

# Wisdom, Insight, and the Qualities of a Model Institution

Remarks by John C. Bogle, Founder  
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*For learning about wisdom and for understanding words of insight, to teach knowledge and prudence, I will pour out my thoughts to you, and the knowledge will be pleasant to your soul.*

I'm sure you recognize those phrases from the Book of Proverbs, even as I hope it is not presumptuous for me to choose them as my theme today. But on this signal day in your lives, I hope that recounting the daunting challenges I've faced in building a business enterprise from the ground up will provide you with a few kernels of wisdom and insight. But first let me extend to each one of you warmest congratulations on this commencement day, the completion of another giant step in your education.

While I'll use Vanguard, the firm that has become my life's work, to illustrate my points, my message is intended to be universal. Truth told, there is *no* organization, *no* enterprise, *no* line of work, *no* human endeavor that cannot profit from the core ideas I'll discuss—ideals that can give meaning to even the most mundane of tasks. Indeed, I hope that what I have to say will resonate beyond your careers and into your own lives. In the words of Walt Whitman,

“A new worship I sing,  
You captains, voyagers, explorers, yours,  
You engineers, you architects, machinists, yours,  
You, not for trade or transportation only,  
But in God's name, and for thy sake O soul.”

Of course I am mindful that Eastern college is a Christian college, and that spiritual formation has been an important part of your preparation for thoughtful and productive lives of faith and service. But whatever one's religion, there are self-evident truths in all of our lives: The power of the human spirit, the principles of justice and mercy, the equality of all men and women, and, for each of us, our endowment by the Creator “with certain unalienable rights . . . to life, liberty, and the pursuit of happiness,” just as our Declaration of Independence tells us. This commencement day is a wonderful time to honor those ideals, to revel in them, and to celebrate our good fortune in being citizens of the United States of America.

## The Meaning of Investment in Our Lives

The fact is that a firm like Vanguard could have come into existence *only* in this land of opportunity. For the field of finance entails much more than merely putting one's money to work to build abstract personal wealth. *Investing* is required to provide the capital to make industry and commerce ever more productive and enhance the quality of our lives. And *saving* is required if our citizens are to take responsibility for providing resources for their children's college educations and for their own retirement.

The essential link between investment and saving, of course, is liquid, open, fully-informed financial markets—markets founded on sound accounting principles and protection of ownership rights.

It is this combination of creative capital, widespread shareholder ownership, and vibrant financial markets that has played a critical role in the prosperity that America enjoys today, the most productive economy in all human history.

Mutual funds have been in the vanguard, as it were, of the unprecedented surge of “People’s Capitalism” in America, a development in which Vanguard has played a central role. While success—not only in business, but in all human endeavors—demands faith above all, it also requires a combination of luck, leadership, and strategy, I can testify first-hand that each of these ingredients has played its role in whatever success this once-little enterprise, born in Valley Forge, may have achieved.

## **Luck**

To begin with, I was lucky, not only to be born in America, but to be born at the top of a bull market, just a few months before its peak on September 3, 1929. The ensuing Great Crash killed the investment business for a quarter-century, so opportunities were rife when I graduated from Princeton in 1951. I was hired by legendary mutual fund pioneer Walter L. Morgan to join his Wellington organization and soon became his heir-apparent. In 1967, I was named head of Wellington, and alas, unwisely entered into an overly-opportunistic merger.

And then more luck . . .and again, it was a tumble in the stock market. As 1973 began, the worst market decline since 1929-1933 got underway. As it worsened, my new partners and I had a falling out, and I was fired in January 1974—an extraordinary opportunity, albeit well-disguised. I started a new firm, named it Vanguard, and I took on my new job exactly the same way I left my old one: *Fired with enthusiasm*. Incorporated on September 26, 1974, just seven days before the market bottom, we really had nowhere to go but up.

The stock market, to say the least, did its part. Then at a level of 570, the Dow Jones Industrial Average closed yesterday at 10,400—a near 20-fold gain, the highest for any quarter-century in the entire 200-year history of the U.S. stock market. It would be easy for you to conclude that in such a glorious environment for stocks, any fool could have built a giant mutual fund organization. Truth told, you would be close to the mark. As I’ve often said, “never confuse genius with luck and a bull market.”

