

Bogleheads University

Track 2.

Bogleheads 501: Advanced

1:30 - 4:30 p.m. CDT



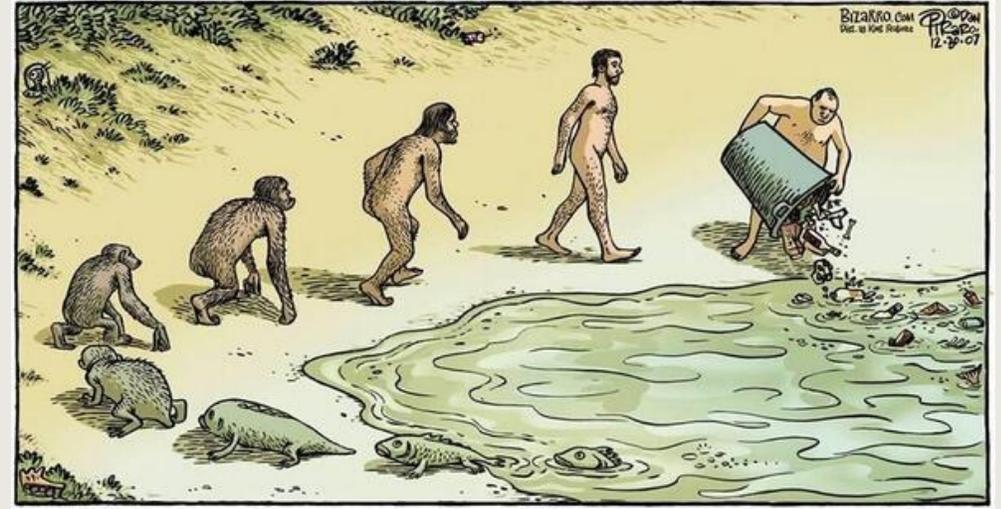
CURRENT SESSION



The John C. Bogle
Center for Financial Literacy

Index Methodology

From Evolution to Pollution



Rick Ferri



The John C. Bogle

Center for Financial Literacy

Many Index Funds to Choose From

Number of Long-Term Mutual Funds and ETFs*		
	Active Jul 2025	Index Jul 2025
Equity		
Domestic equity	3,636	1,286
World equity	1,494	673
Hybrid	679	31
Bond	2,317	469
Total	8,126	2,459

*Investment Company Institute



Agenda

- Market indexes were created to measure value, for economic research, and as benchmarks for active management.
- Index funds emerged from benchmarks and ETFs followed.
- Active management goes on the offensive against index funds.
 - Phase 1: Attack the attributes and promise Alpha.
 - Phase 2: Repackage active strategies and sell as passive indexing.
- Ignore the noise. Stay the course!



The Father of Performance Measurement



Alfred Cowles III, 1891–1984



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Can Market Forecasters Forecast?

Econometrics, 1933

- 7,500 Wall Street stock picks
- 24 newsletter results
- 20 Insurance company portfolios
- Dow theory (market timing)
- “It is doubtful.”

The Cowles Commission Index of Monthly Stock Prices was merged with Standard & Poor’s data in 1957 to form the S&P 500.



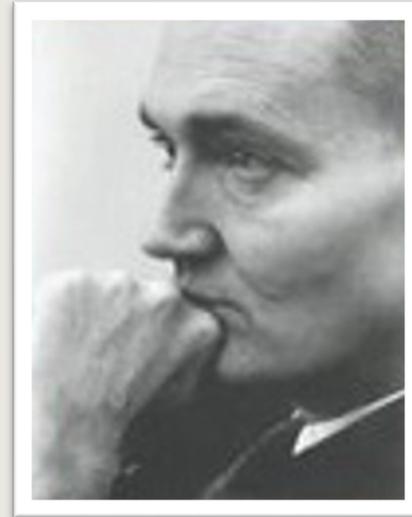
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The Fund Industry's Old Mandate

John Bogle, 1951 Princeton Thesis

“Funds can make no claim to superiority over the market averages. They state, rather, that their **performance must be judged against what the individual could have done at the same cost over the same period, with the same objective as has a given fund.**”



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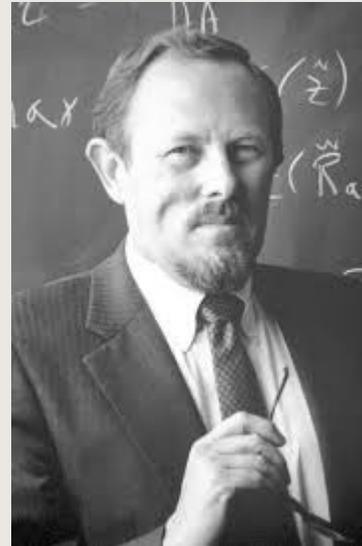
Advances in Investment Theory



Paul Samuelson
Economic Theory



Harry Markowitz
MPT



Bill Sharpe
CAPM



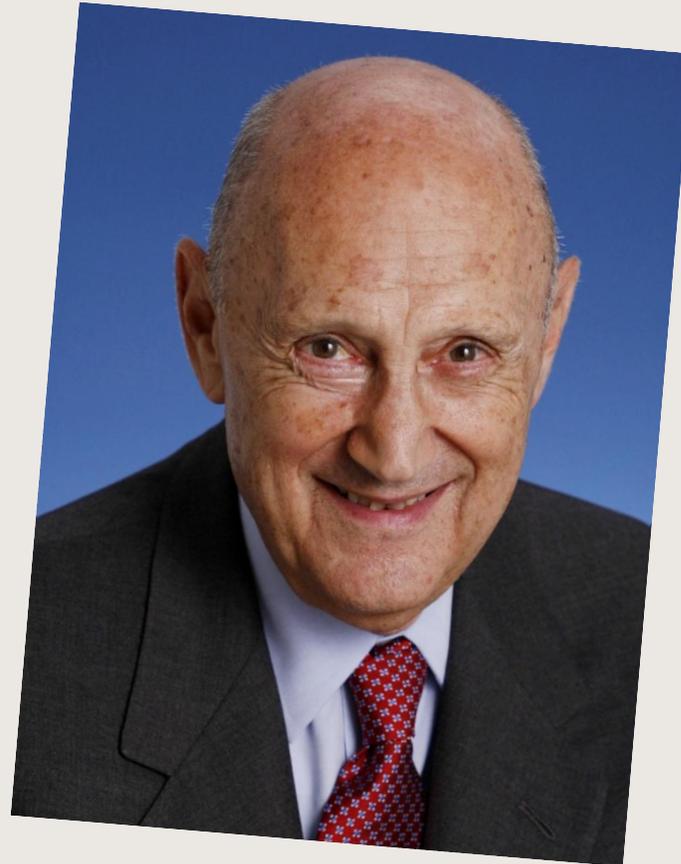
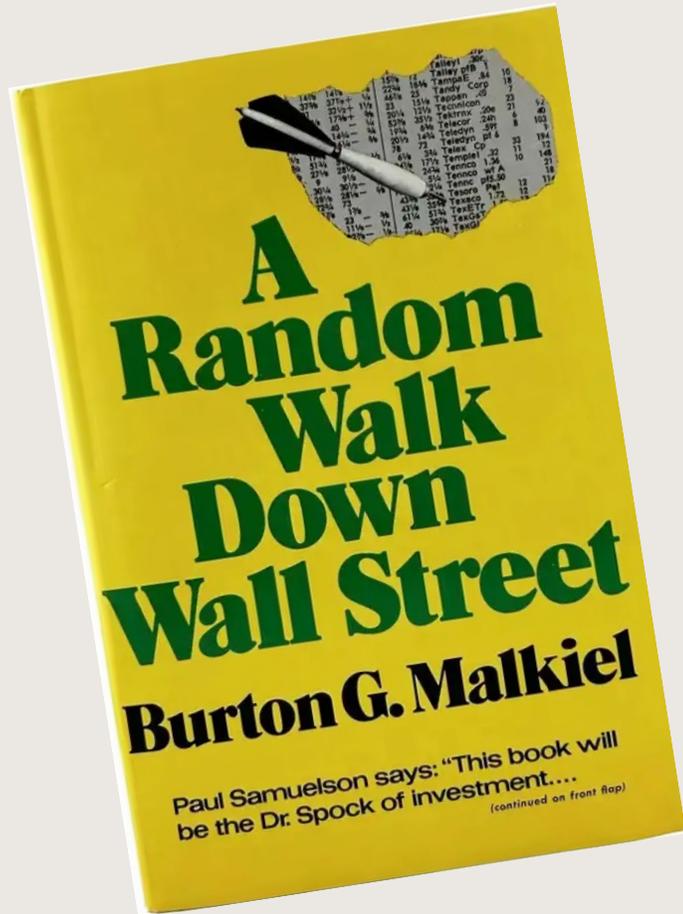
Gene Fama
Efficient Markets



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Yes, Active Funds Underperform...



