"Vanguard: Saga of Heroes"

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Before Dr. Elliot McGucken's Class

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I've spent a lot of time and thought on the challenge of measuring up to Dr. McGucken's high appraisal of my career, the scores of speeches that I've delivered, and especially my 2005 book, *The Battle for the Soul of Capitalism*. To find *The Battle* on the same reading list as *The Odyssey*—let alone on the same planet!—adds even more to my burden in meeting your expectations this evening. Just two weeks ago, however, an article in the Arts & Leisure section of the Sunday *New York Times* gave me a unifying theme for this evening's lecture.

The article was about someone with whom most of you students may be familiar: Brad McQuaid, creator of EverQuest, a 3-D fantasy video game operating in the virtual world, with 500,000 players, each paying $15 a month for the privilege. (Not as popular as the champion, "World of Warcraft," with *5 million* players, but amazing in its own right.) Typical of my generation, alas, I am not among those players. But in my constant attempt to understand what appeals to today's young citizens, and my effort—however unlikely to bear fruit—to understand the new virtual world, I did read the *Times* article from start to finish. It was about Mr. McQuaid's new virtual game, "Vanguard: Saga of Heroes."

Of course, the new game has nothing to do with "my" Vanguard, the investment firm that I created way back on September 24, 1974. Nor is the story of our wonderful organization a "saga of heroes," save for the multitude of heroes numbered among our now-12,000 member crew who deserve so much credit for their steadfast loyalty and commitment. This philosophy is not new to me. Indeed, I've expressed it often over the years, quoting these words of Helen Keller: *"I long to accomplish a great and noble task, but it is my chief duty to accomplish humble tasks as though they were great and noble. The world is moved along, not only by the mighty shoves of its heroes, but also by the aggregate of the tiny pushes of each honest worker."*

It is these crew members who have dedicated themselves to serving—"in the most efficient, honest and economical way possible" (a phrase I've used since 1951)—the now-20 million "honest-to-God, down-to-earth, human beings, each with their own hopes and fears and financial goals" (another phrase I've used many times!), who have entrusted Vanguard with the stewardship of their investment assets.

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

And surely "heroes" must also describe those legions of investors who came aboard the good ship Vanguard in the early years of our existence. Often without ever seeing a real person or looking up our credit rating, they sent in their checks to "Valley Forge, PA 19482," first in small amounts, but then in the millions of dollars, and then in the billions. I believe that these early believers in Vanguard's mission are also heroes for giving us their blind trust. In return they are enjoying their fair share of the returns generated in our financial markets. I'm confident that they would agree that we've measured up to their trust in our vision and our values.

The Odyssey, I hardly need tell you, is the story of a hero's journey, the building of character through overcoming the inevitable reverses of life, and the celebration (in Dr. McGucken's words) of the classic American spirit that bestows on us the right, and demands of us the duty, to take ownership of our own lives. While a different saga, however, the Vanguard story is not without tangential parallels to Homer's timeless classic. So at many levels, "Vanguard: Saga of Heroes" ties my story together with your study of entrepreneurship and technology in today's society.

A Few Disclaimers

Let me be crystal clear that I make no claim to being a hero. Nor do I claim any particular qualities of leadership for myself. For as long as I remember, I've tried my best to take responsibility for the things that I have touched along the road of life, and to leave each one better than I found it. Sure, I suppose that I also have some of the qualities that are ascribed to the leader—a vision of the ideal; self-confidence (and at least some self-awareness); a mind that, thanks to a wonderful education, is probably above average; a profound skepticism about the conventional wisdom of the day; and a determination to fight for the greater good, laboring in the interests of society at large, and in particular, the interests of the investors of our land.

While I'm about it, I might as well also disclaim much ability as a manager or businessman. (Although I do hold to what I consider to be the prime attribute of the successful manager: I've always trusted those with whom I worked, and I've always done my best to honor their trust in me.) In fact, I find more that I *don't* admire in the conduct of business today than what I *do* admire. I've loved my active participation in the non-profit world (notably in my many years of service as chairman of the board of trustees of Blair Academy and of the National Constitution Center) every bit as much as my now 55-year-plus business career. Truth told, I often wish that some of the values of these public-spirited institutions could be reflected in the values of our business leaders. I've reveled in helping to build a better world, solely because, well, it seems like the right thing to do.

Finally, while Vanguard is said to be a story of entrepreneurship, I'm not sure, either, of my credentials as an entrepreneur. In fact, the creation of the firm resulted in the conversion of an existing firm to a new corporate structure, one that was specifically designed to provide neither equity participation nor entrepreneurial reward for its creator or its staff. Rather, the whole idea was to put service in the interests of our investors, rather than service in the interests of our management, as the firm's highest value, and operating—in our own peculiar way—as a not-for-profit enterprise.

