

Vision and Values

Reflections on My 55th Anniversary at Vanguard

July 5, 2006

It's hard for me to imagine that today marks my completion of 55 years in the mutual fund industry, and begins another exciting year. While I see no reason to plan any celebration of that milestone, I hope that on this timely occasion you might enjoy some reflections on the guiding principles of my long career, principles that have served Vanguard well.

Given our unusual (to say the least!) corporate history, it may seem odd to assert that all of those 55 years have been spent at the same firm. But in fact I've been associated with the singularly durable and notably formidable Wellington Fund ever since I first walked into Wellington Management Company's small office in Philadelphia on July 5, 1951. Then, the Fund's assets were \$140 million. On September 24, 1974—23 eventful years later—when Vanguard was founded, our assets had grown ten-fold to \$1.4 billion. In fact the new firm simply assumed responsibility for providing all administrative services and, shortly thereafter, responsibility for providing many of the investment management services and all of the marketing and distribution services for the former Wellington Management Company funds.*

“Time flies when you're having fun,” goes the ancient aphorism, and that's surely been the case with me. Each step on the career ladder during my long career, each change in responsibilities, and each new challenge has been punctuated with accomplishment, with hope, and with joy, albeit never without failure, nor without disappointment, nor without sadness. For those elements are also part of life.

Sooner or later, we come to understand that it is not what *happens* to one along the bumpy road of life, but the *attitude* with which one deals with both, well, “triumph and disaster” (quoting Kipling) and the ability, “to treat those two imposters just the same.” When crewmembers ask me how one deals with the inevitable vicissitudes of life—and how I've dealt

* Bogle Financial Markets Research Center, where I've served since January 1, 2000, is of course a unit of Vanguard.

with the manifest vicissitudes of my own life—I answer “It’s amazing how simple life becomes when we realize that our job is to deal, not with *what might have been*, but with *what is*.”

But while much has ended in my career, much abides, notably in the vision and values that I did my best to invest in Vanguard. Going all the way back to that ancient thesis on mutual funds that I wrote at Princeton during 1949-1951, the vision had to do with placing service to fund investors above service to fund managers. (Of course that’s the callow idealism of a naïve youth who knew nothing of business. But please don’t forget that it is also about what Vanguard has stood for since the day we began.) That vision was clear. Quoting from my thesis: “the principal goal of the mutual fund is *to serve*—to serve individual and institutional investors.” Not merely to serve them, but to serve them “in the most efficient, honest, and economical way possible.”

There are, of course, values that are part of that vision. Implicit in my thesis, and clearly expressed early in Vanguard’s life, was our core value: “to treat those we serve, and those with whom we serve, as real, honest-to-God, down-to-earth human beings with their own hopes, fears, personal objectives, and financial goals.” It is that focus on individual human beings—our clients and our crew—that undergirds the values that have driven our remarkable growth.

For better or worse, I’ve never harbored any doubt that that vision and those values were the right ones—right for our managers and our crewmembers, right for our shareholder/owners. We treat our clients as owners not only because it’s the way we would like to be treated if our positions were reversed, but, under Vanguard’s still unique structure, because our clients literally *are* our owners. It is all of a piece.

Asset Growth, Crew Growth

While we’ve grown enormously since I stepped down as your chief executive, I’m especially pleased that the mutual funds that are our heritage—all those managed funds we created and those we rebuilt, and especially our trademark index funds—continue to drive our growth. Amazingly, some 92 percent of today’s \$960 billion asset base is composed of those legacy funds (95 percent if we count simple extensions of the earlier funds). Even better, index funds now dominate our asset base, with assets of \$432 billion. At 46 percent of the total our

index funds have more than doubled their 20 percent share in 1996. Yes, indexing is not only the Vanguard way; it is *the* way to long-term investment success.

As we have grown, of course, it's been a challenge to maintain those original values. What was easy to inculcate when we had 28 crew members in 1975, and hardly more difficult when we reached 1000 in 1988, became much more of a challenge when we leveled off at around 3,000 crewmembers in 1992-95. Today, at our present 12,000 level, with crewmembers serving our shareholders in at least five different domestic and international locations, it goes without saying that maintaining these values is a tougher job than ever before.

