What Will Survive Of Us Is Love

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It has been nearly a full year since I was invited to speak to you about the importance of sharing our blessings with our community. Then we citizens of the United States of America lived—or at least we *thought* we lived—serene and safe, in a world that was pretty much at peace. But exactly three weeks ago today, on September 11, 2001, that illusion was shattered. Our world changed, and with it the theme of my remarks this evening.

The aftermath of the devastating attack on the proud towers of the World Trade Center was terrible beyond imagination: Their collapse into a twisted pile of rubble and dust; the devastating human toll—six thousand lives, more than at Pearl Harbor or Antietam, more than in the entire course of the American Revolution from 1776 to 1783; the poignant cell phone messages pledging love in the face of death; the billions of dollars for clean-up and rebuilding costs, for enhanced security, and for preparations to fight a war. None of us will ever forget exactly where we were at nine o' clock on that crystal clear, bright, and fateful morning.

What does it all mean? *It means there is life as well as death, evil as well as goodness, grief as well as joy, destruction as well as creation. Those things we Americans know—there is enough sorrow in life for us to know them—yet we do not hold that knowledge in the front of our minds. We have never done so, nor is now the time we are likely to start. No life worth living is lived in mortal fear*. Those lovely words are not mine. They belong to James Grant, financial historian, author, and journalist. But I could not have answered the question, *What does it mean*?, any better.

But I would ask another equally important question, and then try to answer it in my own words: *What do we do now*? What is expected of us? How can we best help our nation in this troubled era? I suggest two major responses: First, we must go about our daily tasks, whatever they may be, but perform them better than we have ever performed them before; improve our individual contributions to our enterprises, our organizations, our professions, our society; make our institutions strong in accomplishment and mission, and stronger above all in character. To use a phrase I've used a thousand times over in my firm over the years: In making this a stronger nation, we must *Press On, Regardless.*.

But there is a second thing we must do. We must open our hearts to greater love than we have ever imagined: Hold our families even tighter; appreciate our colleagues even more; show our neighbors even more respect; and honor all of those whom we meet along the road of life, from the highest to the humblest, even with a single gesture or a simple kindness. That too will make America a better place.

A recent article in *The New Yorker* made the same point, but with the memorable and distressing image that flashed across our television screens. Human beings tumbling to their death from the highest ledges of the towers, including two people jumping in tandem, hand in hand. Appalling and terrifying as it is, that image reminded Anthony Lane, the author of the article, of Philip Larkin's poem about a pair of stone figures carved on an ancient English tomb. The poet wrote of the "sharp, tender shock" when he noticed that the figures of the earl and countess, "side by side, their faces blurred," are holding hands. It "proves our almost-instinct, almost true: What will survive of us is love."

On first impression, that seemed to me to be a simplistic banality. But the more I considered the poet's words, the more I was certain that they expressed an eternal truth. So tonight I want to speak to you about love. Not about love of family nor love of career, nor love of colleagues, nor even love of our fellow man, but love of community, and how we might go about expressing that love.

Giving in Spirit

Before I get to that subject, however, I want to address for a moment *giving* as a spiritual matter. I begin with Deuteronomy: *Then say in thine heart, "my power and the might of mine hand hath gotten me this wealth*." *But it is the Lord thy God that gaveth the power to get wealth that He may establish His covenant.* Then add St. Paul's exhortation: *Every man according as* *he purposeth in his heart, so let him give not grudgingly or of necessity, for God loveth a cheerful giver . . . Being enriched in everything to all bountifulness, make liberal distribution to all.*

In a far more mundane context I have sought, if inadequately, to meet that spiritual standard. When, five years ago, the United Way of Southeastern Pennsylvania presented me with the Alexis de Tocqueville Society Award for service to the community, I summed up my philosophy with these words:

> It is especially delightful to receive an honor one has not sought, for I have always believed that the simple act of giving—of one's wealth and one's self alike—is its own reward, a reward in its most pristine form.
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> Whatever I may have done to deserve this award, my spirit and my deeds reflect this principle: "For unto whomsoever much is given, of him much shall be *required*." (St. Luke did not say *expected*, mind you, but *required*.) And we—all of us here tonight—have been given abundance beyond reasonable measure. As Dr. Johnson put it, "beyond the dreams of avarice." Generosity is indeed our obligation, but more, it is our opportunity.