Idealism and Entrepreneurship

But even as I disclaim the credentials of the hero, of the leader, of the business manager, and even of the entrepreneur, I shamelessly proclaim my credentials as an idealist. Even more, I am an idealist who revels in the values of the Enlightenment and holds high his admiration for the brilliance and the character of the great thinkers, great doers, and great adventurers of the 18th century, men (as it happens, in particular our nation's Founding Fathers) who give birth to our modern world. I confess to being immensely proud of the title of one of the chapters of a biography[1] of me that was published a decade ago: "The 18th Century Man."

A year ago, in a talk on entrepreneurship that celebrated the 300th birthday of Benjamin Franklin, I reflected on this 18th century connection with a wonderful quotation: *"Soon we shall know everything the 18th century didn't know, and nothing it did, and it will be hard to live with us."* These words were the opening epigram of *Building a Bridge to the Eighteenth Century*, by the late Neil Postman—prolific author, social critic, and professor at New York University. Postman's book presented an impassioned defense of the old-fashioned liberal humanitarianism that was the hallmark of the Age of Reason. His aim was to restore the balance between mind and machine, and his principal concern was our move away from an era in which the values and character of Western Civilization were at the forefront of the minds of our great philosophers and leaders, and in which the prevailing view was that anything that's truly important must have a moral authority.

By way of contrast, in our present era of information technology, numbers and scientific techniques seem to be at the forefront of our values. Metaphorically speaking, *if it can't be counted, it doesn't count*. Surely this change has been clearly reflected in the change in capitalism from a system with values like trusting and being trusted at the fore, to a system relying heavily on numbers. We seem to blindly accept that financial matters are rational simply because numbers, however dubious their provenance, are definitive.

While Postman made the bold assertion that truth is invulnerable to fashion and the passing of time, I'm not so sure. Indeed I would argue that we've moved away from *truth*—however one might define it—to (with due respect to Steven Colbert) *truthiness*, the presentation of ideas and numbers that convey neither more nor less than what we wish to believe in our own self-interest, and persuade others to believe it too. We manage our truths by managing our numbers. That old bromide of the management consultant, "if you can measure it, you can manage it," has done us more harm than good.

As the 21st century begins, then, our values have changed, and it is hard to resist conformity with a new society in which, seemingly, *everything* can be measured. Even Vanguard has emerged as a sort of prototypical 21st century firm, a virtual organization; enormous in size; heavily reliant on process, real-time communications, and computer technology; and managed largely by the contemporary numeric standards of modern management. But at our core—at least through my idealistic eyes—we remain a prototypical 18th century firm, thriving on our early entrepreneurship, on our simple investment strategies, and on eternal verities such as service to others before service to self, doing our best to hold high the belief that ethical principles and moral values must be, finally, the basis for any enterprise worth its salt.

America's First Entrepreneur

In today's grandiose era of capitalism, the word "entrepreneur" has come to be commonly associated with those who are motivated to create new enterprises largely by the desire for personal wealth or even greed. But at its best, entrepreneurship entails something far more important than mere money. Heed the words of the great Joseph Schumpeter, the first economist to recognize entrepreneurship as the vital force that drives economic growth. In his *Theory of Economic Development*, written nearly a century ago, Schumpeter dismissed material and monetary gain as the prime mover of the entrepreneur, finding motivations like these to be far more powerful: (1) "The joy of creating, of getting things done, of simply exercising one's energy and ingenuity," and (2) "The will to conquer, the impulse to fight . . . to succeed for the sake, not of the fruits of success, but of success itself."

[1] *John Bogle and the Vanguard Experiment*, McGraw-Hill, 1996.

That's the way it was in 18th century America, at least in the case of Benjamin Franklin. For Franklin, fairly described as "America's First Entrepreneur," the getting of money was always a means to an end, not an end in itself. The enterprises he created were designed for the public weal, not for his personal profit. When Franklin joined with his colleagues in founding The Philadelphia Contributionship in 1752, it was a mutual company owned by its policyholders. This combination of ownership and service—creating a true mutuality of interest between the owners of a firm and its managers—was not then, nor is it now, the common mode of business organization, but The Contributionship has thrived to this day.

Franklin also founded a library, an academy and college, a hospital, and a learned society, all for the benefit of his community. Not bad! His inventions followed the same philosophy. He made no attempt to patent the lightning rod for his own profit; and he declined the offer for a patent on the "Franklin stove" that revolutionized the efficiency of home heating, with great benefit to the public at large. Benjamin Franklin believed that, "knowledge is not the personal property of its discoverer, but the common property of all. As we enjoy great advantages from the inventions of others," he wrote, "we should be glad of an opportunity to serve others by any invention of ours, and this we should do freely and generously."