I've often noted the extremes in management style between companies that *trust* and companies that *count*, all the while recognizing the obvious: that no company can do all trusting and no counting, and vice versa. While in any enterprise as large as ours, much counting is inevitably required, let us never forget the role of trust. My old aphorism (which I've seen posted at many of your desks) seems as important today as ever before: "For God's sake, let's always keep Vanguard a place where judgment has at least a fighting chance to triumph over process,"

The Heritage of Lord Nelson

I know, of course, that our founding values weren't invented here. They go back to the Golden Rule, part (I think) of all of the world's great religions. Even more recently, and more relevantly, they were expressed beautifully in a sermon that Eve and I heard in St. Paul's Cathedral in London on October 23, 2005, the 200th anniversary of the death of the great British naval hero and molder of men, Lord Horatio Nelson,* captain of HMS Vanguard and our patron saint:

What made Nelson a leader whose "immortal memory" we toast? In an understandable desire to construct an objective and measurable account of the competencies required of a leader there is a modern tendency to gloss over the more subtle, moral, and relational aspects of leadership. Yet the practitioners of the art of leadership in various fields put a greater emphasis on the visionary and relational dimensions of leadership than the text books.

* We were guests of the Admiralty on that festive weekend, and—given HMS Vanguard's role in British history—they treated like, well, royalty. (Just for the record, we paid all of our own expenses.)

It is true that Nelson was a consummate professional and a hard-working manager . . . but at times of decision, leaders need to make contact with foundational convictions and with a sense of calling which comes from going deep within oneself. This is the source of healthy self-confidence and the ability to master fear and to encourage people in the most extreme circumstances. Any education system which hopes to produce effective leaders and followers must take the formation of these foundational convictions very seriously.

Yet we live at a strange time when the periodic table and anything that can be quantified and reduced to a mathematical truth is regarded as an accurate description of reality, but the Beatitudes and the teachings of the world's wisdom traditions are seen as little more than the debatable opinions of dead sages.

Nelson's sense of personal and individual call was developed within a tradition which also understands growth in the spiritual life as growth in love of neighbour. Nelson spared no pains to stand by and serve his shipmates. He exhibited an infectious trust in people which called out the best in them and engaged them not only to Nelson's person but enrolled them in the cause in which he believed. . . a faith that people are to be trusted in a way that helps them to be trust-worthy. This was not only true for the "band of brothers" who captained the ships of his fleet. People of all ranks in the little world which a ship constitutes became responsible leaders in their turn.

A sense of calling, a connection with foundational convictions derived from his belief in God who nerves his worshippers for struggle but also enjoins justice and humanity, a profound sense of the relational element in all great human enterprises—these are Nelson's contributions to a time when we are once more facing people with fire in their minds, when we need more than efficient regulation and inspection, when we must not neglect the vital work of building up trust and a sense of common purpose among all the citizens of (our) country.

From 1805 to 2006

Foundational convictions; a sense of calling; trust and trustworthiness; calling on the best in our neighbors and associates; people of all ranks becoming responsible leaders in their turns; the visionary and relational aspects of leadership; and tradition. These are the values I have on my mind as I mark this 55th anniversary at Vanguard.

At the same time, no one realizes more than I that business is demanding and competitive, and that the lives of many—indeed, most—business firms are “nasty, brutish, and short.”¹ Of course we cannot ignore the construction of objective and measurable accounts and hold those responsible accountable. Their sheer competence in the work we do remains as essential today as it did a half-century-plus ago.

I close with a salute to our directors, our managers and our crew of today, especially our dedicated veterans of two decades or more, whose number grows almost with each passing day. You have all done a remarkable job operating Vanguard, in serving our owners, and building on our early foundations. But in all the counting, however essential in the large enterprise we are today, please never forget the vision and strive always to honor the values.²

¹ Thomas Hobbes, in *Leviathan*.

² I'm sending these reflections, as usual, to our Directors, our Principals, and our veteran crewmembers. While they are posted today on my website, www.johncbogle.com, please feel free to circulate this version among any crewmembers who you think might be interested.