What I am saying, then, is not much different from what I learned from Deuteronomy and from St. Paul. We mustn't give alms because we want a guaranteed ticket to paradise, but because we know, deep down, that it is the right thing to do. I was recently asked about this issue in a question I received from a Vanguard shareholder, a member of a sort of Internet fan club known as "the Bogleheads." (It is true!):

> *Do you find that when people donate their money or volunteer their time to those less fortunate, good comes their way? And when people are miserly with their money and not very charitable with their time, do the chickens come home to roost?*
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> My response*: Much as I'd like to shout amen to that thought, I fear that the rewards for doing right and the retaliation for doing wrong are rarely found—at least in any systematic or causal way—here on earth. We'll have to receive the rewards in Heaven, if we are too receive them at all. The act of giving should itself be the motive for the deed. And when you give, give with an open hand. The satisfaction of sacrifice—even modest*

sacrifice—and the satisfaction of helping one's fellow human beings in need is quite enough reward.

I continue to hold those principles high to this very moment.

How Much to Give

It occurs to me that those of us who have had the good fortune to accumulate some wealth during our lives—through our businesses, or our investments, or our inheritances—ought to be thinking about whether we are nearly generous *enough*. I inherited nothing but my genes, and perhaps my values and my character, from my forebears. And I created in Vanguard a business that I've never owned (it is owned by the shareholders of our mutual funds). But I have earned a substantial annual income, a considerable portion of which I saved, and invested intelligently enough in the mutual funds I created to have built a nice-sized estate.

For many years I've followed the practice of giving half of my income to charity, including our United Way; our church; hospitals in which I've been given loving care; community cultural organizations, especially those which I serve; the schools and colleges that have touched my life and the lives of my wife, six children, and twelve grandchildren; and lots of other worthy causes that seem to merit my support. While giving at the 50% of income level may be rare, even among those with my good fortune, it is not *nearly* as generous as it might appear at first glance. After all, at a 40% marginal tax rate, each dollar I give costs me only sixty cents, and it often goes to organizations that have been the foundation of whatever success may have come my way.

Nice as it might be, I quickly add, I don't expect others to meet that standard. ("Judge not lest ye be judged!") But as you consider your own giving plans, I would hope that you'd think a bit more about the right *portion* of your resources you choose to share with others. According to the Internal Revenue Service, the average American family with an annual income of $50,000 makes contributions of some $2,000 per year. At $100,000 of income, gifts average $3,000; and at $500,000, gifts average about $15,000. The first number (4%) strikes me as within the realm of reasonableness; the second as deficient (3%), and the third (3%) as sadly lacking. *Note that the percentages actually decline*. I believe that they should *grow*, and faster than income, in concert with our *ability* to give. For while a person with income of $500,000 earns *ten* times the income of a person making $50,000, statistics tell us that his net income, after taxes and even after the much higher living expenses experienced at that income level, is *sixty* times as high. So I hope we all will consider our giving, not just in dollar terms, but in proportion to good fortune when it comes our way.

Where to Give

Once you've decided *how much* to give, you then have to consider *where* to give it. Again, far be it from me to answer that question for you. But I will take this opportunity to tell you why I believe that your community United Way should be an important focus of your beneficence. Again, I explained my reasoning at my de Toqueville award ceremony five years ago. For I mentioned *two* principles. One, which you've heard, is that giving with an open hand is a moral obligation for those who have received. But this second principle also helps shape my own giving philosophy:

> "*Always remember your community*. It is here in our community where we live our lives, where our homes serenely repose, where our fortunes—for they are indeed that—have flourished. When we come to honor our *obligation* to give and to capitalize on our *opportunity* to give, what better object can we have than our own community, with its ever-infinite potential for betterment?
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> "St. Luke also told us . . . 'and to whom men have committed much, of him they will ask the more.' And so I look at the de Tocqueville Award not only as recognition of the past, but as an encouragement—indeed a challenge—to do even more through our United Way, in the future years I am given."

