“Puritan Boston and Quaker Philadelphia”

John C. Bogle, Remarks before the

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As some of you know, an article in the December 1949 issue of FORTUNE magazine introduced me to an industry I had never heard of before: *mutual funds*. The article was entitled “Big Money in Boston.” It focused on Massachusetts Investors Trust (M.I.T.), with assets of $275 million, by far the largest mutual fund of its day. Down in Philadelphia, a much smaller fund named Wellington had just crossed the $100 million mark.

That article inspired me to write my Princeton senior thesis on the fund industry. And that thesis, in turn, inspired mutual fund pioneer and Wellington Fund founder and president, Walter L. Morgan—my beloved mentor—to hire me. On July 9, 1951, I joined Wellington and the fund industry, the first “full time” job in my long career.

In those days, Wellington Fund operated in the manner of the traditional mutual fund: a pool of investor assets, managed for a fee—usually ½ of 1% to 1% of fund assets—paid to an external, *separately-owned* investment adviser, Wellington Management Company.

M.I.T. was run by its own trustees, a structure that bore a vague resemblance to the *mutual* (fund-shareholder-owned) structure that Vanguard, successor to Wellington, would institute almost a quarter-century later, in 1974.

Back when I joined Wellington, Boston was indeed where the “Big Money” was. Nearly 50% of mutual fund assets were managed by Boston-headquartered firms. Fund assets in the Greater Philadelphia area (largely Wellington Fund) ranked a distant fourth, with a mere 7% of all fund assets.

That headquarters map looks very different today. Greater Philadelphia ranks first, with a share of 25% of industry assets (again, almost entirely Vanguard funds), more than triple its 1951 share of 7%. Boston’s share has dropped by more than half, from 50% to 19%, now ranking third.

I should note that the Boston share is actually more like 17%, since some of Boston's leading managers—including Massachusetts Financial Services (and its one-time flagship M.I.T.) and Putnam—are owned by Canadian conglomerates. As for M.I.T. itself, the focus of that 1949 *Fortune* article, its market share has fallen from 15% to 3/100 of 1%. "How the mighty have fallen!" (Second Samuel, 1:27)

But perhaps the major part of this shift of industry leadership from Boston to Philadelphia can be divined by considering the difference between the two cities, encapsulated in the title of Penn Professor E. Digby Baltzell's 1979 book: *Puritan Boston and Quaker Philadelphia*.

In his analysis, Dr. Baltzell gave Boston's Puritans the edge over Philadelphia's Quakers. He described the Boston style as "communal and organic," while Philadelphian's style was "characterized by pragmatism and extreme individualism." Boston, Baltzell alleged, "favored the democratic ideal," more consistently than did Philadelphia.

But Dr. Baltzell was looking back, unaware that he happened to be writing at the time of a major inflection point in the history of the mutual fund industry, an industry about to enter an era of growth that would carry its assets up 180-fold from $95 billion in 1979 to $17 *trillion* today.

He would have been unaware, too, that most Boston funds were in the process of changing their structure from largely privately-owned managers serving as trustees to ownership by financial conglomerates focused on building their own profits by amassing assets. Their primary focus was changing from prudent management to aggressive marketing. For Massachusetts Investors Trust, that structural change began in 1969, when its trustees created a new corporation (Massachusetts Financial Services—owned by themselves . . . ahem, that's Puritan?) to manage M.I.T. and its sister funds. In 1976, the trustees sold their holdings to Canadian conglomerate Sun Life.

By remarkable coincidence, almost simultaneously, Vanguard—successor to Wellington—did *almost exactly the opposite*. I founded the new firm in 1974, structured as a truly *mutual* mutual fund group, without precedent in industry history, owned *not* by outsiders but by its own fund shareholders, and thus able to operate at rock-bottom cost.

Dr. Baltzell also had to have been unaware that a sea change in investment management was in its beginning stages, one that would revolutionize the field of finance. It was development of index investing, and it began with Vanguard's 1975 creation of the world's first index mutual fund (tracking the

S&P 500 Index). Indexing would prove to be the apotheosis of that "democratic ideal" of which Baltzell spoke earlier, the democratization of investing for our nation's average citizen investor. But it didn't happen in Boston. It would make Vanguard the dominant firm in the fund industry by an unprecedented margin.

Vanguard's novel *structure* (mutuality and low cost) and pioneering *strategy* (indexing) were essentially the tools that moved the mutual fund industry's "Big Money" from Puritan Boston to Quaker Philadelphia. In retrospect, I have come to realize that my design for Vanguard reflects many of the basic Quaker values that William Penn fostered—simplicity, economy thrift, efficiency, service to others, and the conviction, in the words of George Fox, that "the truth is the way." (I confess that I'm not so strong on some of the other Quaker values, in particular, consensus, patience, silence, and humility.)

I take comfort in the fact that Benjamin Franklin too, struggled to balance his pride with humility. Here's what he wrote in his autobiography:

> *In reality, there is, perhaps, no one of our natural passions so hard to subdue as pride. Disguise it, struggle with it, beat it down, stifle it, mortify it as much as one pleases, it is still alive, and will every now and then peep out and show itself. . . . Even if I could conceive that I had completely overcome it, I should probably be proud of my humility.*

William Penn and his fellow Quakers—right up to tonight—have been, and continue to be, a constant inspiration for me. I close with this quotation attributed to Pennsylvania's founder—a goal that I strive to honor, but with my all-to-human failings, I will never fully reach. You Friends all know it well:

> *I expect to pass through this world but once. Any good, therefore,*
> *That I can do or any kindness I can show to any fellow creature, let me*
> *Do it now . . . for I shall not pass this way again.*