JOHN BOGLE'S LETTER TO WALL STREET JOURNAL EDITOR

jcbadmin - Mar 06, 2007

The March 3 issue of the *Wall Street Journal* included a letter to the editor from Mr. Bogle, in which he clarified some of the contentions made in a letter written in response to his February 9 opinion piece.

Text of letter in response to Mr. Bogle's 2/9/07 article:

> Contrary to Mr. Bogle's belief, the first index fund was created by Barclays Global Investors (BGI) for institutional investors in 1971. As the world's largest index manager and the global leader in ETFs, we have enabled investors to access our institutional indexing strength in their portfolios. We've responded to what investors and their financial advisers want today — better tax efficiency, flexibility in trading, increased transparency, and access to hard to reach markets that help them diversify their portfolios.
>
> ETFs have attracted significant assets because they appeal to many different types of investors. The vast majority of ETF owners are buy-and-hold investors. On the other hand, about 90% of the ETF trading volume is done by institutional investors such as mutual funds and hedge funds for short-term exposure or to hedge risks. Importantly, this trading happens outside the fund at the stock exchanges; thus long-term ETF investors don't subsidize the costs of active traders in ETFs.
>
> **Lee Kranefuss**
> *CEO of iShares at Barclays Global Investors*
> *San Francisco*

Text of Mr. Bogle's response to Mr. Kranefuss:

> Among the responses to my Feb. 9 editorial-page commentary "'Value' Strategies" on exchange traded funds (Letters to the Editor, Feb. 24), one from Lee Kranefuss of Barclays Global Investors (BGI) contained errors:.
>
> **1.** While he denies that I created the first index fund, I have claimed only that I created the first index mutual fund (now Vanguard 500 Index Fund), incorporated on Dec. 28, 1975.
>
> **2.** BGI did not create the first index fund. The first pension account to use an index strategy was created by Wells Fargo Bank in 1971, acquired in 1996 by Barclays.
>
> **3.** That index strategy was a failure. It relied on a *price*-weighted — not *market-cap*-weighted — index, and was thus overwhelmed by frequent trading and its attendant transaction costs.
>
> **4.** In 1976, the year after the creation of Vanguard 500, the pension account finally switched to the cap-weighted S&P 500 as its tracking standard, and the strategy at last began to work.
>
> Attempts to rewrite history — even in its seemingly arcane aspects — should not be attempted.
>
> **John C. Bogle**
> *Founder*
> *Vanguard Group*

0 COMMENTS