Luck, moreover, has kept me alive. Beginning in 1960, I had a tough fight with a congenital heart disease. As the years passed, it gradually worsened, and in 1995 I neared death’s door. Early in 1996, almost five years ago, the miracle of a heart transplant was visited on me. So I thrive today, not only to carry on my career, but to have this grand opportunity to present this message to you today. Now, *that’s* good fortune writ large!

## **Strategy**

So much for luck. Strategy was the second pillar in Vanguard’s development. Strategy that enabled us to capitalize on the unique competitive advantage that led to Vanguard’s becoming a financial giant, although building a giant institution was always the furthest thing from my mind. Rather, my goal was to build a *model* institution. According to the late Robert Greenleaf, founder of the Servant-Leadership movement, these are three of the cornerstones of a model institution:

First, a goal, *a concept of a distinguished serving institution* in which all who accept its discipline are lifted up to nobler stature and greater effectiveness than they are likely to achieve on their own or with a less demanding discipline.

Second, *an understanding of leadership and followership*, since everyone in the institution is part leader, part follower. If an institution is to achieve as a servant, then only those who are natural servants—those who want to lift others—should be empowered to lead.

Third, an *organization structure* focusing on how power and authority are handled, including a discipline to help individuals accomplish not only for themselves, but for others.

I had not known of Mr. Greenleaf’s philosophy when I founded Vanguard. But that model bears a striking resemblance to what I wanted to accomplish. Our core concept was to transform the very focus of a mutual fund business that served two masters—something the Apostle Matthew tells us that no man can do—by creating an institution that would serve *only* its shareholders-owners.

Let me explain: Until we came into existence, the industry had been tied strictly to an organization structure in which funds tried to serve *both* their shareholders *and* their external managers, who drew down generous shares of the funds’ investment returns, an obvious conflict. The Vanguard mutual funds—and thus our shareholders—would *own* their fund manager. Our fund shareholders would become the beneficiaries of the entrepreneurial rewards that fund managers traditionally arrogate to themselves, for we would operate at cost. Taking this “road less traveled by,” I hoped, would lift our enterprise to a nobler stature.

Nobler or not, 26 years of history have shown that our concept of an institution that serves solely its own investors can provide measurably greater investment effectiveness than firms with less demanding disciplines. Our structure is the key, not only to our *business* strategy of delivering low-cost funds and providing commensurately enhanced investment returns, but to our *investment* strategy as well. For we have focused on funds with durable investment principles, conservative objectives, and carefully-defined financial characteristics.

Given this focus, it was only logical that Vanguard’s first major decision would be to create the world’s first index fund, a fund that in essence buys shares in all of America’s enterprises and holds them forever, and whose defining idea is the guarantee that its shareholders will earn nearly 100% of the annual returns generated by the financial markets—something that precious few investors ever accomplish. Our passively-managed index funds hew to this line assiduously; our actively-managed funds are modeled on the same principles. We promise investors their fair share of the financial markets’ returns; no more, no less. And I believe that we have kept that promise.

### **Common Sense and Wisdom**

If our investment ideas sound simple to you, it is because that’s exactly what they are. Our focus on the client means providing each shareholder’s assets with the stewardship that we would apply to the investment of our own assets. Our focus on the crew begins with the word “crewmember,” for we have no employees.<sup>1</sup> Our goal is that each and every crewmember be part leader, part follower, each one treated as we would like to be treated ourselves. If those ideas sound like the Golden Rule to you, well, that’s fair enough. And if all this sounds like common sense to you, it is because that’s exactly what it is.

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<sup>1</sup> I’m proud to say that one of our crewmembers is here today, receiving his degree as Master of Business Administration. So I take this opportunity to give a hearty Vanguard salute to Earl Robinson.