But You Can't Buy the Markets



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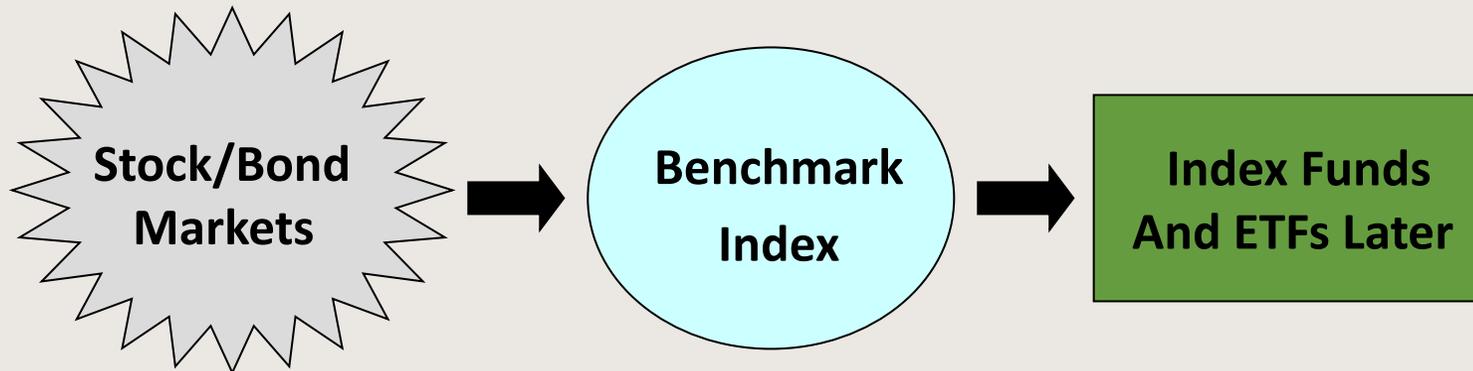
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Along Came Jack (and Vanguard)

- Fired from Wellington due to a bad acquisition. Formed Vanguard in 1975 to do fund administration, prohibited from managing money.
- Jack figured out how to create a mutual fund that tracked the S&P 500, staying with the no-management requirement.
- The *First Index Investment Trust* was filed with the SEC in December 1975, launched in August 1976.
- Name changed to the *Vanguard 500 Index Fund* in 1981.



Benchmarks Become Products



The Industry Laughs

"I can't believe that the great mass of investors are going to be satisfied with just receiving average returns. The name of the game is to be the best".

~ Ed Johnson, CEO, Fidelity, 1975



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Academic Research Expands...

- 1971 Rolf Banz – small stocks have an excess return above that explained by beta alone
- 1977 Sanjoy Basu – fundamental factors explain return differences unrelated to beta or size risk (value factor).

Leading to benchmark growth...

- 1984 Russell Investments (R3000, R1000 lg., R2000 small)
- 1987 Russell Growth and Value Indices
- 1986 MSCI EAFE Index, 1988 Emerging Markets Index
- Benchmark growth is also happening in fixed-income

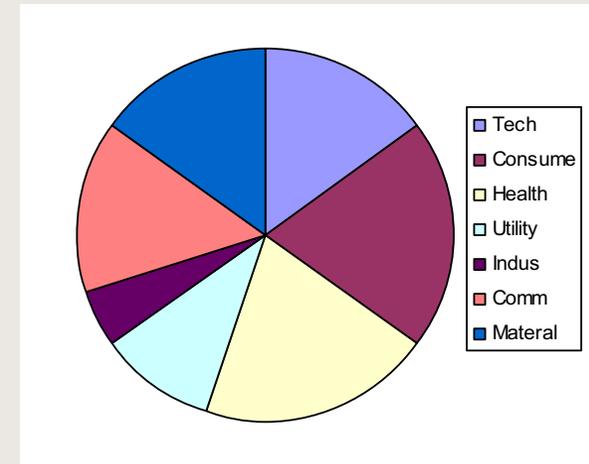
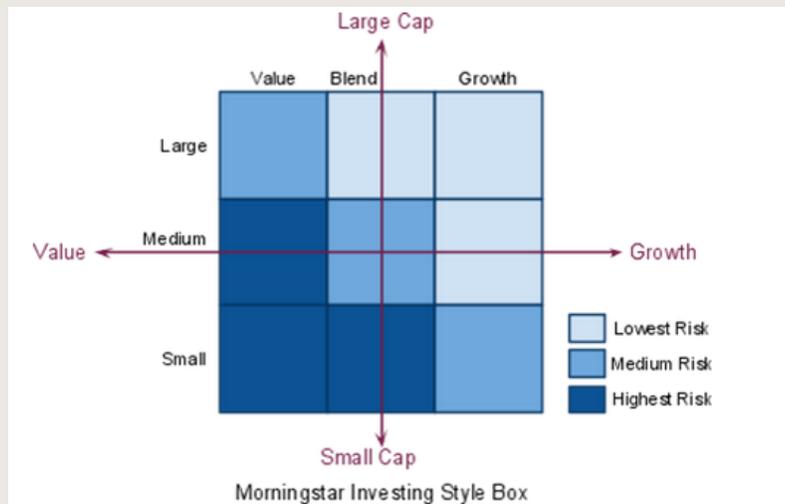
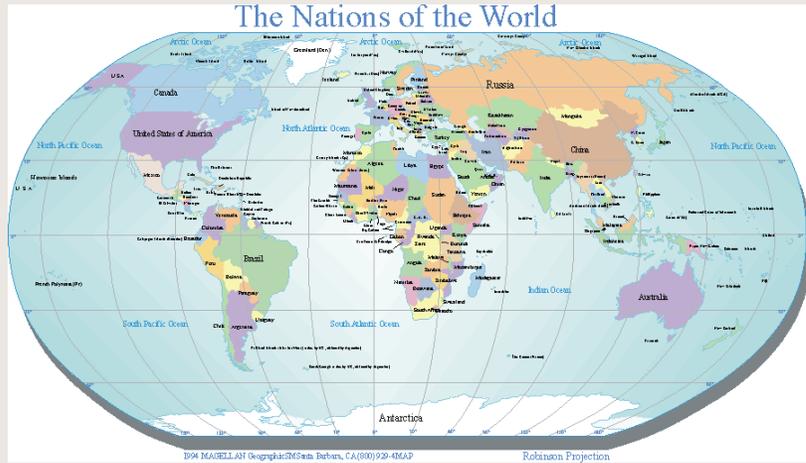


And The Growth of Index Funds

- 1986: US total bond market index fund (Vanguard)
- 1987: Extended market index fund (ex-S&P 500)
- 1990: European and Pacific index funds (Vanguard)
- 1992: First US total stock market index fund (Vanguard)
- 1992: Value and growth index funds (Vanguard)
- 1994: Emerging markets index fund (Vanguard)
- 1994: Short, intermediate, long bond (Vanguard)
- 1994: SPDR S&P 500 ETF Trust (State Street)
- 1996: Single country ETFs (WEBS - iShares)
- 1996: REIT index fund (Vanguard)
- 1998: Industry sector ETFs (iShares)



