Bogleheads XIV

As My 65th Anniversary and 87th Birthday Approach, Still an Active Life

John C. Bogle

Philadelphia, PA

October 15, 2015

Welcome, Bogleheads…
Why are you here?

Kiplinger's journalist Daren Fonda asked: "Why would all those Bogleheads come all the way to Valley Forge when they must know exactly what you'll tell them?"

My Response: When Pope Francis made his resent visit to the United States, everyone also knew what he would speak about: the importance of faith; keeping families strong; caring for those less fortunate; religious liberty; environmental issues. And yet wherever he went, tens of thousands—even hundreds of thousands—came to hear him speak.

Perhaps we don't expect our leaders to say something new whenever they speak. We want them to reinforce the truth—to speak from the heart about the things they care about. We do not seek novelty in our leaders, but knowledge, conviction, passion, integrity, common sense, and some fun. These are the things that I will try to deliver during these next few days.

***

Of course, I'm no Pope, even though one of our veteran crew members thought that the analogy was fair:

Note from a Veteran Vanguard Crew Member:

YOU are Vanguard's Pope. Your heart and soul has always been with Vanguard. No one knows what the future holds, but as long as you stay the course we here at Vanguard will strive to follow in your footsteps to keep Vanguard the best in the world. YOU are Vanguard's Shepherd—past, present, and future—and may you always feel the presence of God with you!

WHATEVER THE CASE, I'M STILL HERE . . .

Despite the Empty Chair. Ouch!

Bloomberg Markets, April 2015

Forbes, June 2015

LET'S FIX THIS IMPRESSION . . .

Still in the Empty Chair. Yes!

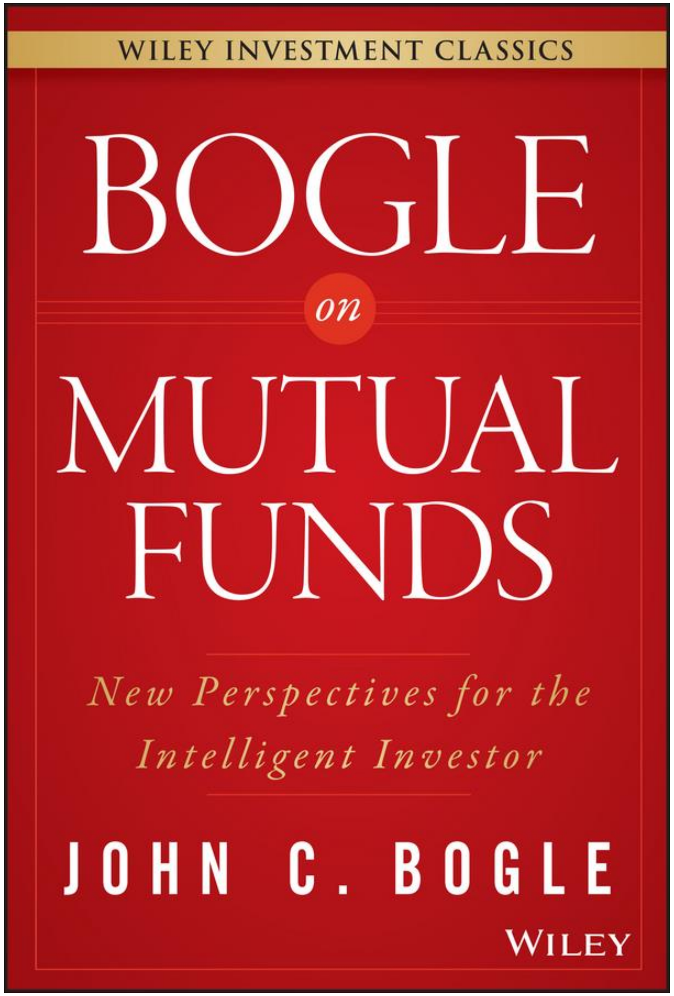
Photoshopped by a Vanguard client, September 2015

NOW LET'S GET TO THE PAST YEAR . . .

A Year in My Life … I. Books and Papers

- Wiley Investment Classics: Two more books with new introductions
  - *Bogle on Mutual Funds: New Perspectives for the Intelligent Investor*
  - *John Bogle on Investing: The First 50 Years*
- A Book Chapter: *Adam Smith: His Life, Thought, and Legacy (Princeton University Press, forthcoming)*
- Articles in Professional Journals
  - *Journal of Portfolio Management*
  - *Financial Analysts Journal*

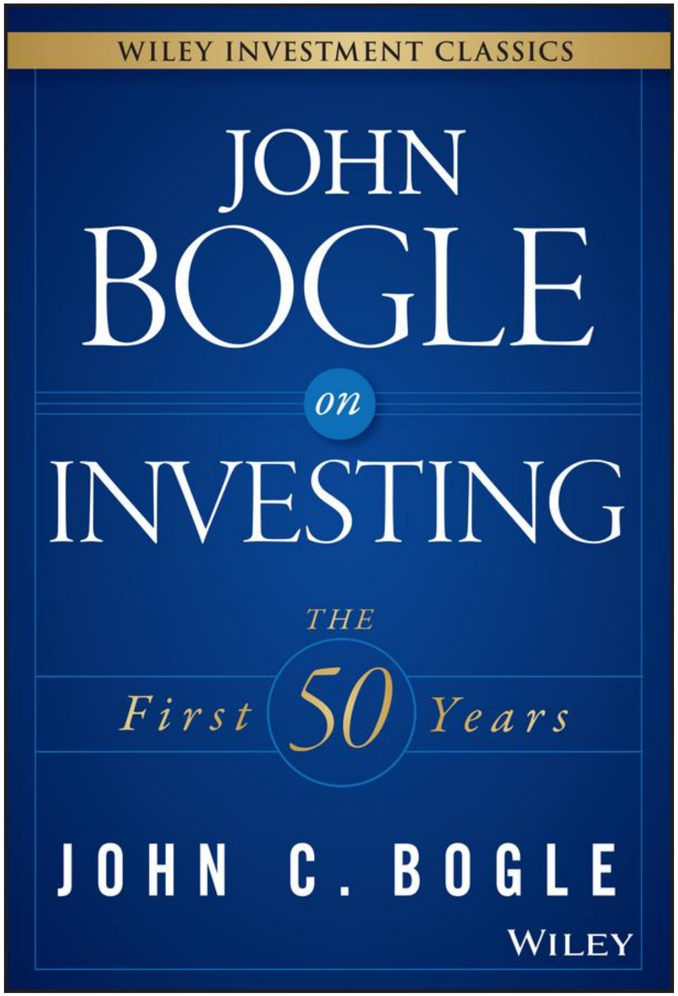
Wiley Investment Classics (April 2015)



Dear Jack: I read your book from cover to cover and enjoyed it immensely. It is honest, sensible, and readable—a very rare combination. Your book is going to be an important one for mutual fund investors for many years to come.

—Warren E. Buffett
1993

Wiley Investment Classics (April 2015)



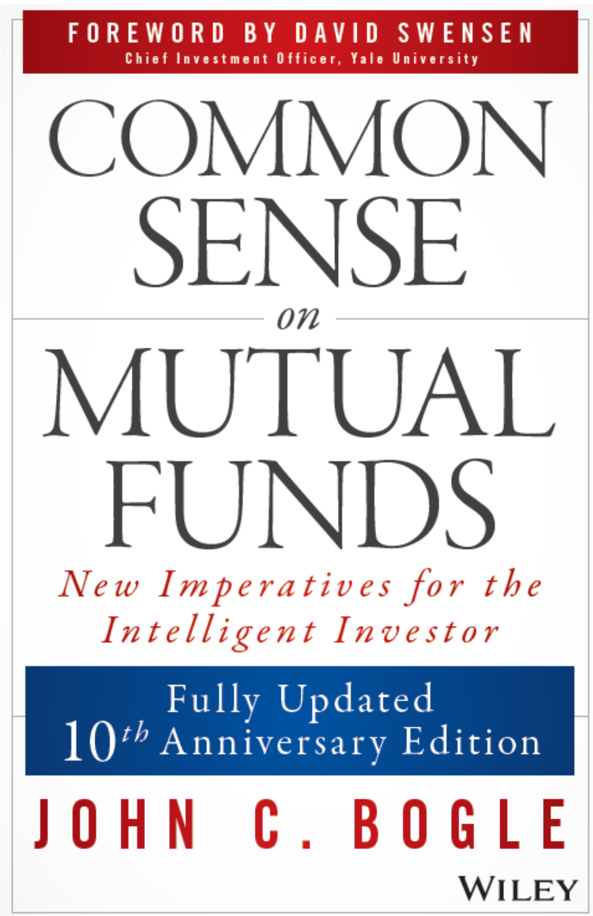
Jack, I just re-read parts of "The First 50 Years"—and the remarkable thesis! Rest easy. It is an "investment classic." Maybe <u>the</u> investment classic.

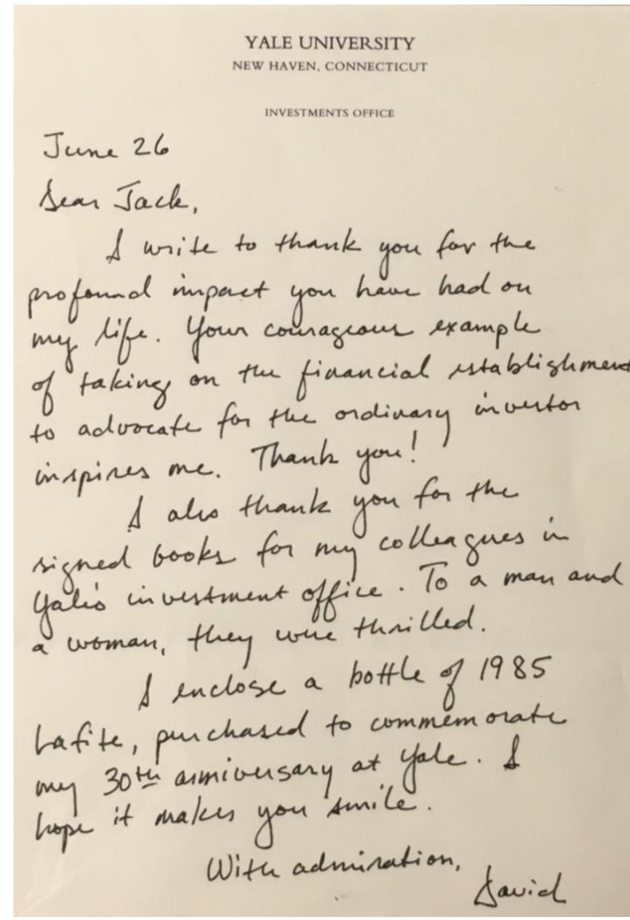
I take pride in my small part!

—Paul A. Volcker
2015

AND A NEW COVER . . .

Common Sense on Mutual Funds





YALE UNIVERSITY
NEW HAVEN, CONNECTICUT

INVESTMENTS OFFICE

June 26

Dear Jack,

I write to thank you for the profound impact you have had on my life. Your courageous example of taking on the financial establishment to advocate for the ordinary investor inspires me. Thank you!

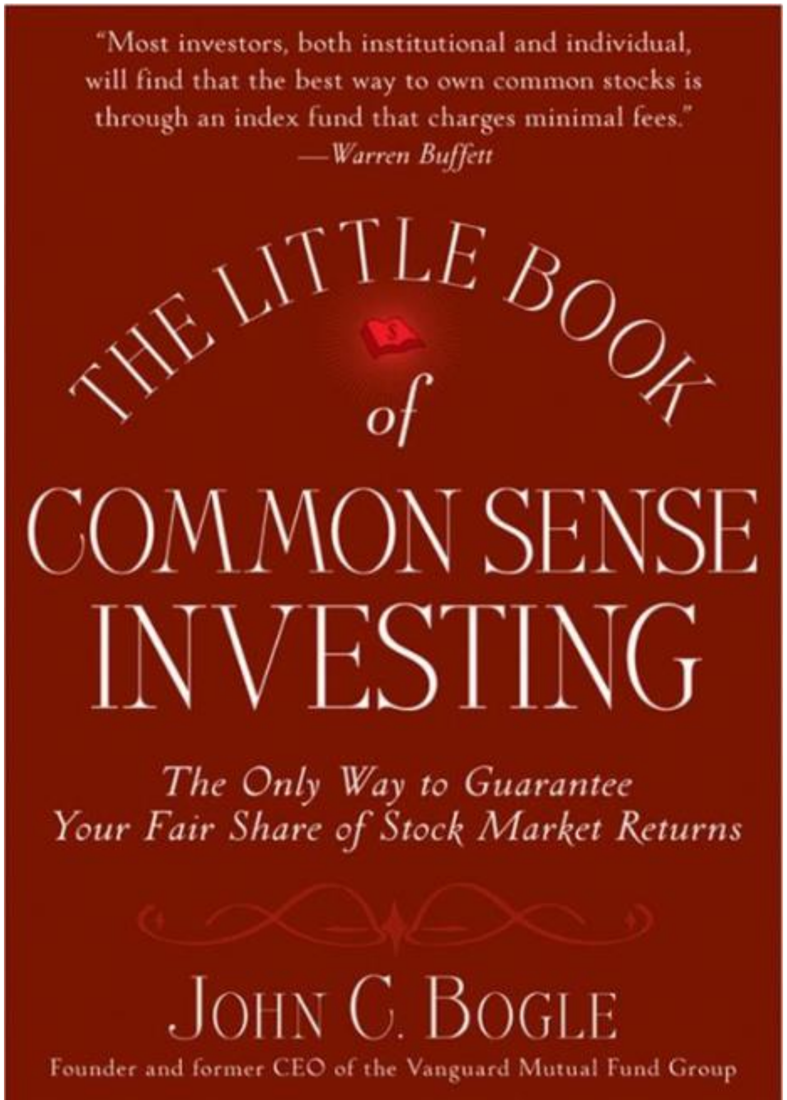
I also thank you for the signed books for my colleagues in Yale's investment office. To a man and a woman, they were thrilled.

I enclose a bottle of 1985 Lafite, purchased to commemorate my 30th anniversary at Yale. I hope it makes you smile.

With admiration,
David

AND THEN THERE'S MY *LITTLE BOOK* . . .

The Little Book of Common Sense Investing



The #1 best-seller on Amazon in the Mutual Funds category since its release on March 5, 2007, some 3,137 out of 3,162 days.

Why? It's short, simple, and persuasive.

