"Big Money"

Remarks by John C. Bogle

Founder of The Vanguard Group

On Receiving *The Philadelphia Inquirer* "Industry Icon" Award

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The idea of "Big Money"—the title of my remarks this evening—has never motivated me. My goal in this business was not to build a colossus. It was to give investors a fair shake. But I'm unable to avoid the use of the phrase "Big Money" as the theme of my remarks this evening, commemorating my award from *The Philadelphia Inquirer* as one of the "Industry Icons" of our region's business community. Thank you, Bill Marimow, Terry Egger, and Gerry Lenfest, for this salute to my lifetime career in the Philadelphia region.

"Big Money in Boston"

My fortuitous entry into the mutual fund industry in 1951 was inspired by an in-depth article about mutual funds in the December 1949 issue of FORTUNE magazine. It was entitled "Big Money in Boston," and I read it immediately. Talk about lucky timing! As a Princeton University junior, majoring in Economics, I was searching for a topic for my senior thesis. That article, alone, led to my decision to choose the fund industry—an industry that I'd never heard of—as my subject. "Tiny and contentious" was how the story described this then-little-known industry, words that resonated with this "tiny and contentious" young man.

The FORTUNE article focused on Massachusetts Investors Trust (MIT), the oldest and then the largest (and lowest-cost) firm in the fund industry. In 1949, MIT's $296 million (yes, *million*) asset base commanded fully 16% of industry assets, and Boston's fund managers supervised nearly 50% of the industry's assets. Yes, all those years ago, the "Big Money" was in Boston. The FORTUNE story totally ignored Philadelphia, where Wellington Fund, with its $105 million asset base, accounted for just 6% of the industry total.

That's where my story begins. In brief summary, here's what happened in my career during the 67 years that followed.

The Saga of Wellington and Vanguard

THE PRINCETON THESIS. I plunged into the task with enthusiasm, spending long hours over many months in the library, researching this little-known field. Then I wrote, 129 pages in all. I titled my tome, "The Economic Role of the Investment Company." Thanks to that thesis, I graduated from Princeton with high honors.

THE OPPORTUNITY. Walter L. Morgan, founder of Philadelphia's Wellington Fund, read my thesis and was impressed. He wrote to his small staff: "Largely as a result of this thesis, we have added Mr. Bogle to our organization." I joined his firm in July 1951 and he soon became my mentor. I owe him everything!

THE ACCOMPLISHMENT. The fund industry grew rapidly, and conservative Wellington grew even faster. Mr. Morgan promoted me quickly, and by the late 1950s I had become a member of our management team. In 1965, assets of the fund crossed the $2 billion mark.

THE MUSIC STOPS. That $2 billion total would represent Wellington Fund's high . . . for the next 24 years! In the "Go-Go" era of the mid-1960s—"hot stocks" of ephemeral companies—mutual fund managers lost their bearings and jumped on the speculative bandwagon. The returns earned by the Go-Go funds soared. Balanced funds, too conservative for the wild marketplace, fell totally out of favor with investors, and Wellington Fund's very existence was threatened.

OPPORTUNITY STRIKES AGAIN. Faced with this challenge to our survival, Mr. Morgan handed over his leadership responsibilities to me in the spring of 1965. "Jack, I want you to run our firm, and do whatever it takes to solve our problems." I was but 35 years of age—ambitious and self-confident—and eagerly took on the challenge. (I was also callow, impulsive, and probably a bit arrogant.)

ACTION. I quickly moved to diversify Wellington Management Company's business by merging with a small Boston firm in 1966. By doing so, we added a stock fund—in fact, a Go-Go fund—a pension management business, and some new, seemingly able, young managers.

SUCCESS, THEN FAILURE. For five years, our merged firm accomplished its goals, and more. But then the Go-Go era ended with a bang. The 50% bear market that followed in 1972-1974 was the *coup d'grace*. Once again, survival was our challenge.

THE DISASTER. The risk-taking philosophy of those hot money managers on whom I had relied had led us into the valley of sin. Nonetheless, early in 1974, they ganged up and fired me from my position as head of Wellington Management *Company*. My career had come to an abrupt, unfair, and embarrassing halt. Many thought that it was over. Not I.

