A Life, a Career, and a Mission to Build
A Better Financial World for Investors

Remarks by
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There’s a Biblical saying, from Mark 6:4, that “a prophet is without honor in his own country, and among society in his kindred home town.” There’s doubtless a lot of careers to which that message applies, but there’s surely no evidence of it here in this room tonight. A full house, so many friends of my long lifetime, members of my family. It is actually you who are the “Fabulous Philadelphians” for whom this speaking series is named. Thank you all for coming!

I’m going to cover a lot of ground in my remarks. For those of you who are interested in the human side of business, I think you’ll like the first part of my talk; if you’re into finance, the middle part; and if you follow the stock market; the last part. And for the infinite number of subjects I haven’t touched, I’ll leave plenty of time for questions and answers at the end.

Since my career, in a sense, began right across Montgomery Avenue from here almost 70 years ago, I decided to title my remarks this evening, “A Life, a Career, and a Mission to Build a Better World for Investors.” For I want to emphasize that, along with the eternal mathematical dynamics of our financial system, the human element inevitably plays a major role.
“Acres of Diamonds”

So I can’t help but begin with some reflections on where my career began—right here in suburban Philadelphia. Just as Temple University Founder Russell Conwell had promised in his world-famous oration, I found my own “Acres of Diamonds” right here in my backyard.

When our parents brought the “three Bogle boys” here in 1943, we were in tough straits. We all lived in a makeshift third-floor walk-up apartment in a house on Montgomery Avenue in Ardmore; and then to 2 ½-rooms over a garage on Rose Lane in Haverford, so small that when I came home from Princeton for holidays, I slept in one of the garages, dirt floor and all.

One of my beautiful memories of that era: while home on Christmas vacation, I worked the graveyard shift at the Ardmore Post office. I still remember plodding down Montgomery Avenue from my garage room at 3:15 AM to begin my job. The snow was falling, the night cold and silent, not a car to be seen, the street lights soft, the challenges I faced at home and college put aside. As I walked, I distinctly remember counting my blessings. That moment remains one of my most enduring memories of those formative years. I was one lucky guy.

During this era, my parents separated, but we got lucky, moving with our beloved mother to a real two-room apartment at Haverford Gables, right across Montgomery Avenue from the Cricket Club. (If you’re curious, it’s on the third floor, left, from here.) You could say, I suppose, that I’ve come a long way from there. In my career, from waiter and then part-time post office clerk to founder and for decades chief executive of what is now the largest ($2 trillion of assets) mutual fund complex in the world. It surprises even me!

I was raised in a close but broken family, and both of my parents died the year after I graduated from college. But right here, 56 years ago, it was “Acres of Diamonds” all over again. I found Eve, and we have raised a close but “together” family that now includes six children,
four children-in-law, twelve grandchildren, soon to have, our, well, fourth grandchild-in-law, 28 in all. Malthus knew what he was talking about!

Why on earth am I telling you about this saga tonight? For two reasons, I think. First, as a reminder that in this life of ours, anything can happen. (“Never give up. Never. Never. Never. Never. Never!” is a long-time family motto.) Second, because the values that have shaped my career in finance are a product of my nature (of course), but also of my nurture—my upbringing and what some would consider a long, hard, struggle for self-reliance and financial security, learning that we must work for what we get, trying to make something of myself.

These challenges I’ve faced and overcame are what have taken this soul from a humble background to where I am today—a person of no more than decent intelligence, eagerness to accept responsibility, an ability to get along with individuals from all walks of life, and a passion to make a difference, not only in my own life, but for the human beings in our society at large.

Let me be honest, I’ve not gotten here by myself alone. I’ve been the beneficiary of a relentless determination, and so much good luck and so many incredible—often fortuitous—breaks that would be impossible for most of you here tonight even to imagine them. I didn’t do whatever I’ve been able to do without the love and support of lots of other human beings. As my dedication of my new book, *The Clash of the Cultures: Investment vs. Speculation* acknowledges, citing John Donne’s eternal wisdom, “No man is an island, entire of itself.”

