

## John Bogle and the Cost of Mutual Funds

William Baldwin, 09.13.10, 12:00 AM ET

It's a bit late in coming but I'd like to officially retract a story FORBES published in May 1975. The piece, entitled "A Plague on Both Houses?," pooh-poohed the creation of Vanguard Group by John C. Bogle (*pictured below*).

Bogle carved Vanguard out of a mutual fund company, Wellington Management. He left the stock picking to the old firm while making Vanguard a pure distribution house. Let those guys try to beat the market, he declared; Vanguard would work on ways to keep costs down for investors. This magazine focused on the disappointing past performance of Wellington funds and concluded, "Both contenders may be left holding empty bags."

Not quite. Vanguard now manages \$1.4 trillion, half of it in ultra-low-cost index funds. Bogle, 81, is retired from management but is as vociferous as ever an evangelist for cost-cutting. I think he has done more good for investors than any other financier of the past century.

This does not represent a sudden change of heart. The notion that costs matter a lot in investment management has been a part of our philosophy for 23 years. Our fund survey highlights expense ratios and tax efficiency. We feature cheap funds (a disproportionate number of them from Vanguard) in our Best Buy rankings. Our personal finance coverage is quick to condemn complicated, expensive products when simple, cheap ones will do. I have a lot of my own money in index funds.

And yet I am not so won over by Bogle's thinking that I subscribe to the efficient market hypothesis. This theory says that all stocks are rationally priced at all times, so you might as well throw up your hands and employ monkeys to manage your portfolio. I still see grossly mispriced stocks (such as the one I wrote about here five weeks ago, Pimco High Income); I think some money managers can profitably exploit inefficiencies in foreign and small-company stocks; and I think there is a lot to be said for owning individual stocks so you can cull losers for the tax benefits.

So here's my investment philosophy. It's hard, but not impossible, to beat the market. It is easy, and imperative, to save on taxes and money-management costs. If you pay a lot of attention to taxes and costs you will have 50% more wealth at retirement than if you are clueless about these things.

I am ending my career as magazine editor to begin a new one as a writer about investment strategies. I would be thrilled if the stocks mentioned in "Go For Silent Dividends" beat the market, but would consider it a victory if they merely matched it, since they will save you money at tax time. As for costs, this part of your portfolio has a management fee of 0%. Not even Vanguard can beat that.

