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THE First 50 Years

JOHN C. BOGLE

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John Bogle on Investing: The First 50 Years by John C. Bogle

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GREAT IDEAS

Dedicated to all of the human beings
who have meant so much to me
during the first 50 years of my career:
those loyal and steadfast members of the Vanguard crew
who together have made me look so much better than I am;
those millions of intelligent investors
who own the Vanguard Funds and The Vanguard Group,
and who have been willing to pay me a salary
for all the fun I've had and all the challenges I've faced;
and especially those "Bogleheads" of the Internet,
that dedicated and loyal cadre of Vanguard Diehards
who give me strength to carry on my mission.

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2015 INTRODUCTION TO THE CLASSIC EDITION OF *JOHN BOGLE ON INVESTING: THE FIRST 50 YEARS*

Has The First 50 Years *Become a Classic?*

Let me tell you the story, and then you can decide. First, you should know that *John Bogle on Investing: The First 50 Years* had an unusual conception. Following the 1993 publication of my first book, *Bogle on Mutual Funds: New Perspectives for the Intelligent Investor*, by Irwin Professional Publishing, that firm was acquired by the McGraw-Hill Companies, Inc.

When I decided to write a second book, I chose John Wiley & Sons as my publisher. That book, published in 1999, was titled *Common Sense on Mutual Funds: New Imperatives for the Intelligent Investor*, playing on the Benjamin-Graham-like theme of its predecessor. (In 2009, a fully updated 10th Anniversary Edition was published.)

McGraw-Hill's senior editor, Jeffrey A. Krames, was eager to earn back his firm's role as my publisher. In late 2000, Jeff came to me with a proposal to publish an anthology of some of the essays and speeches that I had written earlier in my mutual fund career, going all the way back, as it turned out, to 1971. The capstone of the proposed book would be the publication of my 1951 senior thesis at Princeton University, “The Economic Role of the Investment Company,” a study of the past, present, and future of the then-infant U.S. mutual fund industry. Hence, *John Bogle on Investing: The First 50 Years*.

It was no easy task to select the essays for inclusion in the anthology. Some were focused on investment advice, some on history; some were irreverent; and there were some that I hoped would offer inspiration to readers. (There were more than 100 essays from which to choose.) But with the help of Jeff Krames, I selected 25 essays that seemed to be out-of-the-ordinary. I then organized the papers into five distinct parts:

I. INVESTMENT STRATEGIES FOR THE INTELLIGENT INVESTOR, focused on the returns, risks, and costs borne by participants in our stock and bond markets; and the selection of equity and bond mutual funds, with a focus on index funds.

II. TAKING ON THE MUTUAL FUND INDUSTRY, describing past trends and future prospects for the now-giant fund industry, including a discussion of the proper role of mutual funds in the corporate governance of the companies in which they invest. (Hint: I didn't much like what I saw happening in the industry.)

III. ECONOMICS AND IDEALISM, including “The Vanguard Experiment,” reflections on the challenges I faced in 1974 when I created a mutual fund complex with a unique, heretofore untested, truly *mutual* structure; the building of the new firm; and the investment strategies and human values that would constitute its heart and soul.

IV. PERSONAL PERSPECTIVES, including five essays and speeches for general audiences, including my 1999 lecture at Princeton, “Changing the Mutual Fund Industry: The Hedgehog and the Fox.” I also included my reflections on the heart transplant I received in 1999; and the three idealistic addresses that I delivered at academic commencements.

V. THE PRINCETON THESIS, the full text of my 1951 senior thesis, describing the role that I envisioned for a better mutual fund industry.

I did not ask others to comment my manuscript prior to publication (i.e., no “blurbs”). Rather, I decided to ask two of the most respected men that I knew—one in finance, one in law—to introduce the book to readers. One of these titans was Paul A. Volcker, long-time chairman of the Federal Reserve Board, international statesman, and (more recently) adviser to President Barack Obama. The other titan was William T. Allen, director of the Center for Law and Business, New York University, eminent jurist, then recently-retired Chancellor of the Delaware Court of Chancery; and chairman of the Independence Standards Board that was established by the Securities and Exchange Commission in 1997.

Their reactions were overwhelmingly positive. Paul Volcker agreed to write a foreword, and Bill Allen offered an introduction. The words that they wrote suggested that maybe, just maybe, *The First 50 Years* could become a classic.

Paul Volcker:

[John Bogle's] great contribution—his single-minded mission—has been to insist that mutual funds should be managed, first and foremost, in a way truly to serve the interests of the investing public . . . I have enormously admired the force and eloquence with which he has set forth his thinking. It is thinking that I find fully persuasive as an analytic matter and entirely consistent with the public interest.

This new volume happily makes that thinking easily available to a wider audience. John Bogle writes with unusual clarity and simplicity, clarity of the vision and simplicity of the written word. He has a rare ability to set out concisely and effectively the evidence to support his argument. A wry sense of humor can't quite disguise, and shouldn't disguise, his sense of frustration—even outrage—about some practices that permeate the industry that has been his life's work and personal passion.

. . . the strong sense of fiduciary responsibility, the objectivity of analysis, and the willingness to take a stand—qualities that permeate all his writings—set high standards for all those concerned with the growth and integrity of our open and competitive financial system.