If it crosses your mind that Franklin's concepts of service for the greater good of the community and of creativity and innovation designed to improve the quality of life, rather than for personal gain, are rarer than they should be in today's personal-wealth-driven, often greedy, version of entrepreneurship, you have strong powers of observation. But, however rare, examples do exist. Truth told, the creation of Vanguard (like Franklin's Contributionship, creating a mutuality of interest between client and manager) reflects the very same values of entrepreneurship and innovation that Franklin held high.

The Vanguard Odyssey

Now, to the extent that the odyssey of Vanguard is—or at least begins as—my story, let me tell you about it. I do so that you will see that no heroism was involved, that no giant brain drew the design, and that the implementation of our strategy required little in the way of inordinate business skill. Each one of you here tonight, given the opportunities and determination that I have been given, can do the same thing in whatever calling you follow. In our case, simplicity rather than complexity called the tune; the relentless rules of humble arithmetic overwhelmed the need for imponderable statistical proofs; and leaps of faith rather than hard evidence ruled the day. The idea that the shareholder—not the manager—should be king accounts for the lion's share of our growth. (It has been said of me, not kindly, that all I had going for me was "the uncanny ability to recognize the obvious.")

The story begins with the first of the almost infinite number of breaks I've been given during my long life. It came at Blair Academy, where, thanks to a generous scholarship and a demanding job (first as a waiter, then as the captain of the waiters), I received a splendid college preparatory education. That priceless advantage, in turn, presented me with another break. With the help of another full scholarship and a job waiting on tables in Commons (I must have been good at it!) I entered Princeton University in the late summer of 1947. (It was easier to get admitted then! Just ask Dr. McGucken what it was like 40 years later!)

Despite my hard-won academic success at Blair, I found the early going at Princeton tough. The low point came in the autumn of 1948, when I struggled with my first exposure to the field of economics. It was not a happy introduction to my major field of study, and my low grades almost cost me my scholarship—and hence my Princeton career, for I had not a *sou* of outside financial support. But I pressed on as best I could, and my grades gradually improved. The crisis passed.

While academic distinction continued to elude me, fate smiled down on me once again a year later. Determined to write my senior thesis on a subject that no previous thesis had ever tackled, Adam Smith, Karl Marx, and John Maynard Keynes were hardly on my list. But what topic *should* I choose? In one of the many fantastic appearances of luck in my life, I was perusing *Fortune* magazine in the reading room of the then-brand-new Firestone library in December 1949; I paused on page 116 and began to read an article about a business which I had never even imagined. And when "Big Money in Boston" described the mutual fund industry as "tiny but contentious," this callow and insecure—but determined—young kid decided that mutual funds would be the topic of his thesis. I entitled it, "The Economic Role of the Investment Company."

A Design for a Business?

There's no question that many of the values I identified in my thesis would, decades later, prove to lie at the very core of our remarkable growth. "The principal function of mutual funds is the management of their investment portfolios. Everything else is incidental . . . Future industry growth can be maximized by a reduction of sales loads and management fees," and, with a final rhetorical flourish, funds should operate "in the most efficient, honest, and economical way possible" (a phrase you heard earlier in my remarks). Sophomoric idealism? A design for the enterprise that would emerge a quarter-century later? I'll leave it to you to decide. But whatever was truly in my mind all those years ago, the thesis clearly put forth the proposition that mutual fund shareholders ought to be given a fair shake.

I threw myself into the task of writing the thesis with abandon, falling madly in love with my subject. I was convinced that the "tiny" $2 billion industry of yore would become huge . . . and would remain "contentious." I was right on both counts! It is now a $10 *trillion* colossus, the nation's largest financial institution. What's more, the countless hours that I spent researching and analyzing the industry in my carrel at Firestone was rewarded with a 1+, and led to a *magna cum laude* diploma—a delightful, if totally unexpected, finale for my academic career at Princeton. "Turnabout is fair play!"

Fate smiled on me yet again when Walter L. Morgan, Princeton Class of 1920 and the founder of Wellington Fund, read my thesis. In his own words: "Largely as a result of his thesis, we have added Mr. Bogle to our Wellington organization." One more stroke of luck! Although I agonized over the risks of going into this young business, my research had persuaded me that the industry's future would be bright. So I cast my lot with this great man and never looked back. He had given me the opportunity of a lifetime.

By 1965, Mr. Morgan had made it clear that I would be his successor. At that time, the Company was lagging its peers, and he told me to "do whatever it takes" to solve our problems. Young and headstrong, with self-confidence that belied my lack of wisdom and experience (I was then but 35 years of age), I put together a merger with a high flying group of four "whiz kids" who had achieved an extraordinary record of investment performance over the preceding six years. (Such an approach—believing that *past* fund performance has the power to predict *future* performance—is, of course, antithetical to everything I believe today. It was a great—but expensive—lesson!)