By 1998, every market is done



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Index Methodology

- Constituent selection
 - Inclusions and exclusions
 - Sorting size, style, and industry
- Cap-weighting
 - Full replication
 - Free-float
- Rebalancing
 - New shares issued
 - Share buybacks
- Reconstitution
 - Adding new constituents
 - Removing non-qualifying names

**S&P Dow Jones
Indices**

A Division of **S&P Global**

**FTSE
RUSSELL**

An LSEG Business

MORNINGSTAR
Indexes

MSCI 

CRSP® | **CENTER FOR RESEARCH
IN SECURITY PRICES**
An Affiliate of the University of Chicago



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Methodology Matters, but Not Much

Total US Stock Market Index Funds				Sept. 30, 2025
Ticker	Fee	10-yr	Stocks	Index
VTI	0.03%	14.67%	3,524	CRSP (full)
FSKAX	0.02%	14.66%	3,732	DJ (full)
SWTSX	0.03%	14.64%	3,039	DJ (sample)
ITOT	0.03%	14.67%	2,489	S&P (sample)

Total International Stock Index Funds				
Ticker	Fee	10-yr	Stocks	Index
VXUS	0.05%	8.34%	8,621	FTSE
IXUS	0.07%	8.45%	4,189	MSCI
VEU	0.04%	8.43%	3,820	FTSE x Small



US Small Cap Index Funds **Sept. 30, 2025**

Ticker	Fee	10-yr	Stocks	Index	Med Mkt Cap
VB	0.050%	10.57%	1,336	CRSP SC	\$9.6 B
IJR	0.060%	9.99%	649	S&P SC	\$2.6 B
VTWO	0.070%	9.82%	1,999	Russell 2000	\$2.3 B

US Large Cap Value Index Funds

Ticker	Fee	10-yr	Stocks	Index	Med Mkt Cap
VTV	0.040%	12.10%	323	CRSP LG V	\$139.4 B
IVE	0.180%	11.85%	400	S&P 500 V	\$33.7 B
FLCOX	0.035%	10.72%	871	Russell 1000V	\$15.7 B

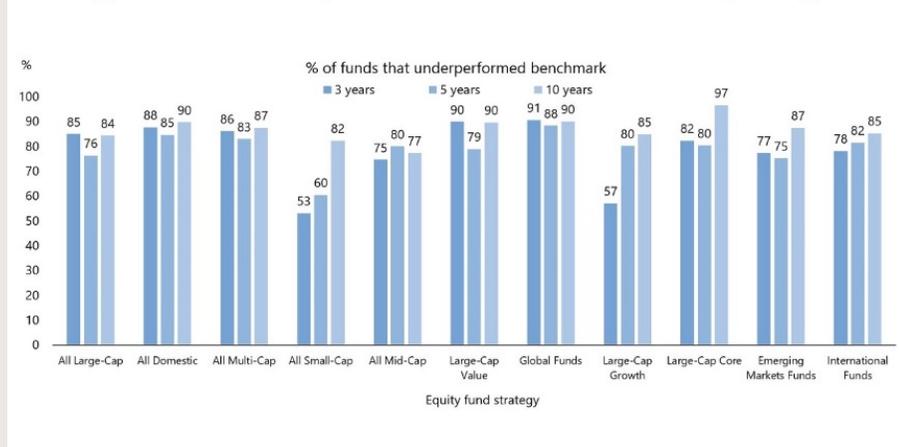
US Small Cap Value Index Funds

Ticker	Fee	10-yr	Stocks	Index	Med Mkt Cap
VBR	0.070%	10.23%	835	CRSP SV	\$8.8 B
IJS	0.180%	9.47%	482	S&P 600 V	\$2.1 B
VTWV	0.100%	9.20%	1447	Russell 2000V	\$1.0 B
DFSVX	0.310%	9.53%	1025		\$5.7 B
RZV	0.350%	9.49%	141	S&P 600 Pure V	\$1.4 B

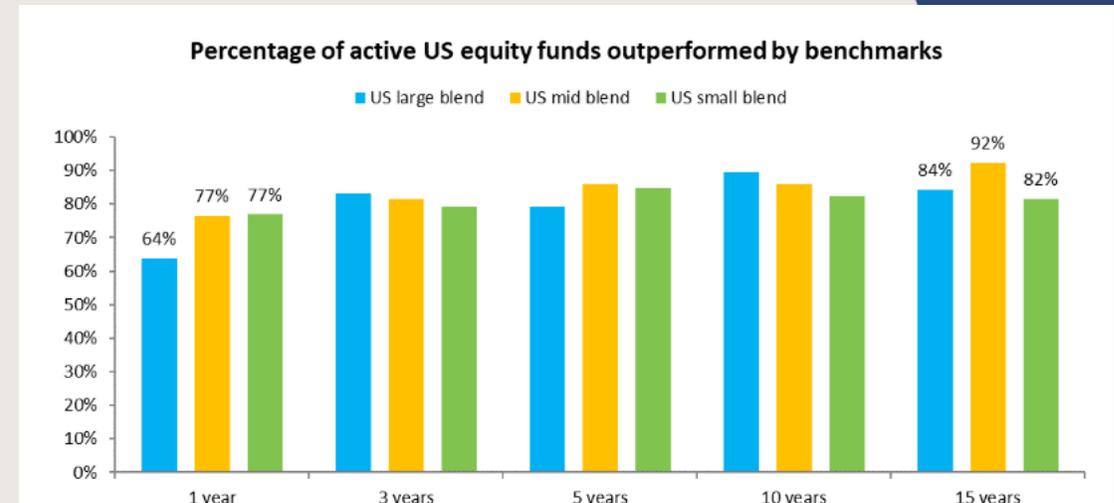


Active Funds Underperform Everywhere

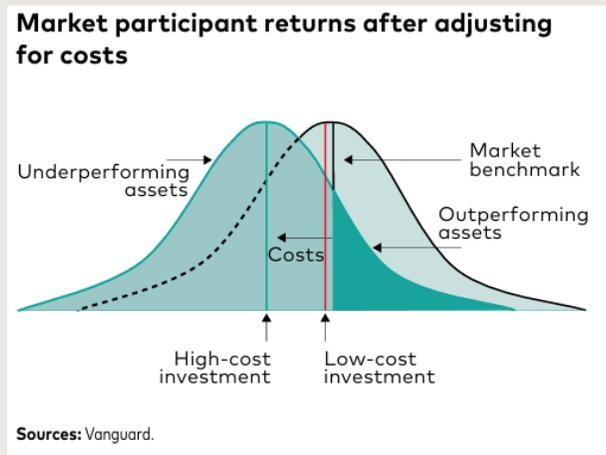
Percentage of funds that underperformed their individual benchmark, by strategy