**Education Makes the Difference**

A wonderful education was essential in shaping my values, sharpening my mind, honing my intellectual curiosity, and developing my career. My beloved mother was determined that her three boys would receive first-class schooling. Before coming to Philadelphia, we lived on the New Jersey shore, renting a different place every year and attending Manasquan High School in
my freshman and sophomore years. Somehow—despite being able to pay only $100 in tuition for each of us—she persuaded Blair Academy to take her boys under its wing. Blair provided us with scholarships and jobs. I was a waiter—for almost a decade, my perennial job, winter, spring, summer and fall—and, as a senior, captain of the waiting crew.

Before that life-changing opportunity, the odds were miniscule that I would ever make something of myself. Without Blair Academy—a truly great school, with marvelous masters who, bless them, demanded that I excel and wouldn’t take no for an answer. It took all of the determination at my command to measure up to their high standards. It was a remarkable blessing, for Blair led me directly to Princeton, where a remarkably direct link to my career lay in waiting.

Princeton, too, provided me with jobs and scholarships, and I was able to be self-sustaining (as if there were any alternative!). My early years were bereft of distinction, and in my sophomore year I almost lost my scholarship, which would have prematurely put an end to my college career. The prognosis for a bright future seemed grim, but my plodding determination (not, I assure you, my brains!) bailed me out, my grades improved, and continued to improve, and I went on to get a first-class liberal education. When I graduated, it was with High Honors in Economics.

The Princeton Thesis

How did that ever happen? Simple! Because I found a subject for my senior thesis that totally engaged me. It was a subject on which no thesis had ever before been written, just what I’d been looking for. And it involved an industry that was “tiny but contentious” (just like I was!). I learned of it for the first time when, in the reading room of Firestone library, I happened to open the December 1949 issue of FORTUNE magazine. (Like my snowy walk to the Ardmore Post Office, I remember that moment as if it were yesterday.) There, on page 116 began an article on the infant mutual fund industry, entitled “Big Money in Boston.” Then, the entire fund
industry oversaw only $2 ½ billion of assets under management. Today, industry assets are $12 trillion, with Vanguard’s $2 trillion now representing an amazing 16 percent of that total—one dollar of every six invested have been placed in our mutual funds.

The thesis, I think, was a workmanlike—if hardly flawless—effort by a young man barely out of his teenage years. After analyzing the fund industry’s past, I offered my ideas of how to make it a better industry for investors in the future. Here are some verbatim quotations from the thesis. Listen carefully, please.

[Mutual funds] should be operated in the most efficient, honest, and economical way possible . . . Future growth can be maximized by reducing sales charges and management fees . . . Funds can make no claim to superiority over the market averages . . . The principal function of investment companies is the management of [their] investment portfolios. Everything else is incidental . . . The principal role of the mutual fund should be to serve its shareholders.

If you see today’s Vanguard described by those words of course you’re right. But if you see only the mouthings of a callow and idealistic college senior; you’re also right. But whatever the case, it was those naïve but noble goals expressed in my thesis—efficiency, honesty, economy, low costs, index funds, serving shareholders first, in all, a fair shake for investors—that set the stage for my entire career in finance.

From College to Business

Almost immediately, my move began from lofty ideas to their implementation in the real dog-eat-dog business of investing. Industry pioneer Walter Morgan, Princeton Class of 1920, read the thesis and, when I graduated in 1951, offered me a job at his Wellington Fund, the firm he founded here in Philadelphia in 1928. My great mentor—bless his soul!—liked me; he trusted me; he had confidence in me when I had little confidence in myself; and he gave me the break of

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1 You can judge for yourself. It was published by McGraw-Hill in 2001 as the final chapter of my book John Bogle on Investing: The First 50 Years.
a lifetime—a job at his side, yet another life-changing opportunity with a man who has helped shape my values all through my career.

I absorbed Walter Morgan’s conservative investment philosophy with relish and conviction. It made sense, and served investors well. Wellington Fund was a conservative balanced fund, with about two-thirds of its assets invested in stocks—for growth of income and capital—and one-third in bonds—for current income and conservation of capital. Wellington was broadly diversified, operated with low expenses, and focused on the long term. It was designed for investors, and was as far from the needs of speculators as one could possibly imagine. Unlike today’s fund industry—in which a large fund manager usually operates as many as 200 funds or more—the firm’s entire asset base consisted of a single mutual fund with but $150 million in assets.

