“Acres of Diamonds”

Remarks by

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Temple University, Philadelphia, PA

Upon Receipt of

The Musser Excellence in Leadership Award

November 17, 1998

Good evening. Ladies and gentlemen, citizens of Philadelphia and of this great Commonwealth, and distinguished members of the Vanguard crew, including representatives of the 300 Temple graduates who, with me, serve our ten million shareholders. I am as humbled by your attendance as I am by the Award for Leadership that has been bestowed upon me by Temple University.

At this great university tonight, I can hardly begin my remarks with any other theme than the one that I have chosen, not alone, but with the inspiration of an ageless idea that was born right here in Philadelphia 114 years ago. I suppose that “Acres of Diamonds”—the classic lecture of your founder, Russell Conwell, one that he is said to have delivered more than 6,000 times, all the world over—has been used as the theme for many more thousands of speeches that others have given over the years. But I simply can’t imagine another soul for whom it would be quite so appropriate.

Since many of you know the story that inspired Dr. Conwell, I shan’t recount it in detail here. Suffice it to say that in ancient Persia, a wealthy farmer is said to have left home to seek even greater wealth, and spends his life in a fruitless search for a perhaps mythical diamond mine. But after he dies, an old and unhappy pauper far from home, the fabulous Golconda mine is found back in Persia, on his very own estate. For Dr. Conwell the moral of the story was: “Your diamonds are not in far distant mountains or in yonder seas; they are in your own back yard, if you but dig for them.” And when a young man came to see Dr. Conwell in 1884, a young man who had found it impossible to pay for an education, he was told to begin to learn under your founder's tutelage, right then and there, in the City of Brotherly Love. I might easily have been that young man.

It was just before Thanksgiving of 1945, shortly after the end of World War II, when this young resident of New Jersey first arrived in this fair city. That was a while ago. The Chinese Wall carried trains into Philadelphia, and Broad Street Station was the main railroad stop. My twin brother David, bless his soul, was with me, two sixteen year-old boys coming here for the first time on a bus from Blair Academy to celebrate the holiday with our parents. We were hardly wealthy. Our parents (my older brother William, then 18, was serving in the U.S. Marine Corps) lived in two rooms on the third floor of a home in Ardmore, but the space was enough for all of us—at least for the holidays. We ate our dinners at Horn and Hardart's around the corner. When I was on vacation, I worked at the Ardmore Post Office, the first diamond, though I didn't realize it at the time, in the truly vast mine that I had discovered here.

All three Bogle boys were boarding students at Blair Academy in northwestern New Jersey—a God-given opportunity to begin a fine education. We earned scholarships and we waited on tables. A few years later, when our family resources were such that two of us had to go to work full time, I was the one who was fortunate enough to go to college. I won admission to Princeton, and, to make it financially possible for me to go there, the University gave me both a full scholarship and a job. With a series of summer jobs (one as a reporter on the police beat for *The Evening Bulletin*), I was able to earn the remaining money I needed. I worked very hard, and the hours were long. But I loved hard work then—I still do—and was determined, in some way that I'm still not at all clear about, to get ahead. I was blessed by a loving and strong family—proud grandparents, loving parents, a marvelous brotherhood of three that fought among each other, but when others wanted to take us on, we were united. And I grew up with the priceless advantage of having to work for what I got.

My father soon moved to New York, and my mother, terminally ill, remained in Philadelphia. I wanted to return here to be with her after my graduation in 1951, and fate intervened to make that goal a reality. At Princeton, this callow, idealistic young kid with a crew cut had determined to write his Economics Department senior thesis on a subject no one had ever written on before. Not Lord Keynes, not Adam Smith, not Jean Baptiste Say, but a subject fresh and new. What but fate can account for the fact that in December 1949, searching for my topic, I opened FORTUNE magazine to page 116 and read an article ("Big Money in Boston," of all things) on a financial instrument of which I had never before heard: Mutual funds. When the article described the industry as "tiny but contentious," I knew that I had found my topic.

