are highly predictable relative to peer funds with comparable objectives and comparable portfolios. Surely that strategy constitutes the core of the strategies followed by most financial planners.
2. **Combined Costs**. We believe—passionately!—in providing our services at the lowest possible cost—low expense ratios, minuscule advisory fees (or none!), no sales loads, nominal portfolio turnover costs, and minimal drag from taxes—all with the goal of enabling your clients to garner the highest possible share of the returns that our funds deliver. Result: when we combine our costs with your fees, the total cost is nearly always far below the total costs of most funds . . . even *before* the fees that your clients pay for your services are added in.

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

3. **Client Focus**. Our management company is owned and controlled by our own shareholders rather than by the national and international financial conglomerates that now largely control the fund industry. (41 of the 50 largest fund firms are now controlled by these giants.) Our unique structure is particularly relevant since the clients of financial planners and registered investment advisers—*your* clients—constitute a significant portion of our client base. When we serve them effectively, we serve you; when we serve you effectively, we serve them.

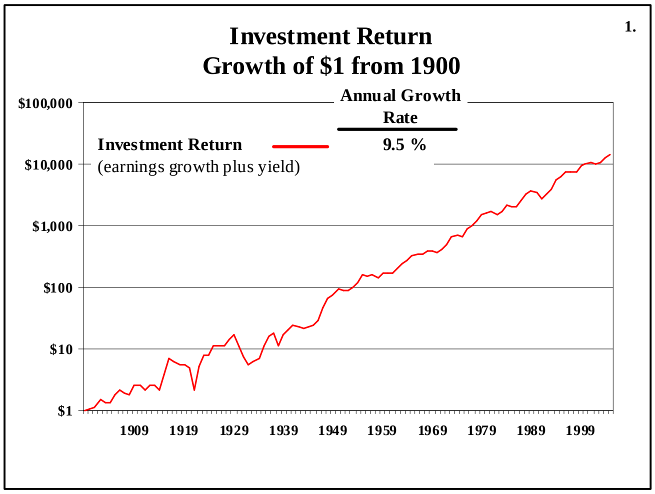
Providing intelligent and productive financial planning advice to the "honest-to-God, down-to-earth human beings, each with their own hopes, fears, and financial goals" (a phrase I've used for decades) is, in my view, more demanding today than ever before. I make that observation only after careful consideration of how today's financial environment differs from what has gone before. Today I'll give you three poignant examples of that change::

1. The folly of short-term speculation has come to dominate our financial marketplace; the wisdom of long-term investing has diminished commensurately.
2. Relative to historical norms, the outlook for future returns on stocks and bonds is, in a word, *subdued.* In such an environment, the temptation to go beyond traditional markets to garner extra returns is enormous.
3. Complexity has, in far too many cases, replaced simplicity as the core of mutual fund management and financial planning, and financial innovation threatens to overwhelm the tried and true principles of sound investing.

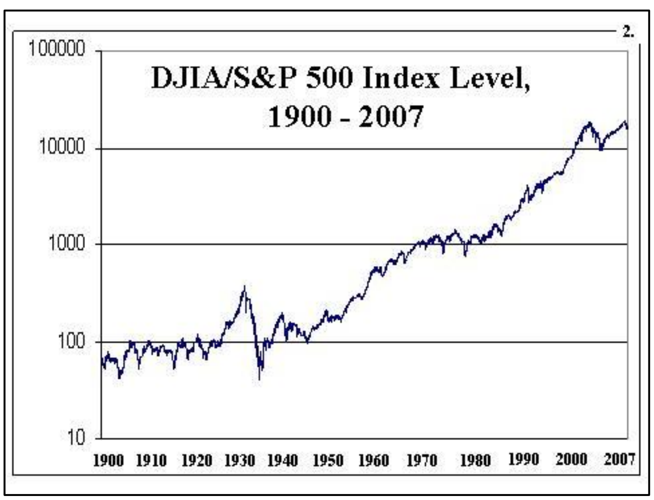
Each of these trends makes your responsibilities as a financial planner more challenging to honor. But simply being aware of how our investment world has changed ought to provide useful perspective, and enable you to better fulfill your vital responsibilities to your clients. So let's consider these three issues.

