What’s Ahead for Stocks and Bonds—and How to Be Sure You Earn Your Fair Share

Remarks by John C. Bogle, Founder, The Vanguard Group at The Money Show Las Vegas, Nevada May 15, 2006
Investment Return: Earnings Growth and Dividend Yield

- Earnings Growth: 10.0%
- Dividend Yield: 6.0%
- Overall Return: 10.0%

The chart illustrates the investment return, combining earnings growth and dividend yield.
Speculative Return: The Impact of Changes in the P/E Ratio

P/E Goes From:

<table>
<thead>
<tr>
<th>P/E Change</th>
<th>Speculative Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>15x to 20x</td>
<td>2.9%</td>
</tr>
<tr>
<td>15x to 12x</td>
<td>-2.2%</td>
</tr>
</tbody>
</table>
Investment Return Versus Market Return
Growth of $1: 1900 - 2005

Annual Growth Rate

Investment Return (earnings growth plus yield) 9.5%
Market Return (includes speculative return*) 9.6%

*Impact of change in price-earnings ratio
Investment Returns on Stocks, Past and Future

Dividends and Earnings Growth, annualized

<table>
<thead>
<tr>
<th>Period</th>
<th>Dividends</th>
<th>Earnings Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980s</td>
<td>5.2%</td>
<td>4.4%</td>
</tr>
<tr>
<td>1990s</td>
<td>3.2%</td>
<td>7.4%</td>
</tr>
<tr>
<td>2000 - 06</td>
<td>1.1%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Next 10 Years</td>
<td>2.0%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>
Speculative Returns on Stocks, Past and Future
Change in P/E Ratio

1980s 1990s 2000 - 06 Next 10 Years

Cumulative 110% 100% -38% -7.4%
Start P/E 7.3x 15.2x 30.4x 18.9x
End P/E 15.2x 30.4x 18.9x 17.5x
Total Returns on Stocks, Past and Future

Investment Return plus Speculative Return

- 17.3% for the 1980s
- 17.8% for the 1990s
- 7.2% for 2000-06
- -0.8% for the next 10 years
Investment Returns on Bonds, Past and Future

Yield at Start of Each Period

<table>
<thead>
<tr>
<th>Period</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980s</td>
<td>10.4%</td>
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</tr>
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<td>Next 10 Years</td>
<td>5.1%</td>
</tr>
</tbody>
</table>
Bonds: Current Yields and Future Returns
Yield and Total Return of IT Gov’t Bonds

- Yield at year-end
- Total Return, next decade

5.1%
Total Returns on Bonds, Past and Future

Beginning Yield, and Return for Following Period

1980s 1990s 2000 - 06 Next 10 Years

11.9% 10.4% 7.8% 7.2% 6.3% 6.0% 5.1% 5.1%
Return on a Balanced Portfolio, Past and Future

15.1% 13.6% 1.9% 6.5%

10 years
- 1980s: 15.1%
- 1990s: 13.6%
- 2000-06: 1.9%
- Next 10 Years: 6.5%

60% stocks, 40% bonds
### Average Fund versus 500 Index Fund, 1980 - 2005

<table>
<thead>
<tr>
<th></th>
<th>500 Index Fund</th>
<th></th>
<th>Avg. Fund</th>
<th></th>
<th>Fund % of Index Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate</td>
<td>Profit on $1,000</td>
<td>Rate</td>
<td>Profit on $1,000</td>
<td></td>
</tr>
<tr>
<td>Gross Return</td>
<td>12.5%</td>
<td>$17,920</td>
<td>12.5%</td>
<td>$17,920</td>
<td>100%</td>
</tr>
<tr>
<td>Fund Lag</td>
<td>-0.2</td>
<td></td>
<td>-2.5</td>
<td></td>
<td></td>
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<tr>
<td>Pre-tax Return</td>
<td>12.3%</td>
<td>$17,080</td>
<td>10.0%*</td>
<td>$9,820</td>
<td>57%</td>
</tr>
</tbody>
</table>