After a year of intense study of the mutual fund industry, I wrote my thesis and sent it to several industry leaders. One was another diamond, right here in Philadelphia Walter L. Morgan, mutual fund pioneer, the founder of Wellington Fund, and member of Princeton's Class of 1920, read my thesis. He liked it, and was later to write: "A pretty good piece of work for a fellow in college without any practical experience in business life. Largely as a result of this thesis, we have added Mr. Bogle to our Wellington organization." I started right after my 1951 graduation, never looked back, and have been here ever since. Yes, my own acres of diamonds were in Philadelphia. And here began a friendship, one that was to endure for almost 50 years, with a remarkable human being.

I have no way of knowing if it is true, as some of his close associates told me, that he thought of me as the son he never had. But he was like a father to me—more like a patriarch, really—and became my loyal and trusted friend, not only the man who gave me my first break, but also my rock, the man who had confidence in me when I had little confidence in myself, the man who gave me the strength to carry on through each triumph and tragedy that would follow. When he died last September, shortly after celebrating his 100^{th} birthday—with his sense of place and sense of humor intact, and with his strong and probing mind still active—I had lost the most marvelous and unforgettable character I had ever met. May God bless you always, Walter Morgan!

During the depression years of the 1930s, few young men had entered the investment field, and far fewer the tiny mutual fund industry. When I joined Wellington in 1951 it was a tiny company, and in less than a decade I had become Walter Morgan's heir-apparent. By the early 1960s, I was deeply involved in all aspects of the business, and in early 1965, when I was just 35 years old, he told me I would be his successor. While diamonds lay before me, the Company was in troubled straits, and Mr. Morgan told me to "do whatever it takes" to solve our investment management problems.

Headstrong, impulsive, and naïve, I found a merger partner—in Boston, of all places—that I hoped would do exactly that. Alas, despite the glitter, I found no diamonds there. The merger worked beautifully for about five years, but the investment managers who were my new partners let our fund shareholders down, the stock market dropped 50%, and the assets we managed plunged from $3 billion in early 1973 to $1.3 billion in late 1974. Not surprisingly, the new partners had a falling out. But my adversaries had more votes at the Company than I did, and it was *they* who fired *me* from what I had considered "my" company. What's more, they intended to move all of Wellington to Boston. I wasn't about to let that happen.

I not only loved Philadelphia, my adopted city that had been so good to me, but by 1974 I had established my roots here, finding unimaginable diamonds, first, in my beloved wife Eve, who was born and grew up here, and then in six wonderful children. We intended to say where we were, and I had a plan to do just that. For when the door slammed, a window opened, and the acres of diamonds I had begun to discover in 1951 were to remain in Philadelphia. Pulling off this trick was not easy. But I was able to parlay a slight difference in the governance structure of the Wellington *funds*, owned by their own shareholders, and Wellington *Management Company*, owned largely by my former partners, into a new career—and with it more diamonds than I ever could have imagined.

My idea was simple. Why should our mutual funds retain an *outside company* to manage their affairs—that was, and still is, the *modus operandi* of our industry—when they could manage *themselves* and save a small fortune in fees? Truly *mutual* mutual funds, as it were. The battle was hard, with the Fund Board almost evenly divided, but this new structure finally carried the day.

I had named our new company after HMS Vanguard (Lord Nelson's flagship at the great British victory over Napoleon at the Battle of the Nile in 1798), for I hoped it too would be victorious in the mutual fund wars. However, my idea suffered a setback when the Fund directors allowed Vanguard (now owned by the funds) only to handle the *administration* side, responsible only for the Fund's operating, legal, and financial affairs, when we began in May 1975. The other two—and far more critical—sides of the mutual fund triangle, *investment management* and *marketing*, were to remain with my rivals at Wellington Management.