S&P SPIVA



Morningstar Active Passive Barometer



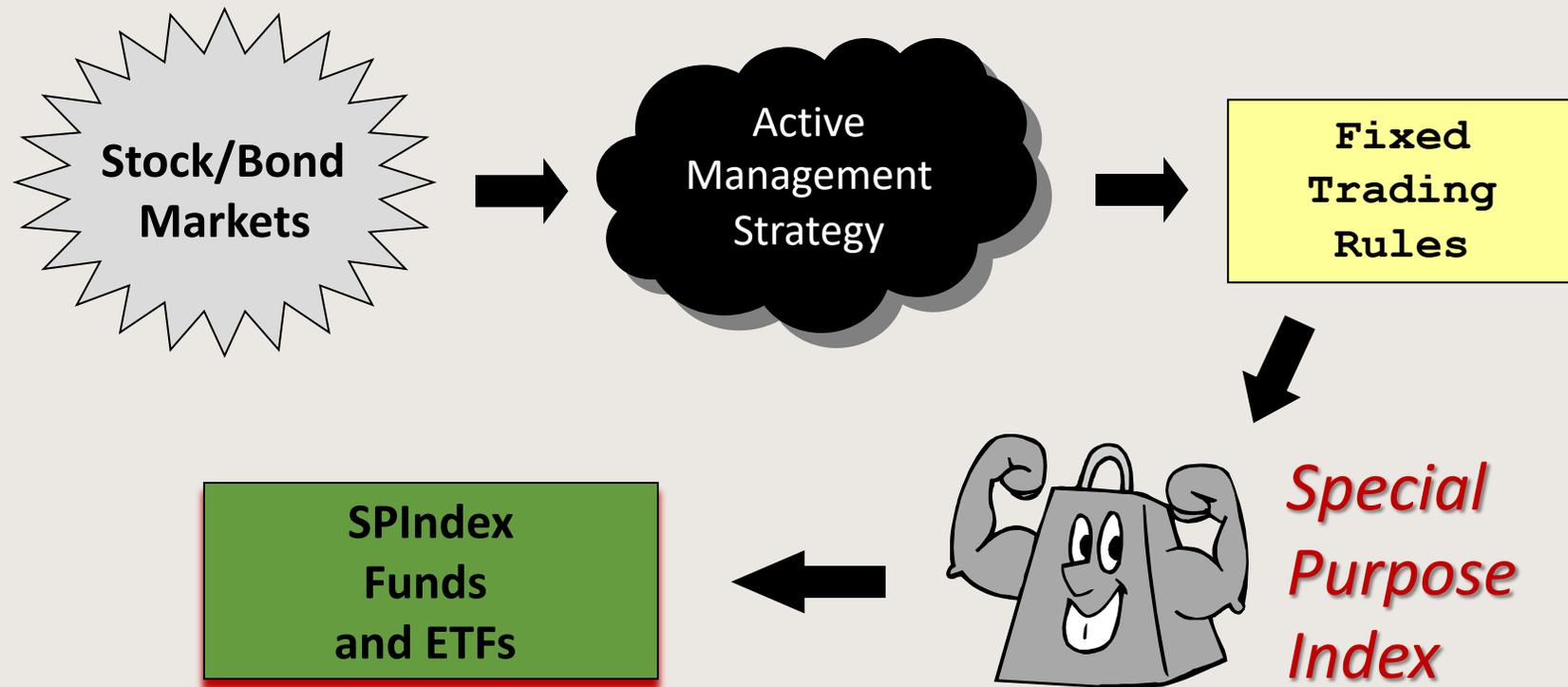
Vanguard Case for Index Funds



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Phase II: If You Can't Beat'em, Join'em



SPIndex: Special Purpose Index

2003: The First Active-Index & ETF

- Dynamic Market Intellidex Index
- 100-stock portfolio
 - 25 quantitative factors
 - Two-tier equal-weight scheme
 - Quarterly reconstitution
- Dynamic Market ETF (PWC)
 - A passively managed index fund
- Management fee 0.59%



Bruce Bond
Co-founder & CEO



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Index Decay

Fundamental indexes
Enhanced indexes
Strategy indexes
Alternative indexes
Active indexes
Smart beta
Strategic beta
Scientific beta



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And it continues...



WEBINAR

Smarter Indexing for a Changing Market

[REGISTER NOW](#)

Title: Smarter Indexing for a Changing Market:
Factor Valuations, Performance, and Insights

Date: Wednesday, October 1, 2025
Time: 11:00 am PT / 2:00 pm ET
Duration: 60 minutes



Rob Arnott
Founder & Chairman
Research Affiliates

Research Affiliates Cap-Weighted Index (RACWI) introduces a fresh approach designed to fix a costly but little-known “bug” in cap-weighted indexing.



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Back To Basics

2017 Bogleheads Conference
John Bogle Q & A

could you please comment on the differences and benefits of investing in different kinds of index funds for example cap-weighted fundamental weighted and equal weighted.



There is nothing like cap weighted indexing
it gives you the entire market return it doesn't
care about sectors it doesn't care about managers
it doesn't care about styles and in the long
run we know as a fact that it's very difficult
for investors to capture the market return as a
group they can't and uh so i go with cap-weighted



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Beware of Actively Managed Products Claiming to be Passive Index Investments



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The False Dichotomy: Why the Active vs. Passive Fund Debate Misses the Point

There is no universally accepted definition of what constitutes a “passive” strategy...Consider how major fund analysts categorize investments. Morningstar classifies all index funds as passive, while funds from companies like Dimensional Fund Advisors (DFA) and Avantis are labeled as active. **Yet, when we examine how these funds actually operate, this distinction becomes largely meaningless—a classic case of “a distinction without a difference.”**

Larry Swedroe, 2025

<https://alphaarchitect.com/active-vs-passive-fund-debate/>



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Setting the record straight: The truths about index fund investing

“A truly passive portfolio would be one that tracks a total market index. Even a portfolio that holds a large-cap growth index fund to capture exposure to U.S. equities would be an active portfolio relative to the U.S. total market.”



Ignore the Noise!



The End



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Factor Investing and Tax Strategies

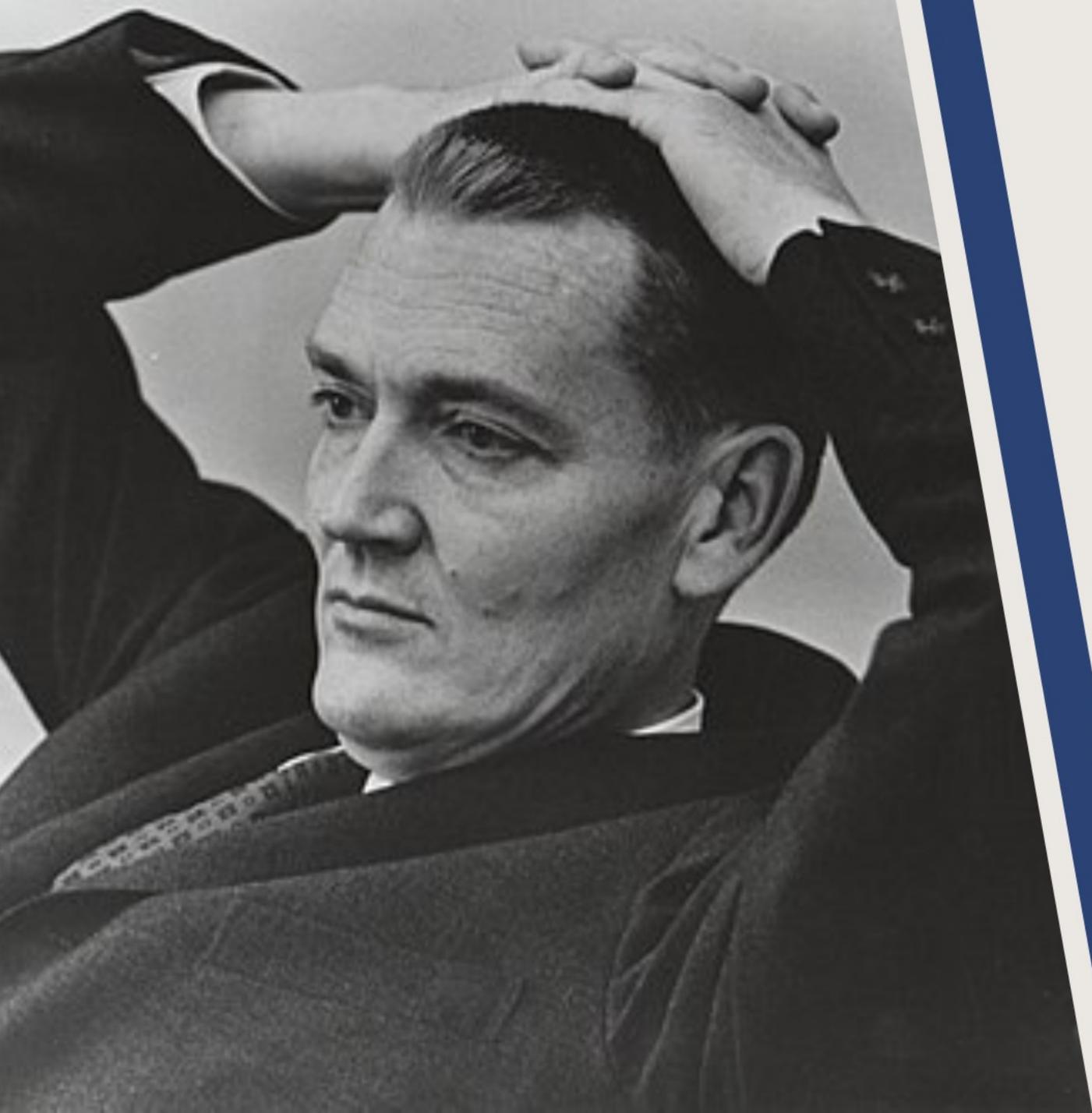
WES GRAY
in conversation with
RICK FERRI

