

At the Summit

Remarks by

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I'm honored to be with you to receive the Tiburon Summit Award for my long service in the mutual fund industry. Of course I'm pleased to be here, but truth told—after being given fifteen extra years of life following my heart transplant in 1996—I'd be pleased to be *anywhere* this morning!

In a certain sense, I'll soon reach a certain summit of my own. On July 5, 2011, I'll complete sixty years of active participation in the mutual fund industry. It was on July 5, all those years ago, when I walked into the offices of my first post-college employer—Philadelphia's Wellington Management Company. I was nervous, green, and more than a little insecure, but ready to go to work with all the determination, ability, and enthusiasm I could command. I was on my way!

Little could I imagine the exciting, bumpy, and often unpaved road that lay ahead when, after reading my Princeton thesis on the mutual fund industry, Wellington founder Walter L. Morgan hired me. "Mr. Bogle," he generously wrote to our staff, "knows more about this business than we do." (It was nice to read, but it couldn't have been true.) In 1951, the firm was a (relatively) big fish in a (very) small industry. We ran but a single fund—the dominant business model of that era—the \$120 million Wellington Fund, in an industry whose assets under management had only recently crossed the \$3 billion mark. During the years that followed, the company grew rapidly. In 1974, Vanguard became Wellington's successor, and Wellington Fund, with assets now at \$57 billion, remains one of our brightest stars. Combined with the assets of its now-170 siblings, that orphan of 1951 is part of a \$1.65 trillion fund complex, the largest firm in a giant \$12 trillion industry.

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

Such an outcome could never have been predicted. Indeed the odds against Vanguard's very existence were stupendous. Time after time Lady Luck smiled on me. If she had not done so along the way . . . well, listen to the story:

- IF I had not gained admission to Princeton (thanks largely to my two years at Blair Academy, a great independent school), there would be no Vanguard today.
- IF I had not majored in Economics and decided to choose a topic for my senior thesis that ignored the classical economists and traditional macroeconomics, there would be no Vanguard today.
- IF I hadn't opened FORTUNE magazine in December 1949, stumbled across page 116 which described the mutual fund industry as "tiny but contentious," and decided that the industry would be the subject of my senior thesis, there would be no Vanguard today.
- IF Mr. Morgan had not made me head of Wellington in 1965—when I was excessively immature, opinionated, and self-confident—I would not have undertaken a really foolish—okay, stupid—1966 merger with a "go-go" firm with a hot fund (now long gone) and paid too large a share of the firm's voting power, there would be no Vanguard today.
- IF my new partners had not fired me from my job at Wellington Management Company in January 1974, leaving me with the opportunity to create a new firm with a new mutual structure—designed, as I suggested in that ancient thesis, to be managed in the "most economical, efficient, and honest way possible"—there would be no Vanguard today.
- IF the independent directors of the Wellington Funds had not believed in the unprecedented new structure I proposed for the firm, and if senior independent director Charles D. Root, Jr. had not believed in me, there would be no Vanguard today.
- IF an aging book salesman had not stopped in my office to sell me some antique prints of the military battles of the Napoleonic wars (the Duke of Wellington, of course, was the hero), and if he had not shown me some prints from the naval battles of the same era, I would never have learned that HMS Vanguard was Lord Nelson's flagship at the historic Battle of the Nile, and there would be no "Vanguard" today.
- IF I hadn't read Paul Samuelson's 1974 article "Challenge to Judgment" in the first issue of the *Journal of Portfolio Management*—jogging my memory of my conclusion in my thesis—mutual funds "can make no claim to superiority over the market averages"—it's almost inconceivable that we would have started, in 1975, the world's first index mutual fund. Without indexing as the centerpiece of our investment philosophy and strategy, Vanguard would have existed and prospered, but would hardly command the dominant position in the industry that we hold today.

Well, those eight “ifs” are surely a lot! And if, at any one of those junctures (and, truth told, more than a few others), the coin had landed on “tails” rather than “heads,” the industry would, I think, look rather different than it does today. But please be clear: I’m not saying that this industry needs Vanguard. Rather, I believe that *every* industry needs *a* Vanguard—a firm that says, “I see what you’re doing, but I have a different design that will serve consumers better, with better products and services, and at lower prices.”