So we had to seek yet another diamond. And we quickly found what was to prove to be the rival of the fabled Kohinoor diamond in size. The fact that investment management was outside of Vanguard's mandate led me, within months, to what may seem obvious, a great idea that I'd toyed with for years. And before 1975 had ended, we started the world's first index mutual fund. Our first index portfolio—based on the Standard & Poor's 500 Stock Index—was derided for years, and first copied only after a full decade had passed. But very soon this fund, once called "Bogle's Folly," will be the largest mutual fund in the world, one of 28 index mutual funds that today constitute nearly one-third of our business. The trick of the index fund, I argued to the Board, was that it didn't *need* to be "managed;" it would simply buy all of the stocks in the Index. The argument narrowly carried the day, and with this quasi-management step, we had edged into the second side—the investment side—of the triangle.

How to get the final and third side—the marketing function? Why, just find another diamond. Our idea was to eliminate the very *need* for distribution, doing away with the Wellington network of brokers and relying, not on sellers to *sell* fund shares, but on buyers to *buy* them. So, in 1977, after yet another divisive battle, we made an unprecedented conversion to a no-load, sales charge-free marketing system. Once again, we've never looked back. We've never had to. With the extraordinarily low operating expenses that became our hallmark—a product of our mutual structure and our cost discipline—offering our shares without sales commissions proved a timely step. Our fundamental marketing strategy: "If you build it, they will come." (A phrase, of course, that inspired the creation of a baseball diamond in Iowa.) And, though it took years to happen, come the investors did. By the millions.

The diamonds Vanguard had accumulated during those struggles, however, were not yet quite ours. They were only on loan. The Securities and Exchange Commission gave us only a *temporary* order allowing us to take some of these crucial, but unprecedented steps. And finally, believe it or not, the SEC concluded that we could *not* do so. Aghast, for I knew we were doing what was right for investors, we endured a week-long regulatory hearing, mounted a vigorous appeal, and—after a struggle that lasted *four years*—triumphed at last in 1981, when the SEC did an about face and finally approved our plan. The diamonds weren't going to Boston. They were at last permanently in our hands—or, far more accurately, in the hands of our shareholders, remaining here where they belonged, in the Greater Philadelphia area, birthplace of Wellington in 1928 and of Vanguard in 1974. That should have exhausted the diamonds in my Golconda, but there proved to be one more diamond awaiting my discovery here. I'll come to that later.

Before I do, I would like to talk a bit about leadership. While I have a rather large ego, I'm reluctant to personalize the forces that brought Vanguard to the very pinnacle of this industry, with a reputation (I'm immodest enough to say) that may well exceed even our frighteningly-large asset base. Starting a new firm, with a new name and a clean slate to write upon, I had but one ambition. It had nothing whatsoever to do with huge assets or dominant market share or *anything* that can be counted. I told this to the Directors at the outset; my goal was *to make Vanguard the proudest name in the mutual fund industry*. And I was absolutely determined to accomplish it.

We would build the firm on just two ideas. One was simplicity. Our Funds would have clearly stated investment objectives, explicit investment policies, and precise performance measurement standards. Their portfolios would be broadly diversified, conservatively managed, and invested largely in high-quality securities. We would hold costs to the minimum, for, apparently almost alone at the outset, I had discovered the best-kept secret of the investment business: gross investment return, minus the cost of management, equals the net return earned by the investor.

With this remarkable insight, we could say (though we didn't dare to say it for quite a few years) that the central task of investing is to realize the highest possible portion of the returns earned in the financial markets by the asset class in which you invest—stock, bond, money market alike—recognizing and accepting that (and here is the key phrase*) that portion will be less than 100%.* The recognition of this reality finds its apotheosis in our low-cost index fund, which provides 99% of the market return. For the record, the portion provided by the average mutual fund—stock, bond, and money market—has been about 85%. With the fundamental Vanguard diamonds—our mutual structure and our focus on low-costs—we have had the best possible opportunity to approach that 100% desideratum.