The “Go Go” Era

In the mid-1960s, the rules of the investment game changed. Our markets began to focus on stock prices (speculation) rather than intrinsic values (investment). It was one of the sorriest eras in the history of the mutual fund industry. Balanced funds like Wellington fell out of favor—“too conservative.” The New Breed on Wall Street (the title of a book of that time) praised that lamentable “Go-Go Era,” where hot young managers with little experience but loads of confidence appeared to create box-car returns for fund investors. Who could have been stupid enough to believe that this rampant short-term speculation and those box-car returns could endure over the long term?

Alas, to my shame, I was. I bit, as it were, at the opportunity to recast Wellington Management Company as one of the movers and shakers of the new era. Mr. Morgan had made me the head of the firm in 1965 when I was an overly-confident 35 years of age, and we were under great competitive pressure to follow the crowd. Mr. Morgan told me to take charge and “do whatever it takes” to fix our problems. During the early 1960s—Wellington Fund’s
performance returns had slipped significantly—even relative to other conservative balanced funds—and I was sure that we needed new portfolio managers. But, contrary to the lessons of investment history that I had learned at Mr. Morgan’s knee, I naively believed that we also needed to offer our own Go-Go fund, and to expand into the burgeoning business of managing money for corporate pension funds, a market then controlled by the leading New York banks. (These banks, alas, would also succumb to the “new era” illusion. That I had plenty of company in my arrogant stupidity is no excuse whatsoever.)

I was eager to make my mark, and I arranged a merger with one of the hottest new firms of the era—the Boston firm of Thorndike, Doran, Paine, and Lewis. They were among the stars of the new era, stars that soon turned out to be comets and quickly burned out. But suddenly we had our Go-Go fund, our new money managers, and our entry into the field of pension management. The large, established, conservative firm combined with the young, far smaller, Go-Go upstart. To make the merger happen, I shared with them my voting control of Wellington Management Company, and we merged in 1966.

“Rock, Paper, Scissors”

In a sense, that unwise and counterproductive merger was a harbinger of the crazy merger boom among American corporations that took place decades later. As I would write a few years ago, the urge to merge was like the children’s game of “Rock, Paper, Scissors.” Paper companies with outlandish financial prospects and inflated stock prices were able to take over rock companies which actually made products and provided necessary services. One of the worst examples was when, in 2002, the rock that was Time-Warner was covered by paper issued by AOL. The merger failed miserably.

So did we. Here, Wellington was the rock and the Boston firm the paper. Our new “whiz-kid” managers did well for just a few more years (though they made the performance of Wellington Fund itself even worse) and then failed badly in the market crash of 1973-74, a
bracing snap that culminated in a 50 percent bear market decline. But although my new partners were the money managers who failed our shareholders, I was the chief executive of the firm. In January 1974, my new partners banded together, fired me, and took over Wellington Management Company. While that struck me then (as it does now) as political, capricious, and grossly unfair, I have to acknowledge that, in doing the merger, I had made a truly disgraceful decision, and I had paid a terrible price in return. But isn’t that the essence of fairness?

Enter Vanguard

The story of how Vanguard was born, phoenix-like, out of this cataclysm is too complicated to describe tonight. (You’ll find it all in The Clash of the Cultures.) All you really need to know is that I don’t take defeat easily. I quickly fought back with a passion, and took a new and untried approach to mutual fund management that had never existed before. Whether by accident or design, the values of the new firm I created were virtually identical to the values I had expressed in that Princeton thesis of 23 years earlier. (Continuing—if not pushing—my earlier analogy, Vanguard became the scissors that cut the Boston paper that had covered the Wellington rock.)

Running funds for the exclusive benefit of shareholders would eliminate the inherent conflict of interest that prevails between principals and agents, between fund shareholders and fund management companies. The managers are in business to maximize the return of their capital, while the shareholders seek to maximize the return on their capital. (If you understand the Biblical warning that “no man can serve two masters,” you’ll get what I mean.) Eliminating (or at least managing) that conflict demanded mutual funds that were actually mutual—with the management focused solely serving shareholders, and operating on a non-profit basis.