I. The Triumph of Speculation over Investment

We'll begin by talking about the difference between investment and speculation. Investing, to me, is all about the long-term ownership of businesses, focused on the gradual accretion in intrinsic value that is derived from the ability of our corporations to produce the goods and services that our consumers and savers demand, to compete effectively, to thrive on entrepreneurship, and to capitalize on change, adding value to our society. Over more than a century, the rising value of our corporate wealth—the cumulative accretion of dividend yields and earnings growth—resembles a gently upward-slopping line with, at least during the past 75 years, precious few significant aberrations. **(Chart 1)**



Speculation is just the opposite. It represents the *short*-term—not *long*-term—holding of financial instruments—not business—focused (usually) on the belief that their prices—as distinct from their intrinsic values—will rise; indeed, the expectation that the prices of the stocks that are selected will rise more than other stocks, as the expectations of other investors come to match one's own. The line that we draw representing the path of stock prices over the same period is significantly more jagged and spasmodic than the line showing investment returns. **(Chart 2)**

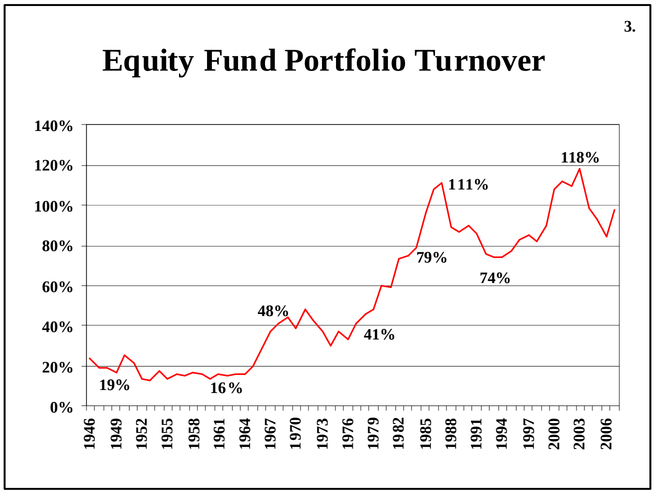


In the short run, speculative returns are only tenuously linked with investment returns. But in the long-run, both returns must be—and will be—identical. Don't take my word for it. Listen to Warren Buffett: "the most that owners in the aggregate can earn between now and Judgment Day is what their business in the aggregate earns." Illustrating the point with Berkshire Hathaway, the publicly-owned investment company he has run for more than 40 years, Buffett says, “When the stock temporarily over-performs or under-performs the business, a limited number of shareholders—either sellers or buyers—receive out-sized benefits at the expense of those they trade with. *[But] over time, the aggregate gains made by Berkshire shareholders must of necessity match the business gains of the company*.”

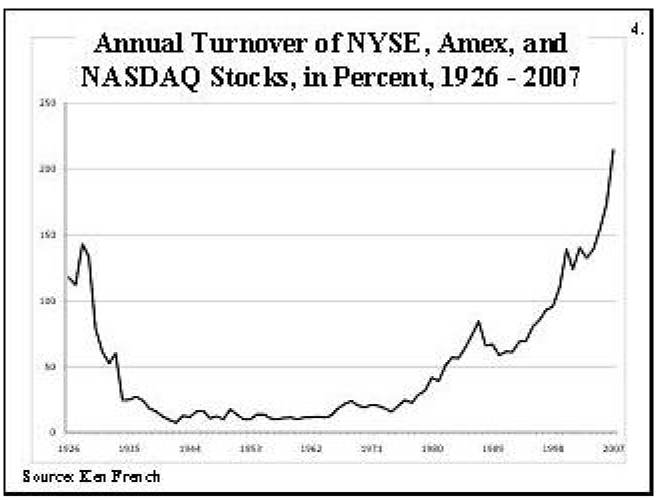
Put another way, as Benjamin Graham, legendary author of *The Intelligent Investor* and Warren Buffett’s great mentor, pointed out, “in the short run the stock market is a *voting* machine . . . (but) in the long run it is a *weighing* machine.” But we must take Buffett’s obvious truism—and Mr. Graham’s—one step further. For while “the gains made by shareholders must of necessity match the business gains of the company,” the aggregate gains or losses by the sellers and buyers—even though they are trading back and forth with one another in what is pretty much a closed circle—do not balance out evenly. Investors capture Berkshire’s return; speculators do not.

Why? As these traders trade with one another, they incur transaction costs—largely brokerage fees, bid-ask spreads, and excess taxes, and also, in today’s *agency* society (we have come a long way from an old *ownership* society) most of us pay, directly or indirectly, our mutual fund and pension fund agents additional fees for doing our trading for us. Thus, long-term investing in America is a *winner’s* game that depends on the ability of business to earn a return on their capital; short-term speculation is a *loser’s* game that depends on outguessing other investors with enough skill (or luck) to overcome those substantial croupier costs, which I estimate at a staggering $500 billion per year. (Mutual fund costs, even ignoring their substantial portfolio turnover costs, will exceed $100 billion this year alone.)