* Lipper reported return reduced by 0.6% for estimated survivor bias and 0.3% for sales charges.
The Timing and Selection Penalties: Net Flow into Equity Funds

Source: Strategic Insight
## Average Fund versus 500 Index Fund, 1980 - 2005

<table>
<thead>
<tr>
<th>Fund Category</th>
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<th>Fund % of Index Profit</th>
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<td>Time/Sel. Penalties</td>
<td></td>
<td></td>
<td>-2.7</td>
</tr>
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<tr>
<td>Investor Return</td>
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<td>$17,080</td>
<td>7.3%</td>
<td>$4,820</td>
<td>28%</td>
</tr>
<tr>
<td>Inflation</td>
<td>-3.3</td>
<td></td>
<td>-3.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Return</td>
<td>9.0%</td>
<td>$7,620</td>
<td>4.0%</td>
<td>$1,670</td>
<td>22%</td>
</tr>
</tbody>
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*Lipper reported return reduced by 0.6% for estimated survivor bias and 0.3% for sales charges.
Growth Over Ten Years, Nominal Returns

<table>
<thead>
<tr>
<th></th>
<th>Index</th>
<th>Index Fund</th>
<th>Avg. Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ann. Ret.</td>
<td>7.5%</td>
<td>7.3%</td>
<td>5.0%</td>
</tr>
<tr>
<td></td>
<td>106%</td>
<td>102%</td>
<td>63%</td>
</tr>
</tbody>
</table>
Growth Over Ten Years, Real Returns

Index: 106%  
Index Fund: 102%  
Avg. Fund: 63%

Ann. Ret.:
- Index: 5.0%
- Index Fund: 4.8%
- Avg. Fund: 2.5%
# Picking the Short-Term Winners

**Annual Returns**

<table>
<thead>
<tr>
<th></th>
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</tr>
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<tbody>
<tr>
<td>1.</td>
<td>65.8%</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>62.5</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>59.5</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>58.5</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>54.8</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>53.3</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>51.5</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>51.5</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>50.0</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>49.7</td>
<td></td>
</tr>
</tbody>
</table>

**Avg. 55%**

Based on 851 funds with more than $100 million of assets.
Picking the Short-Term Winners

### Annual Returns

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</tr>
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<tbody>
<tr>
<td></td>
<td>Time-wtd.</td>
<td>Rank</td>
</tr>
<tr>
<td>1.</td>
<td>65.8%</td>
<td>841.</td>
</tr>
<tr>
<td>2.</td>
<td>62.5</td>
<td>832.</td>
</tr>
<tr>
<td>3.</td>
<td>59.5</td>
<td>845.</td>
</tr>
<tr>
<td>4.</td>
<td>58.5</td>
<td>791.</td>
</tr>
<tr>
<td>5.</td>
<td>54.8</td>
<td>801.</td>
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<td>51.5</td>
<td>843.</td>
</tr>
<tr>
<td>9.</td>
<td>50.0</td>
<td>851.</td>
</tr>
<tr>
<td>10.</td>
<td>49.7</td>
<td>793.</td>
</tr>
<tr>
<td><strong>Avg.</strong></td>
<td><strong>55%</strong></td>
<td><strong>-34%</strong></td>
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Based on 851 funds with more than $100 million of assets.
# Picking the Short-Term Winners