Indeed, I have no hesitation in equating what we call *common sense* today with what was thought of as *wisdom* not so many years ago. The Book of Proverbs, of course, is all about wisdom—the proverbial wisdom of Solomon. While we find some of our most durable phrases in Proverbs—*Haste makes waste . . . He who hesitates is lost . . . Birds of a feather flock together . . . Opposites attract*—wisdom is the central theme. Clearly laden with common sense, Proverbs helps us to recognize in new situations the long-standing and fundamental patterns of life, and fosters our ability to see the world in others’ terms. Surely these ancient words from Proverbs have universal application, even today:

*Wisdom is the principal thing; therefore get wisdom, and with all thy getting, get insight . . . Happy are those who find wisdom and those who get insight, for her income is better than silver, and her revenues better than gold.*

### **Leadership—The Three Elements**

Wisdom and insight are essential to sound leadership. Leadership requires foresight, and it is impossible to imagine foresight without wisdom. “Foresight is the lead the leader has,” Robert Greenleaf says, “the armor of confidence in facing the unknown . . . the ability to create a role that is uniquely important to the leader as an individual.” That role, in my own experience, must both draw heavily on the leader’s innate strengths and minimize his human failings; that role also must be right for the time and place in which the leader happens to live.

Please be clear that foresight is *not* to be confused with brilliance, nor some magical ability to know the unknowable. For me at least, foresight is based on common sense—wisdom, if you will—understanding the obvious forces of society (demographics, education, and the like), and insight into the obvious aspirations of a community of human beings. I’ve been described as having “the uncanny ability to recognize the obvious”—a paradox, since the *obvious* is something *anyone* can recognize.

Simplicity is the key, so I ask you to remember Occam’s Razor: *When there are many solutions to a problem, the simplest one is most likely correct* With the knowledge that the simplicity of Vanguard’s organizational structure and the simplicity of our index funds have been the key to what we have built, you too might well look first to simple solutions to the challenges you’ll face in the years ahead.

While foresight is necessary to build and protect an institution, the enterprise also needs a sense of mission. Of course, wisdom is required to determine what that mission may be, but it should focus on this overriding purpose: *To create an institution that stands for something*. For me that something was to earn a reputation for giving investors a fair shake. To act with integrity. To speak with candor. To commit to excellence—not just in word, for rare is the enterprise that ignores the concept of excellence—but in deed as well. Those principles will work for you too, if only you go at the task with all of the passion and drive at your command.

Along with *foresight* and *mission*, leadership requires a sense of *caring*. In Greenleaf’s words: “Caring is the *basis* of leadership, the work upon which a good society is built . . . the essential virtue of the model institution. Caring requires not only compassion and concern; it demands self-sacrifice and tough-mindedness and discipline. When the enterprise falters, it must be cared for, and the burden must be shared by all who work for it, all who own it, all who are served by it, all who govern it. Every responsible person must care, and care deeply, about the institutions that touch their lives.” Wherever you go, please never forget that responsibility.

Caring is central to the mission of any corporation worth its salt. The wisdom and insight given to me by caring enough to spend the past 50 years meeting face-to-face with individual investors and

crew members are priceless beyond measure—the ultimate in business intelligence, yes, but in human understanding too, and far more valuable than piles of investor surveys and polls. These visits create a deeper understanding of the needs and values of all of the individuals who over the years have come to trust us—those we serve, and those with whom we serve alike. I've said it 1,000 times: *Treat others as real, honest-to-God, down-to-earth human beings, who have their own hopes and fears and goals for personal achievement.* If you understand that kind of caring, you're off to a great start.

### **Levels of Leadership**

Leadership, to be clear, is *not* the sole province of those who may, through good fortune or extraordinary determination, or even faith, come to lead entire enterprises or large organizations. Obviously, not everyone will do that. But each one of you graduating today has the opportunity for leadership within your own field—large or small, lofty or mundane—no matter where you ply your trade. Whatever you do, you can grow happy helping others in your field; you can add things that could not have been added had you not come along; you can make things grow and flourish. Yes, you can.

Today I ask you rightfully-proud graduates to learn from the lessons of hard experience I've described; to learn from the story of a once-tiny firm that has strived to become a model institution, one that would strive do the right things in the right way; to learn from the Book of Proverbs. Learn to apply the wisdom of Solomon to your own personal insight and foresight, your own personal mission, your own personal sense of caring. Especially in these days when materialism in America has too often gained the upper hand over the human spirit, learn, above all, that not only sound investing but sound living are all about simplicity and economy.

As you move on to the next stage in your life, whether your career is with a large organization or with a small business or in a profession, whether it is alone or with others, or whether it is as a parent raising a family, I assure you that there are infinite opportunities out there in this great land of ours, magnificent opportunities for you to contribute to building a better world, a place where we all can live and flourish.

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