William Allen:

> **. . . John Bogle's life reflects such a deep commitment to the concepts of duty, honor, candor, diligence, and service to others that the most complete summarization of the man is to say that he is a man of high virtue. In an age that sometimes seems to have tried to raise gratification of the self to the status of a virtue, his life reminds us that the value of a life is measured by how one affects the lives of others, not by either celebrity or by balance sheet.**
>
> **The speeches that are collected in this volume capture in vivid outline the core concepts of Jack's vision and inevitably disclose as well the outstanding character of the man. That these two elements—vision and character—are inextricably linked is possibly the most fundamental and basic lesson that Jack Bogle's career teaches those of us interested in finance and investing.**

John Bogle on Investing was published with little fanfare. It was aimed only tangentially at educating investors to the hard realities of investing, and developing strategies to optimize their chances for the successful accumulation of wealth. At its core, the book's principal purpose was to offer reflections on investment philosophy, on idealism, and on human values. The editors of Amazon's vast library of books placed it in the “Mutual Funds” category, not necessarily where it belonged, and its ranking was undistinguished. However, three of my other books clearly belong there, and continue to hold dominant positions in this category. (Ever since its publication in March 2007, *The Little Book of Common Sense Investing* has been the #1 mutual fund book.)

While the readers' reviews on Amazon for *John Bogle on Investing* were hardly rife (seventeen in all), they were enthusiastic to a fault—my only book to average a 5-star rating. (My other books have generally been rated at 4¾-stars by readers.) But there was also something different about these reviews: *they were long*. The first was 49 lines, the second 15 lines, the third 21 lines, and the fourth, a hefty 92 lines!

The high appraisal of the readers was made vivid by the words that they used. A few excerpts:

> **Let John Bogle—a legend of American finance—illuminate and inspire your [investment] journey . . . Exceptionally well written and amazingly informative and entertaining . . . A remarkable book from a remarkable man . . . Bogle reflects integrity in a sea of doubt . . . One of the brightest minds of our century . . . His writing contains a deft mastery of mathematics [with] prose that is simple, concise, and often funny . . . No-nonsense book by one of the greats . . . The guardian angel to small investors, a man of integrity and wisdom.**

Heady wine indeed! With such a sendoff from titans Volcker and Allen—reviews from the top—and such a reception by readers—reviews from investors who seek candor and unbiased advice—who, really, is to say that, like *Bogle on Mutual Funds* before it, *John Bogle on Investing: The First 50 Years* is not destined to become an investment classic?

A Retrospective on The First 50 Years

This classic edition of *The First 50 Years* gives its author the opportunity, almost 15 years after its original publication, to appraise his work in retrospect. Despite the recent era of wildly fluctuating markets, economic challenges faced by nations around the globe, continued violent warfare (fortunately, for those of us in the U.S., far from our shores), and deteriorating values in our financial system, my views have largely met the test of time. To the extent that any of the ideas in *The First 50 Years* went astray, I correct them here, falling back on the words of Supreme Court Justice Felix Frankfurter (cited in the preface to the book's original edition in 2001), “Wisdom too often never comes, and so one ought not to reject it just because it comes late.”

Reviewing Five Key Chapters

So I'll cite not only areas in which I stand by my words, but also acknowledge areas in which my wisdom “came late.” In this Introduction, I'll focus on five chapters, one from each part of *The First 50 Years,* and present my retrospective views. Of course, no father likes to single out any individual child for his attention. But I'll disregard that principle, and discuss the five chapters that I have selected. My basis for each selection, to be clear, is totally arbitrary.

PART I, CHAPTER 1: “INVESTING IN THE NEW MILLENNIUM: THE BAGEL AND THE DOUGHNUT”

This essay is irreverent, fresh, even sassy. But it carries a profound message regarding the sources of returns on stocks, and I wanted to make it easy to understand. It began as a speech I delivered on January 5, 2000, the dawn of a new century, to members of The Sunday Breakfast Club, a conclave of the most active business, financial, and philanthropic persons in the Greater Philadelphia community.[1]

With the new millennium before us, my remarks centered on three subjects: (1) the outlook for the stock market; (2) the coming change in the mutual fund industry; and (3) the challenge faced by Vanguard, the mutual fund complex that I created in 1974. The members of the audience were well-educated and successful, but came largely from non-investment backgrounds.

I needed a “catchy” theme, and I found it in a recently-published op-ed piece by *New York Times* columnist (and word maven) William Safire, entitled “Bagels and Doughnuts.” Safire wrote:

> **These baked goods . . . are similar in shape but different in character. Bagels are serious, ethnic, and hard to digest. Doughnuts are fun, crumbly, sweet, and fattening . . . The triumph of bagelism in the 1980s and early 1990s meant that tough munching was ascendant; the decline of doughnutism meant that soft sweetness was in trouble.**

In the Stock Market

Applying that analogy to the stock market, the investment returns on stocks (dividend yield plus earnings growth) are bagel-like, “reflecting their character,” in Safire's words, “nutritious, crusty, and hard-boiled . . . almost inevitably productive.” The speculative return, reflecting changes in the market's valuations of stocks (price/earnings multiplies) are doughnut-like, swinging back and forth “from the soft sweetness of optimism to the acid sourness of pessimism.”

I told the audience that reasonable expectations for stock returns during the coming decade (2000–2009) suggested a huge drop in the staggering 17.7 percent average annual returns on stocks of the prior two decades.

When I announced my number for the decade ahead—5.2 percent per year—the crowd seemed in a state of shock. Yet even that figure proved optimistic. Nonetheless, my