Whatever the case, Vanguard has become the world’s largest manager of mutual funds, with a market share of industry assets recently reaching 16 percent, yes, again, a summit that, by a wide margin, no fund firm seems to have reached before.¹ And we continue to grow apace, accounting for some 40 percent of industry cash flow during the past five years. (I doubt that such a dominant share is sustainable.)

In 1976, indexing was *heresy*. “Indexing is un-American!” said a famous poster of that time, and our index fund was known as “Bogle’s Folly,” with a market share of just 0.1 percent of equity fund assets. Today indexing is dogma, the widely accepted core standard for evaluating investment performance, and having a 25% share of equity fund assets. What’s more, index mutual funds have accounted for \$688 billion of the \$672 billion total cash flow into all equity mutual funds over the past five years. Yes, 102 percent of cash *inflow*, as actively-managed equity funds suffered a cash *outflow* of \$16 billion during that period.

Yet we remain—and I have reason to believe that I remain—a sort of outlier in an industry that has yet to accept (or even seriously copy) the Vanguard model. As Walter Bagehot, founding editor of the London *Economist* pointed out a century and a half ago, there’s both pain and pleasure in that. On the one hand, “one of the greatest pains in human nature is the pain of a new idea.” On the other, “a great pleasure in life is doing what people think you cannot do.”

I’m not at all sure there aren’t more deserving recipients of the Tiburon CEO Summit Award than yours truly. I haven’t served as Vanguard’s CEO for many years, though perhaps I qualify in my role today as CEO, as it were, of Vanguard’s Bogle Financial Markets Research Center. But the fact is that, without knowing them until a few days ago, I’ve spent 60 years in my quest to meet the standards that Tiburon’s Managing Principal Chip Roame told me represent the criteria for this award.

¹ Data based on assets in long-term mutual futures, and excluding money market funds.

- 1) **Focusing on Consumers.** Serving our fund clients has been the dominant theme of my long career. While I have been criticized for choosing the title “On Human Beings” for the final chapter of both editions (1999 and 2009) of my *Common Sense on Mutual Funds: New Imperatives for the Intelligent Investor*, I can’t help but wonder what those critics think is the purpose of our careers. Perhaps we have forgotten that our duty is to serve “those honest-to-God, down-to-earth human beings” who have entrusted their savings to us, “each one with their own hopes and fears and financial goals,” phrases that I have used more than once!
- 2) **Challenging Conventional Wisdom.** Whether it is Vanguard’s unique mutual structure, our focus on rock-bottom costs, our index-oriented investment strategies, or our mission—to guarantee investors their fair share of whatever returns our financial markets provide—or our conviction that short-term speculation is a loser’s game and long-term investment is a winner’s game, we’ve challenged the conventional wisdom time and time again. If the cause is worthwhile—as ours is—fighting the good battle is, for me, what life is all about.
- 3) **“Giving Back.”** We all have the obligation to “give back” to our industry, to our investors, to our communities. My way to give back has been driven by speaking—at gatherings of investors, at industry forums, at academic institutions, at college commencements—and by writing books. *Don’t Count On It!* is my ninth book, following *Enough.*, *The Battle for the Soul of Capitalism*, *Character Counts*, and others. I’m not about to stop “giving back,” even in these later years of my life.

I close with this proverb recounted by Mario Cuomo—a member of my pantheon of American heroes—in last Sunday’s *New York Times Magazine*: An Arab traveler comes across a sparrow in the desert, laying on his back, with his claws outstretched to the sky. The traveler asks what the bird is doing, and the bird replies that he has heard the sky is about to fall and he wants to be ready to hold it up. “You foolish creature,” says the Arab, laughing. To which the bird replies, with resignation, “one does what one can.”

And so I continue to do what I can, to work toward building a better financial world in which institutional money managers honor their fiduciary duty to the clients they serve, focusing on investment rather than speculation, on prudence and due diligence, and at last honor both their rights and responsibilities for good corporate governance; a brave new world in which fund investors get a fair shake. Our financial sky, truth told, is not in very good shape, and I’m doing my best to hold it up. If you tell me it’s going to fall anyway, well, I’ll just try a little harder.