Together, we five whiz kids whizzed high for a few years. And then, of course, we whizzed low. The speculative fever in the stock market during the "Go-Go Era" of the mid-1960s "went-went." Just like the "new economy" bubble of the late 1990s, it burst, and was followed by a 50% market decline in 1973-1974. The once happy band of partners had a falling out, and in January 1974 I was deposed as the head of what I had considered *my* company. I was heartbroken.

What's in a Name?

But, necessity being the mother of invention, I decided to pursue an unprecedented course of action. The *management company* directors who fired me composed only a minority of the board of Wellington Fund itself, so I went to the *fund* board with a novel proposal: Have the Fund and its then-ten associated funds (today there are more than 100), declare their independence from their manager, and retain me as their chairman and CEO. After a contentious debate lasting seven months, we won the battle to administer the funds on a truly mutual basis, under which they would be operated, at cost, by their own wholly-owned subsidiary.

With only weeks to go before our incorporation, we still had no name for the new firm. Fate, of course, smiled again. By happenstance, as the battle for the fund board's approval raged on, I stumbled across a book describing the historic Battle of the Nile, where Lord Nelson sank the French fleet and ended Napoleon's dream of world conquest. There was Nelson's triumphant dispatch from his flagship, HMS Vanguard. His words, the proud naval tradition, and the great victory, combined with the leading-edge implication of the name *vanguard*, were more than I could resist. So on September 24, 1974, *The Vanguard Group* was born. Ironically, without both the 1951 hiring, which providentially brought me *into* this industry, and the 1974 firing, which abruptly took me *out* of it, there would be no Vanguard today. I'm fond of saying that I left my old job at Wellington in the same way that I began my new job at Vanguard: "Fired with enthusiasm."

Time does not permit me to describe in detail the Vanguard odyssey that was to follow our fortuitous launch. But its parallels to Homer's *Odyssey*, while hardly exact, are nonetheless there. We've wasted our own time with the Lotus-Eaters. We've been enticed by our own wily Sirens. We've sailed uneasily between Scylla and Charibdis. We've brazenly defied more than one Cyclops. We've been threatened by the wrath of our own Poseidon. And we've been temporarily entranced by some bewitching Calypsos. But we've survived our now-32-year voyage, and returned home, proud and prosperous, for a brief moment of reflection. Of course we know that life is a journey, not a destination, and a new odyssey lies before us.

As you might imagine, it's difficult for me to believe that such a new voyage could have the excitement and challenge of Vanguard's first one. After all, putting a new name on the map, creating a unique new structure, and establishing a new set of ethical values can't recur with regularity. True entrepreneurship or not, (1) we created a new form of governance in the mutual fund industry, a *mutual* structure in which the interests of fund investors take precedence over the interests of fund managers and distributors. (2) We formed the world's first index fund, a passive portfolio designed simply to provide the returns provided by the stock market, a challenge that precious few portfolio managers have measured up to over time. (3) We developed a new paradigm for bond fund management, using innovative three-tier structure of short-term, long-term, and intermediate-term portfolios that quickly became the industry standard. (4) We abandoned, overnight, a proven broker-dealer, commission-oriented "supply push" distribution system in favor of a new and untried no-sales-charge, "demand pull" system for self-motivated investors.

None of these changes that we all take for granted today came easily. To accomplish them required a devil-may-care attitude, a blasé disregard for risk, a profound conviction, without hard evidence, that they would work, and the sheer energy required to get it all done. What's more, they were, well, "contentious." Despite what we regarded as our noble intentions, the completion of our structure was initially opposed by our industry's regulatory agency. The Securities and Exchange Commission rejected our structure, and dawdled over our appeal for four long years. When it finally gave us its unanimous approval, it came with a nice bonus and a snappy salute: "The Vanguard plan actually furthers the (1940) Act's objectives, and promotes a healthy and viable complex in which each fund can better prosper."

And prosper we did. By the time the SEC finally gave us the green light in 1981, seven long years after we began, the stock market had begun to recover, and our assets had doubled, from $1.4 billion to $3 billion. They would double again with remarkable regularity, about every three years. In 1983, to $6 billion; 1985, $12 billion; 1986, $24 billion; 1989, $50 billion; 1992, $100 billion; 1995, $200 billion; and again to $400 billion in 1998. Remarkable! While it took longer—seven more years—for our assets to double yet again, we crossed the $800 billion mark in 2005. Today we oversee $1.1 *trillion* of other people's money.

The mighty engine that has driven that amazing growth was powered largely by our simple group of index funds, structured bond funds, and money market funds—each providing a near-causal relationship between low costs and high returns. The assets of these funds now total nearly $800 billion, more than three-quarters of our asset base. What is more, we have also applied their index-like principles—rock-bottom expenses; minimal portfolio turnover; no sales loads; diversified, investment-quality portfolios; and clearly-defined objectives and strategies—to substantially all of the remainder of our assets, largely actively-managed equity funds.