The second idea may surprise you. It was to make *human beings* the focus of our firm. How often I have said over these long years that those whom we serve must be treated as "honest-to-God, down-to-earth human beings, each one with their own hopes and fears and financial goals." This credo says *nothing* about aggregate billions of dollars of assets, nor millions of investors, nor Lord forbid, market share, nor even about corporate strategy, nor the need for financial controls, technology support, and focused marketing, although all of them are, to one degree or another, necessary. But they are secondary to our primary goal: to serve the human beings who are our clients to the best of our ability, to serve them with candor, with integrity and with fair dealing. To be the stewards of the assets they have entrusted to us. To treat them as we would like the stewards of our own assets to treat us. This mission is not very complicated, but if you *preach* it, you'd better *live* it, every single day.

It should go without saying that the same concept of "human beings" should apply to those who serve on our Vanguard crew. (Under penalty of a $1 fine, we don't use the word "employee," nor the word "product.") Those of us who earn our livelihood at Vanguard should treat one another the same way as we would like to be treated. The keys: respect for the individual; recognition that, "even one person can make a difference;" financial incentives to *each and every* crewmember, based on the rewards we earn for our fund shareholders compared to our peers. Our great crew has made me look good for almost 25 years, and that is the least that I owe to them. I've read lots of books and articles about business management and corporate strategy, but I've *never* seen the phrase "human beings" as representing the key to business leadership. But when I think of both our clients and crew, that phrase has been the key to everything we've accomplished. Maybe the theorists and strategists are right to ignore it, but it has worked for us. Simplicity and human beings. That's about it.

Where leadership comes into play, I'm not quite clear. But we've got lots of marvelous leaders at Vanguard. Not just the "big-shots," but the crew—above and below decks, those who shoot the cannons and those who load them, those who take in the sails and man the sheets—those who make the ship sail and navigate the course. Above all, my goal was to have a crew of *servant-leaders*, the phrase Robert Greenleaf chose to apply to an institution in which everyone is part leader, part servant, all human beings who care, and who want to lift those whom they serve and those *with* whom they serve alike.

Yet someone has to be the leader, and I've tried not only to set the values and shape the strategy, but to make them clear and unmistakable. To use the right words from the world's most magnificent language. To pass on the traditions that Walter Morgan left to me, and to build on them with new traditions. To be persistent in pursing the mission. To look ahead as far as my vision can see, and to speak out on our goals with the zeal of a missionary, the stubbornness of an idealist, and the soul of a street fighter. To be as smart as my limited brain-power will allow.

It is up to others—indeed to history—to evaluate what it is this one human being has accomplished, and the extent to which Vanguard shareholders—indeed all mutual fund shareholders—have been served by the voyage of the HMS Vanguard. But I know, as I hope you know after hearing these comments, that whatever the answer is, it would never have come to pass if I had not come here as a young man quite by accident of fate, and fortuitously discovered, indeed often at exactly the opportune moment, the Golconda that began with FORTUNE Magazine in 1949, and then Walter Morgan and Wellington Fund; then my family; and then Vanguard itself and the "Vanguard" name; and then the first index fund and the novel distribution strategy—one diamond after another right here in my own backyard, just as Russell Conwell's words promised that I would. All that I had to do was dig for them.

Oh, yes. I referred earlier to that one other diamond I found here. Paradoxically, it was a diamond in the form of a heart. (And as we all know, in games of cards, a heart beats a diamond every time.) It's true in life, too. The diamond represented by the doctors and nurses, my guardian angels at Hahneman Hospital, and the anonymous donor—and his family—of the heart that beats in my body tonight. I received it on February 21, 1996, only weeks or perhaps months before my own tired heart would have expired. I have received more blessings—surely more "acres of diamonds" right here in greater Philadelphia—than any other human being on the face of this earth. And the blessing you have brought to me with this Award for Excellence in Leadership tonight is one more blessing that I shall treasure always.

From the bottom of my new heart, I thank you, one and all.