Number of Amazon Reviews: 362, 104 so far in 2015:

5 Star	**77**
4 Star	**20**
3 Star	**5**
2 Star	**1**
1 Star	**1**
Total	**104**

WHAT ABOUT THAT 1-STAR REVIEW? . . .

The One-Star Review for *The Little Book*

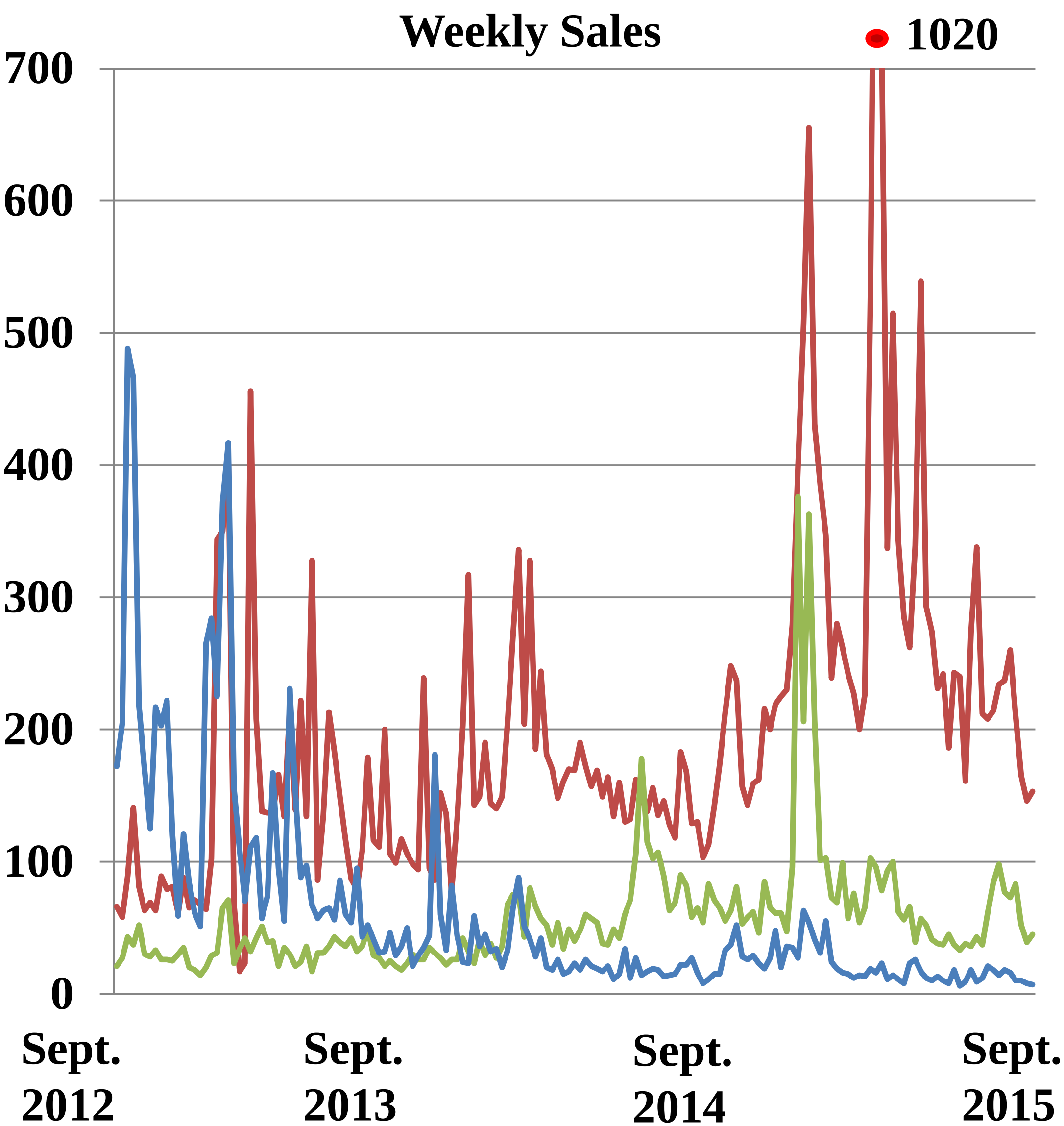
One answer to everything

By tspia on February 15, 2015

Format: Hardcover | Verified Purchase | 3 of 13 people found this review helpful

Keyed towards one set of answers rather than an exploration. A mutual fund company seems to have hired people to write books recommending it.

Bogle Book Sales



<u>Cumulative Sales:</u>

Little Book: 202,415

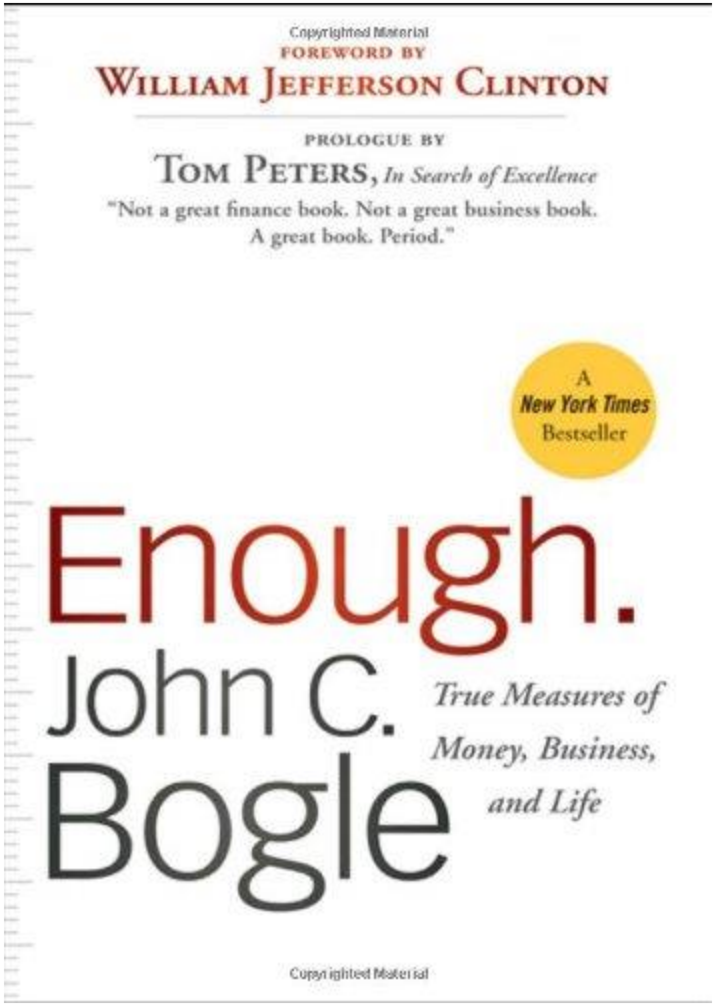
Common Sense on Mutual Funds (all editions): 113,838

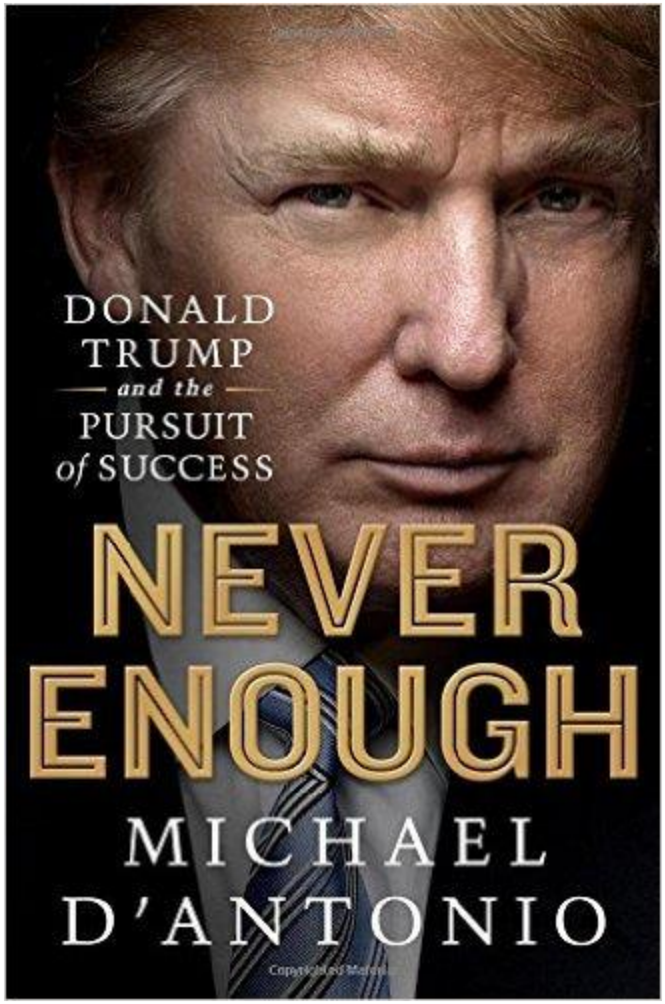
Clash of the Cultures: 34,803

Enough.: 90,694

Bogle Books Total: 875,000

Competition for *Enough*.?





LOTS OF BOOKS, YES, BUT ALSO LOTS OF PAPERS . . .

Journal Papers by John C. Bogle

Financial Analysts Journal (10 papers)

Forthcoming	**The Index Mutual Fund— 40 Years of Growth, Change, and Challenge**
Jan/Feb 2014	**The Arithmetic of "All-In" Investment Expenses**
Mar/Apr 2009	**The End of "Soft Dollars"?**
Jan/Feb 2009	***Markets in Crisis (Interview w/ Rodney Sullivan)**
Mar/Apr 2008	***Black Monday and Black Swans**
Nov/Dec 2005	**The Relentless Rules of Humble Arithmetic**
Jan/Feb 2005	**The Mutual Fund Industry 60 Years Later: For Better or Worse?**
Jan/Feb 1980	**Institutional Investment Performance Compared… (with Jan M. Twardowski)**
Nov/Dec 1970	**Mutual Fund Performance Evaluation: Conventional vs. Unconventional**
May/June 1960	***The Case for Mutual Fund Management (as John B. Armstrong)**

***Graham and Dodd award winners**

AND THE JPM. . .

Journal Papers by John C. Bogle

Journal of Portfolio Management (14 papers)

Winter 2016 (Forthcoming)	**Putting Investors First**
Fall 2015 (Forthcoming)	**Occam's Razor Redux: Establishing Resonable Expectations for Financial Market Returns (with Michael W. Nolan)**
Summer 2014	**No Speed Limits: High-Frequency Trading and Flash Boys**
Fall 2013	**Big Money in Boston…**
Spring 2011	**The Clash of the Cultures**
Fall 2009	*** The Fiduciary Principle: No Man Can Serve Two Masters**
Summer 2009	**Peter Bernstein Commemorative Issue**
Winter 2008	*** A Question So Important…**
Spring 2002	**An Index Fund Fundamentalist**
Summer 1998	**The Implications of Style Analysis…**
Summer 1995	**The 1990s at the Halfway Mark**
Winter 1992	**Selecting Equity Mutual Funds**
Fall 1991	**Investing in the 1990s--Occam's Razor Revisited**
Spring 1991	**Investing in the 1990s**

* "Outstanding Article" Award

FROM "OCCAM'S RAZOR REDUX" . . .

The Journal of Portfolio Management

Occam's Razor Redux: *Establishing Reasonable Expectations for Financial Market Returns*

JOHN C. BOGLE AND MICHAEL W. NOLAN, JR.

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In three articles published in this journal, Bogle [1991a, 1991b, 1995] presented a new, simple methodology for establishing reasonable expectations for returns on the two primary financial assets—stocks and bonds—over decade-long periods. In the first of these articles, Bogle noted that Occam's razor, the fourteenth-century postulate of Sir William of Occam, had inspired his methodology. His rule suggested, in substance, that the simplest solution to a problem is the solution most likely to be correct, and that problems should not be complicated more than necessary ("the law of parsimony").

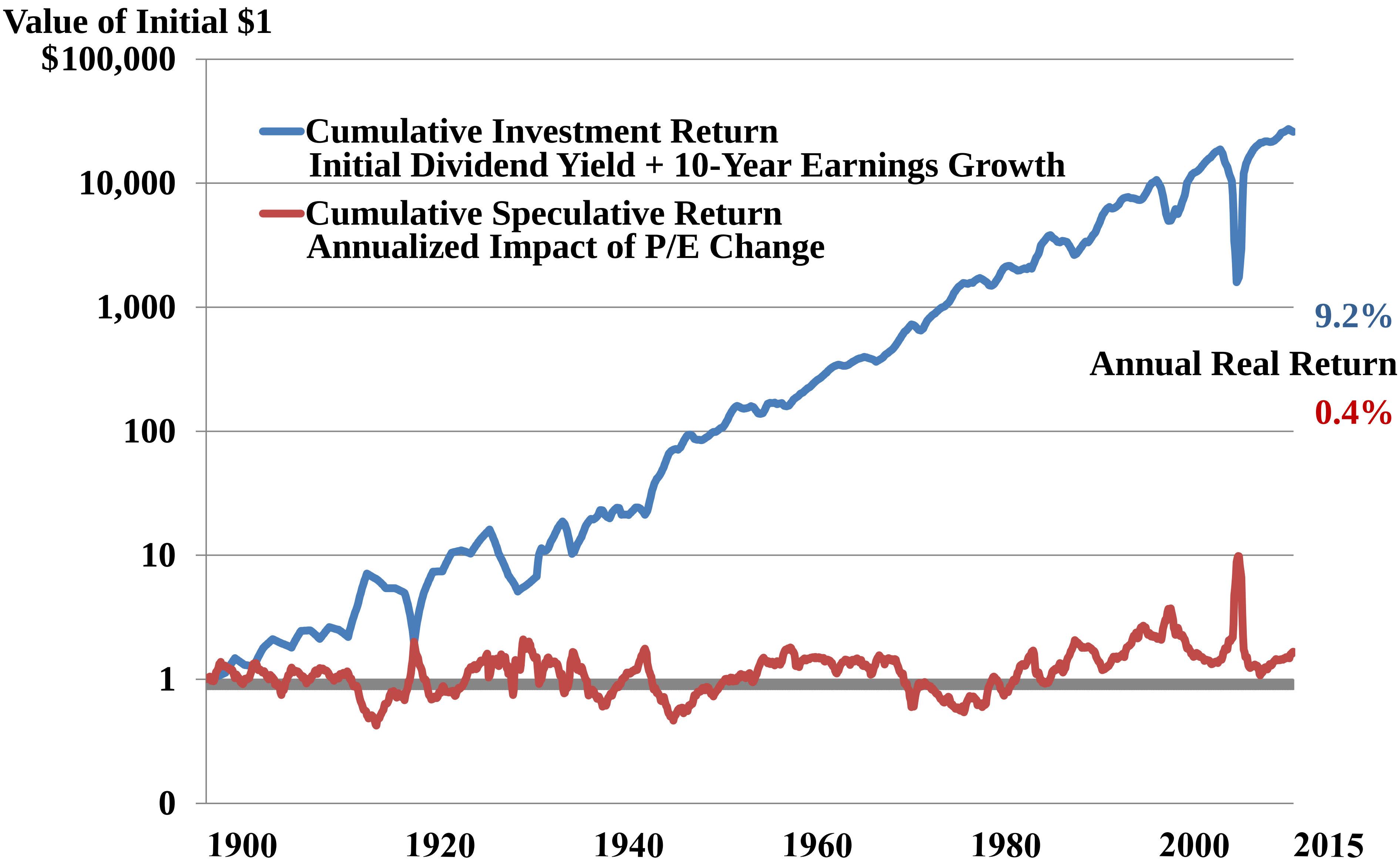
In this article, we review the models first presented in those earlier articles and of John Maynard Keynes, originally cited in Bogle's 1951 honors thesis at Princeton University (Bogle, 2001). In Chapter 12 of his *General Theory of Employment, Interest, and Money*—"On the State of Long-Term Expectations"—Keynes had also described the value of simplicity. There, Keynes warned, "it is dangerous to apply to the future inductive arguments based on past experience, unless we can distinguish the broad reasons for what the past was" (Keynes, 1936).