Most important, in the marketplace of intelligent long-term investors—individual and institutional alike—our strategies have worked effectively for those we serve. The returns earned by our funds are consistently ranked near the top of our industry, most recently by *Global Investor* as #1. It's fair to say, I think, that Vanguard has represented an *artistic* success for our fund shareholders, and a *commercial* success for our firm. So our odyssey has been not only long and arduous; it has been exhilarating and rewarding.

Liberal Education, Moral Education

When I think of the good fortune that has brought me to where I am today, I give the highest order of credit to a set of strong family values and a faith in God, a fine preparation for college at Blair Academy, and the powerful reinforcement and new awakening I received through a liberal education at Princeton University. A few years ago, former Princeton President Harold Shapiro defined these two aims of a liberal education: "One is the importance of achieving educational objectives, a better understanding of our cultural inheritance and ourselves, a familiarity with the foundations of mathematics and science, and a clarification of what we mean by virtue.

"The other is the importance of molding a certain type of citizen," one who is engaged in "the search for truth and new understanding . . . the freeing of the individual from previous ideas, the pursuit of alternative ideas, the development of the integrity and power of reason . . . and the preparation for an independent and responsible life of choice." President Shapiro also pointed to the "responsibility of a university offering a *liberal education* to provide its students with a *moral education* . . . helping them to develop values that will enrich their lives as individuals and as members of society." During my four years there, I did my imperfect best to acquire these values, and to manifest them in my actions in the years that followed.

As I look back in hindsight through glasses that inevitably have a rosy hue, I can only say that the liberal and moral education that was placed before me at Princeton may well have ignited some deep and unimagined spark that began to influence my life and my career in the mutual fund field. This spark, nurtured by time and experience, has erupted into some sort of flame, one that has permeated my ideas about the proper nature of the mutual fund. The flame will spread one day to the industry and become a blaze, one that will not be easy to extinguish.

It is my prayer that my mission—my crusade, if that is not too lofty a characterization of the course of my career—will help an industry to rethink its values, and accordingly be of greater service to growing millions of American investors. Serving these new owners of American business, who are contributing to the highest values of our system of capital formation even as they strive to take personal responsibility for the security of their own financial futures, has been a marvelously worthwhile life's work. I am infinitely blessed.

Returning Full Circle

It is wonderfully ironic that the very same 1949 issue of *Fortune* that inspired my thesis included a feature essay entitled "The Moral History of U.S. Business." Alas, I have no recollection of reading it at that time. But I read it a few years ago, a half-century later. As I reflect on Vanguard's two guiding principles of prudent investing and personal service, both seem to be related to the kind of moral responsibility of business that was expressed in that ancient *Fortune* essay. It began by noting that the profit motive is hardly the only motive that lies behind the labors of the American businessman. Other motives include "the love of power or prestige, altruism, pugnacity, patriotism, the hope of being remembered through a product or institution." Yes, all of the above.

Even as I freely confess to all of these motives—life is too short to be a hypocrite—I also agree with *Fortune* on the appropriateness of the traditional tendency of American society to ask: "what are the moral credentials for the social power (the businessman) wields?" The article quotes the words of Quaker businessman John Woolman of New Jersey, who in 1770 wrote that it is "good to advise people to take such things as were most useful, and not costly," and then cites Benjamin Franklin's favorite words—"Industry and Frugality"—as "the (best) means of producing wealth and receiving virtue." Moving to 1844, the essay cites William Parsons, "a merchant of probity," who described the good merchant as "an enterprising man willing to run some risks, yet not willing to risk in hazardous enterprises the property of others entrusted to his keeping, careful to indulge no extravagance and to be simple in his manner and unostentatious in his habits, not merely a merchant, but a man, with a *mind* to improve, a *heart* to cultivate, and a *character* to form."

Those demands, uttered more than 160 years ago, were not only inspiring, but seemed directed right at me. As for the mind, I still strive every day—I really do!—to improve my own mind, reading, reflecting, and challenging even my own deep seated beliefs. As for the heart, no one—no one!—could possibly revel in the opportunity to cultivate it more than I. Just six days ago, after all, I marked the eleventh (!) anniversary of the amazing grace represented by the incredibly successful heart transplant that I received in 1996. And as for character, whatever moral standard I may have developed, I have tried to invest my own soul and spirit in the character of the little firm I founded all those years ago. On a far grander scale than just one human life, these standards of mind, of heart, and of character resonate—as ever, idealistically—in how we seek to manage the billions of dollars entrusted to Vanguard's stewardship, and in how I pray that my company will ever see itself, putting the will and the work of a business enterprise in the service of others.