2:00 - 2:45 pm CDT

CURRENT SESSION



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Estate Planning & When to Use Trusts

Jennifer Rozelle &
Justin Schuhmacher

Estate and Elder Law Attorneys
Indiana Estate & Elder Law



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Resources for General Estate Planning

Check out:

- Jenny's 2024 Bogleheads Conference presentation on YouTube
- Bogleheads On Investing Podcast – Recent episode with Jenny
- Legal Tea Podcast (Jenny's Podcast)
- *How to Retire* by Christine Benz (Estate Planning Chapter/Lesson)



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What is a Trust?

Today's focus is on when to use Trusts – not what is a Trust

But...

- Testamentary Trust versus Living Trust
- Revocable Trust versus Irrevocable Trust

There are a cajillion types of Trusts, so be careful what you google!



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Common Reasons to do a Trust

- Avoid probate
- Protect assets
- Blended families
- Customized distribution
- Tax planning

Let's talk about each...



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#1 – Avoid Probate

- Is probate bad and scary?
- Generally speaking, probate can be avoided by:
 - Utilizing beneficiary designations; and/or
 - Utilizing a Trust.
- When to use a Trust *rather* than beneficiary designations?



#2 – Blended Families

Story time!

Let's talk about Polly and George...



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#3 – Asset Protection

- Goal of protecting assets against long-term care and/or liability?
 - *Yes, it can be done through an estate (Trust) plan!*
- Estate attorney versus elder law attorney



#4 – Customized Distribution

- Spendthrift
- Addiction issues
- Minors as beneficiaries
- Disabled beneficiaries
- Distrust of in-laws
- Remarriage protection (“Biff the Pool Boy”)
- Or maybe you’re just a ... bit of a control freak 😊



#4 – Tax Planning

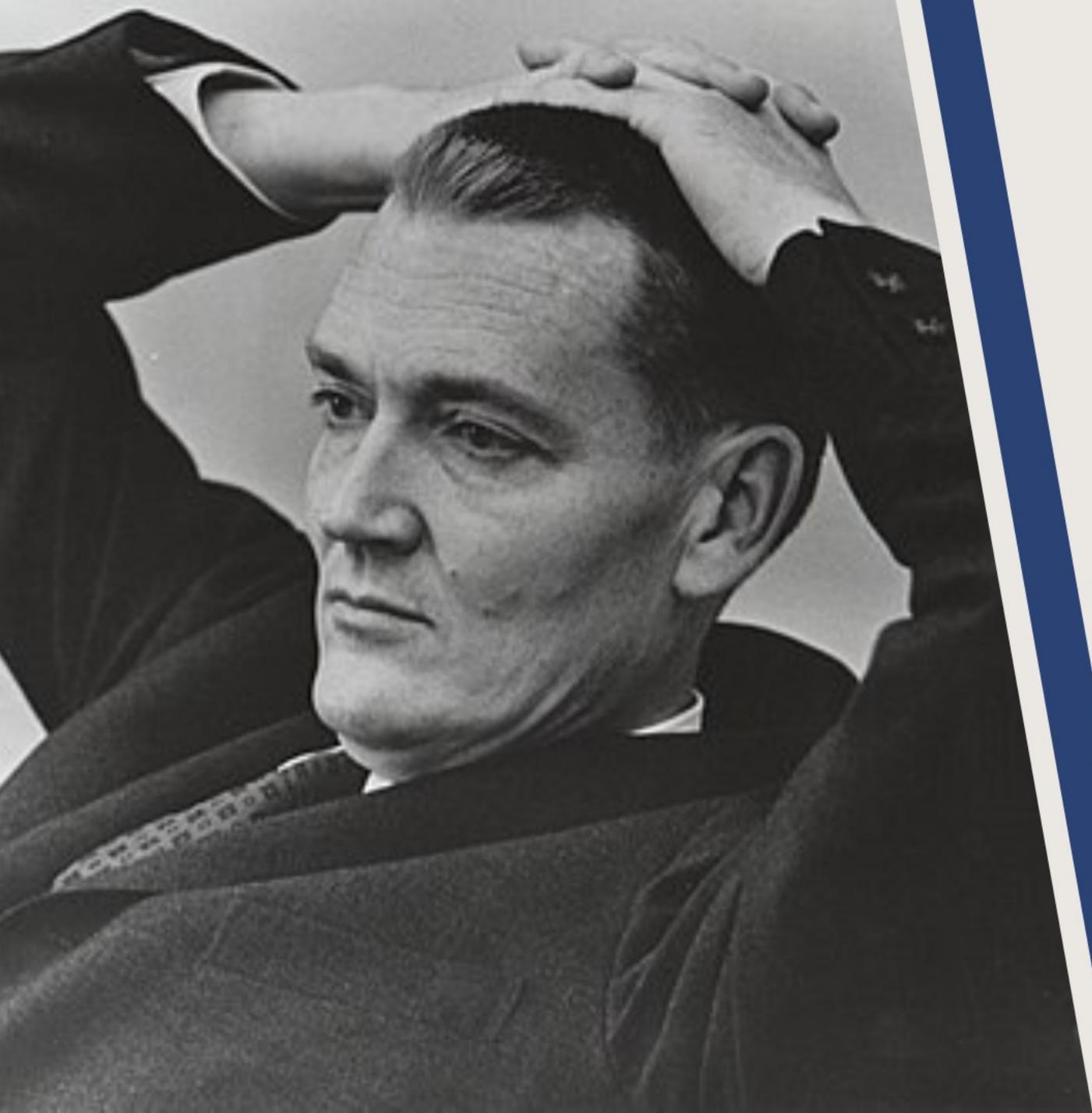
- Minimize estate tax burden
- State estate tax versus Federal estate tax
 - States that have a **state estate tax**: Connecticut, Hawaii, Illinois, Maine, Maryland, Massachusetts, Minnesota, New York, Oregon, Rhode Island, Vermont, Washington, District of Columbia
 - **2025 federal** estate tax exemption
 - \$13.99 Million, Per Individual (x2 for Married Couple)
 - 2026 – Going to \$15 Million, Per Individual (x2 for Married Couple)



Wrapping Up...

- Remember:
 - There are lots of different types of Trusts.
 - There is a lot of information “out there” to absorb (and yes, googling sometimes produces inaccurate information).
- Work with an attorney who does “this stuff” so you are working with someone that does this field every day.





Thank You!