So if stock market participants were rational wealth-maximizers—simply preferring to play a winner’s game rather than a loser’s game—investment ought to be steadily gaining over speculation. Right? Wrong! Consider that during most of my first 15 years in this industry (through about 1966), it was not that way. Fund turnover averaged about 16 percent per year—let’s call that “investing,” a six-year average holding period—and never varied significantly from that norm. **(Chart 3)** But turnover moved steadily upward, and in the past decade, has averaged nearly 100 percent per year—let’s call that “speculation,” a one-year average holding period—exactly the opposite of my expectations when I joined this industry all those years ago.

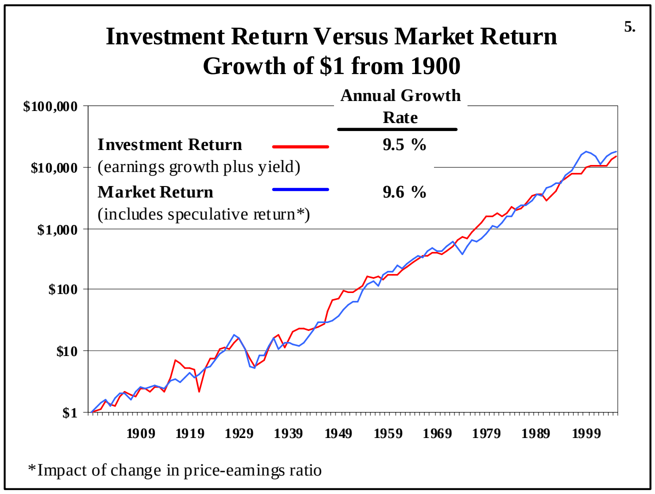


But it is not mutual fund managers alone who are engaging in this inevitably counterproductive trading behavior for investors as a group. They are reflecting a trend toward speculation that has been growing since the mid-1960s. Total turnover of U.S. publicly-traded equities was also less than 20 percent through the mid-1960s. Even by the mid-1990s, it rarely exceeded 50 percent. But in 2007, stock turnover exceeded 215 percent per year. **(Chart 4)** That number soars to 280 percent if we include the breath-taking level of trading in exchange traded funds (ETFs). Clearly, the nature and character of our equity markets have changed. We are in a new era, one that is importantly defined by this orgy of speculation, by far the highest in history.



When our market participants are largely *investors*, focused on the economics of business, the underlying power of our corporations to earn a solid return on the capital invested by their owners is what drives the stock market, and volatility is low. But when our markets are driven, as they are today, largely by speculators, by expectations, and by hope, greed, and fear, the inevitably counterproductive swings in the emotions of market participants—from the ebullience of optimism to the blackness of pessimism—the resultant turbulence that we are now witnessing was almost inevitable.

But is this speculation by mutual fund managers and by other market participants healthy for investors? For financial planners? For our financial markets? Of course not. For when we put investment return and speculative return together and look at the past century, we see that the average annual total return on stocks over that long period was 9.6 percent **(Chart 5).** Of this total, fully 9.5 percent represented *investment* return, roughly 5 percent from the initial dividend yield and 4.5 percent from earnings growth. (Dare I remind you, however, that these totals do not reflect any deduction for the croupier costs of investing, such as advisory fees and transaction costs? We'll talk about that later on.)



*Impact of change in price-earnings ratio

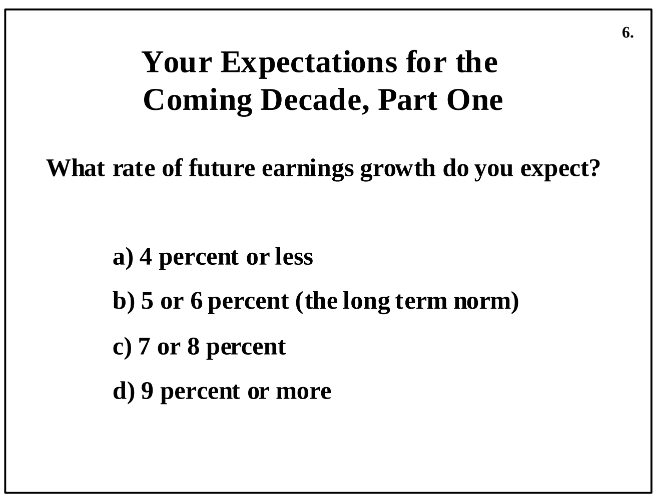
What I call the *speculative* return—the annualized impact of any increase or decrease of the price-earnings multiple—came to but 0.1 percent, borne of a period-dependent increase in the P/E ratio from 10 to 18. The message is clear: In the long run, stock returns have depended almost entirely on the *reality* of the relatively predictable investment returns earned by *business*. The totally unpredictable *perceptions* of *investors*, reflected in momentary stock prices and in the changing multiples that drive speculative return, essentially counted for nothing. It is *economics* that controls long-term equity returns; the impact of *emotions*, so dominant in the short-term, dissolves. As I write in my *Little Book*, "the stock market is a giant distraction from the business of investing."

