

A New Era for Corporate America, for Mutual Funds, and for Investors

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I'm delighted to return to Vanderbilt and to the Owen School of Management. (Congratulations, by the way, on being named one of the top MBA "hidden gems," and your great leap forward to a rank of #15 in the recent *Wall Street Journal* rankings!) I'll talk to you today about the new era for investing that lies ahead—a new era in our financial markets in which we can expect more subdued returns than those of the latter half of the second century, a new era for the governance of corporate America after the egregious financial manipulation of the 1990s; and a new era for the mutual fund industry growing out of the recent scandals.

Our business institutions need to be reinvigorated, and that situation creates great opportunities for each one of you. Of course I'm especially pleased that my son Andrew is preparing here for his MBA, continuing the tradition begun by his brother, John, Owen 1983, who moved on to a distinguished and successful business career and now runs his own money management firm.

It was eleven years ago when I was honored to deliver the Commencement address to your Class of 1992. It was entitled "Press On, Regardless," and while I don't know how many graduates took the advice, it's clear that I did. While I've had, well, a change of heart since then, I assure you that my new heart is in the same place as the old one, and I continue on my seemingly career-long crusade to build a better world for investors.

The fact is that the basic values I hold about investing were formed during my four years as an undergraduate at Princeton University. There, almost 54 years ago, I happened upon the December 1949 issue of *Fortune* magazine and learned for the first time that something called "the mutual fund industry" existed. When I saw the industry described in the article as "tiny but contentious," I knew immediately that I had found the

topic for my senior thesis, then as now, a requirement for the Bachelor of Arts degree at Princeton.

Chart – Total Mutual Fund Assets, 1952-2003

Over the next 18 months, I spent countless hours researching and writing my thesis. Remarkably little public information was available about this field, then consisting of some 130 mutual funds with assets aggregating just \$2½ *billion*. Harvard strategy guru Michael Porter advises people considering their careers to "pick a good industry," and I certainly did that when I chose my thesis topic. With an annual growth rate of almost 16% since then, the fund industry just may have been the fastest growing business in America, and today there are 9,000 funds, with total assets that approach \$7 *trillion*!

An Idealistic Senior Thesis

Read today, my thesis would probably impress you as no more than workmanlike, perhaps a bit callow, but above all, shamelessly idealistic. (And you can read it, for two years ago it was published by McGraw-Hill, part of *John Bogle on Investing: The First 50 Years*; my "Press On Regardless" speech appears as Chapter 25. If you wait a half-century, perhaps *anything* can be published!) On page after page, my youthful idealism speaks out, calling again and again for the primacy of the interests of the mutual fund shareholder. At the very opening of my thesis, I get right to the point: Mutual funds must not "in any way subordinate the interests of their shareholders to other economic roles. *Their prime responsibility must always be to their shareholders.*" (Important advice that the industry seems to have ignored in the recent scandals.) Shortly thereafter, "there is some indication that costs are too high," and that "future industry growth can be maximized by concentration on a reduction of sales charges and management fees." (My advice fell upon deaf ears there as well!)

After analyzing mutual fund performance, I conclude that "*funds can make no claim to superiority over the market averages,*" perhaps an early harbinger of my decision to create, nearly a quarter-century later, the world's first index mutual fund. Still later in the thesis, "fund influence on corporate policy . . . should always be in the best interest of shareholders, not the special interests of the fund's managers." (Again, my advice fell by the wayside, and shareholders remain ill-served by the passive governance policies of most funds.)