Running funds for shareholders also called for prudent management; a long-term investment philosophy; the broadest possible diversification to reduce risk; a focus on management rather than marketing; slashing operating and investment costs; eliminating all sales
commissions and offering funds directly to investors; and emphasizing funds that focused on broad, discrete market sectors offering returns that are relatively predictable.

Of course the apotheosis of this strategy is the market index mutual fund, which, given its minimal costs, can consistently and closely match the returns generated by the entire stock market (or the entire bond market). It’s fair to say that the fund industry hated these ideas. It’s also fair to say that, at the outset, even investors themselves barely understood their implications. But in September 1974 when the new firm began, I had no doubt that we would ultimately revolutionize mutual fund investing and become the industry leader. That’s why I chose the name “Vanguard.”

Our first decision was to start the world’s first index mutual fund. Originally dubbed “Bogle’s Folly,” that once tiny index fund is now the largest equity fund of all. As I have often said, “I took on my new job as head of Vanguard under the same circumstances that I left my old job as head of Wellington: “Fired with enthusiasm.” And so I was indeed fired with enthusiasm as I set out to build a better mousetrap and, finally, to build a better financial world.

The Financial Markets Today

Now, let’s move from the human side of enterprise to the business side, and talk a bit about our American financial markets today. These lessons are also reflected in The Clash of the Cultures. In it, I tell the story of how the wisdom of traditional long-term investment has come to be crowded out by today’s folly of speculation. Our financial markets today are largely driven by dens of speculators who focus on ephemeral stock prices, where they bet against one another with the outcome as certain as the night follows the day. One investor wins the bet, the other loses the bet.
But the game is not symmetrical, for the Wall Street casino wins every time, meaning that for investors as a group, beating the stock market is—mathematically, tautologically—under all circumstances a zero-sum game. But because of those expensive croupiers, investing becomes a loser’s game because of the huge costs of running the casino.

These momentary leaps and falls in stocks that we pay so much attention to each day are essentially meaningless—(if you like Shakespeare) “A tale told by an idiot, full of sound and fury, signifying nothing”. Or (if you like that formulation by all-time great investor Benjamin Graham, Warren Buffett’s mentor) “a huge laundry in which institutions take in large blocks of each other’s washing . . . without true rhyme or reason.” In today’s laundry, stocks change hands at enormous volume every day, every minute, every nanosecond. (When I joined this industry in 1951, stock exchange daily volume was less than 2 million shares a day; today 8 billion shares are traded on a typical day.)

We use the stock market to invest, to be sure, because investing in stocks is the only realistic and broadly-available means in which we can be owners of capital, and obtain the benefits of the long-term growth of our major corporations, which in turn closely parallels the growth of our American economy. In the ideal, our corporations represent the best way for us to build a growing family wealth base through ownership, rather than the, well, loanership of family savings earnings a fixed rate of return, and getting repaid at a certain future date.

**Owning Stocks vs. Owning Corporations**

Of course individual stocks are extremely risky. Capitalism assures us that with free and open markets and unfettered competition (we’re not there yet!), corporations have to fight each day for their right to exist. In this day and age of information technology, feverish price competition on the Internet, rapid innovation, increased leverage, and with business rivals all over the globe, the risk of individual stocks has seldom been higher—think of established firms now threatened, like Hewlett-Packard; think Blackberry (RIM); think Bank of America; think
AIG; and there are scores of others, companies that had the world at their fingertips, yet have fallen on hard times.

But owning all of our nation’s corporations—including big winners like Apple as well as those losers like Eastman Kodak (unbelievable!)—carries only a fraction of the risk of owning individual companies. Such a totally diversified portfolio is an odds-on bet (but not a guarantee!) to grow over the long-term, simply because of its internal dynamics; putting vast sums of capital to work productively, earning a return on that capital, distributing part of that return to their owner/shareholders, and reinvesting the remainder of the cash flow in the business for future growth.

But understand that the way the stock market values the shares of companies is very risky in the short-term; recessions subject our corporations to lower earnings; high—even speculative—valuations ebb and flow. But, bonds—the major alternative to stocks—despite their well-protected interest coupons and generally low default rates are, arguably, even riskier. Why? Because while the dollar value of our savings is fairly secure, the value of the dollar itself tends to shrink over time, as inflation takes its toll. Even at 3 percent per year, inflation would cut the purchasing power value (vs. nominal value) of today’s $1.00 to 74 cents over a decade and to 22 cents over a half-century. Many of you here tonight have witnessed just that in the past 50 years.