II. Future Market Returns

As we look ahead, I must mention my conviction that viewing the future through the prism of *history* is nowhere near as useful as the prism that takes into account the *sources* of stock returns. Of what use, for example, is history that reflects a dividend yield that averaged 5 percent —as in the past century—when the current dividend yield is 2.3 percent, less than half as much? (This point might be even more obvious if we asked the relevance of, say, an historical bond yield of 6 percent when the present yield is 4 ¾ percent.) So I urge those of you who rely on Monte Carlo simulations that rely only on historical stock returns either to exchange them for the kind of source-based analysis we've just gone through; or, alternatively, to calculate those Monte Carlo simulations using market returns *excluding* dividend yields, and then add back today's far lower dividend yield.

Relying on these unarguable sources of return, let's now consider what returns we might expect for stocks in the coming decade, starting from this very day. Just for fun (so we can see not what *I* expect, but what *you* expect), we'll now do a quick poll to determine your own expectations on each of the sources of stock market returns.

We'll begin with investment return. We know that today's dividend yield on stocks is about 2.3 percent, less than one-half of the historic norm of 5 percent. What should we add in the way of potential earnings growth for our publicly-held corporations? For reference, the long-term norm has been about 4.5 percent, though in the past 25 years it's been more than 6 percent. Let's have a show of hands on some reasonable choices. **(Chart 6)**



While just one of you expects that 9 percent-plus earnings growth, the clear majority expects earnings growth of 5 to 6 percent. So let's add 5 ½ percent earnings growth rate to the divided yield of 2.3 percent. Result: your rational expectations are for an *investment* return on stocks of about 7.8 percent, more or less, in the coming decade.

Now let's find out the impact you believe speculative return will have on that investment return. The P/E that I'll use for today is 18 times, based on the *reported* earnings of the S&P 500 over the past twelve months. (I should note that the P/E would be 16 times if we use *projected operating* earnings, but we'll work with the 18 number.)

So question two is: **(Chart 7)** What P/E ratio do you expect to prevail in June 2018?

7.

Your Expectations for the Coming Decade, Part Two

What P/E do you expect to prevail in June of 2018?

a) Much higher—21 times or more
b) Somewhat higher—19 or 20 times
c) About the same—18 times
d) Somewhat lower—15 to 17 times
e) Much lower—14 times or less.

While you're a little divided here, and I see some hands voting for much higher PEs, it looks like you've clustered between "about the same" and "somewhat lower" valuations. If we use a central number of 17 times for the 2018 P/E, speculative return would subtract almost a percentage point from your, 7.8 percent investment return. Result: the clear consensus of you professional financial planners is that stock returns will likely average about 7.2 percent in the decade ahead. **(Chart 8)**

8.

Investment Advisor Consensus

Initial dividend yield:	**2.3%**
Earnings growth:	**+5.5**
Investment return:	**7.8%**
Speculative return:	**-0.6%**
Total return:	**7.2%**

According to a recent survey in *Business Week*, your clients happen to be more optimistic—expecting a return of 11.8 percent per year! But I'm guessing that you, not they, are in the right ballpark.

Indeed my own expectations are for earnings growth of about 6 percent, bringing investment return to about 8.3 percent. I believe that 16 times is a reasonable expectation for the P/E a decade hence, resulting in a speculative return of more than -1 percent. Result: total return of 7.1 percent. **(Chart 9)** So, for the sake of simplicity, let's agree on a compromise figure of 7 percent per year as the most likely return on stocks over the coming decade.

9.