In striving to live up to that promise, I joined the de Tocqueville million-dollar round table in 1995. It took me nearly six years to complete my pledge, but I just wrote my final check over the weekend. It's a privilege to have made that commitment, and a delight—and a relief!—to have fulfilled it.

I've felt strongly enough about the United Way to have put Vanguard's weight behind it almost from our very inception in 1974. Late in each subsequent summer, we kicked off our campaign, headed from the outset by a senior managing director, leading a Vanguard-wide organization that spread the responsibility for success down through the company, division by division, unit by unit, person by person. I resisted—but only by a whisker—the temptation to personally review our list of givers, for I knew that some crewmembers who should participate wouldn't, and some who could make major contributions would give pittances. But even without that pressure, we've done a pretty good job.

We've become an important part of our community's United Way effort. Vanguard's total support—corporate plus crew, in roughly equal proportions—has grown has grown from $700,000 and 1,500 contributors in 1992, to $3.8 million and 9,500 contributors in the current campaign. We produced 1.5% of the greater Philadelphia campaign at the outset; this year our contribution exceeds 7%. Last year, we led our region's total giving; our crew participation was 88%; and our leadership-giving counted 211 leaders, including 21 de Tocqueville Society members who gave $10,000 or more.

How did we do it? The key to success is not a mystery. It's the same key that opens the door to success in any campaign, indeed in any business. A combination of leadership, commitment, organization, execution, desire, and spirit. Making my own support clear, in both word and deed, was essential. Indeed, I was so committed that I violated my usual practice of doing my giving anonymously and made my United Way gifts and pledges public. I hoped my own commitment would inspire my colleagues at Vanguard and my counterparts in other firms to step up to the plate, too. Only time will tell whether or not I succeeded.

Creative Destruction

Now in fairness, most of this growth in our United Way program is a reflection of our growth. Our fund assets of $550 billion this year have multiplied six-fold since 1992. That growth has been a happy, even essential, event for our community. For in the financial services industry during this period we've seen much *creative destruction*—the phrase Joseph Schumpeter coined to describe the impact of innovation and entrepreneurship in our economy. The names of most of America's largest regional banking institutions have vanished, their once-local identity subsumed by national pachyderms, as across the nation the banking industry has relinquished to the mutual fund industry its traditional role as the savings vehicle of choice for America's families. It is, I suppose, self-evident that had Vanguard not been there to fill the gap in the greater Philadelphia campaign, our region's community giving would now be at a measurably lower level. It was our obligation to fill that gap, and to give with an open hand. And, truth told, I wanted our hand not only to be *open*, but *eager* to help.

I'm hardly an expert on the Rochester community, but as an investor I do know that there's been some creative destruction going on in upper New York state, too. One of your largest old stand-bys is no longer headquartered here, and another is in the battle of its life to adjust both to the dog-eat-dog competition wrought by globalization and to the stunning pace of technological innovation in the digital revolution. So as new businesses spring up in this splendid region, I urge the entrepreneurs who have settled here and those who will follow them—the creative destroyers, if you will—to fill the inevitable gap in community giving. I'm confident that no comparable gap exists in the needs of those in this community who need help. Indeed, if you're like Philadelphia, that gap in between resources and needs is doubtless larger than ever. There is so much work to be done that the sooner we all roll up our sleeves and open our purses, the better.