Keynes' solution was Occam-like. We must consider the sources of stock returns. He enumerated just two: enterprise and speculation. Enterprise refers to the actual business results of corporations—the stuff of

HIGHLIGHTS . . .

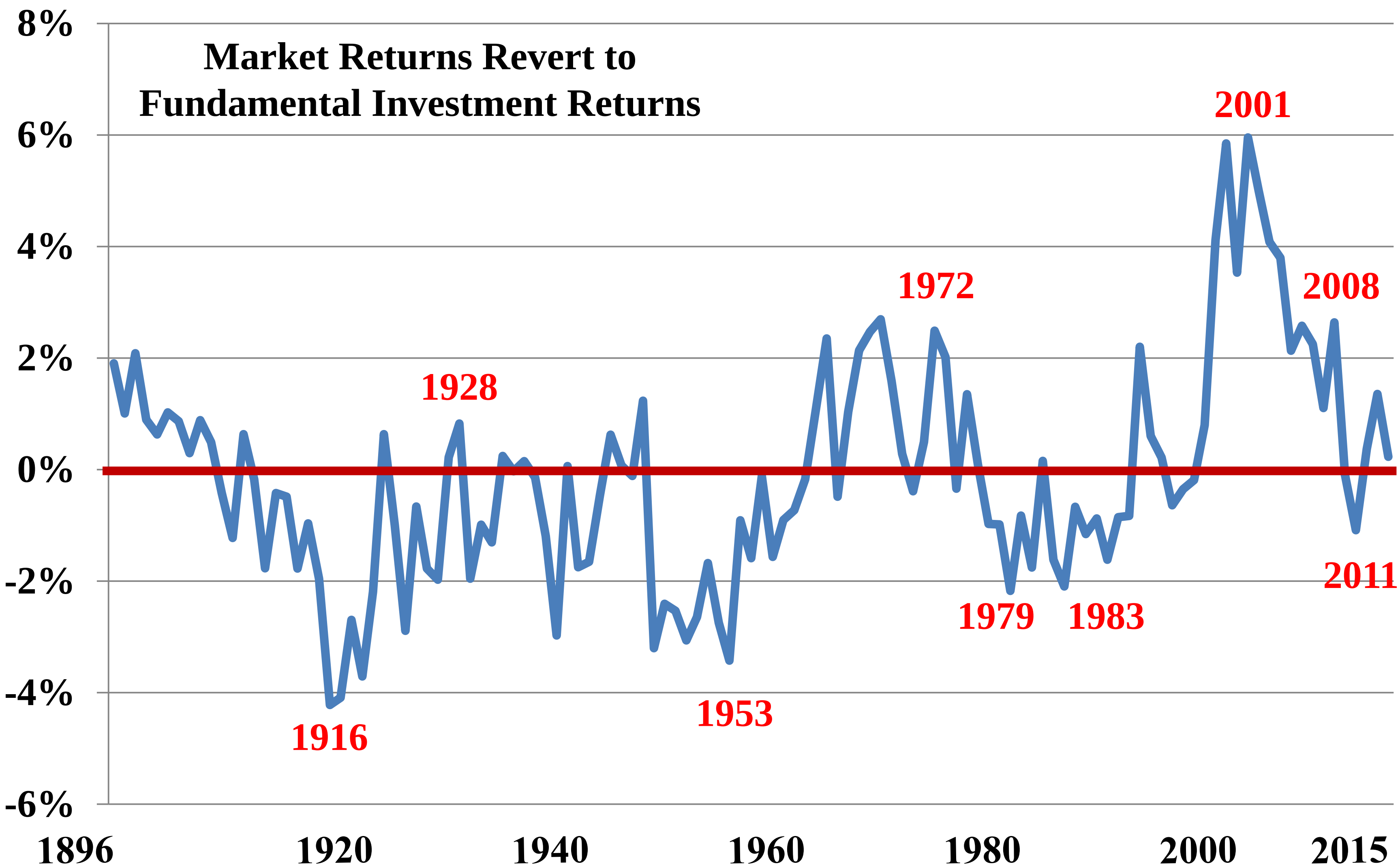
From JPM Fall 2015

Cumulative Total Returns
Investment and Speculative Returns, 1900-2015



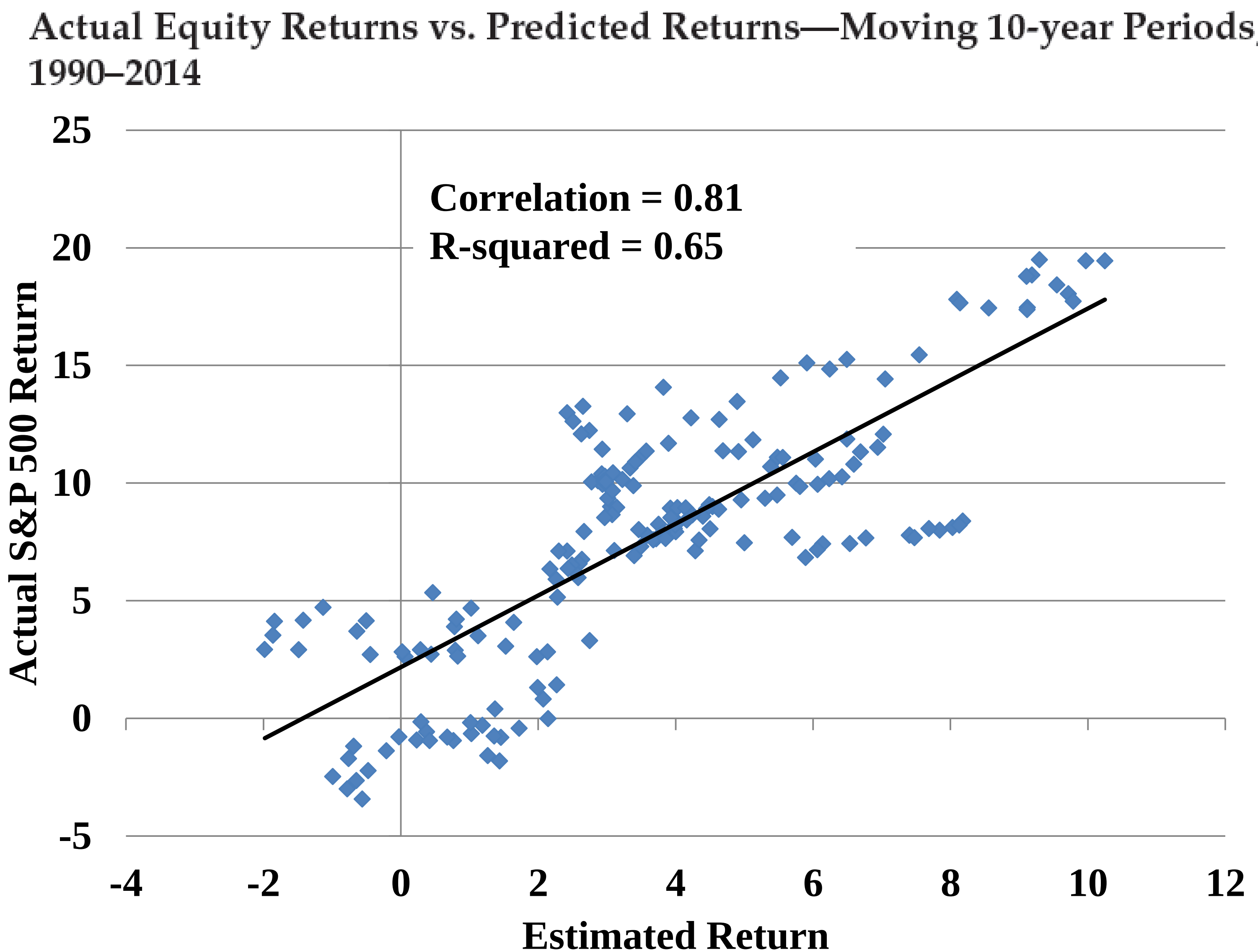
DON'T FORGET REVERSION TO THE MEAN (RTM) . . .

Real Returns: Stock Market* Versus Investment Fundamentals, Rolling 25-Year Periods, 1896-2015



*Stock Market Return = Investment Return + Speculative Return

The Bogle Sources of Return Model for Stocks



BUT I DO MORE THAN WRITE . . .

A Year in My Life . . . II. Vanguard

Major Presentations and Events

2014	September	16	Washington, D.C.—Lead Witness, US Senate Finance Committee Hearing on Retirement System
		18	PrimeCap 30th Anniversary Meeting with Principals.
		22	NYC Bloomberg "Most Admired Investor" Forum (with AQR's Cliff Asness).
	October	17	Speech, Easttown (PA) Library.
		22-24	BOGLEHEADS XIII!
		31	Speech, Georgetown Law School (D.C.).
	November	4	Visit from Georgetown Law Students.
		13	Princeton/Federal Reserve Economics conference, with Paul Volcker.
		14	Interview Session with Wharton Executive MBA Students.
		20	Princeton—Business Ethics Seminar.
	December	16	Full day's visit from Stanford MBA Class.
		30	White House Staff Re: DOL Fiduciary Standards.
2015	January	16	Skype Interview, Durham Bogleheads.
		26	Phone Meeting with White House Staff Re: Fiduciary Duty.
		28	Phone Meeting with White House Staff Re: Fiduciary Duty.
		29	Presentation: Committee for Fiduciary Responsibility.
	March	12	Jon Stein, Betterment (Robo Advisor)
		17	Quarry Ridge (Vanguard) talk with Crew.

A Year in My Life . . . II. Vanguard

April	7	NYC – "Great Debate" on Indexing, at publisher James Grant's Forum.
	16	Lecture, Aspen Institute, D.C.
	20	Blair Academy—Speech to student assembly.
	28	Lecture, SEC Enforcement Staff, D.C.
May	6-7	ICI General Membership Meeting.
June	4	Speech to the CFA Society of Philadelphia, "Putting Investors First."
July/August		"Working Vacation" in Adirondacks. Editing book chapter on Adam Smith, AQR extended interview, and JPM papers, correspondence; DOL and Labor Secretary Perez on fiduciary duty rule; and more.
September	24	Skype Interview, iMoney
	29	SEC-Lead Presenter at 1940 Act 75th Anniversary Forum.
October	2	Princeton Humanities Seminar.
	7	Princeton Lecture on "Business Ethics and Modern Religious Thought."
	14-16	Bogleheads XIV!

. . . . And the "Day-to-Day"
Events:

Awards for Excellence	21	TV Appearances	11
Client Visits	18	Crew/Team Meetings	84
PR Interviews	45	Speeches	32
		TOTAL 211*	

*Oh, yeah. Also 17 appointments with doctors. And 40 physical therapy sessions.

NOW LET'S TURN TO THE INDUSTRY . . .

My Long Career in the Fund Industry How Many Hits, How Many Eras? (“Follow the Money”)