My conclusion powerfully reaffirmed the ideals that I hold to this day: The role of the mutual fund is to *serve*—"to serve the needs of both individual and institutional investors . . . to serve them in the most *efficient, honest, and economical* way possible . . . *The principal function of investment companies is the management of their investment portfolios. Everything else is incidental.*"

The Boom and the Bust

Well, despite the fact that this industry has failed—and failed abysmally, in my view—to measure up to the high ideals I expressed all those years ago, grow it did. And as the great bull market in both stocks and bonds that began in the early 1980s produced the most generous investment returns in all our nation's history, it grew *massively*. In the greatest bull market in all history, the market capitalization of U.S. stocks grew from less than \$1 trillion to \$17 trillion. "We *never* had it so good." But the good times didn't—couldn't—continue to roll by and these recent years have not been very happy ones for idealists. The disgusting recent scandals in some of the fund industry's largest firms are only the small tip of a very large iceberg; soaring fund expenses and moving our focus from prudent management to opportunistic marketing have imposed far larger costs on our investors.

Chart – Total Market Capitalization, 1950-2003

Since the great stock market bubble of the late 1990s burst, we have endured the painful experience of the greatest bear market in stocks since 1929–33, with more than \$8 trillion erased in the plunge. But most of the air that inflated the bubble was *hot* air—enormous investor expectations that could *never* be fulfilled, fed by the aggressive growth projections of corporate managers that were both self-serving and grossly unrealistic. Small wonder that the bubble quickly deflated.

The strong recovery from the market lows reached a year ago has carried the market cap back to \$12 trillion, and we are "back to (or at least *toward*) normalcy" in valuations. With this rebound, the annual return on stocks since the bull market that began in 1982, despite the ensuing bear market, now totals 13%, surely an attractive outcome. Through the miracle of compounding, those who owned stocks in 1982 *and still hold them today* have multiplied their capital more than *fourteen times* over. So for all of the stock market's wild and wooly extremes, *long-term holders* of common stocks have been well-compensated for the risks they assumed. For such investors, the coming of the bubble and then its going, simply did not matter. Right here, then, there's an important lesson about deciding to press on, regardless . . . not only regardless of the *boom*, but regardless of the *bust*, too.

Chart - \$10,000 Investment in the stock market 1982-2003

But that doesn't mean there weren't winners and losers during the mania—and lots of both. Simply put, the winners were those who sold their stocks in the throes of the halcyon era that is now history—corporate executives with stock options, technology entrepreneurs with IPOs, and the investment bankers and mutual fund managers who sold the high-flying stocks to their clients, charging hundreds of billions in fees for their services.

The losers were largely members of the great American public, who jumped on the exciting bandwagon, largely in speculative mutual funds—in all a massive transfer of

wealth from public investors to corporate insiders and financial intermediaries. When *speculation* takes precedence over *investment*, there is always a day of bounty for the few followed by a day of reckoning for the many. Our late bubble was but the latest "extraordinary popular delusion and the madness of crowds—tulips in Holland, shipping in the South Seas, stocks in 1929, the go-go years of the 1960s. It's all of a piece, with the past, as rational expectations were once again replaced by irrational exuberance.

Our, well, flexible financial system cooperated in the madness. Aggressive earnings guidance from corporate executives, realized by fair means or foul; manipulation of revenues and expenses, balance sheets; the debasement of accounting standards; public auditors who became consultants to management, in effect, business partners; the "sell-side" analysts of Wall Street, whose recommendations were often shaped by the desire to attract investment banking clients; and the "buy-side" analysts of the mutual fund industry, who put aside their training, experience, and skepticism and succumbed to the heady spirit of the mania. But if there was a single dominant failing of the recent bubble, it was the market's overbearing focus on the momentary *price* of a *stock* rather than on the intrinsic *value* of a *corporation*. Yet the price of a stock is *perception*, and acting on that perception is *speculation*. The value of a corporation is *reality*, and acting on that reality is *investment*.