How to Give

Now, I can't imagine that anyone here tonight will not participate in this year's United Way campaign. But I would like to mention a very special extra way you can show your support, by making a commitment that will help insure United Way's future, come what may. It's called *Planned Giving*. It can be as simple as a codicil in your will making a gift to your United Way Endowment Fund (this is what I have done), or in making an irrevocable gift of cash or securities to a collective charitable endowment fund, now broadly available through community donor-advised funds, and through leading mutual fund firms, including Vanguard. In such a program, your gift of $25,000 or more is invested in a balanced and diversified stock/bond account, and you get an immediate tax-deduction for the full market value of the gift. You can then make annual contributions—usually at least 5% of principal—to qualified charities such as the United Way. You can add tax deductible contributions of up to $5,000 at a time, gradually increasing what is in effect your own private foundation, which keeps on giving until the principal is exhausted.

You can also use a collective endowment fund to establish a charitable remainder trust, offering an immediate tax-benefit and providing you with a lifetime stream of income, with the principal going to the United Way on your death. Other vehicles for intelligent investment planning include using the proceeds of tax-deferred IRAs and 401-k thrift plans, which, left in your own estate or that of your spouse, are subject at first to inheritance taxes and then to income taxes. In fact, your tax-deferred plan assets should usually be first in line for contributions in your estate plan—ahead of your own direct investments—for income in respect of a decedent (IRD) establishes not only the usual tax deduction, but avoids income taxes that would otherwise be paid by your heirs. Further, a tax law change last year now makes it possible for the first time to make *partial* distributions of tax-deferred plan assets to charities.

Yet another avenue you might want to explore is any deferred compensation from your employer to which you may be entitled. Left to your heirs, Federal and state income taxes can consume up to 45% of the gross proceeds when the deferred compensation is distributed, followed by Federal and state inheritance taxes of up to 60%. It would not be unusual for your (non-spouse) beneficiaries to end up with just 22 cents out of each dollar in your plan. (That's not as bad as it sounds; don't forget that you've never paid a penny of income tax on that deferred pay.)

If you have, as I do, six children, then, each would end up with less than four cents per dollar that is due me. Suffice it to say, I'm dedicating 100% of the dollars in my deferred compensation program, much of which has compounded tax-free over the years, and is not of inconsequential value, to charities and foundations. My children know of this plan, and are kind enough to endorse it. They know that they are hardly forgotten in my estate planning, in which I've followed the Warren Buffett rule: *Leave your children enough money so they can do anything they want to do, but not so much they can do nothing*.

The Rochester United Way Endowment

I'd like to take a moment to salute the citizens of Rochester for helping the United Way here to build the largest community endowment of any region in America—more than $100 million. (Our Philadelphia United Way endowment is approaching $40 million, but we're working on it!) One of the wonderful by-products of your endowment fund is that it generates enough income to pay 100% of the annual operating expenses of your United Way campaign and staff. The net result is that, from a cost-effectiveness standpoint, the reported operating expenses of your fund-raising efforts are *nil:* 100% of every dollar you give to the campaign flows directly through to the worthy beneficiaries in your community.

I hope that I haven't left you with the idea that the endowment fund is somehow large enough. It's not nearly large enough to do what endowment funds have always done: Fund operations through thick and thin, good times and bad alike. And I've yet to hear of a single one that couldn't handle additional assets that would enable it to spread its good more widely among its constituency. Even Harvard, at $20 billion, seems to need more! A substantial endowment fund is a necessity today—not just for schools and colleges and hospitals and museums, but for United Way communities. "Saving for a rainy day" is what an endowment fund is all about.

I am told that the endowment is being managed intelligently—a 60/40 balance between bonds and stocks, with both portfolios being very broadly diversified. That's an intelligent strategy for the tough conditions prevailing in our country today, just as it was in the ebullient environment that prevailed at the stock market high in March of 2000, just a year and one-half ago. So, I believe you can be comfortable in considering the endowment fund as a prime candidate for your giving program, currently and in your estate planning.

A Word About the Financial Markets

On that note, since you've been kind enough to hear me out on the subject of giving tonight, I might try to repay your patience by taking just a few moments to discuss the state of our financial markets today.