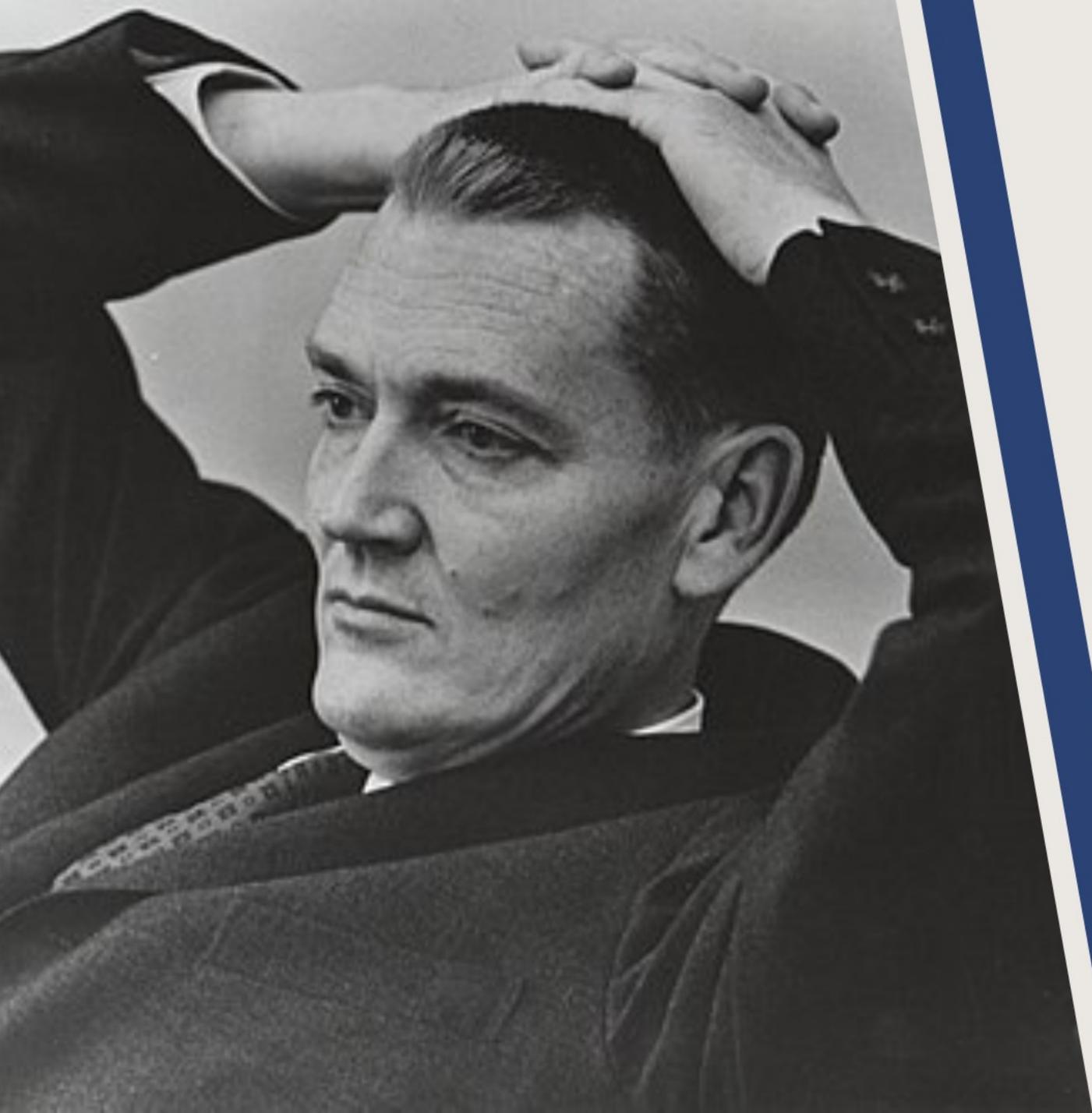
Jennifer Rozelle &
Justin Schuhmacher

Estate and Elder Law Attorneys
Indiana Estate & Elder Law



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TIPSLadder.com

Kevin Esler

kevin.esler@gmail.com



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Agenda

- What is a TIPS?
- What is a TIPS ladder?
- What is a TIPS ladder for?
- **Demo:** How to use TIPSLadder.com
 - Is a ladder feasible for me?
 - Creating your ladder
 - Tracking your ladder holdings
 - Extending your ladder



What is a TIPS?

- Treasury Inflation Protected Security
- Auctioned by US Treasury
- Terms of 5, 10 or 30 years
- Pays interest twice a year until maturity
 - Rate fixed at auction but always at least 0.125%
- Principal value adjusted daily according to CPI-U
- Interest payments and final principal payment based on the *inflation adjusted value*
- Yield and price vary with prevailing interest rates



What is a TIPS Ladder?

- A collection of TIPS
- Purchased all at once or accumulated over time
- From secondary market or at the auctions
- Generates payments throughout a contiguous set of years (“rungs”)
- *Often* designed to produce about the same income each year



What is a TIPS Ladder like?

US Gov't Pension or Social Security	TIPS Ladder
Backed by the US Government	Backed by the US Government
Fully inflation adjusted with CPI-U	Fully inflation adjusted with CPI-U
Pays monthly	Pays irregularly through each year
Pays for life	Pays for up to 30 years
Cannot be passed to heirs	Can be passed to heirs
Income stream is uniform	Income stream uniform or not
Could be reduced in future	Cannot be reduced



What is a TIPS Ladder for?

- For any liability-matching portfolio, e.g.
 - A bridge to Social Security
 - A “floor” of inflation-adjusted income
- *Very* conservative investment

The good	The bad
No default risk No inflation risk Very predictable income stream	No upside: yield = inflation + ~2% No longevity insurance



How to use TIPSLadder.com

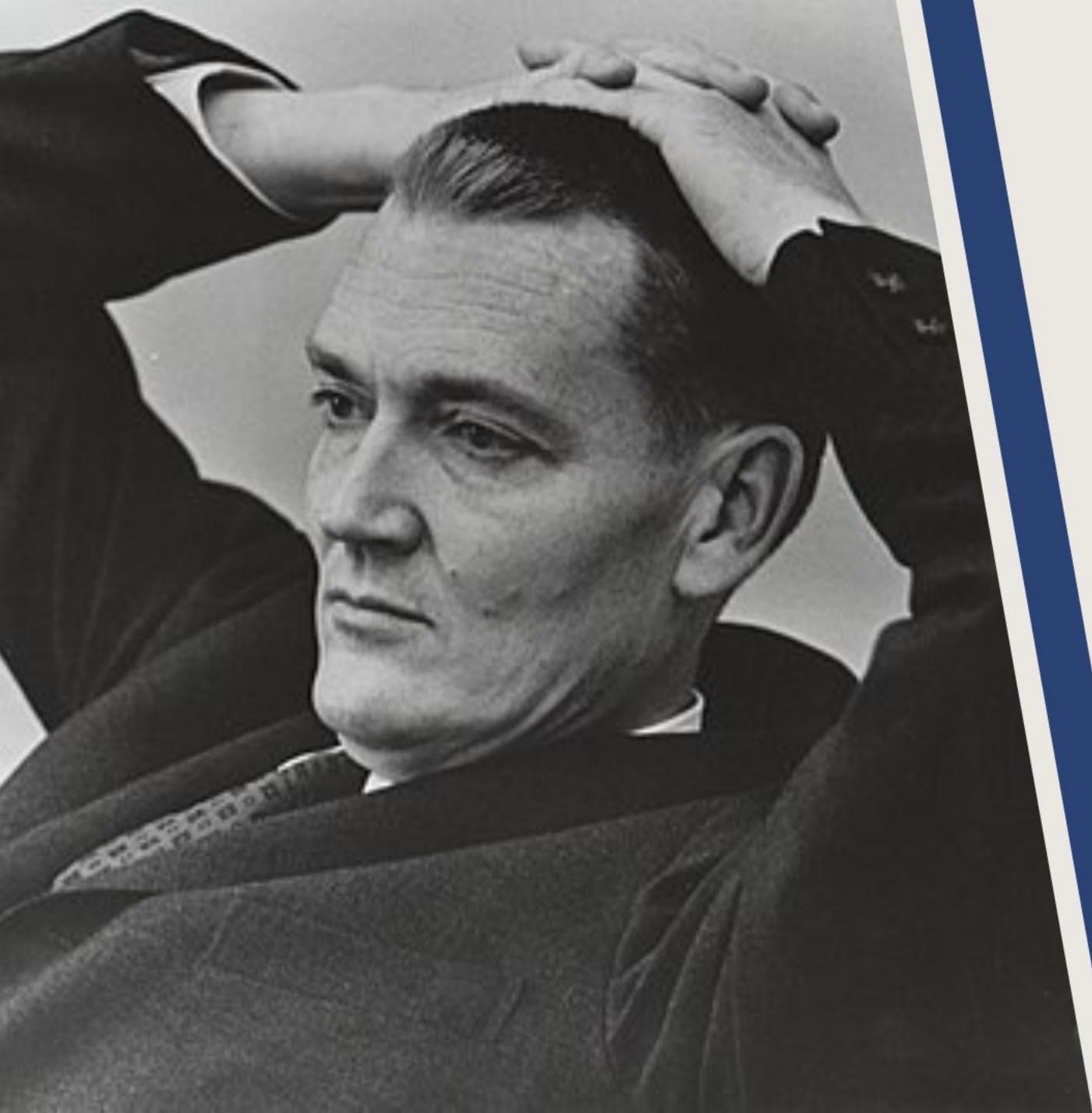
- Scenarios demonstrated
 - Exploring feasibility of a ladder purchase (cost vs income)
 - Generating a ladder from scratch
 - Tracking your TIPS holdings
 - Extending your ladder