When executives are paid for raising the price of their company's stock rather than for increasing the value of their company's business, they don't need to be told what to do: Achieve strong, steady earnings growth and tell Wall Street about it. Set "guidance" targets with public pronouncements of your expectations, and then meet your targets—and do it consistently. First, do it the old-fashioned way, by increasing volumes, cutting costs, raising productivity, developing new products and services. But in a competitive economy, these targets are not easy to meet. So when you can't meet them by *making*, you meet them by *counting*. Push the accounting numbers to the edge—and sometimes beyond. Undertake mergers, not for business reasons but because of loopholes in accounting rules that allow such transactions to provide a short-term boost to earnings. And when all of that isn't enough, *cheat*. And, as we now know, a number of large firms did exactly that.

Owners Capitalism Becomes Managers Capitalism

What we've witnessed is a profound shift from traditional *owners* capitalism—in which the goal is to provide those who invest their capital with a fair return—to *managers* capitalism—in which major portions of that return are diverted to corporate executives. It is said that when we have strong managers, weak directors, and passive owners, it's only a matter of time until the looting begins, and it will happen right under the eyes of the traditional gatekeepers of our capitalistic system, the corporate directors whose prime responsibility is to represent the interests of the shareholders who elected them.

While it is the responsibility of those who serve on the boards of directors to ensure that the enterprise's resources are used in the service of its owners—to be *faithful*

stewards, of the corporate property entrusted to them. But when the CEO becomes not only boss of the *business*, but boss of the *board*, the concept of stewardship became conspicuous by its absence from the agenda of corporate America, and the traditional separation of powers between management and governance was abrogated.

How will we restore that balance of power? If the directors aren't up to the task, well, *shareholders will have to start acting like owners*. While too many of our corporate stewards have failed to earn our faith, we mutual fund managers and our clients have, I fear, gotten the corporate governance that we deserve. For we have not acted as owners, focusing on corporate value and investing for the long-term. Rather, we have acted as *traders*, turning our fund portfolios over at an average of 110% per year, engaging in short-term speculation in stock prices. (We have been called, accurately I think, the "rent-a-stock industry.")

Partly as a result, even after the great bear market fallout, the role of most giant institutional investors in governance has been conspicuous only by the sound of its silence. But to get the governance our shareholders deserve, we need to begin to act as good corporate citizens, recognizing that ownership entails not only rights, but responsibilities. This change will demand a major realignment of mutual fund priorities. A half-century ago I discussed this issue in my senior thesis, noting Lord Keynes' concern about the implications for our society when "the conventional valuation of stocks is established (by) the mass psychology of a large number of ignorant individuals." The result, he suggested, "would lead to violent changes in prices, a trend intensified as even expert professionals, who, one might have supposed, would correct these vagaries, follow the mass psychology, and try to foresee changes in the public valuation." As a result, he described the stock market as, "a battle of wits to anticipate the basis of conventional values a few months hence rather than the prospective yield of an investment over a long term of years."

But I had the temerity to disagree. In a far larger mutual fund industry, I suggested in my thesis, portfolio managers would "supply the market with a demand for securities that is *steady, sophisticated, enlightened, and analytic*, a demand that is based essentially on the (intrinsic) performance of a corporation rather than the public appraisal of the value of a share, that is, its price." Well, 50 years later, it is fair to say that the score is "Keynes one, Bogle zero." But it's not a moment too soon to measure up to my ideal for financial institutions: Moving from the folly of short-term speculation to the wisdom of long-term investment.

Actions and Reactions

This reaction to the failed investment ethos of the bubble era is entirely consistent with Sir Isaac Newton's third law of motion—*for every action there is an equal and opposite reaction*. And that law is also in force in the financial markets themselves. The first reaction to the late bubble is that, like all bubbles, it burst. *The bear market was the inevitable reaction to the bull market*. The rule applied in both the "new-economy" NASDAQ Index of unlisted stocks and the largely "old economy" New York Stock

Exchange Index. The NASDAQ Index fell a stunning 78% from its high to its low last autumn, while the NYSE index fell 33%, less than half as much. (The principal difference between the two markets is that to be listed on the NYSE a company *actually has to have earnings*.) In the ensuing recovery, the NASDAQ index is up 73%, and the NYSE up 30%. But, don't forget the surprisingly harsh mathematics of compounding: A 78% loss followed by a 73% gain nets, not to a 5% loss, but a 62% loss! And even a 33% loss balanced by a 30% gain results, not in a 3% loss, but a 14% loss of capital. But we've clearly been told a tale of two markets: *Reversion to the mean is alive and well*.