An Industry that Sells What It Makes

- **1924-59.** The mutual fund industry in its promising formative era

An Industry that Makes What Will Sell

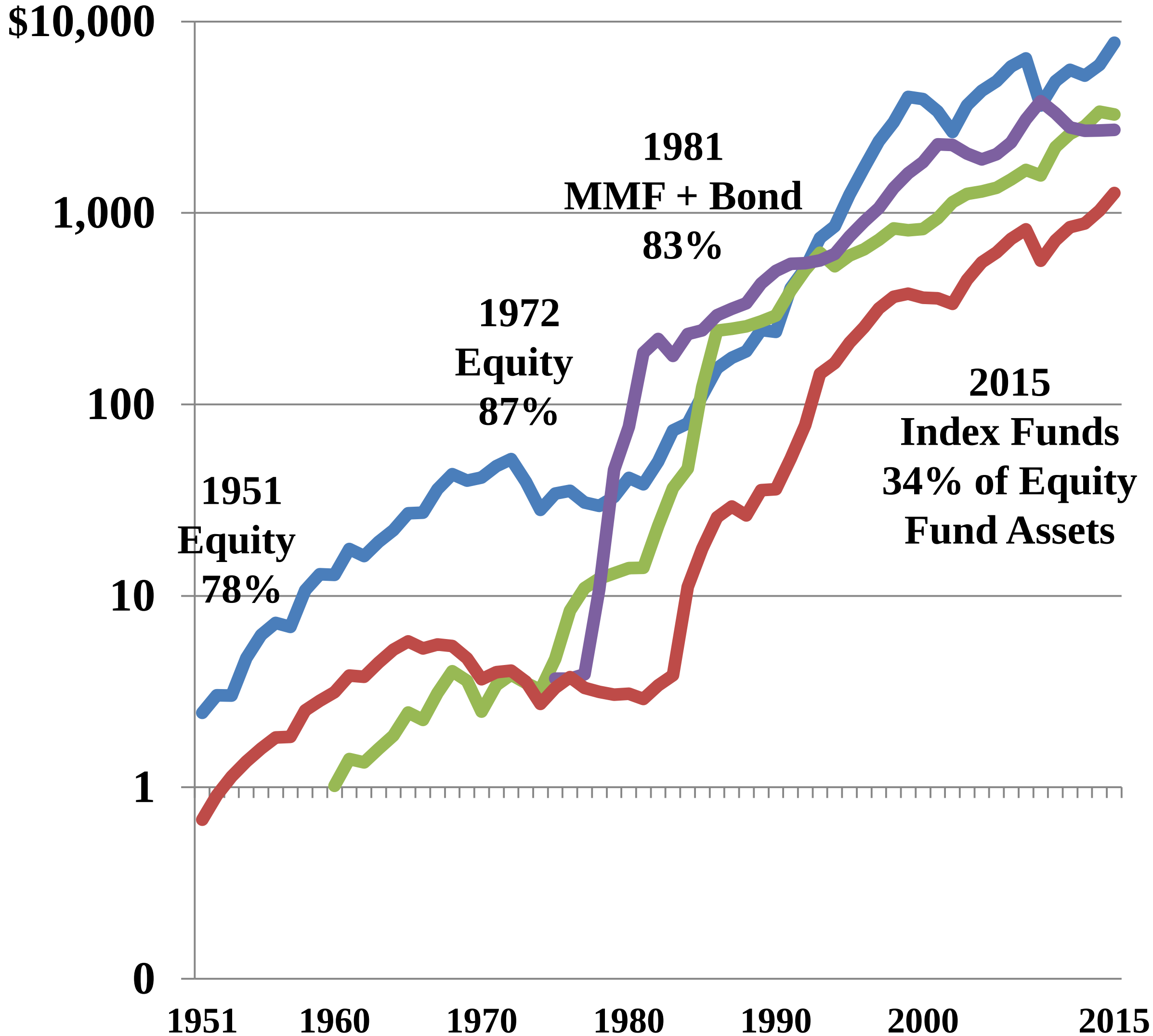
- **1960-64.** Public ownership of advisors—The New Paradigm
- **1965-69.** The “Go-Go” Era—Equity “junk”
- **1970-74.** The rise and fall of the “Favorite [Nifty?] Fifty”
- **1975-90.** Money market funds and bond funds—a new industry
- **1991-01.** The Information Age and the rise of technology funds
- **1995-07.** The TIF (Traditional Index Fund) Era
- **2008-15.** The ETF (Exchange-Traded Index Fund) Era

What’s Next?

- **2015-25.** The return to a new normalcy—The triumph of TIF indexing

A GROWING INDUSTRY . . .

"I Was There (And I Am Here!)"
A Tiny Industry Grows into a Behemoth



TOTAL ASSETS
August 2015

Equity	$9.4T	58%
Bond	3.7T	22
Money Market	2.6T	16
Balanced	704B	4
TOTAL	$16.3T	

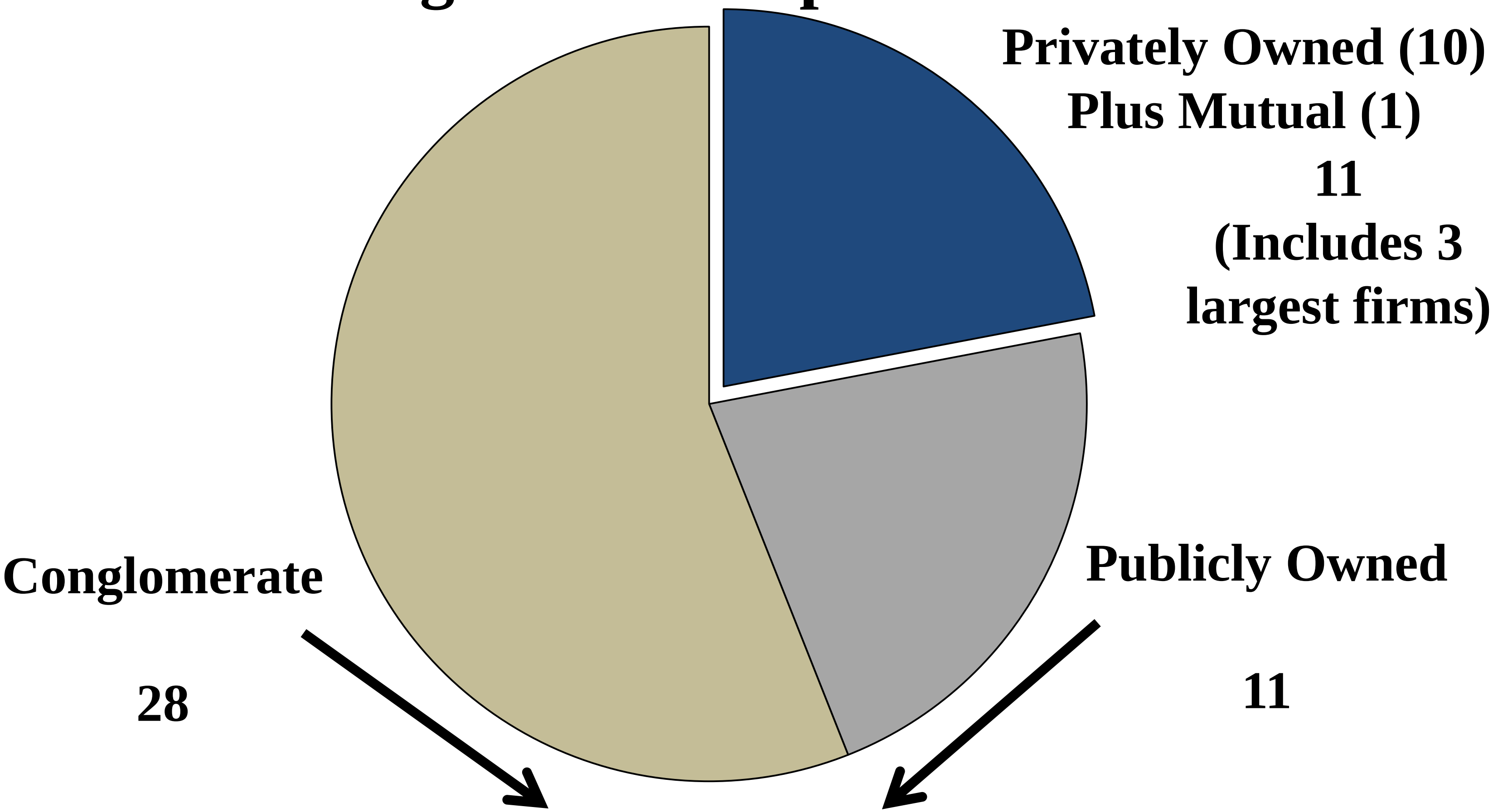
TOTAL ASSETS
December 1951

Equity	$2.45B	78%
Balanced	680M	22
TOTAL	$3.13B	

Annual Growth Rate
1951-2015: 15%

BUT A LARGELY UNRECOGNIZED EARLY FLAW . . .

Along the Way, a Funny Thing Happened
Ownership of 50 Largest Mutual Fund Management Companies—2015



Total Firms with Public Ownership: 39

Note: Firms with Public Ownership in 1951: 1

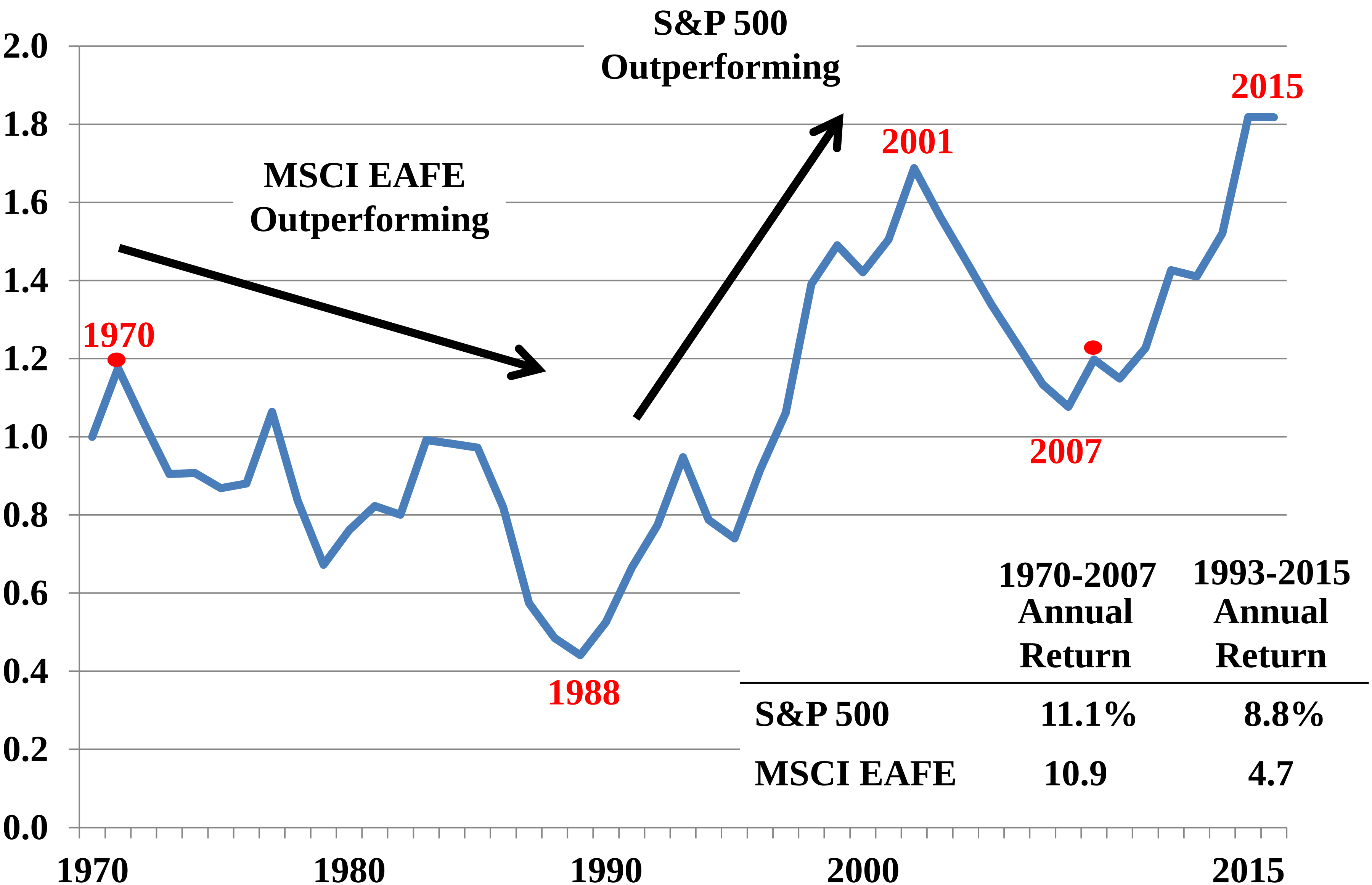
BUT LOTS OF OTHER BIG CHANGES, INCLUDING THE RISE OF INDEXING . . .

Old Times or New, The Durability of Index Fund Superiority

	1945-1975 Presentation to Vanguard Board September 18, 1975		1985-2015 Paper Submitted to Financial Analysts Journal September 28, 2015	
	Average Equity Fund	S&P 500 Index	Average Large-Cap Fund*	S&P 500 Index
Annualized Return	9.7%	11.3%	9.6%	11.2%
Index Advantage	--	1.6%	--	1.6%
Cumulative Return	1539%	2402%	1548%	2494%
Index Advantage	---	963%	---	946%
Standard Deviation	16.4%	18.6%	16.8%	17.3%
Sharpe Ratio	0.38	0.42	0.39	0.48
R-Squared	0.96	1.00	0.99	1.00

YES, THE U.S. INDEX FUND IS CHALLENGED. BUT . . .

Reversion to the Mean I.
S&P 500 / MSCI EAFE, 1970-2015

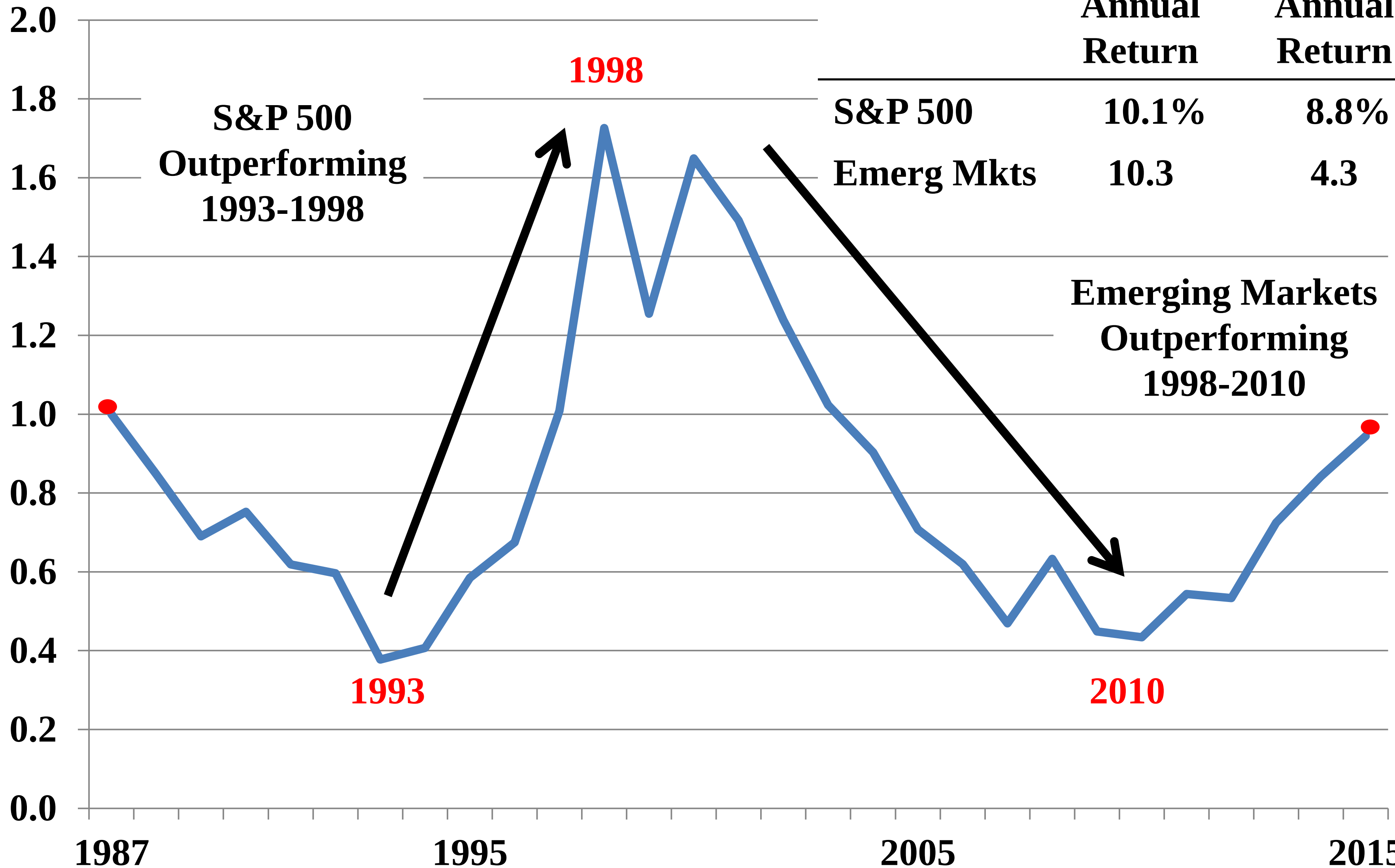


	1970-2007 Annual Return	1993-2015 Annual Return
S&P 500	11.1%	8.8%
MSCI EAFE	10.9	4.7

TRUE EVEN IN EMERGING MARKETS . . .