Conclusion

- To learn more
 - <https://TIPSLadder.com/resources>
 - The Bogleheads Forum
- Suggestions for improvement welcomed.
- Suggestions for other investment-related tools welcomed.





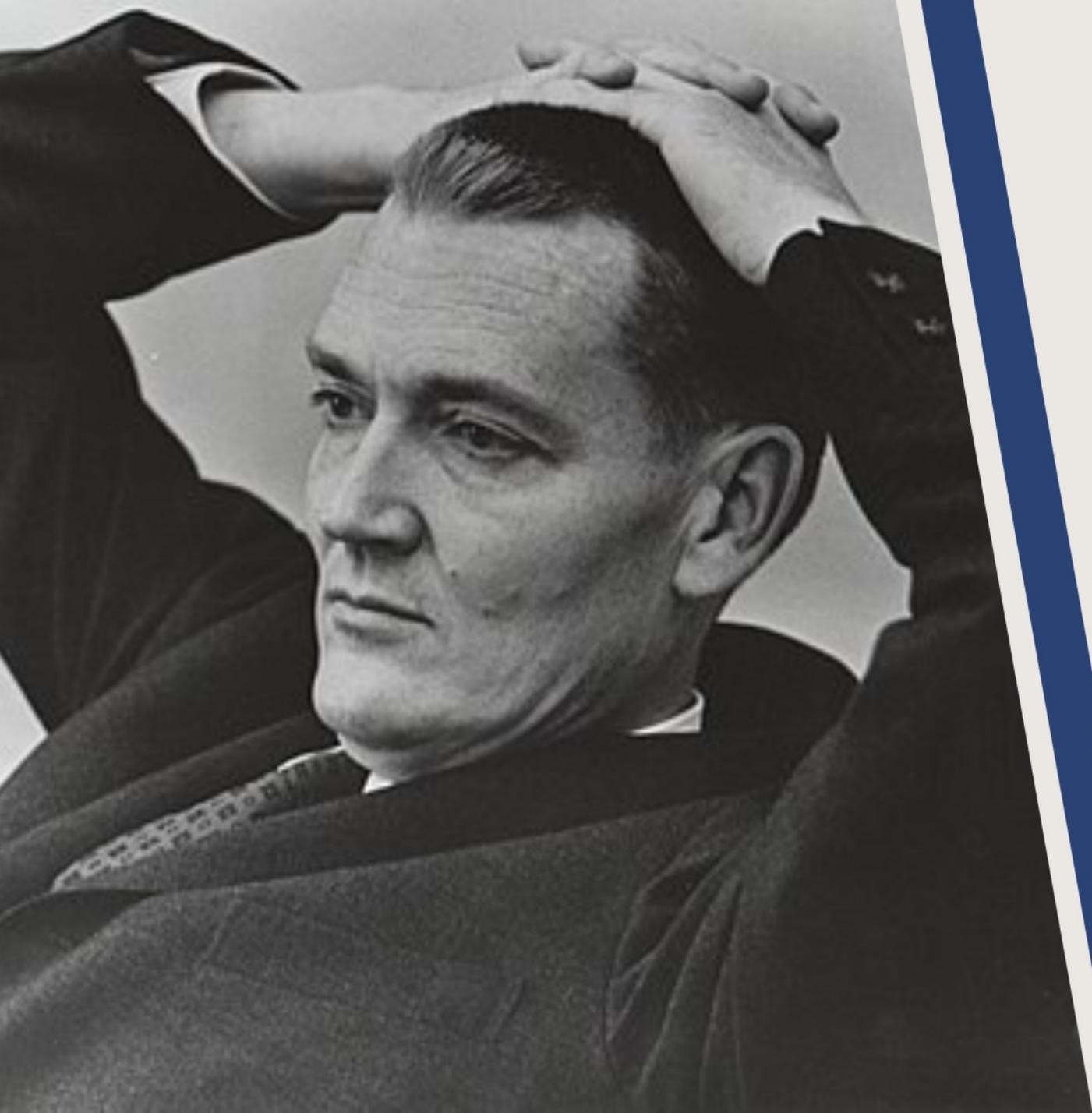
Thank You!

Kevin Esler



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The Complexities of Moving Toward Simplicity

Allan Roth



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The Perfect Stock Portfolio (IMO)

- Total U.S. Stock Index & Total Int'l Stock Index (dumb beta).
 - Owns as close to every publicly held company on the planet.
 - Tax-efficient – zero capital gains from holding.
 - Automatically rebalances as stock values move up and down.
 - Mathematically must beat average dollar invested (William Sharpe).
 - 99.99% likelihood of beating most investors.
 - It's a beautiful thing – Thank you Jack Bogle!
- Other alternatives:
 - Vanguard Total World (VT)
 - All in one Life Strategy fund



Number of clients (and myself) holding
the perfect stock portfolio.



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The Data Request Submission



Partially paper and part electronic (PDFs)



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Synthesizing the data request.

- Cash (0.02% APY) \$2.4 million
- 37 Funds (0.52% average ER) \$3.7 million
- 143 Individual stocks \$2.2 million
- 50 Individ. Munis (43 – 4.1% yield) \$1.0 million (client says don't touch)
- Variable Universal Life (VUL) \$0.1 million (client says skip – immaterial)
- Private investments \$1.6 million
- Total Assets \$11.0 million
- Mortgage 6.0% (\$1.0) million
- Net Portfolio \$10.0 million



Low-hanging fruit



- \$2.4 million cash earning 0.02% APY.
 - Pay off 6% mortgage.
 - Treasury money market
 - (2024 was 100% state tax exempt though it can use repurchase agreements).
 - (CPAs typically miss things like Vanguard Total Bond having 42.92% exempt)



Expensive mutual funds and ETFs.

- Low-hanging fruit.
 - Small gains or losses.
 - Tax-advantaged accounts.
 - Turn off dividend reinvestments (quit buying more!).
 - Donate to DAF if there is charitable intent.
- More complex analysis (pull the band aid off vs. slow bleed).
 - Expense ratio vs. taxes due from realized gains.
 - Realized gains passed through by fund.
 - Death spiral.
 - Qualify for step-up?
 - Likely lifespan of owner.
- Often the solution is to sell half (minimize regret).
- LTCG tax rate (plus 3.8% investment income tax plus state).
- Sell over time to manage tax rates.
- Will client be moving (from NY to FL)?



Expensive mutual funds and ETFs. Cost basis method.