Chart – A Tale of Two Markets: Growth of \$1, 1982-2003

Today, after the fall—and a nice recovery—what does the future hold? Let's look at some numbers that might help us to understand what returns might lie ahead for the stock market, and for the bond market as well. I, for one, place little credence in simply looking at historical experience, for as I've said a thousand times, "financial returns are not actuarial tables." The watchword of investing is *uncertainty*. To understand why the past cannot foretell the future, we need only heed Lord Keynes' words, written nearly 70 years ago: "It is dangerous . . . to apply to the future inductive arguments based on past experience, *unless one can distinguish the broad reasons why past experience was what it was*."

But if we can distinguish the reasons *why* the past was what it was, we set some reasonable expectations about the future. Keynes helped us make this distinction by pointing out that the state of long-term expectation is a combination of *enterprise* ("forecasting the prospective yield of assets over their whole life") and *speculation* ("forecasting the psychology of the market"). I'm well familiar with those words, for 52 years ago I also incorporated them in that thesis at Princeton.

Investment Return and Speculative Returns

This dual nature of returns is clearly reflected in stock market history. Using Keynes' idea, I divide stock market returns into: a) *Investment Return* (enterprise), consisting of the initial dividend yield on stocks plus their subsequent earnings growth; and b) *Speculative Return*, the impact of changing price/earnings multiple on stock prices. Consider the record of stocks during the twentieth century: Note first the steady contribution of dividend yields (the yellow bars) to total return during each decade; always positive, only *once* outside the range of 3% to 5%. Note too that, with the exception of the depression-ridden 1930s, the contribution of earnings growth (the green bars) was positive in every decade, usually running between 4% and 7% per year. Result: Total *investment* returns (the line at the top) that were negative in only a single decade (again, the 1930s), and generally ran in the 8% to 13% annual range.

Chart – 20th Century Stock Returns – by the Decade

Enter *Speculative Return*: Compared with the relative consistency of dividends and earnings growth over the decades, truly wild variations in speculative return

punctuate the chart. (blue bars), as price-earnings ratios waxed and waned. (A 100% rise in the P/E, from 10 to 20 times over a decade, for example, would equate to a 7.2% annual speculative return.) Curiously, without exception, every decade of significantly negative speculative return was immediately followed by a decade in which it turned positive by a correlative amount—the quiet 1910s and then the roaring 1920s, the dispiriting 1940s and then the booming 1950s, the discouraging 1970s and then the soaring 1980s—RTM writ large. And then, amazingly, we see an unprecedented second consecutive exuberant increase in speculative return in the 1990s—a pattern never seen before.

Now look at the 20th century in total: the average annual return on stocks during the century was 10.4% (orange bar). Nearly 10% was represented by investment return; 5% by dividend yields and about another 5% by earnings growth. The remaining 0.6% came from a small net increase in the price-earnings ratio. The message is clear: In the long run, stock returns depend on the *reality* of the investment returns earned by business. The *perception* reflected by speculative returns counts for little. Over a long span of years, *economics* dominate long-term equity returns; *emotions*, so dominant in the short-term, dissolve.

Returns in Retrospect, and in Prospect

As 1999 ended, looking at the reasons behind past stock returns would have helped us recognize a bubble that was about to burst. First, the dividend yield was a known quantity. It had fallen to an all-time low of 1.1%, eliminating it as a major driver of future investment return, and leaving the heavy lifting to earnings growth. I picked 6% as a reasonable expectation for the coming decade, a bit above the trend line. If so, investment return in the decade ahead would have come to 7.1%.