While it was fear—fear about more terrorism, fear about the economy, fear about the unknown—that clearly took over the marketplace during the first week after the stock market re-opened following the suspension of trading on September 11, we must recognize that we were also in the late phases of the burst in the technology stock bubble that reached its zenith in March 2000. Then, it was not fear that was in the saddle, but greed. Even without the terrorist attack, stock prices were resting on a precarious perch. While now we may well be probing for a sort of "fair value" for stocks, the market pendulum, having swung so far toward greed, rarely *stops* at fair value as it makes it way to fear.

I've been in the profession of trusteeship and investing for a half-century now, and I believe the most helpful perspective is to think of stock prices as consisting of two discrete elements—economics and emotions. By *economics*, I mean the earnings and dividends generated by American business, the annual *investment return* achieved simply by adding the initial dividend yield to any increase in earnings per share. Today, the dividend yield is a bit over 1%, and corporate earnings in the U.S. have grown over the long-term at a 6% to 7% annual rate—about the same rate as our economy, measured in nominal terms by our gross domestic product. Adding the two together, the obvious result: An *investment* return of 7% to 8%.

But it is not only these economics that drive the market. We have to concern ourselves with *emotions*, measured by the change in the amount investors will pay for each dollar of earnings—the p/e ratio. If it goes from 20 to 24 times in a year, add a mere 20%(!) to the market return. From the start of the great bull market in 1982 to its high last March, the market's p/e rose from 8 to 32, a cool 300% gain, equal to 7% per year. The great bull market, then, was a *not* product of the (in fact) normal earnings growth during the period, but a product of our emotional exuberance.

It is inconceivable to me that that scenario will repeat itself. Indeed, today the p/e ratio is about 30 times based on this year's estimated sharply lower earnings, and a still high 22 times relative to what are probably normalized earnings. In any event, we are likely to be facing an extended period with an economic return of no more than 7% or 8%. Whatever the case, that return may well be reduced by several percentage points per year by emotions, reflected in a p/e ratio that moves lower over, say, the next decade. If so, the return on stocks would be, say 5% or 6%. Maybe it will be better, maybe worse, but future returns are likely to be shaped largely by the underlying economics of business, not by the unpredictable emotions of investors.

To complicate things, the threat of terror and the war on terrorism had made the economics of American business less clear than usual. Earnings will be down sharply this year, and next year is anyone's guess. But the truly long-term investor can reasonably expect that corporate earnings are *likely* to be at least *somewhat* higher in 2005, and almost *certain* to be *much* higher in 2010. If you share my conviction that will be the case—and if you've intelligently balanced risk and return by prudently balancing stocks and bonds—I can give you but one piece of advice, the same advice I've given at market highs and market lows alike—and everything in between—for most of 50 years I've been in this business: *Stay the Course*

Summing Up

Let me close by returning to my original theme of sharing our blessings with others less fortunate, never more so in these days when America's values—America's very character—are being challenged. No one is more articulate on this subject than John Gardner, so here are his words, with one small edit to reflect the events of September 11 and thereafter:

> *Today our communities need us, desperately need our loyalty, our understanding, our support . . . This nation is facing a test of character, all the more obvious after the terrorist attack. The test is whether in all the confusion and clash of interest, all the distracting conflicts and cross purposes, all the temptations to self-indulgence and self-exoneration, we have the strength of purpose, the guts, the conviction, the spiritual staying power to build a future worthy of our past. You can help.*

Yes, you can. Return with me to that poem inspired by a fading stone image of a man and his wife holding hands: *What will survive of us is love*. Tonight, I ask you to recall that the world-wide symbol of the United Way is itself dominated by a hand, and, not surprisingly, an *open* hand. It seems to me that that *symbolic* hand is crying out to be held by a *human* hand, and then another, and another, then scores, then millions of hands, all across America, all joined in common cause, all in helping one another in acts of devotion to other human beings less fortunate than we are. Then the poet's words can truly be our words: *What will survive of us is love.*