Reversion to the Mean II.
S&P 500 / MSCI Emerging Markets, 1987-2015

	1987-2015 Annual Return	1993-2015 Annual Return
S&P 500	10.1%	8.8%
Emerg Mkts	10.3	4.3



SO WHY NOT JUST BUY FUNDS THAT WIN? . . .

Equity Fund Returns: No, Pal, The Past Is Not Prologue. RTM

Rankings for the 5 years ending 2009			Where they ranked in the subsequent 5 years		
Quintile	5-Year Return*	Number of Funds	Highest Quintile	Lowest Quintile	Merged/ Closed
1	Highest	1,091	14%	24%	10%
2	High	1,083	12	16	22
3	Medium	1,084	15	13	26
4	Low	1,085	14	10	38
5	Lowest	1,032	14	9	45
	Total	5,375	14%	14%	28%

*Excess return vs. benchmark.

Note: Number of failed funds—1,499

NOW LET'S TURN TO THIS CHANGING INDUSTRY . . .

Changes in Mutual Fund Leadership: Then and Now

Rank	1951 Fund Name	Total Assets* (Millions)	2015 Manager Name	Total Assets (Billions)
1	M.I.T.	$472	Vanguard	$2,988
2	Investors Mutual	365	Fidelity	1,615
3	Keystone Funds**	213	BlackRock***	1,230
4	Tri-Continental	209	American Funds	1,216
5	Affiliated Funds	209	JPMorgan Funds***	519
6	Wellington Fund	194	State Street Global***	497
7	Dividend Shares	186	T Rowe Price	493
8	Fundamental Investors	179	Franklin Templeton	480
9	State Street Investment**	106	PIMCO***	375
10	Boston Fund**	106	Federated***	272
	Total	$2,239	Total	$9,686
	Percentage of Industry	72%	Percentage of Industry	57%

Total industry assets: $3.1 billion.

Total industry assets: $16.9 trillion

*Includes associated funds.
** No longer in business.
***New leaders.

THE NUMBER OF FUNDS EXPLODES . . .

Number of Funds—1951 & Today

Major Mutual Fund Groups

Original Name	1951 Total Assets (Millions)	1951 No. of Funds Managed	Current Name	2014 Total Assets (Billions)	2014 No. of Funds Managed
M.I.T.	$472	2	MFS	$180	78
Investors Mutual	365	3	Columbia	165	116
Affiliated	209	3	Lord Abbett	108	37
Wellington	194	1	Vanguard	2,988	140
Eaton & Howard	90	2	Eaton Vance	101	130
Fidelity	64	1	Fidelity	1,615	321
Putnam	52	1	Putnam	81	77
American	27	2	American	1216	35
T. Rowe Price	1	1	T. Rowe Price	493	116
Dreyfus	0.8	1	Dreyfus	248	151
Total/Average	$1,475	1.7	Total/Average	$7,195	120

FUND EXPENSES EXPLODE TOO . . .

Mutual Fund Expense Ratios 1951 and 2014

	1951	2014	Change
	Conventional Industry Model		
MIT/MFS (C)	0.42%	1.29%	+208%
Investors Mutual/Columbia (C)	0.56	1.15	105
Eaton Howard/Eaton Vance (SH)	0.64	1.27	99
Putnam (C)	0.66	1.31	98
Fidelity (P)	0.63	1.06	68
T. Rowe Price (SH)	0.50	0.84	68
Affiliated/Lord Abbett (P)	0.75	1.12	49
American (P)	0.84	0.99	17
Average	0.62%	1.13%	+80%
	New Industry Model		
Wellington/Vanguard (M)	0.55%	0.17	-69%

	1951 Assets	1951 Expenses	2014 Assets	2014 Expenses
Conventional Model (above firms)	$1B	$7M	$3.8 T	$40 B
New Model	--	--	$3.0 T	$5 B

Ownership types: (C) Conglomerate, (SH) public shareholders, (P) private, (M) mutual

EQUITY FUNDS BECOME LESS HOMOGENOUS, MORE RISKY . . .

Equity Funds—Less Relative Predictability More Risk

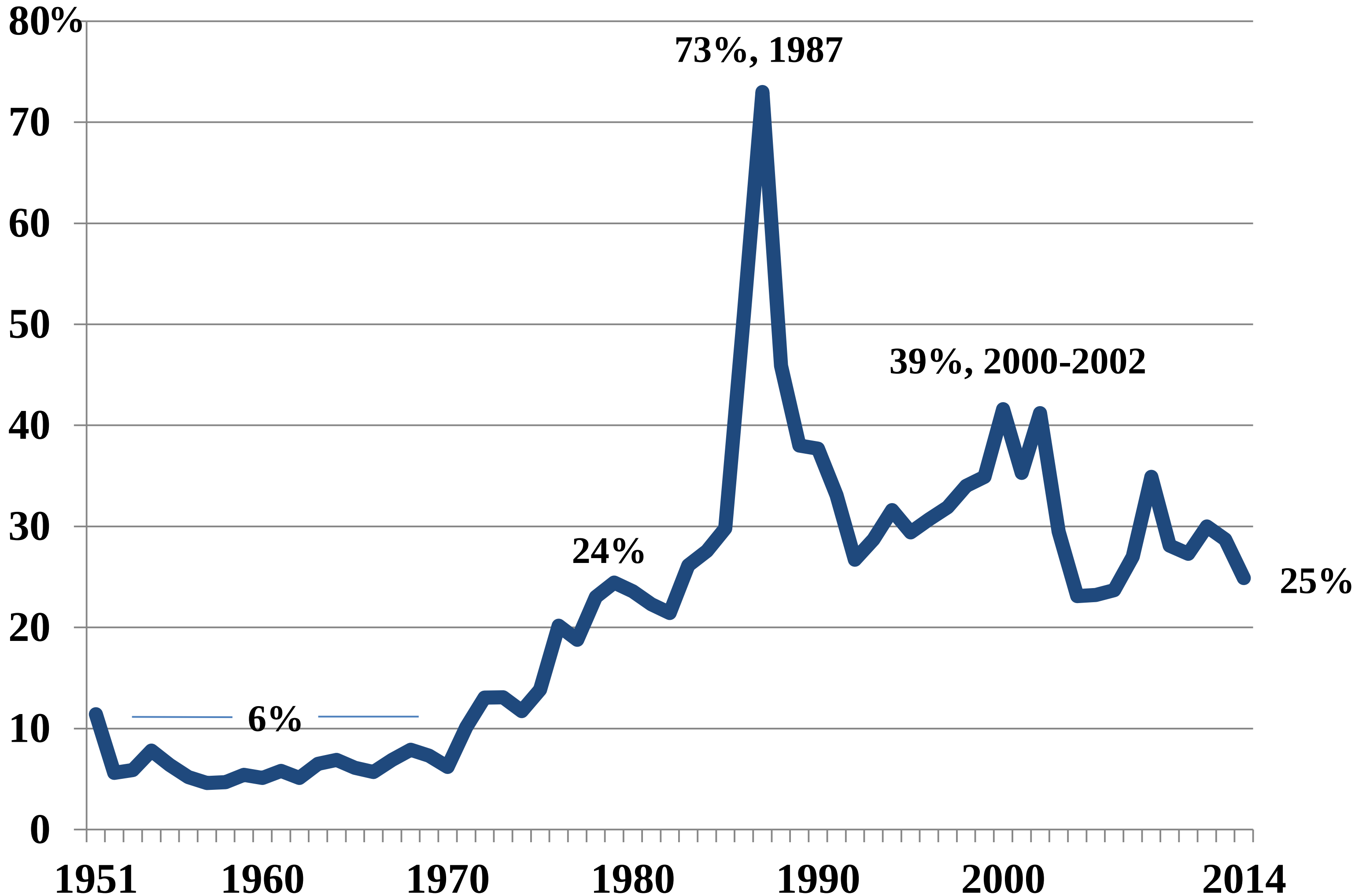
Relative Volatility*	1951-56	2009-15**	Difference
Over 1.11	0%	18%	+18%
0.95-1.11	34	53	+19
0.85-0.94	30	16	-14
0.70-0.84	36	10	-24
Below 0.70	0	4	+4

*S&P 500 = 1.00

**Sample of the 200 largest equity funds.

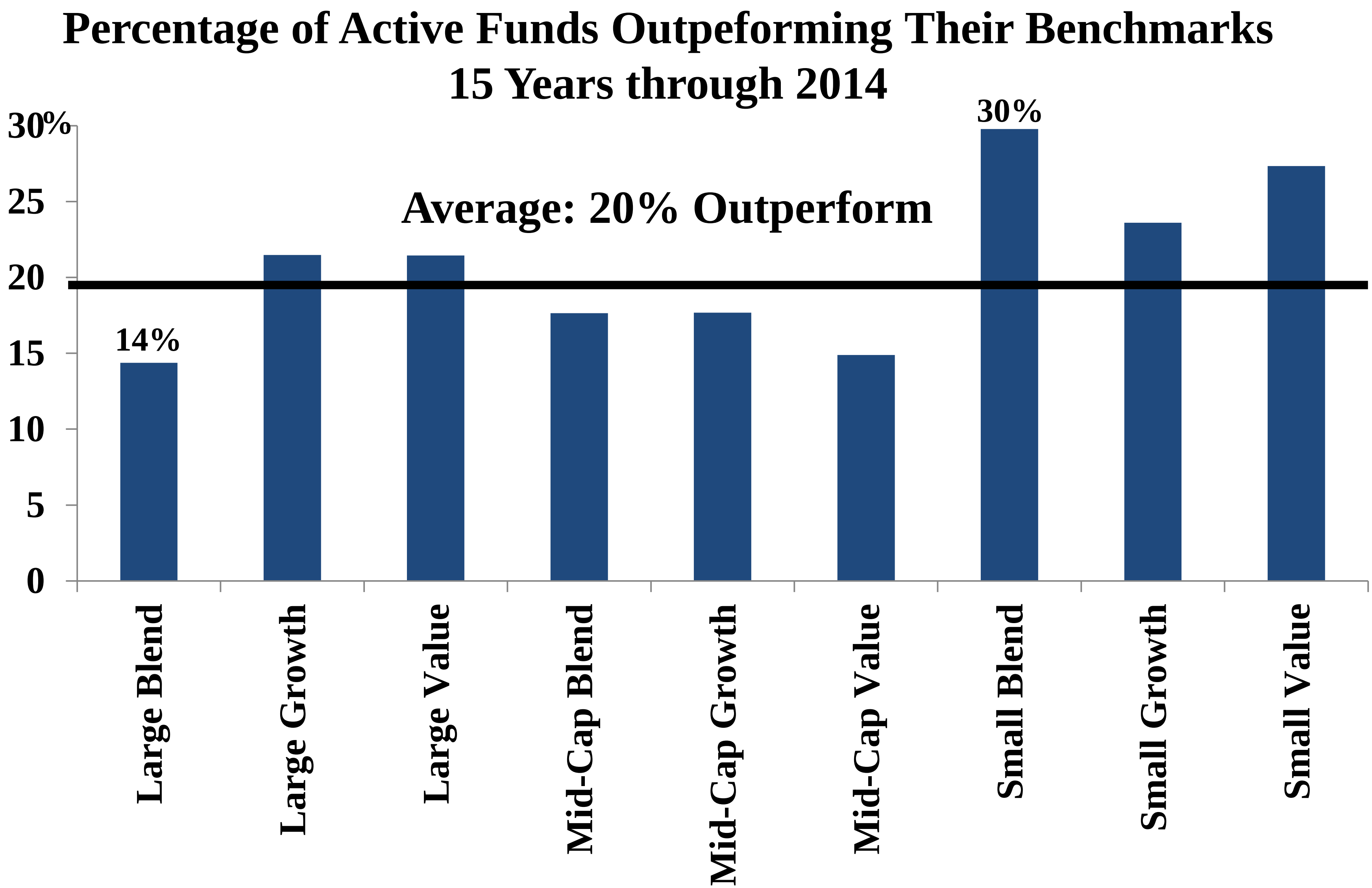
Then, Long-Term Shareholders, Now . . . ?
Equity Fund Redemption Rates

Redemptions and Exchanges Out as a Percentage of Average Net Assets



ACTIVE MANAGERS CONTINUE TO LAG . . .

Do You Like These Odds?