Chart – Past Stock Returns, and a Look to the Future

What about speculative return? Over the previous two decades, the market's p/e ratio soared from seven times to 30.5 times, producing a 7.5% annual rate. With a p/e more than double the century-long norm, even if one naively believed that "this time is different," and that such a stratospheric ratio wouldn't decline, even if it held, the future speculative return would be zero. But my guess was that the p/e ratio might drop to the neighborhood of 18 times, providing a negative speculative return of about 5% per year. Result: An expected average return on stocks in 1999–2009 of less than just 2% per year—and *not* ten individual years at 2%; stock markets just don't behave that way. More likely, I said, was a 40% or 50% drop over a few years, followed by a return to more normal returns, say in the range of 9% annually.

I've often said, "while we may know *what* will happen in the market, we never know *when*." But in an April 6, 2000 speech, I threw caution to the winds: "So let me be clear. You can put me firmly for the camp of those who are deeply concerned that the stock market is all too likely to be riding for a painful fall—indeed a fall that may have

begun as I began to write this speech ten days ago." And that's exactly what happened as the stock market drop tumbled by precisely 50%.

With the market's 41% recovery from the lows (leaving it 31% below its peak) many of the bubble's excesses have been corrected. So now let's set some reasonable expectations for what stocks might do in the next ten years. The dividend yield has nearly doubled, to 1.8%. With the same 6% earnings growth assumption—hardly guaranteed!—the future *investment* return on stocks could be in the 7% to 8% range. Will speculative return add or detract from that figure? With p/es now around 18 times (based on "normalized" operating earnings, which is a bit of a stretch), I'm dubious that we will get much help—or, for that matter, much harm—from that source. So reasonable expectations—seasoned as always with optimism—suggest a future annual average return on stocks in the range of six to nine percent. But don't agree with me uncritically. Make your own forecast: Just add your own earnings growth estimate to the 1.8% dividend yield, and take a guess at speculative return. Then combine them. But never forget that it's unwise to forecast stock returns without evaluating the broad reasons that will shape them.

What About Bonds?

Now consider what returns bonds might provide in the coming decade. While history gives us few clues to what lies ahead for bond returns, the *present* provides an excellent clue, so the parameters of future bond returns are reasonably easy to establish. Again, Keynes' analysis helps, for the *investment* return on bonds—remember, "forecasting the prospective yield of assets over their whole life"—depends largely on the interest payments they generate. Result: *The current yield-to-maturity of bonds explains a remarkably high proportion of their return on the subsequent ten-years.*

In fact, the correlation between the initial yield and subsequent ten-year return of bonds is a healthy 0.91, close to a *perfect* 1.00. In 1980, for example, the yield on an intermediate-term U.S. Treasury bond was 12.4%; the return during the subsequent decade was 12.5%. In 1990, the yield was 7.7%; the return in the following ten years was 7.5%. Today, with a diversified portfolio combining Treasury and corporate bonds yielding about 5%, bond returns in the coming decade are likely to range between 4% and 6%.

Chart – The Bond Market-Current Yields vs. Future Returns

So in stocks and bonds alike, we're looking at a new era—but a new era of subdued returns. But if our central figures for future returns are anywhere near right—7½% for stocks, 5% for bonds—the equity risk premium would approximate 2½%, somewhat below, but broadly consistent with, historical norms. In an uncertain world, only time will tell if these rational expectations prove out, but they are far better than relying on our emotions.

Who Earns the Market Returns?

But whatever returns the financial markets are generous enough to deliver, please don't make the mistake of thinking investors actually earn those returns. To explain why this is the case we need only to understand the simple mathematics of investing: All investors *as a group* must necessarily earn *precisely* the market return, but only before the costs of investing are deducted. *After* all the costs of financial intermediation are deducted—all of the management fees, the transaction costs, the distribution costs, the marketing costs, the operating costs, and the hidden costs of financial intermediation—the returns of investors must—and will, and do—fall short of the market return by an amount precisely equal to the aggregate amount of those costs.