The Battle for the Soul of Capitalism

Perhaps it is obvious that these values eventually inspired me to expand my horizons beyond the narrow confines of the mutual fund industry in which I'd spent my entire career. The result: *The Battle for the Soul of Capitalism*, published by Yale University Press late in 2005. In essence, *Battle* is my *cri de coeur* about the state of American capitalism and the state of American society today. *The Battle* is one idealistic book! Just consider its first words, with the dedication to my twelve grandchildren and the other fine young citizens of their generation. With six of them now in college, you students here tonight are part of that generation, and hence of this dedication:

> "My generation has left America with much to be set right; you have the opportunity of a lifetime to fix what has been broken. Hold high your idealism and your values.

> Remember always that even one person can make a difference. And do your part 'to begin the world anew.'"

A single turn of the page takes you to five epigraphs (count 'em, five!), the first of which comes from St. Paul: "if the sound of the trumpet shall be uncertain, who shall prepare himself to the battle?" And in my acknowledgments, I get right to the point in the very first paragraph: "Capitalism has been moving in the wrong direction."

The introduction that follows doesn't let up. I start off with a remarkably light revision of the classic first paragraph of Gibbon's *The Decline and Fall of the Roman Empire*, adapted to the present era. Compare the two first sentences. Gibbon: "In the second century of the Christian Era, the Empire of Rome comprehended the fairest part of the earth and the most civilized portion of mankind." *Battle*: "As the twentieth century of the Christian era ended, the United States of America comprehended the most powerful position on earth and the wealthiest portion of mankind."

So when I add Gibbon's conclusion—"(Yet) the Roman Empire would decline and fall, a revolution which will be ever remembered and is still felt by the nations of the earth"—I'm confident that thoughtful readers do not miss the point. But of course I hammer it home anyway: "Gibbon's history reminds us that no nation can take its greatness for granted. There are no exceptions." As one of two reviews—both very generous—of *The Battle* that appeared in *The New York Time* noted, "Subtle Mr. Bogle is not."

No, I'm not writing off America. But my certain trumpet is warning that we must put our house in order. "The example of the fall of the Roman Empire ought to be a strong wake-up call to all of those who share my respect and admiration for the vital role that capitalism has played in America's call to greatness. Thanks to our marvelous economic system, based on private ownership of productive facilities, on prices set in free markets, and on personal freedom, we are the most prosperous society in history, the most powerful nation on the face of the globe, and, most important of all, the highest exemplar of the values that, sooner or later, are shared by the human beings of all nations: the inalienable rights to "life, liberty, and the pursuit of happiness."

Something Went Wrong

But something went wrong. "By the later years of the twentieth century, our business values had eroded to a remarkable extent"—the greed, egoism, materialism, and waste that seem almost endemic in today's version of capitalism; the huge and growing disparity between the "haves" and the "have-nots" of our nation; poverty and lack of education; our misuse of the world's natural resources; the corruption of our political system by corporate money—all are manifestations of a system gone awry.

And here's where the soul of capitalism comes in. The book reads, "The human soul, as Thomas Aquinas defined it, is the 'form of the body, the vital power animating, pervading, and shaping an individual from the moment of conception, drawing all the energies of life into a unity.' In our temporal world, the soul of capitalism is the vital power that has animated, pervaded, and shaped our economic system, drawing all of its energies into a unity. In this sense, it is no overstatement to describe the effort we must make to return the system to its proud roots with these words: *the battle to restore the soul of capitalism.* (One reviewer thought that the title was, well, "inflated," but liked the book anyway.)

This idealism doesn't let up. The reader doesn't even finish the first page of Chapter I ("What Went Wrong in Corporate America?") before reading: "At the root of the problem, in the broadest sense, was a societal change aptly described by these words from the teacher Joseph Campbell: 'In medieval times, as you approached the city, your eye was taken by the Cathedral. Today, it's the towers of commerce. It's business, business, business.' We had become what Campbell called a 'bottom-line society.' But our society came to measure the *wrong* bottom line: form over substance, prestige over virtue, money over achievement, charisma over character, the ephemeral over the enduring, even mammon over God."

That may seem a harsh indictment, but I don't back away from it. Indeed, as *International Herald Tribune* columnist William Pfaff described it, what went wrong as "a pathological mutation in capitalism." The classic system—*owners'* capitalism—had been based on serving the interests of the corporation's owners, maximizing the return on the capital they had invested and the risk they had assumed. But a new system had developed—*managers'* capitalism—in which, Pfaff wrote, "the corporation came to be run to profit its managers, in complicity if not conspiracy with accountants and the managers of other corporations." Why did it happen? "Because the markets had so diffused corporate ownership *that no responsible owner exists*. This is morally unacceptable, but also a corruption of capitalism itself."