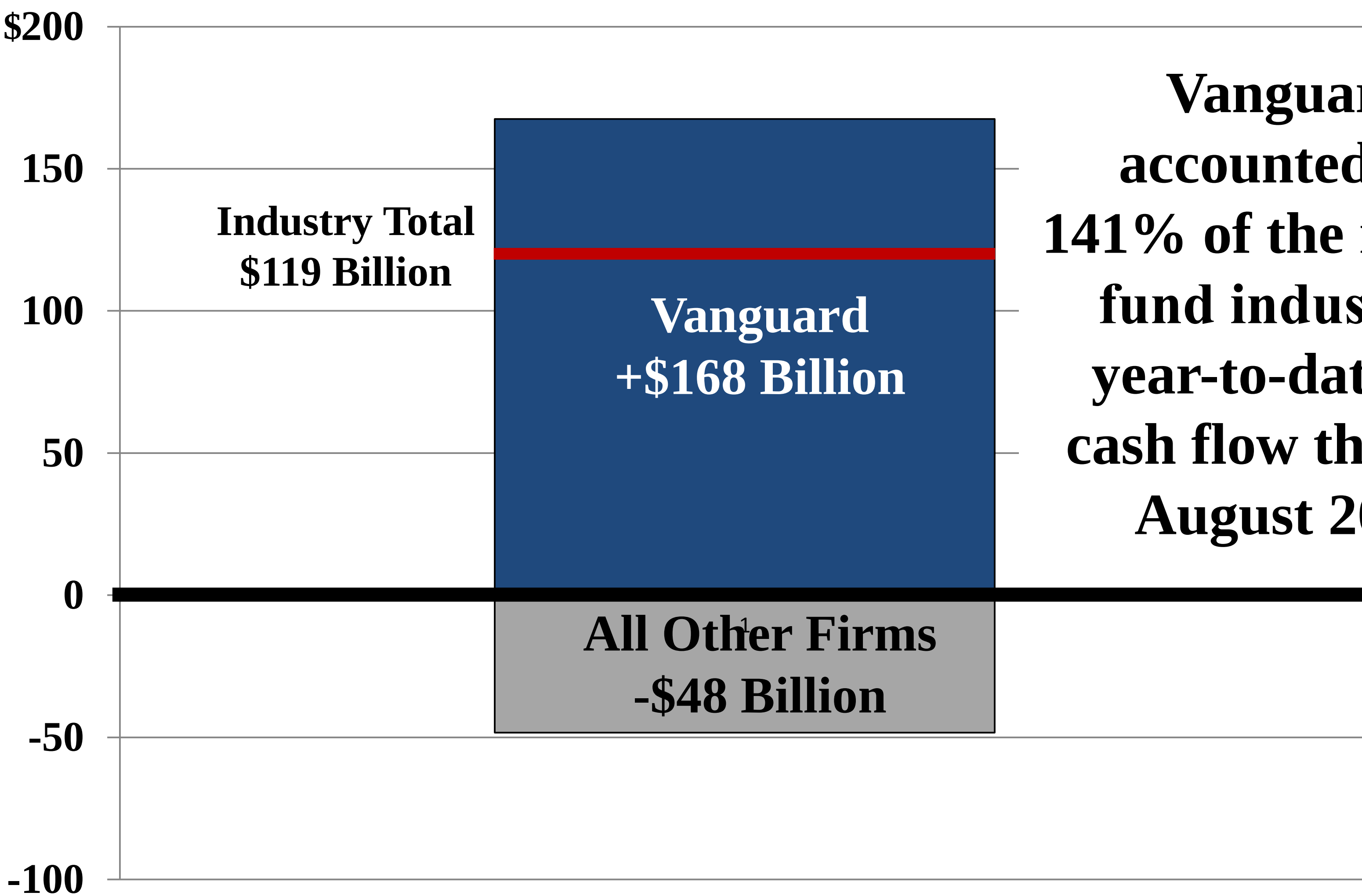


Source: Vanguard, Morningstar.

AND SO, THE TRIUMPH OF INDEXING . . .

Vanguard Dominates Industry Cash Flow

Mutual Fund Industry Net Cash Flow YTD Through August 2015

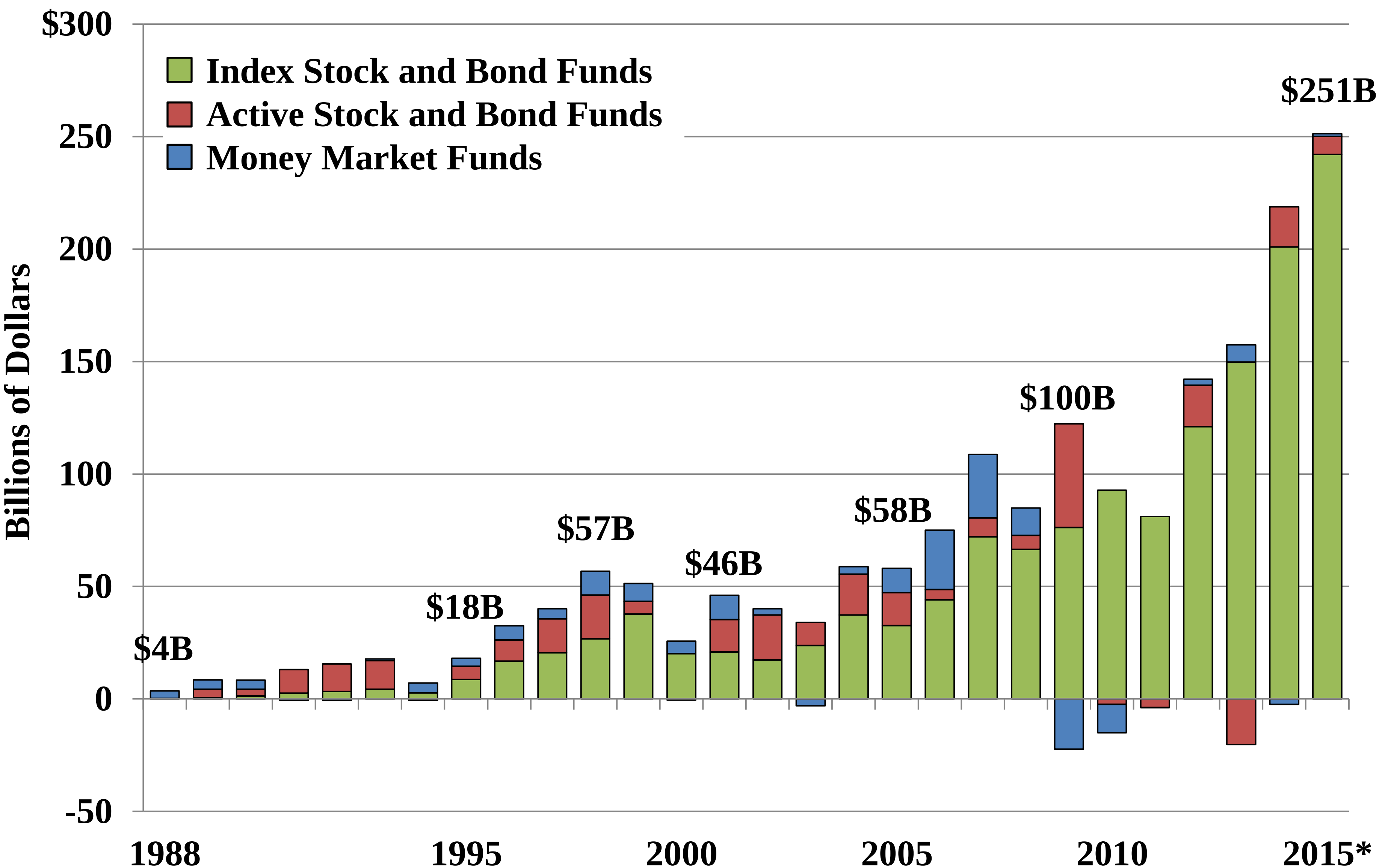


Vanguard accounted for 141% of the mutual fund industry's year-to-date net cash flow through August 2015

OUR CASH FLOW EXPLODES . . .

Vanguard Cash Flow, 1988 – 2015

Annually, in billions



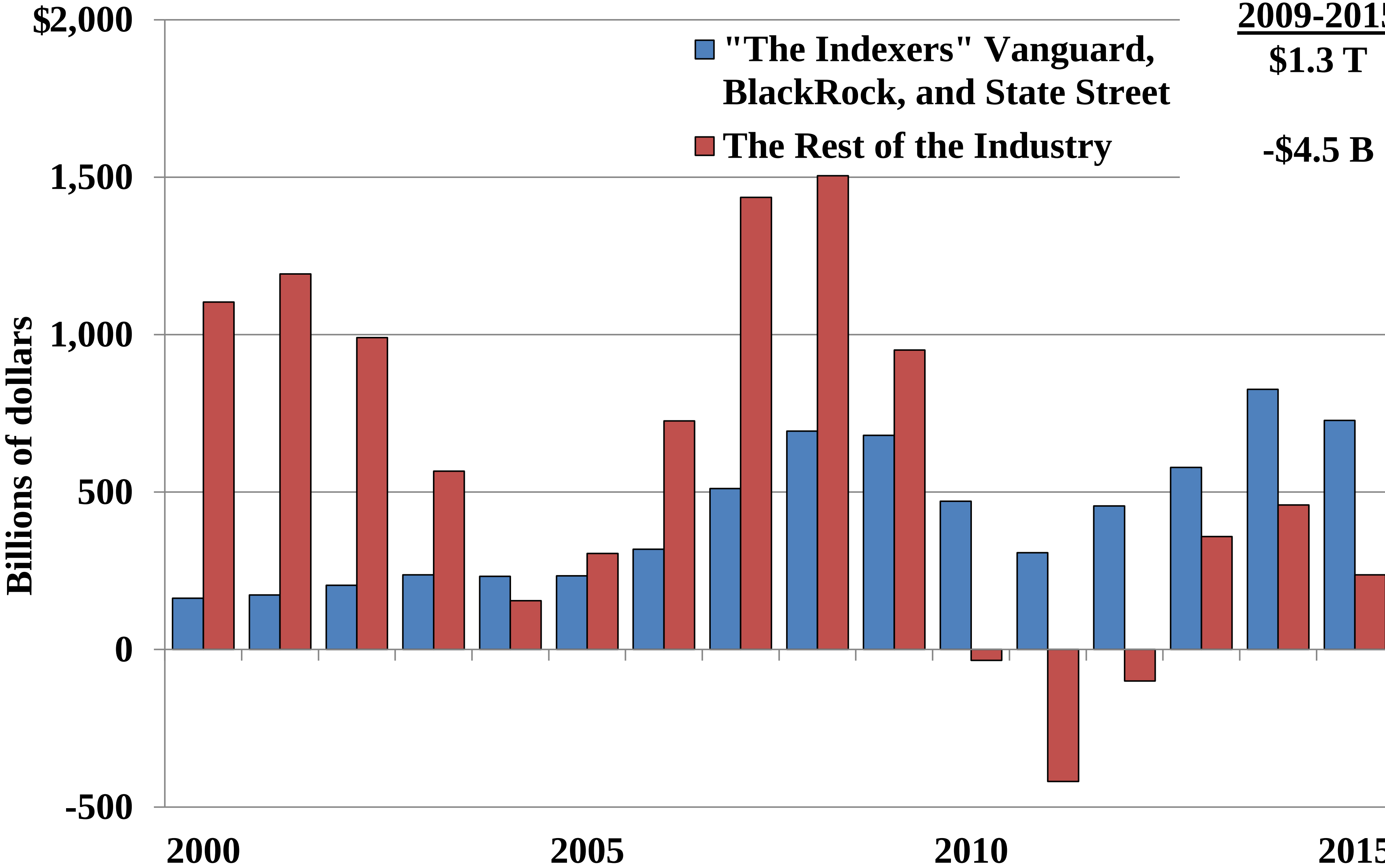
*Annualized based on actual data through 8/2015.

DRIVEN BY INDEX FUNDS . . .