Result: Beating the market *before* costs is a *zero-sum* game; beating the market *after* costs is a *loser's* game. The returns earned by investors in the aggregate inevitably fall well short of the returns that are realized in our financial markets. *The great paradox of investing is that you don't get what you pay for.* The fact is quite the opposite: You get what you *don't* pay for. Consider the costs of equity mutual funds. Management fees and operating expenses—the "expense ratio"—average about 1.6% per year of fund assets. Add another one-and-one-half percent in portfolio turnover costs, marketing expenses, and other smaller add-ons and the total cost of equity fund ownership roughly doubles, to about 3% per year. So yes, *costs matter.*

How *Much* Do Costs Matter?

How *much* do costs matter? A ton! Indeed, fund costs have played the determinative role in explaining why, for example, during the 1984–2002 period, the return on the average *mutual fund* averaged 9.3% when the return on the stock market itself averaged 12.2% per year. That 2.9% differential is almost exactly just what one might expect, given our 3% rough estimate of fund costs. (Never forget: *Market return, minus cost, equals investor return.*) Simply put, fund managers have arrogated to themselves an excessive share of the financial markets' returns, and left fund investors with too small a share.

Chart – The Stock Market vs. The Average Equity Mutual Fund

The conflict of interest between fund managers and fund owners explains the large performance gap between the average fund and the stock market itself. But there is another major conflict that has cost fund investors even *more*, for fund managers have moved away from being prudent guardians of their shareholders' resources and toward being imprudent promoters of their own wares. We have pandered to the public taste by bringing out new funds to capitalize on each new market fad, and we have magnified the problem by heavily advertising the returns earned by our hottest funds. This focus on marketing has also had a profound negative impact on fund investors, who have paid a huge penalty both in the timing of their fund purchases and in the selection of funds they purchased. Result: mutual fund owners have fared far worse than the *funds* themselves.

The Penalties of Timing and Selection

First, consider the *timing* penalty. With the Standard and Poor's 500 Index languishing under the 300 level during 1984–1992, investors purchased equity funds at a \$10 billion annual rate. But with the index over 1100 in 1999, on the way to its 1527 high in 2000, investors poured money in at a \$220 billion annual pace. Putting so little of their money into equity funds in the early years when stocks were cheap, and so much of their money when stocks were dear, has cost fund investors plenty, and the fund industry must share the responsibility for that counterproductive pattern.

Chart: The Timing Penalty

Investors also paid a huge *selection* penalty, and here the industry's responsibility is far greater. During the bubble, we created and promoted growth funds and sector funds that favored over-priced NASDAQ stocks—the "new economy," technology, and the internet. At precisely the wrong time, investors poured \$460 billion into these highly risky funds and withdrew nearly \$100 billion from the conservative value funds favoring NYSE stocks—"old economy" stocks which, bless them, both lagged the market as the bubble inflated and held fairly steady as it burst.

Chart: The Selection Penalty

The net result of cost-induced performance lag of the average fund, leveraged by the timing penalty and the selection penalty paid by the average fund investor, is truly stunning. According to an independent study, the average fund owner earned an annual rate of return of just 2.6% per year, nearly ten full percentage points short of the market's return, and seven percentage points short of the average fund—less return than a savings account would have produced, with no risk at all.

Chart: The Stock Market, Funds, & Fund Owners

Compounding: The Magic and the Tyranny

Now let's compound those returns during the full period: \$10,000 in the stock market itself would have produced a profit of \$79,000. \$10,000 in the average fund would have grown by \$44,000—half as much. And the \$10,000 invested by the average *fund* investor would have produced a profit of just \$6,000. Just as the growth of \$10,000 to \$79,000 demonstrates the *magic* of compounding *returns*, so that reduction by a full \$35,000—to a value of \$44,000—demonstrates the *tyranny* of compounding costs. By the same token, the further \$38,000 shortfall—amazing, isn't it!—incurred by the average fund *investor* demonstrates the woes of timing and selection, brought on as part of our focus on asset gathering at all costs. It is impossible to argue that we have given our shareowners a fair shake.