Jack Bogle's Stock Market Expectations

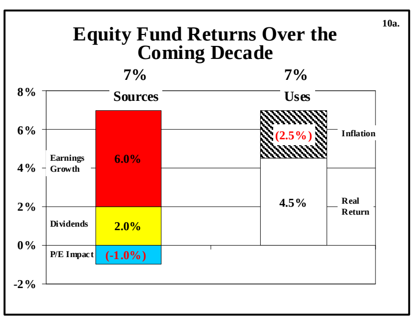
Initial dividend yield:	**2.3%**
Earnings growth:	**+6.0**
Investment return:	**8.3%**
Speculative return:	**-1.2%**
Total return:	**7.1%**

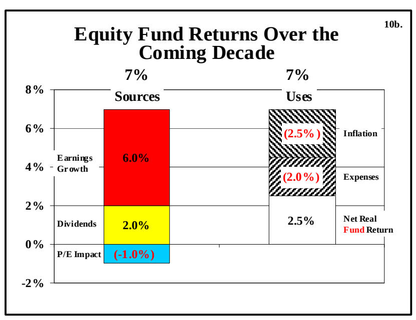
A return of 7 percent per year on U.S. stocks is well below the historical norm of 9.6 percent. But that shouldn't be surprising. After all, the current dividend yield of 2.3 percent is more than three full percentage points less than the long-term norm of 5 percent—a dead-weight drag on the future investment returns that stocks can generate, and the P/E today is well above the long term norm of 15 times. Our rational, and mutual, expectations simply reflect that change in the simple realities of investing.

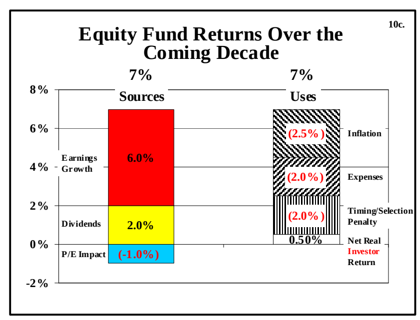
Of course each of you has the right to disagree with these estimates, and with me. So make your own individual forecast: Just add your own earnings growth estimate to today's 2.3 percent dividend yield, and calculate the investment return. Then calculate the speculative return by taking a guess at the prevailing P/E multiple ten years hence. Annualize the change, and then combine the two. But never forget that it's unwise in the extreme to forecast stock returns based on historical norms rather than on evaluating the broad forces that have shaped them in the past and will continue to shape them in the future.

But whatever returns the stock market is generous enough to deliver in the years ahead, please don't make the mistake of thinking that those pre-inflation, pre-investment-cost figures have anything to do with reality. In real terms, and after the costs of investing, investors will actually earn returns that are far lower. To explain why this is the case, we need only to understand these simple mathematics of investing:

1. Inflation will almost certainly erode the nominal returns we've just calculated. Assuming that inflation averages 2 ½ percent per year (as expected today), the nominal return on stocks of 7 percent over the coming decade would be reduced to 4 ½ percent. **(Chart 10A)**
2. All investors as a group must necessarily earn precisely the market's real return, *but only before the costs of investing are deducted.* So if equity funds, on average, incur costs of only 2 percent per year, a conservative figure in the light of combined fund costs—fund expense ratios, sales loads, and turnover costs—their average annual net real return would be just 2 ½ percent. **(Chart 10B)**
3. While equity funds themselves, as a group, are all too likely to deliver that net real return of 2 ½ percent, the dollar-weighted returns of fund *investors* have lagged the time-weighted returns of the funds themselves typically by at least 2 *additional* percentage points per year. (Investors appear to chase past performance, and are penalized both by counterproductive market timing and adverse fund selection.) If this pattern continues—and I see no reason that it will not continue—the average equity fund investor could earn a net real return of as little as ½ percent per year over the coming decade. **(Chart 10C)**







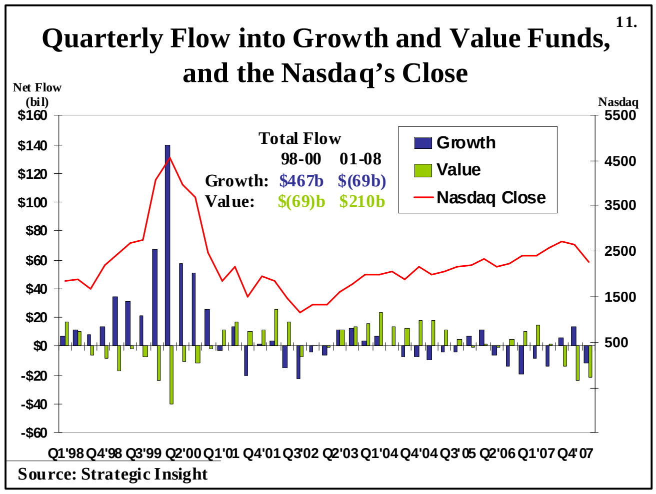
Of course, our expectations for stock returns may be too low. On the other hand, I have ignored the impact of excess taxes forced on taxable fund investors by our hyperactive fund managers. While we have no ability to control the level of returns our businesses—and our stock markets—are generous enough to generate in the years ahead, we ought to be thinking about controlling what we *can* control, including investor costs and investment risks. (These same cautions, of course, apply to thinking about future bond returns. Since decade-long bond returns are established largely by today's interest rates, we can forecast the nominal return on a portfolio of intermediate-term U.S. government and corporate bonds at about 4 ¾ percent, or about 2 ¼ percent after inflation—but before all-in bond fund costs of 1½ to 2 percent.)