The Triumph of Indexing: Rolling 3-Year Net Cash Flow

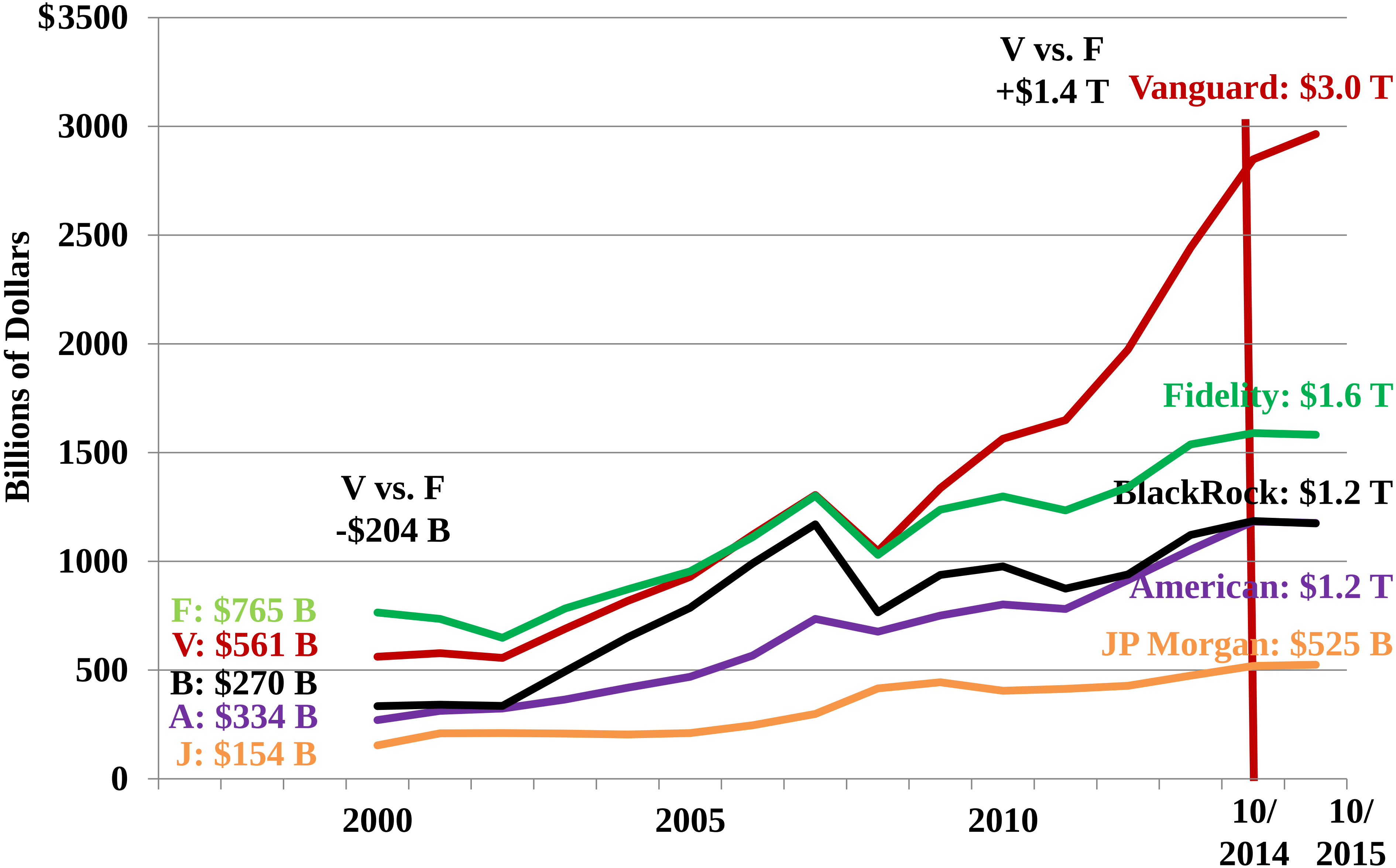
Net Cash Flow
2009-2015
$1.3 T

-$4.5 B



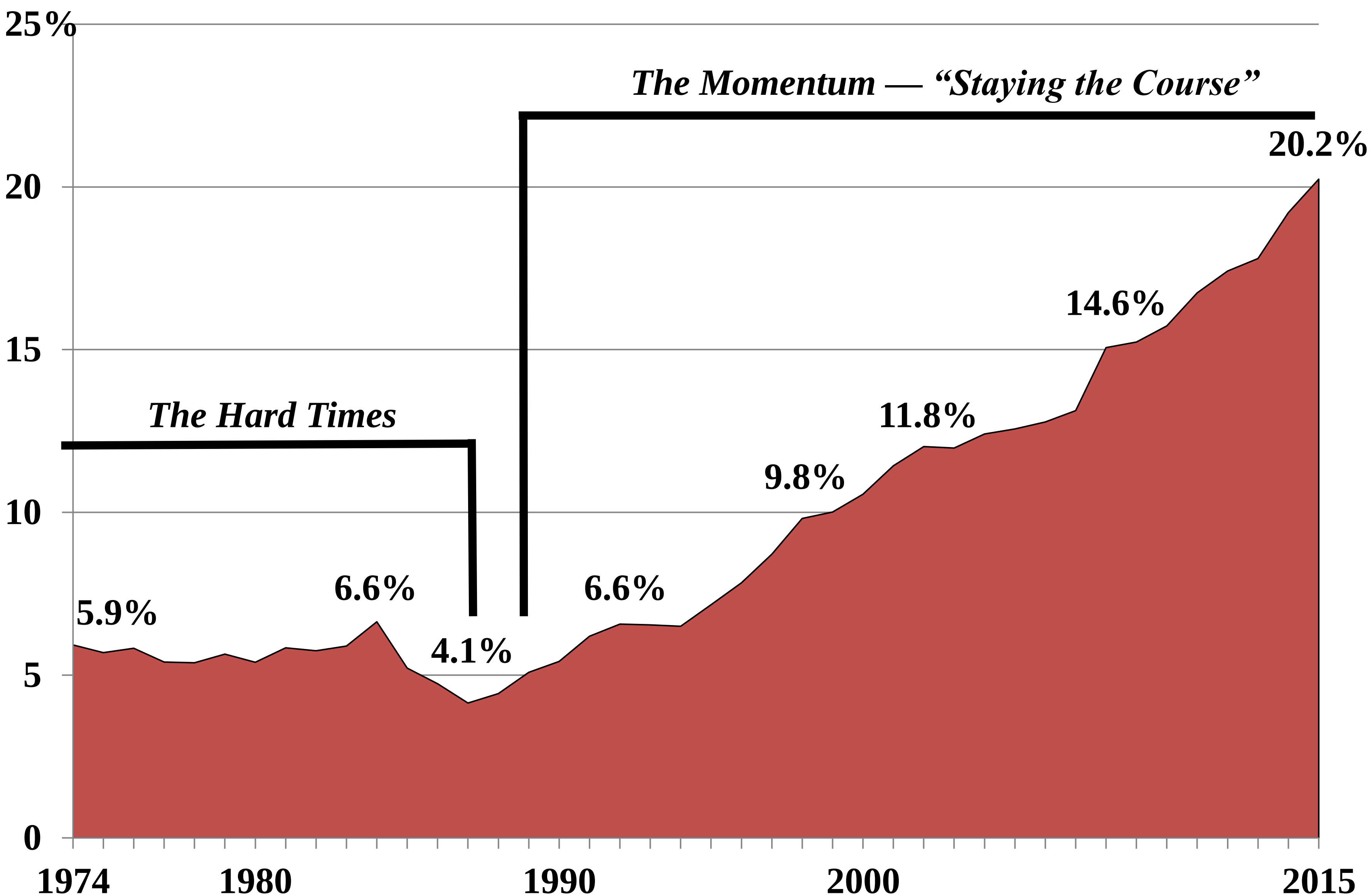
RESULT: COMPETITION'S LEFT IN THE DUST . . . SO FAR . . .

Competition!
Largest U.S. Mutual Fund Managers, 2000-2015



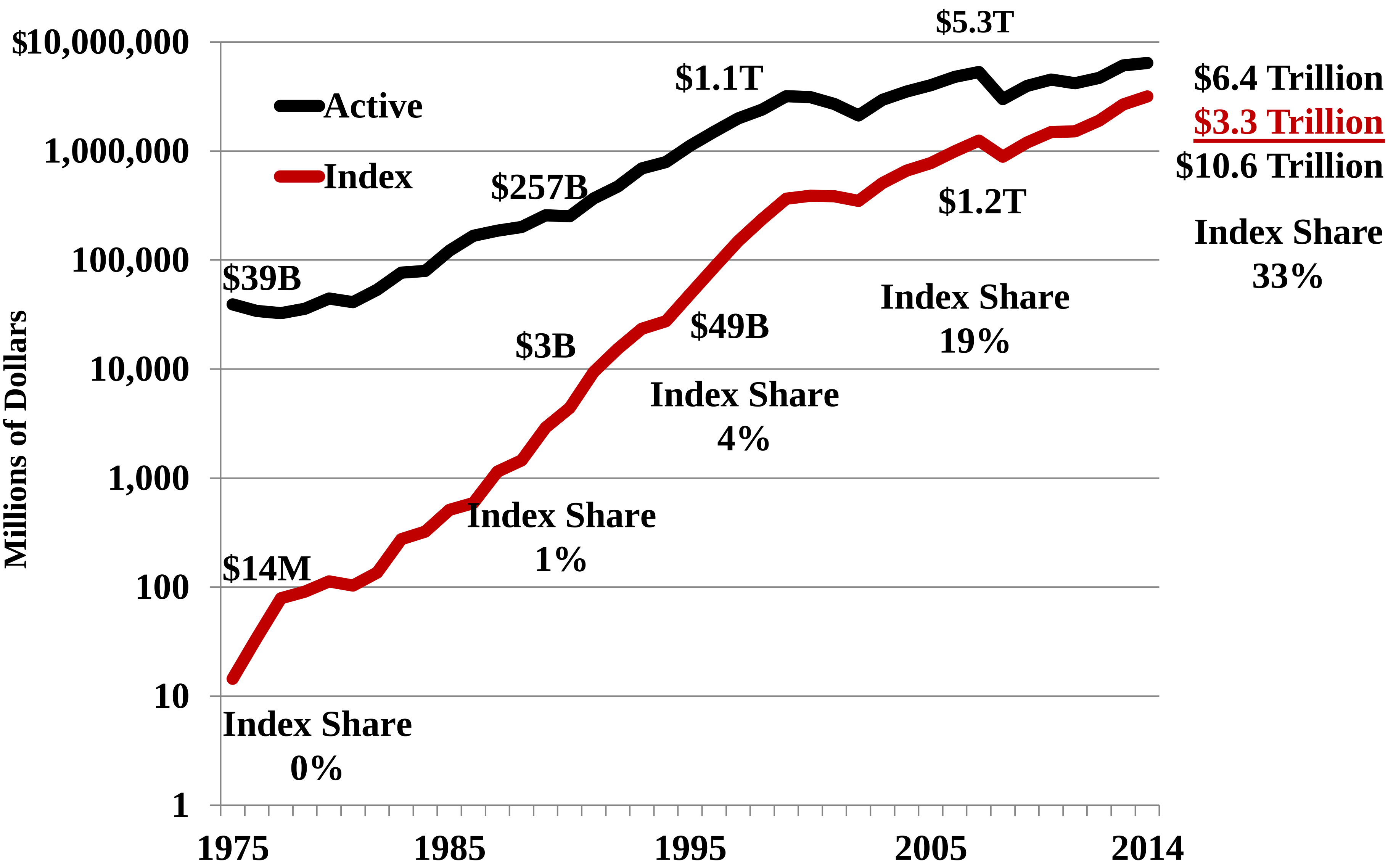
RESULT: OUR MARKET SHARE GROWTH CONTINUES . . .

Vanguard's Market Share of Stock and Bond Funds, 1974-2015



OUR PRINCIPLES HAVE CHANGED THE INDUSTRY . . .

Growth of Equity Fund Assets—Active vs. Index



YET THE ORIGINAL PRINCIPLES OF INDEXING HAVE BEEN CHALLENGED . . .

The Rise of the ETF

	Equity Index Fund Assets		1995-2008	2009-2015
	1995	2015	Annual Increase	Annual Increase
TIFs*	$48B	$1.63T	+19%	+19%
ETFs	$1B	$1.68T	+59%	+19%
Total	$49B	$3.31T	+25%	+19%

*Traditional Index Funds

Yes, There Is a Difference

Traditional Index Funds vs. Exchange-Traded Funds

First Index Mutual Fund (1974)—Principles

- Own the U.S. stock market
- Diversify to the Nth degree
- Minimize transaction costs
- Tiny expense ratio—500 Index: 0.05% (Admiral)
- Bought to be held "forever" (redemption rate 10%)

Exchange-Traded Index Funds (1993)—Principles

- Pick your own index (1,100 now available)
- Diversify within sector you chose
- Lower expenses … but not too low (0.50%)
- Bought to be traded (average annual turnover of large ETFs: 1244%)

"BUY AND HOLD" vs. "TRADE IN REAL TIME" . . .

Speculation or Investment? A Tale of Two Strategies
Trading in the 100 Largest Stocks and ETFs

	100 Largest Stocks		100 Largest ETFs		
	$ Trading Volume	Turnover Ratio	$ Trading Volume	Turnover Ratio	ETF $ Vol % of Stock
1995 (Low)	$2.4 T	128%	$4.5 B	90%	0.2%
2000	17.0 T	222	1.2 T	292	7
2005	10.6 T	166	4.7 T	1879	44
2008 (High)	23.0 T	326	23.7 T	5410	103
2010	18.3 T	262	16.7 T	2838	92
2015*	19.2 T	167	17.1 T	1411	89
Growth Rate	11%		51%		
Average		188%		1895%	

*Annualized

HOWEVER, WITHIN ETFs, MANY DIFFERENCES

All ETFs Are Not the Same

Assets, Institutional Ownership, and Turnover

Largest ETF Sponsors	Total Assets	Institutional Ownership	Annualized Turnover	Annualized Turnover %
BlackRock	$809 B	62%	$4,910 B	606%
Vanguard	469	43	908	193
State Street Global	409	63	8,692	2,122
Total	$1,687 B	56%	$14,510 B	859%
Most Active ETF Sponsors				
PowerShares	$97 B	40%	$928 B	953%
ProShares	25	12	873	3,444
Direxion	9	5	506	5,551
VelocityShares	3	7	299	10,308
Total	$134 B	16%	$2,606 B	1,936%

TIFs MAY HAVE CLOSE “ACTIVE” COUNTERPARTS . . .

In 1974, "Relative Predictability." Now, "High R2."

Vanguard Fund Correlations

The Triumph of Indexing (and *Virtual* Indexing)

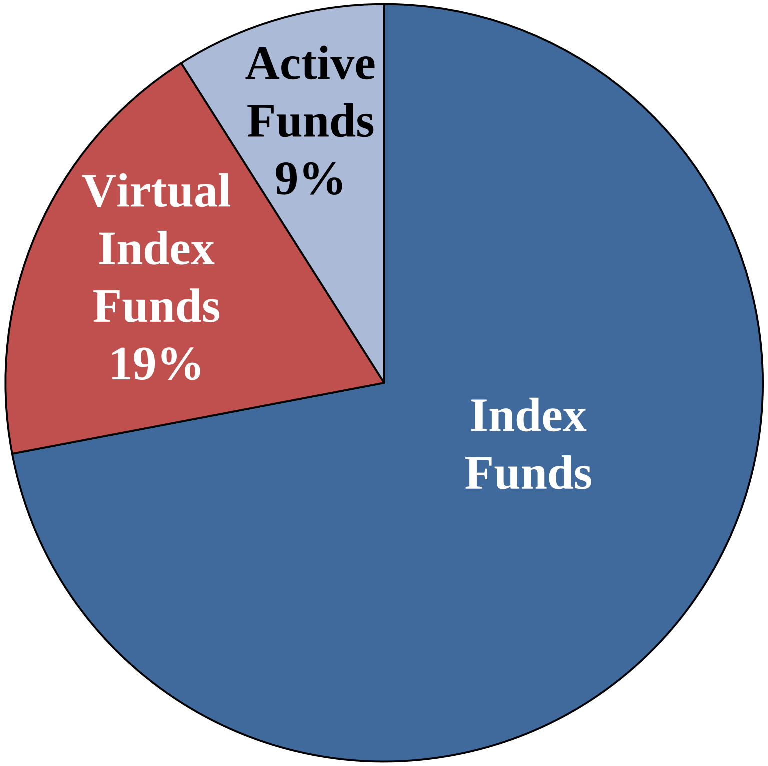
R2: The percentage of a fund's return explained by the return of its best-fit index.