As you know from reading the book, there were two major reasons for this baneful change: First, the "ownership society"—in which the shares of our corporations were held almost entirely by direct stockholders—gradually lost its heft and its effectiveness. Since 1950, direct ownership of U.S. stocks by individual investors has plummeted from 92 percent to 32 percent, while indirect ownership by institutional investors has soared from 8 percent to 68 percent. Our old ownership society is now gone, and it is not going to return. In its place we have a new "agency society" in which financial intermediaries now hold effective control of American business.

Agents vs. Principals

But these new *agents* haven't behaved as owners should. Our corporations, pension managers, and mutual fund managers have too often put their own financial interests ahead of the interests of their *principals*, those 100 million families who are the owners of our mutual funds and the beneficiaries of our pension plans. As Adam Smith wisely put it 200-plus years ago, "managers of other people's money (rarely) watch over it with the same anxious vigilance with which . . . they watch over their own . . . they very easily give themselves a dispensation. Negligence and profusion must always prevail." And so negligence and profusion among our corporate directors and money managers have prevailed in present day America.

The second reason is that our new investor/agents not only seemed to ignore the interests of their *principals*, but also seemed to forget their own investment *principles.* By the latter part of the twentieth century, the predominant focus of institutional investment strategy had turned from the wisdom of long-term investing to the folly of short-term speculation. During the recent era, we entered the age of expectations investing, where projected growth in corporate earnings—especially earnings guidance and its subsequent achievement, by fair means or foul—became the watchword of investors. Never mind that the reported earnings were too often a product of financial engineering that served the short-term interest of both corporate managers and Wall Street security analysts.

When long-term *owners* of stocks become short-term *renters* of stocks, and when the momentary precision of the price of the stock takes precedence over the eternal vagueness of the intrinsic value of the corporation, concern about corporate governance is the first casualty. The single most important job of the corporate director is to assure that management is creating value for shareholders; yet investors seemed not to care when that goal became secondary. If the owners of corporate America don't give a damn about corporate governance, I ask you, who on earth should?

And so in corporate America we have the staggering increases in executive compensation, unjustified by corporate performance and grotesquely disproportionate to the pathetically small increase in real (inflation-adjusted) compensation of the average worker; financial engineering that dishonors the idea of financial statement integrity ("If you can measure it, you can manage it," writ large!); and the failure of the traditional gatekeepers we rely on to oversee corporate management—our auditors, our regulators, our legislators, our directors.

In investment America, the agent-owners who now control corporate America don't seem to care. While our institutional investors now own 68 percent of all stocks, all we hear from these money managers is the sound of silence. Not only because they are more likely to be short-term speculators than long-term investors, but because they are managing the pension and thrift plans of the corporations whose stocks they hold, they are faced with a serious conflict of interest when controversial proxy issues are concerned. As one manager reportedly has said: "There are only two types of clients we don't want to offend: actual and potential."

And in mutual fund America, an industry lost its way. Once a profession with elements of a business, mutual funds have become a business with elements of a profession—and too few elements at that. Once dominated by small, privately-held organizations run by investment professionals, the mutual fund industry is now dominated by giant, publicly-held financial conglomerates run by businessmen hell-bent on earning a return on the capital of the firm rather than the return on the capital invested by the *fund shareholders*. Result: over the past twenty years, the typical mutual fund investor has captured only one-quarter—yes, 27 percent—of the compound real (inflation-adjusted) return on stocks that was there for the taking by simply holding the U.S. stock market portfolio through an index fund. (I'm speaking, of course, of the Vanguard 500 Index Fund.)

Facing Up to the Reality

It must seem obvious that there is an urgent need to face up to these and other failures in the changing world of capitalism. But despite the contentious nature of the issues I've just described—broadly reflecting the triumph of the powerful economic interests of the oligarchs of American business and finance over the interests of our nation's last line investors—it is remarkable that so little public discourse has been in evidence. In the investment community, I have seen no defense of the inadequate returns delivered by mutual funds to investors, nor of our industry's truly bizarre, counterproductive ownership structure; no attempt by institutions to explain why the rights of ownership that one would think are implicit in holding shares of stock remain largely unexercised; and no serious criticism of the virtually unrecognized turn away from the once-conventional and pervasive investment strategies that relied on the wisdom of long-term investing, toward strategies that increasingly rely on the folly of short-term speculation. If *The Battle* helps to open the door to the introspection—and then corrective action—by our corporate and financial leaders that is so long overdue, perhaps the needed changes will be hastened.