III. Innovation, Simplicity and Complexity

To be sure, while all of us collectively are bound by the returns that are generated by the stock and bond markets, some of us will do better, some worse. Financial innovations designed to help us do better have been created all through history. But during the last decade, innovation has burgeoned to levels that are truly remarkable. Part of the reason is the expectation that stock and bond returns will lag behind historic norms—and far behind the halcyon norms of the 1980s and 1990s, when stock returns averaged 17 percent (!) and bond returns averaged 9 percent (!). ("We never had it so good." Literally!) But if we know (within a fairly narrow tolerance) what returns to expect from broadly-diversified portfolios of stocks and bonds, what explains our expectations (or our hopes) that we can out-guess the markets and add additional returns by selecting strategies or managers that hold optimal subsets of the market portfolio? I fear that it is the triumph of hope over experience.

The incredible rise—and fall—of so many derivative instruments in the present era should raise a red flag of caution regarding the value of financial innovation to investors. The flood of complexity—and its attendant high costs—seems to have overwhelmed simplicity—with its attendant low costs. One example: Collateralized debt obligation (CDOs) have wreaked havoc among our commercial banks and our investment banks, and credit default swaps (CDS) now total an astonishing $600 trillion—speculative derivatives of credit instruments that themselves total less than $20 trillion—an amount of speculation 25 times (!) that modest amount of (risky) underlying investment. We know almost nothing about the counterparties to this boatload of CDS that embody the excesses of our financial system—innovation designed to benefit those who create these instruments rather than those who own them. There's a wonderful story about an investment banker addressing his colleagues: "the bad news is that we've lost an enormous amount of money. The good news is that none of its ours."

The mutual fund industry, of course, is no stranger to financial innovation. Consider the new "products" we created during the recent Information Age bubble. As the stock market soared to new highs—and unprecedented P/E multiples—fund innovation focused on its hottest sectors. During the last three years of the decade alone, we formed nearly 500 new funds investing in technology, telecom, and Internet stocks, compared to only 87 such funds in the decade's first three years. (Only one pure technology fund during the first three years; 116 in the last three.) Money poured into such aggressive growth and sector funds at a staggering rate—nearly $470 billion in 1998-2000 alone, in part funded by investor withdrawals of some $70 billion in capital from value funds **(Chart 11)**, the very funds that were about to have their day.



Since the inevitable fall, of course, disillusioned investors have withdrawn some $70 billion from the aggressive and growth funds—realizing huge losses—and poured $210 billion into value funds, the sort of "performance chasing" that this marketing-dominated industry fosters with the diverse menu of "products" we create to follow the trends of the day. (Unsurprisingly, the lag in *investor* returns in aggressive and sector funds relative to the stock market was far greater than the lag for investors holding diversified, middle-of-the-road fund offerings.)

Today's environment for mutual fund innovation is of course different. But I see little in it that persuades me that the complexity that is being offered will serve the interests of fund investors—as distinct from the interests of fund marketers—nearly as effectively as the simplicity that combines sensible asset allocation, broad diversification, and low costs, a strategy that has demonstrably served investors so effectively in the past.

Let me be clear: I favor innovation when it serves fund investors. And I'm pleased that I've been lucky enough to have played a key role in such innovations in the past: the stock index fund; the bond index fund; the defined-maturity bond fund; the tax-managed fund; even the first fund-of-funds, absent an additional level of expense ratios. (I've also been involved in some innovations that haven't worked for investors as I've hoped. We'll save them for the question and answer period!)

In recent years, there have been other investor-friendly innovations, including target retirement funds and life strategy funds. Properly used (and properly costed!) these funds can easily serve as an investor's complete investment program for the long run. But in today's wave of fund innovation, I see little else that seems likely to serve investors effectively. Let me give a brief thumbnail sketch of the "products" that have been created in recent years, and offer my own perspectives.