Fund Name	R2 (10-Year)	R2 (3-Year)*
Index Funds		
Total Stock Market Index	1.00	1.00
Total Bond Market Index	0.99	0.99
Active Funds		
STAR Fund	0.99	0.99
Explorer Fund	0.99	0.97
Wellington Fund	0.97	0.97
Intermediate-Term Tax-Exempt	0.97	0.99
Windsor Fund	0.95	0.94
PRIMECAP Fund	0.93	0.88
Health Care Fund	0.92	0.90
Average Vanguard Active Equity Fund	0.95	0.93
Average Industry Active Equity Fund	0.88	0.79

"Relative Predictability" Dominates Vanguard's Asset Base

91% of Vanguard's Assets Have High Relative Predictability

(Average pre-cost returns . . . superior post-cost returns)

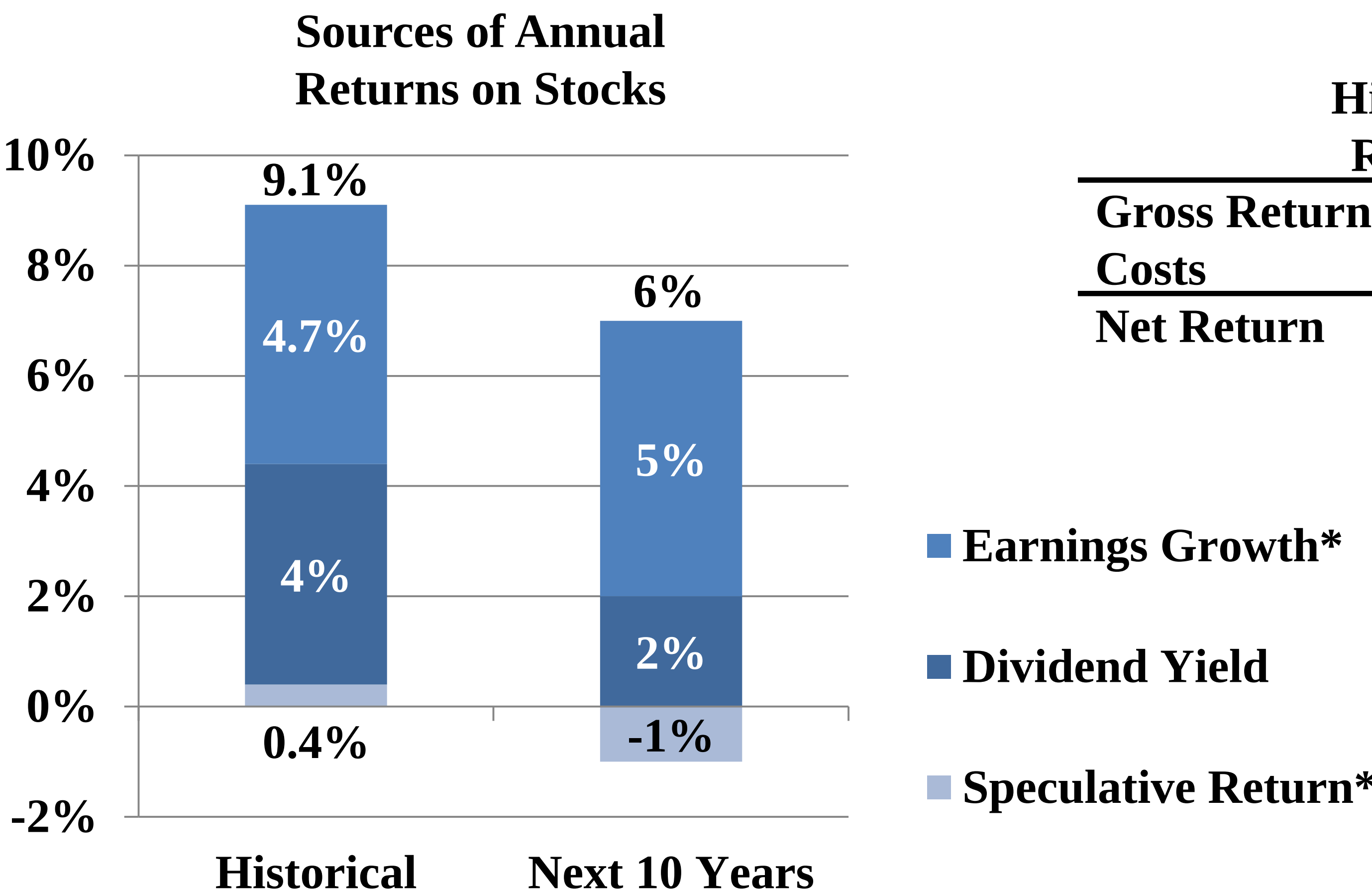


Note: "Virtual Index Fund" – R-Squared of 0.96 or higher relative to best-fit index.

NOW LET'S LOOK AHEAD AT FUTURE RETURNS ON STOCKS AND BONDS . . .

Looking Ahead 1.—No Great Alternatives

Reasonable Expectations for Stocks—Below Long-Term Norms



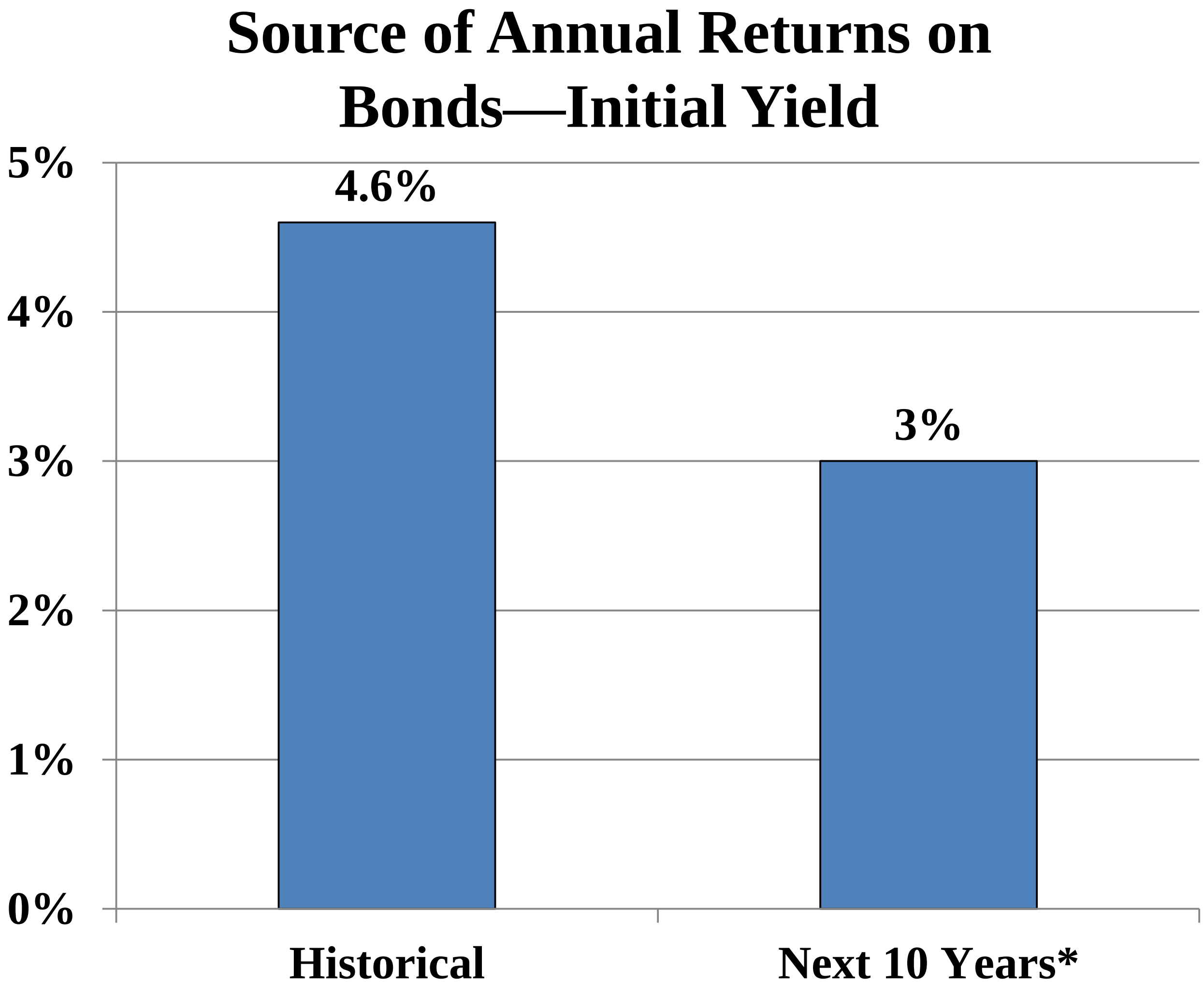
*Assumed decline in P/E from 20x to 17x

	Historical Returns	Prospective Active	Prospective Index
Gross Return	9%	6%	6%
Costs	-2	-2	-0.05
Net Return	7%	4%	5.95%

WHAT ABOUT BONDS? . . .

Looking Ahead 2.—No Great Alternatives

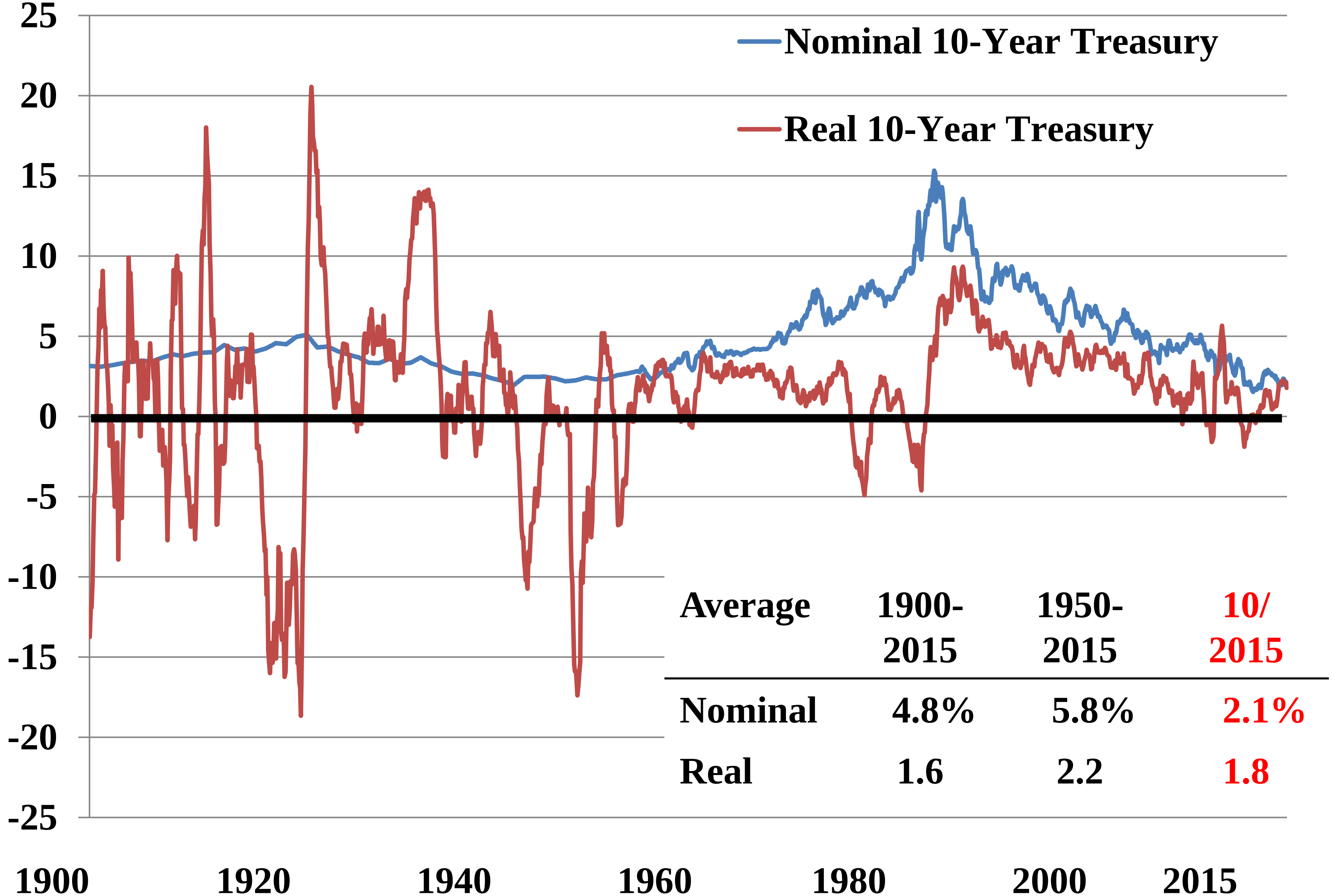
Reasonable Expectations for Bond Returns—Below Long-Term Norms



***Assumes accepting slight additional credit risk and interest rate risk vs. the broad bond market**

YET, REAL INTEREST RATES CLOSE TO LONG-TERM NORMS . . .

Real versus Nominal Treasury Rates



Average	1900-2015	1950-2015	10/2015
Nominal	4.8%	5.8%	2.1%
Real	1.6	2.2	1.8

SO, EXPECTATIONS FOR LOW RETURN ON A BALANCED PORTFOLIO . . .

Looking Ahead 3.—No Great Alternatives

Balanced Portfolio Returns Also Below Norm of 7%

Reasonable Expectations: Nominal Gross Return
(50/50 Stock/Bond):
4.5%

Don't Forget These Deductions

-1.5% Active Fund Costs

or

-0.05% Index Fund Costs

***   *   ***

-2% Inflation

-0.5% Taxes

-1.5% Investor Behavior

YET MUTUAL FUNDS WILL CONTINUE TO DOMINATE INVESTOR SAVINGS. WHY? . . .

Mutual Funds Are the Only Practical Investment Option for Individual Investors

"The vast majority of American families are sentenced to a lifetime of investing in the existing mutual fund penal system. But if they're smart, they'll do their time in an index fund."

John Bogle
***Grant's* "Great Debate"**

April 7, 2015

AS YOU CONSIDER YOUR FUND STRATEGY, REMEMBER THESE WORDS . . .

Four Closing Quotations:

1. Tibble v. Edison

Unanimous ruling of the U.S. Supreme Court reaffirming fiduciary duty for retirement plans

From *The New York Times*, 2/24/2015:

Jonathan Hacker, a lawyer for Edison, said it can’t be the case that companies have to “constantly look and scour the market for … cheaper investment options,” for retirement-plan participants.

“Well, you certainly do, if that’s what a prudent trustee would do,” Justice Anthony Kennedy responded.

2. Andrew Ang

Professor, Columbia Business School; Author, *Asset Management*

"… Fund managers' real loyalty lies with the firm that runs the funds, rather than with the investors who are the owners of the fund. The relationship is incestuous, and investors lose. Many directors of the mutual fund—especially the board chair—are insiders of the investment advisory firm. Fund directors usually do not, and in many cases cannot, independently verify the information given by the advisor. Separating the fund's governance from its sponsor is not enough to ensure protection of the investors."

3. David Swensen

Manager, Yale University Endowment Fund

"Ultimately, a passive index fund managed by a non-for-profit investment management organization represents the combination most likely to satisfy investor aspirations. … Out of the enormous breadth and complexity of the mutual-fund world, the preferred solution for investors stands alone in stark simplicity."

4. Adam Smith

From *The Wealth of Nations*, 1776

"The interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident, that it would be absurd to attempt to prove it. … The interest of the consumer must be the ultimate end and object of all industry and commerce."

Yes, the interests of fund shareholders (consumers) will, finally, triumph over the interests of fund managers (producers).

Thank you for your confidence. "STAY THE COURSE"