Now is a good time to reevaluate your options

One of the available, tax-efficient options for selling is [minimum tax \(MinTax\)](#). MinTax automatically selects shares to sell once you put in a sale order. In many cases, it may help minimize the income tax you'll owe.¹ It's now available for mutual funds, ETFs (exchange-traded funds), and stocks.

There's no fee to change your cost basis method. So if you decide to try MinTax, simply log in to your account to switch your election. The next time you sell shares, MinTax will automatically apply.²

The Vanguard logo, featuring the word "Vanguard" in a bold, red, serif font with a registered trademark symbol (®) to the upper right.

The MinTax cost basis method can minimize the tax impact of a transaction in many (but not all) cases. For example, MinTax may not be the best cost basis method when gifting shares.



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Vanguard MinTax

- Client meant to buy 300 shares of VTI but accidentally bought 3,000. Sold the extra 2,700 shares the next day using MinTax method.
- What was the tax impact to the client? (Hint - VTI gained a few pennies a share when sold.)
- Beware if you did nothing, FIFO may have been set as default which in an up market may be your largest gains.



Vanguard MinTax

- The client recognized a long-term capital gain of about \$150,000.
- MinTax order of selling:
 - Short-term capital loss from largest to smallest
 - Long-term capital loss from largest to smallest
 - Short-term zero gain or loss
 - Long-term zero gain or loss
 - Long-term capital gain from smallest to largest
 - Short-term capital gain from the smallest to largest (his recent purchase was last in prioritization).



Vanguard Spec. ID

- Can no longer set as default.
- Can no longer use Spec. ID with limit orders. (flash crash)



137 Individual Stocks

- No expense ratio.
- 96% of stocks earn on average the same as a T-Bill.
- How diversified are those stocks? Does one holding represent 80% of the total portfolio? (Nvidia).
- Emotional considerations (minimize regret – sell half).
- Tax burden, step up (similar analysis as fund).



43 individual munis producing 4.5% tax-free income (client says don't touch).

- Same credit quality as Vanguard Tax-Exempt Bond ETF (VTEB) yielding only 3.69%.
- SMA claims they buy smaller amounts yielding more as large bond funds must buy tens of millions from each issue.
- True?



43 Individual Munis

- Munis bought (and issued) at a premium. Will mature or be called at par.
- Much of the income is merely return of principal (MSRB allows to be called income; SEC doesn't).
- Munis have large bid-ask spreads. Largest I've seen was 10.25% for client that was a senior attorney at the SEC in Washington, DC.
- Part of the return is providing insurance to the municipalities (vast majority are callable) meaning client is stuck with a below market rate for many years longer should rates rise.
- Analysis sorts bonds by maturity and call dates along with bid-ask spreads to typically sell some.



Variable Universal Life (VUL)

- \$100K is nearly immaterial but this is a key analysis.
- Cost of the death benefit increases at an escalating rate as the insured ages.
- In the vast majority of VUL policies, insurance company has the right to charge up to \$1,000 a year per \$1,000 death benefit at age 99.
- If policy lapses, taxes can be due.
- Analysis is to find the least bad solution.
 - No lapse rider.
 - Health of insured.
 - Tax impact of lapsing.
- 1035 exchange a possibility.



Private investments / Non-traded Securities

- From the brokerage firm?
- Angel investing.
- Very little can be done.
 - Don't reinvest income.
 - Some liquid until redemptions gated.
 - Some may have secondary markets (non-traded REITS).
- If outrageous, sometimes I send a certified letter to the chair of the audit committee.



Bonds are more complex.

- All should be high credit quality.
- State tax rates matter.
- Some states don't allow Treasury deduction for Total Bond Fund.
- TIPS ladders violate KISS but I'm still a fan!



Mistakes are easy, fixing them isn't.

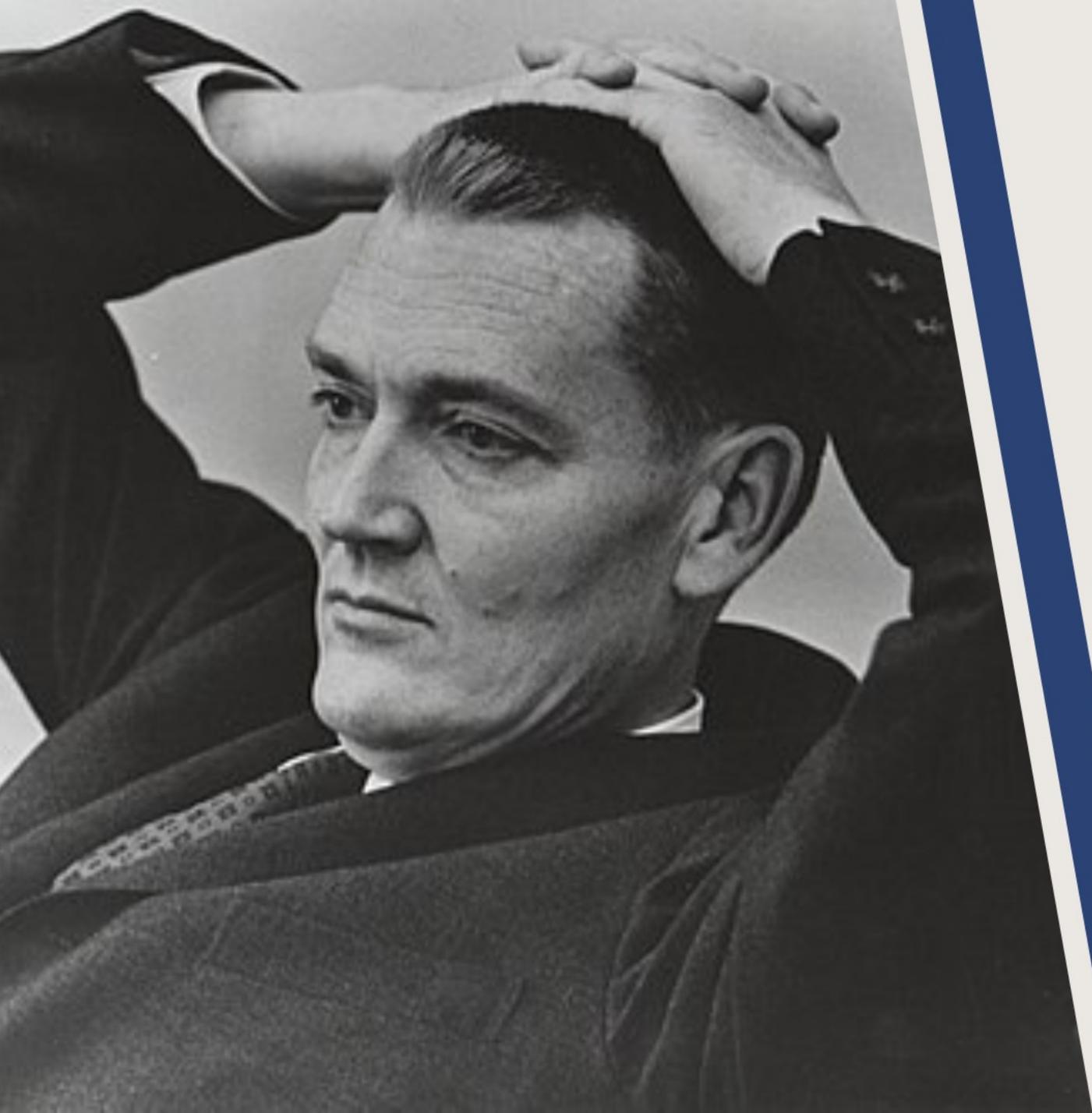
I've always said investing is simple;

I never said taxes were.

Much better to avoid the mistakes in the first place.

- Minimize expenses and emotions; maximize diversification and discipline.
- Never buy a product you don't completely understand.
- Make sure you can explain your strategy to any second grader.
- Keep things as simple as possible.





Thank You!

Allan



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