This process, I conclude, must begin with a return to the original values of capitalism, to that virtuous circle of integrity—"trusting and being trusted." When ethical values go out the window and service to those whom we are duty-bound to serve is superseded by service to self, the whole idea of the capitalism that has been a moving force in the creation of our society's abundance is soured. In the era that lies ahead, the trusted businessman, the prudent fiduciary, and the honest steward must again be the paradigms of our great American enterprises. I *know* it won't be easy, but if we all work long enough and hard enough at the task, we can build, out of our long-gone ownership society and our failed agency society, a new "fiduciary society," one in which the citizen-investors of America will at last receive the fair shake they have always deserved from our corporations, our investment system, and our mutual fund industry.

Conclusion

And so ends my saga of entrepreneurship that can still be built by focusing on human values rather than on the accumulation of personal wealth. To reiterate, this saga is at least tangentially related to Homer's *Odyssey* that, happily, still resonates in our literature—the hero's journey through triumph and disaster, over and over again. The odyssey of Vanguard, while different, is nonetheless a throwback to today's misguided bottom-line society as well as a reaffirmation of the inspiring moral values of the 18th century, values that belie today's pervasive retreat from yesterday's solid foundation of capitalism.

At the same time, we seem to have lost our bearings as a nation and as a society, focusing more on the tools of success—what we can see and count, facts and figures, courses about the superficial—and ignoring the truly essential tools of higher learning such as intellectual curiosity, the rule (and role) of reason, moral vision, and even generosity of spirit, open-mindedness, self-denial, and integrity.

So what's to be done? We each must do our part. Each of you here tonight can prove that "even one person can make a difference."[2] Returning to the theme of "Vanguard: Saga of Heroes," Brad McQuaid reminded us, in the final sentence of that *New York Times* article, that "*these games should never be finished*." Neither your odyssey nor mine should be finished so long as our minds improve, our hearts beat, and our character strengthens. While life is life and death is death, we must nonetheless "press on, regardless" while we can, and "stay the course" as long as the race continues, two phrases I've repeated *ad infinitum* to my colleagues at Vanguard.

But even as I ask you, as I did my grandchildren in the dedication to *Battle*, to enlist in the mission of building a better world, I remain eager for the excitement of the chase; the idealism of a cause worth betting one's life on; and the joy of honoring the values of the past as the key to a brilliant future. So dream your own dreams, but act on them, too. Action, always action, is required on the ever-dangerous odyssey that each of our lives must follow. Be good human beings. Respect tradition and study the great thinkers of our heritage. And not only hear me, but reflect, if you will, on what I've said this evening.

I close now, with some words from Tennyson's *Ulysses* (the Greek Odysseus, rendered in Latin) that may explain to you, far better than could any words of my own, the exciting adventures I've enjoyed, the conflicting emotions I've endured, and the single-minded determination on which I have reflected this evening, as I await with eager anticipation the still-unwritten final chapters of my long career.

Ulysses begins by reflecting on his odyssey:

I cannot rest from travel: I will drink
Life to the lees: All times I have enjoy'd
Greatly, have suffer'd greatly, both with those
That loved me, and alone.
I am become a name;
For always roaming with a hungry heart
Much have I seen and known; cities of men
And manners, climates, councils, governments,
Myself not least, but honour'd of them all;
And drunk delight of battle with my peers.

Then he considers what may lie ahead:

I am part of all that I have met.
How dull it is to pause, to make an end,

[2] This phrase appears on the plaque awarded to Vanguard crew members who win our "Award for Excellence."

To rust unburnish'd, not to shine in use!
As tho' to breathe were life! Life piled on life
Were all too little, and of one to me
Little remains: But every hour is saved
From that eternal silence, something more,
A bringer of new things;
And this gray spirit yearning in desire
To follow knowledge like a sinking star,
Beyond the utmost bound of human thought.
Old age hath yet his honour and his toil;
Death closes all: but something ere the end,
Some work of noble note, may yet be done.

Then, determined to take on one final mission, Ulysses summons his followers:

So come, my friends
Tis not too late to seek a newer world.
Push off, and sitting well in order smite
The sounding furrows; for my purpose holds
To sail beyond the sunset, 'til I die.
Tho' much is taken, much abides; and tho'
We are not now that strength which in old days
Moved earth and heaven, that which we are, we are;
One equal temper of heroic hearts,
Renewed by time and fate, still strong in will
To strive, to seek, to find, and not to yield.

To each of you, with so much—for you students, nearly all—of your own odyssey lying before you, unknown, this chronicle of my own past may well be irrelevant. Our task is to live, not the lives of others, but the lives of our own. But wherever you are on your own journey, I know it holds the promise of being an exciting and rewarding one, if only you remain "strong in will, to strive, to seek, to find, and not to yield."

Note: regarding the penultimate line of the poem: Tennyson wrote, "Made weak by time and fate, but strong in will." He could hardly have imagined that a heart could be transplanted from one human being to another, renewing the vigor of the soul.