So the most productive strategy for equity investors (my opinion) is to own the entire stock market, own it at the lowest possible cost, and hold it forever, come what may. Then capitalize on the wisdom of investing, and free yourself from the folly of speculation, with Benjamin Graham’s simple but profound observation: “In the short-run, the stock market is a voting machine; in the long-run it is a weighing machine.” Alas, in the recent era, we’ve forgotten that wisdom.
Investing Today

But no matter how flawed the nature of our financial system has become, we must. It is our responsibility to put our money to work but to stay out of the casino—that casino where the money changers and croupiers sit in the driver’s seat and get rich . . . to the tune of $362,950 each in the last year alone (the average salary reported this very day). “Is this a great country, or what?”

Of course, I believe that a strategy focused largely on low-cost equity index funds is the optimal strategy—simply because it focuses on the long-term, and guarantees you of your fair share of whatever positive returns the stock markets are generous enough to deliver—or, for that matter your fair share of whatever negative returns our markets are mean-spirited enough to inflict on us. (The same factors apply to owning the bond market through a low-cost bond index fund.) As investment strategy that is as simple as it is profound. “The majesty of simplicity in an empire of parsimony.”

If you favor actively-managed funds, you should know that picking winning managers over the long term is not easy. Even if you wish never to liquidate one of your fund holdings, your fund portfolio will inevitably roll over again and again. In the years ahead, you’re sure to run through scores of funds and fund managers. History suggests that about 3,500 of today’s 7,000 active funds will go out of business during the coming decade. And even if a fund that you own endures, it is apt to have about five different managers in the next 25 years. If you own, say, four mutual funds and—defying the odds—all survive, your money will have been run by 20 different managers. You must realize that, given their higher costs, the chances of their outpacing the index fund are insuperable, if not inconceivable. Only the index fund is a fund for a lifetime.
Investing Today

In a New York Times piece in August, I was quoted (correctly) as saying “this is the worst time for investing that I’ve ever seen.” It is. Because while the prospects for future returns on stocks are highly likely to be positive, albeit below long-term norms, based on the methodology I developed for realistic return expectations a quarter century ago that has met the test of time. In it, I separate stock returns into two components: investment return, and speculative return. (This is the math part of the talk!)

I show that future investment returns—the current dividend yield (about 2 percent today) plus subsequent earnings growth (probably about 5 percent) would likely be around 7 percent, measured in nominal dollars, well below the historical norm of 9 percent—a huge gap over the long-term. Consider that each dollar invested at 7 percent over a quarter century would grow by 5.4 times; at 9 percent, by 8.6 times.

The second element, speculative return, depends entirely on investor opinion and investor behavior, and we can easily measure it by the number of dollars that investors are willing to pay for future earnings on stocks. If valuations a decade hence were materially higher or lower than today’s price-earnings multiple of about 16 times, speculative return could be an important factor in the stock market’s performance. For example, a valuation of 20 times could add almost 2 percentage points per year, raising that 7 percent to 9 percent. And a drop to 12 times would cost about 3 percentage points, dropping the 7 percent return to just 4 percent.

But those are fairly big moves for valuations, and I don’t see much reason either for multiples to rise much (and thus produce positive speculative returns) or to fall much (and thus produce negative speculative returns). So I expect that possible 7 percent investment return to be neither materially enhanced nor materially depleted by speculative return during the coming decade.
But even if stocks seem apt to provide adequate returns, nearly all prudent investors still need a balanced portfolio, including bonds to reduce risk and contain volatility. The basic rule of asset allocation is age-based; less bonds when you are young, and more bonds as you age. Yet bonds today offer the lowest yields since I came into this field in 1951. Alas, today’s yields are excellent predictors of the total returns you’ll earn on bonds over the coming decade. Worst case: the (so-called) risk-free rate—based on the 10-year Treasury bond—is now 1.6 percent, down from a high of 11.6 percent in 1980.