ETFs. Exchange traded funds are clearly the most widely accepted innovation of this era. Of course I admire their endorsement of the index fund concept—and (more often than not) their low costs. And how could I not admire the use of broad-market index ETFs that are held for the long term, and even broad-market-segment ETFs that are used in limited amounts to accomplish specific goals? But I have serious questions about the negative impact of brokerage commissions when ETFs are rapidly-traded. Further, I wonder why there are only 15 ETFs broadly-diversified in stocks and bonds; but 675 in market sectors that range from the reasonable to the absurd. In this latter category I'd include sectors as narrow as "Emerging Cancer," and leveraged funds that now promise to double the market's returns in either up or down markets. Not to be outdone, a few ETFs now offer the opportunity to triple those swings. Could quadruple be next? Put another way, ETFs used for investment are perfectly sound, but using them for speculation is apt to end badly for your clients.

"Fundamental" Indexing. While this method of value investing has been presented as some sort of Copernican Revolution, the idea behind the methodology is many decades old. But offering such funds in ETF form suggests that they are useful for short-term trading—a dubious proposition on the face of it. And bringing them out only *after* the sharp upsurge in value fund relative returns during the 2000-2002 stock market collapse suggests the kind of marketing motivation and performance chasing that, as I've noted earlier, has ill-served investors. Of course, we've been assured that "value investing wins" (not "has won in the past"), especially in troubled markets. But the troubled markets of the last twelve months the leading "fundamental index" fund is down nearly 12 percent, almost double the 6 percent decline in a standard S&P 500 Index fund. Mark me down (Surprise!) as a market-cap-weighted indexer. As for value-weighted versus dividend-weighted strategies, I'm interested to read that they're now arguing with each other!

"Absolute Return" Funds. Given the truly remarkable success of some of the nation's largest college endowment funds, and some of our most speculative hedge funds, small wonder that fund sponsors are falling all over themselves to create funds using purportedly similar strategies; hedging (130/30 funds); market neutral (funds with no net equity exposure); commodities, private equity/venture capital proxies, etc. My advice: look before you leap, and don't leap until the fund has a ten-year track record. And above all, remember (courtesy of Warren Buffett), "What the wise man does in the beginning, the fool does in the end."

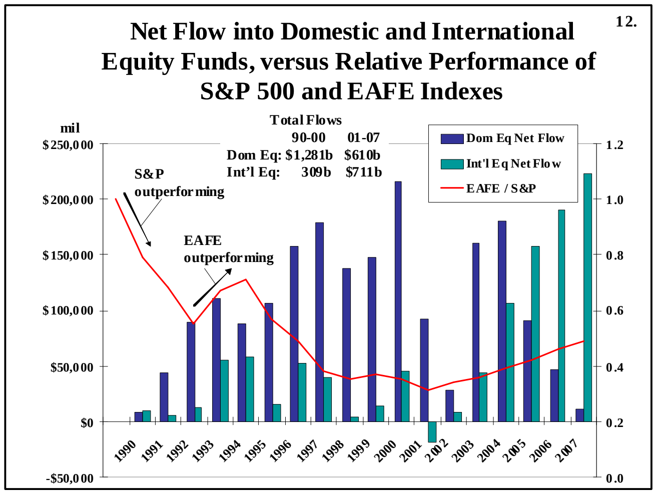
Commodity Funds. First principles: the prices of stocks and bonds are ultimately supported by their *internal rate of return*—respectively, dividends and earnings growth, and interest coupons. That is why stocks and bonds are considered *investments*. Commodities have no internal rate of return; their prices are based entirely on supply and demand. That is why they are considered *speculations*. I freely concede that the huge rise in the prices of most commodities in recent years doesn't guarantee that speculation on future price increases will not be rewarded. But that may well be the odds-on bet.

Managed Payout Funds. The fund industry apparently only recently discovered that growing millions of investors are moving from the accumulation phase of investing to the distribution phase. (Although, that demographic handwriting has been on the wall for decades). So we have new funds that, in effect, guarantee the exhaustion of your assets in whatever time period you choose (something that has *always* been all too easy to accomplish!). We also have funds designed to distribute 3 percent, 5 percent, or 7 percent of your assets without necessarily invading principal. Only time will tell if that will happen.