Chart: The Stock Market Funds, & Fund Owners

The recent market timing scandals in the fund industry, disgusting as they are, are fairly small change relative to the losses investors have incurred by the industry's excessive costs and by the industry's overwhelming focus on promotion and asset gathering. But the scandals have the entirely beneficial effect of shining the spotlight on the myriad conflicts that exist between the interests of mutual fund managers and mutual fund shareholders, and point the way toward reform, forcing this industry to focus not on the business of marketing, but on the profession of management—not salesmanship but stewardship—a change which I expect is at last on the way.

Values and Idealism

Let me close with a few words about values. I began these remarks by telling you of the idealism I held during my college days, and as I began my career. I want to close by telling you that even a long career in the competitive, dog-eat-dog, give-and-take of the mutual fund business hasn't dimmed my idealism one jot. Indeed, I believe that today there is even more idealism in my heart and soul than there was all those 54-plus years ago. At Vanguard, I did my best to create a company that would live up to those ideals. While the industry has yet to emulate them, I'm certain that moving in that direction is only a matter of time.

The coming wave of reform in corporate America and in mutual fund America will help turn our nation's capital development process away from speculation and toward enterprise. But there's even more at stake than improving the *practices* of governance and investing. We must also establish a higher set of *principles*. Our founding fathers believed in high moral standards, in a just society, and in the virtuous conduct of our affairs. Those beliefs shaped the very character of our nation.

If *character* counts—and I have absolutely no doubt that character *does* count—the ethical failings of today's business and financial model; the manipulation of financial statements; the willingness of those of us in the field of investment management to accept practices that we know are wrong, the conformity that keeps us silent, the selfishness that lets our greed overwhelm our reason; all have eroded the character of capitalism. Yet character is what we'll need most in the coming new era I've described today; more than ever in the wake of the great bear market and the investor disenchantment it reflects; more than ever in these days when economies around the globe are struggling to find their bearings; more than ever in the strife-ridden world around us, where America's strength lies more than ever in her values, her ideals, her goodness.

The motivations of those who seek the rewards earned by engaging in commerce and finance struck the imagination of no less a man than Adam Smith as "something grand and beautiful and noble, well worth the toil and anxiety." I can't imagine that anyone in this room today would use those words to describe what capitalism has been about in the recent era. The sooner we can again apply those words to our business and financial leaders—and mean them—the better. And there's no one in this room who can't be part of this vital mission.

If you've understood my message this afternoon, I can't imagine that you young MBA candidates aren't thinking: "Wow! Our parents and grandparents really screwed it all up!" *And you're right. But don't you dare get discouraged.* You have the opportunity of a lifetime—an opportunity to restore proper ethics, honest practices, and a touch of altruism to corporate behavior and mutual fund behavior as well. What has been described as "a pathological mutation in capitalism" must be reversed, and it is your generation's great challenge to do so. Our society needs you to carry forward the ideals of your youth into the vineyards of business and investing. Maintain your optimism about America and the world. Never lose the exuberance for learning and discovery of your college years and at graduate school. Have the courage to speak out for what you hold high. Above all, in your approach to life and career alike, *press on, regardless!*

I promise you I'll do the same, keeping up my fight to build a better world for investors. At this stage of my life, I feel like Ulysses must have felt after returning from his marvelous odyssey, and I'll close with these words that Tennyson gave to that great warrior:

. . . 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,
 Made weak by time and fate but strong in will
 To strive, to seek, to find, and not to yield.*

* Ulysses, by Alfred Lord Tennyson

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