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<td>65.8%</td>
<td>-37.1%</td>
<td>13%</td>
</tr>
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<td>2.</td>
<td>62.5</td>
<td>-31.2</td>
<td>39</td>
</tr>
<tr>
<td>3.</td>
<td>59.5</td>
<td>-40.7</td>
<td>-16</td>
</tr>
<tr>
<td>4.</td>
<td>58.5</td>
<td>-27.4</td>
<td>52</td>
</tr>
<tr>
<td>5.</td>
<td>54.8</td>
<td>-28.6</td>
<td>35</td>
</tr>
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<td>6.</td>
<td>53.3</td>
<td>-28.2</td>
<td>33</td>
</tr>
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<td>34</td>
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<tr>
<td>8.</td>
<td>51.5</td>
<td>-39.1</td>
<td>-21</td>
</tr>
<tr>
<td>9.</td>
<td>50.0</td>
<td>-51.7</td>
<td>-62</td>
</tr>
<tr>
<td>10.</td>
<td>49.7</td>
<td>-27.9</td>
<td>26</td>
</tr>
<tr>
<td>Avg.</td>
<td>55%</td>
<td>-34%</td>
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## Picking the Short-Term Winners

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<td>-62%</td>
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<tr>
<td>2.</td>
<td>62.5</td>
<td>832. -31.2%</td>
<td>39</td>
<td>-80</td>
</tr>
<tr>
<td>3.</td>
<td>59.5</td>
<td>845. -40.7%</td>
<td>-16</td>
<td>-85</td>
</tr>
<tr>
<td>4.</td>
<td>58.5</td>
<td>791. -27.4%</td>
<td>52</td>
<td>-57</td>
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<tr>
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<td>801. -28.6%</td>
<td>35</td>
<td>-18</td>
</tr>
<tr>
<td>6.</td>
<td>53.3</td>
<td>798. -28.2%</td>
<td>33</td>
<td>-60</td>
</tr>
<tr>
<td>7.</td>
<td>51.5</td>
<td>790. -27.2%</td>
<td>34</td>
<td>-56</td>
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<td>7%</td>
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### Cumulative Returns

Based on 851 funds with more than $100 million of assets.
Winners, Losers, and Failures
Long-Term Returns of Mutual Funds
1970 - 2005

Number of Equity Funds
1970: 355
2005: 132

Non-Survivors
60 Losers
48 Market Equivalent
24 Winners
Now, About Those Nine Winners

Annual Performance vs. S&P 500 Since Fund’s Peak

<table>
<thead>
<tr>
<th>Year of Peak</th>
<th>Fund One</th>
<th>Fund Two</th>
<th>Fund Three</th>
<th>Fund Four</th>
<th>Fund Five</th>
<th>Fund Six</th>
<th>Fund Seven</th>
<th>Fund Eight</th>
<th>Fund Nine</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>-2.8%</td>
<td>-1.9%</td>
<td>N/A</td>
<td>-1.7%</td>
<td>N/A</td>
<td>-0.8%</td>
<td>N/A</td>
<td>0%</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>
## Equity Mutual Funds: Returns vs. Costs
(10 Years Ended February 2005)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>One (lowest)</td>
<td>12.6%</td>
<td>0.9%</td>
<td>11.7%</td>
<td>16.0%</td>
<td>11.9%</td>
<td>207%</td>
</tr>
<tr>
<td>Two</td>
<td>12.5</td>
<td>1.5</td>
<td>11.0</td>
<td>17.0</td>
<td>10.9</td>
<td>181</td>
</tr>
<tr>
<td>Three</td>
<td>12.8</td>
<td>2.0</td>
<td>10.8</td>
<td>18.5</td>
<td>10.1</td>
<td>163</td>
</tr>
<tr>
<td>Four (highest)</td>
<td>12.0</td>
<td>3.0</td>
<td>9.0</td>
<td>21.4</td>
<td>8.1</td>
<td>118</td>
</tr>
<tr>
<td>Low Cost Enhancement</td>
<td>+5%</td>
<td>-70%</td>
<td>+30%</td>
<td>-34%</td>
<td>+47%</td>
<td>+75%</td>
</tr>
</tbody>
</table>

Gross return was calculated by adding costs back into each group’s net return.
Odds of Actively Managed Fund Portfolio Outperforming Index Fund