What seems to be ignored by the fund industry, for obvious reasons: Serving retired investors by increasing fund *investment income*, the forgotten man of the fund industry. The only way to increase payouts from fund *income*—while holding risk constant (something some deeply trouble short-term bond funds obviously forgot)—is to slash expense ratios. Aren't equity fund shareholders ill-served when 75 percent (!) of investment income of the average equity fund is confiscated by costs? (And that's precisely what happens when the gross yield on stocks is 2 percent, and the fund's expense ratio is 1.5 percent.) Similarly, the all-in costs of the typical bond fund, including amortized sales loads, consume about 50 percent of the yield on the average bond fund. (As investors in some deeply-troubled short-term bond funds have learned, increasing the net return by holding higher-yielding CDOs wasn't a good idea.)

BRIC Funds and International Funds. No doubt about it. With returns in Brazil, Russia, India, and China soaring in recent years, fund sponsors were quick to market them. Perhaps their recent declines will squash investor appetites for them, but my experience is that it's all too easy to jump on the bandwagon of superior past performance. Just consider the ebb and flow of equity fund capital flows into international markets, consistently declining as U.S. stocks lead and then soaring as non-U.S. issues lead. So it's hardly surprising that only 20 percent of equity fund cash flow was directed into non-U.S. funds in

1990-2000, when U.S. stocks vastly outpaced foreign issues. Nor is it surprising that since then, with U.S. stock returns averaging 6 percent per year and foreign stocks averaging 14 percent, that the tables were turned—last year, $1.1 billion into foreign; only about $200 million into U.S. Now there's a red flag! (Alas, of course, it could be a false warning!) **(Chart 12)** But risk in the hottest sectors of the international markets is high, so be careful. (Also note that, even including the recent boom in non-U.S. stocks, the returns since 1990 have been dwarfed by the returns on U.S. equities—6 percent annually versus 10 percent.)



Net Flow into Domestic and International Equity Funds, versus Relative Performance of S&P 500 and EAFE Indexes

No objective industry veteran can look at this blunderbuss of innovation with other than a jaundiced eye. The problem is not only that future returns earned or untried and often costly strategies are unpredictable and rarely live up to their hyperbolic promises; the problem is that the industry focus on salesmanship over stewardship leads to the proliferation of idiosyncratic funds that inevitably results in a fund failure rate that, however rarely publicized, is little short of astonishing. In my *Little Book*, I wrote that of 355 funds that existed in 1970, only 132 made it through the next 35 years. In the recent era, of the 6126 mutual funds that existed at the start of 2001, 2797 have already been consigned to the dustbin of history. (You know what I mean!) How, I ask, can a planner or adviser implement a long-term strategy of investing in mutual funds if only half of the funds can make it through a period as short as seven years—and seven pretty good years at that!

* * *

In any event, please forgive the bluntness of this aging mutual fund Luddite who finds himself uninspired—and unimpressed—by the rise of complexity (and excess cost) at the expense of simplicity (and minimum cost). Happily for my peace-of-mind—and my conscience—I find that nearly all of the positions I've set forth in these remarks have been endorsed by the group that includes the most successful investors of the modern era (try Warren Buffett and Yale's David Swensen) and by the most informed and respected academics (for example, Nobel Laureates Bill Sharpe and Paul Samuelson—now with 95 years of wisdom under his belt).

I understand, I think, the pressure that you financial planners face in assuming the awesome responsibilities of serving your clients, even as you endeavor to build firms that will prosper and endure. I understand the pressure you face from concerned clients who want to follow the traditional response of "don't just stand there. Do something," especially in these turbulent markets. But I suspect that your instincts suggest, as mine do, that far more often, the best strategy is likely to be "don't do something. Just stand there."

Of course, this is not a digital field—positive/negative; either/or—in which we find ourselves. A stand-there, steady-asset-allocation; very broadly-diversified; extremely-low-cost strategy can easily be seasoned with a do-something—heck, a do-anything—strategy focused on shifting short-term opportunities, however difficult such a strategy may be to implement successfully. If that is the dual course you choose to follow, however, dare I recommend that the lion's share of your clients' assets be committed to the former stay-the-course approach that has worked so well for me over, yes, now 57 years of investing in the mutual funds whose investors I've done my best to serve. But whatever course you choose to follow, I wish you every success.

Less than a month from now, those who hold the CFP designation will be required to honor an explicit standard of fiduciary duty that I've talked about for more than a decade. I'm sure that the overwhelming majority of financial planners have observed such a standard throughout their careers, and I'm equally sure that such an approach has served your clients and your careers alike. If my thoughts today have increased your focus on investment rather than speculation; on setting your expectations for future stock and bond returns, not on history but on their known sources; and on demanding that the firms whose mutual funds you offer to your clients focus less on innovation and more on substance, then, I've achieved what I've attempted to achieve in these remarks.

Thanks for your patience, and for your attention.