Two more mathematical facts: a 1.6 percent return would increase your capital by just 17 percent during the next 10 years; in the same length of time with an 11.6 percent return would multiply capital three times over. So, yes, holding a balanced stock-and-bond allocation is essential, but it will not likely provide the kinds of handsome returns we were lucky enough to experience during the 1980s and 1990s, albeit better than we have seen thus far during the 21st century. (During the past 12 years, bonds were the driver. In the coming decade; it is stocks that will have to do the heavy lifting.)

Of course, investors are not limited to U.S. Treasury 10-year bonds. Owning an investment grade corporate bond with a somewhat longer maturity should produce a yield of perhaps 3 percent. So it seems it is reasonable to own a mix of Treasurys and corporates, and earn about 2 ½ percent. The Total Bond Market Index Fund—70 percent in Treasuries and other governments—now yields only 1.7 percent. But a Total Corporate Bond Index Fund would generate a yield about 3.2 percent. So, much as I love the total bond market index fund, it needs to be more heavily seeded with corporates.

So, let’s put these projections together. If it’s reasonable to expect stocks to return around 7 percent annually during the coming decade, and bonds to return perhaps 2 ½ percent, a
A traditional balanced portfolio with 60 percent stocks and 40 percent bonds should provide a return of 5 ½ percent, not so different from the past decade. (Although, as I noted earlier, it was bonds, not stocks that led the way.) This return is far below the 7 ½ percent historical return on such a portfolio. And those are nominal dollars, not real dollars. If we have inflation of 2 ½ percent, that 5 ½ percent return drops to 3 percent. As we meet tonight, that’s the investment reality.

**Seeking Returns that are “Enough”**

If that’s not, in some sense, “enough” of a return for you, the options to earn income that will cover your living costs are simple, but not easy: reduce your household expenses (no matter how painful); leverage your portfolio by borrowing at today’s low interest rates (a very risky strategy); spend moderate amounts of your capital (but you can’t do that forever); reach for higher yields by owning junk bonds (with their far higher credit risk); or increase your position in high dividend stocks (which have considerable volatility risk). But in general, make only moderate changes in your asset allocations; avoid box-car changes in favor of marginal changes. In the real world, as you see, for every pro, there’s a con. As it is said, there’s no such thing as a free lunch.

Or is there? In fact, there is one remarkably easy way to increase your income return and leave risk absolutely unchanged. And this brings me full circle in my discussion this evening. The simple mathematical fact is that, because of high mutual fund expenses, the passively-managed all-stock-market index fund typically holds the same composite portfolio as the average actively-managed fund, and generates about the same gross dividend yield, say, 2.1 percent for stocks and 2.7 percent for bonds. But active stock funds subtract expenses of about 1.3 percent, leaving just 0.8 percent for you. Active bond funds subtract about 0.8 percent in expenses, leaving just 1.9 percent for you. On the other hand, for an index fund with a cost of a mere 0.1 percent, the net yield on the stock index fund comes to 2.0 percent, bonds to 2.6 percent. The respective yield enhancements—120(!) percent higher for stock funds and almost 40 percent higher for bond funds—are there for the taking, without any increase in risk exposure.
The Dominance of the Index Fund

In recent years, the move toward index funds has come into its own. During the past five and one-half years, fund investors have moved some $300 billion out of relatively high-cost, actively-managed equity funds and poured over $600 billion into low-cost, passively managed equity index funds. In today’s low yield environment, indexing is even more attractive than ever before, and wise investors are voting for it with their hundreds of billions of dollars.

So am I satisfied with how our financial system is working today? No I am not! But I am pleased with how those remarkably simple ideas that I expressed at Princeton all those years ago have began to work. Index equity funds are rapidly approaching 50 percent of the assets of active equity mutual funds, and growing apace. In these days of low market yields and high mutual fund expenses, I expect that growth to accelerate.

A journalist recently reported that I take “almost childlike delight” in seeing my idealistic dreams come true. (He was accurate, I think, except for the almost!) But I’ve long since realized that what passes for success in this funny world of ours is really a journey, not a destination. My long journey, one that arguably began some 65 years ago right across the street, on that dark, bitterly cold, and snowy early morning hike down Montgomery Avenue to the Ardmore Post Office, continues. Perhaps it will never end . . .