THE PHOENIX RISES. Out of the ashes of my failing firm and my failed career, I created a new firm that rose like the proverbial Phoenix. It was a bold step, without industry precedent. I persuaded the directors of Wellington *Fund* and our other funds (separate legal entities from the management company), to retain me as their chief executive, and build a new structure in which the Wellington *funds* would be forever independent from their *investment adviser*, Wellington Management Company. (I know; it's complicated!)

LOCATION. LOCATION. LOCATION. My triumphant merger partners quickly moved Wellington Management's headquarters to Boston. But I was determined that the new firm would remain here in greater Philadelphia. This was my home, and this was where Wellington was founded and where its roots took hold. I owed it to Walter Morgan to preserve his proud legacy. And so here we would remain.

A NEW STRUCTUE AND A NEW NAME. The goal of the new structure was to create a firm in which the funds would control their own destiny . . . truly *mutual* mutual funds, a logical and economical structure never tried before, designed to minimize the industry's rife conflicts of interest. With our "at-cost" structure, we would seek to become the lowest-cost provider in an industry in which fund costs, finally, are everything. I named the new firm *Vanguard*. We were incorporated on September 24, 1974.

A NEW STRATEGY. I was disgusted by our industry's tendency to jump on whatever market sector is hot (after all, this is a marketing business), and to tacitly suggest that fund money managers possessed superior stock-picking ability. (They don't, and as a group, they can't beat the market itself.) So I determined to start a fund that simply matched the return of the stock market, measured by the Standard & Poor's 500 Index, and did so at rock-bottom costs. The idea for a mutual fund that simply tracked the index at low cost had never been tried before. *Never*. (Though I had hinted at the idea in my Princeton thesis.) We incorporated First Index Investment Trust (now Vanguard 500 Index Fund), on December 31, 1975.

THE FINANCIAL WORLD CHANGES . . . BUT FIRST AT A GLACIAL PACE. The combination of our low-cost mutual *structure* and the index fund *strategy* that it fostered took a few decades to gain traction. (It seemed like forever!) Even by the mid-1990s, when assets of the Vanguard funds topped $100 billion for the first time, our index funds constituted barely one-sixth of our asset base.

THE INDEX EXPLOSION. Today, Vanguard's index funds constitute almost 75% of our now $3.5 trillion asset base. Purchases of our funds by investors total some $1 billion per business day. (Of course such a large inflow makes me nervous!) Our cash flows now regularly account for well over 100% of the industry total (i.e., as a group, our competitors are bleeding).

"Big Money in Philadelphia"

Vanguard's structure and strategy, with two ideas whose time had come, disrupted a mutual fund industry in need of disruption. Our simple firm—"of the investor, by the investor, and for the investor"—has now become a force whose industry dominance is without precedent.

The old industry structure has been turned on its head. The hub of the industry moved—just as did Benjamin Franklin—from Puritan Boston to Quaker Philadelphia. MIT's once-16% asset share has plummeted to less than 1/10 of 1%, and the Boston share of fund assets has dropped from almost 50% to less than 20%.[1] Philadelphia has become the industry's largest region, with our 6% share in 1949 soaring to almost 25%. Our fund assets now total $3.5 *trillion* (yes, trillion), and our market share is now double the highs reached by previous industry leaders.

The idea of fiduciary duty, honest disclosure, and candor, along with our simple mutual structure and our simple index strategy that followed—all of which, as it happens, are Quaker in spirit—have become "the way." We now effectively serve the needs of the 22 million human beings who have entrusted us with their investments, their hopes, and their confidence. We are proud of our heritage, and faithful service to investors has always been my primary goal. If "Big Money in Philadelphia" suggests that we have accomplished that goal, well, so be it! Thank you again, *The Philadelphia Inquirer*, for the honor that you bestow on me and Vanguard this evening.

[1] In 1969, MIT became the linchpin of a new fund complex named Massachusetts Financial Services. That firm's total market share is now but 1%.