Changing the Mutual Fund Industry:

The Hedgehog and the Fox

Remarks by

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On Receiving

The Woodrow Wilson Award for Representing "Princeton in the Nation's Service"

Princeton, New Jersey

February 20, 1999

This is a marvelous morning for me. For a mere businessman—apparently the first one—to join the distinguished roll of 42 public servants, artists, scientists, and authors who have previously been judged to represent the high standard of "Princeton in the Nation's Service"—it is a signal honor.

The award citation suggests that my career as an agent of change, if not *the* agent of change, in the mutual fund industry has been in the service of the nation's 50 million fund shareholders. Whatever the case, I've done my best to meet that standard, not only for the 10 million who own Vanguard mutual funds, but also for those who own other funds. For 25 years—in a sense for 50 years—my mission has been to change the industry so that our citizens—the human beings who invest in funds—get a fair shake. But as awesome as is this honor, I have no intention of resting on the laurels I receive today. I still have promises to keep for fund investors and miles to go before I sleep.

I've entitled my remarks "The Hedgehog and the Fox," based on this fragment—dated to about 670 B. C.—from the writings of the Greek philosopher, Archilochus: "The fox knows many things, but the hedgehog knows one *great* thing." This ancient saying has been interpreted to describe the *philosophical* contrast between the human pursuit of many different, even contradictory, goals related by

no central principle and the search for a single overarching universal condition of human existence.[*] My focus, however, will be much more modest: The contrasting conduct of the investment and business affairs of two types of financial institutions. One is the fox, that artful, sly, astute animal of the fields and the woods. The fox finds its counterpart in the financial institution that survives by knowing many things about complex markets and sophisticated marketing. The other is the hedgehog, that durable nocturnal animal that survives by curling into a ball, its sharp spines giving it almost impregnable armor. The hedgehog is represented by the financial institution that knows only one great thing: that in the long-term, investment success is based on simplicity. In the contrast between the hedgehog and the fox, we find some powerful lessons about investing that I'll use to amplify my theme.

Princeton's Vital Role

I should tell you now that I have no reluctance to cast my lot with the hedgehogs of the financial world who focus on honest stewardship and plain service. But before I turn to the investment and business philosophy for which I stand, I owe it to you, I think, to recount the story of the vital role in the development of this philosophy played a long time ago by the Princeton University family.

From the time of my matriculation in 1947—a shy young kid whose *serious* education began with two years at Blair Academy—right up to today, many Princetonians paved the way for my career. The first was Charles C. Nichols, Class of 1906, who lent me $60 to pay the General Fee required before I could enroll. (I repaid him shortly after I went to work following my graduation.) The providers of the two endowed scholarships that paid my tuition—the Class of 1918, in memory of Roy S. Leidy, a son of Nassau who tragically died at the Argonne less than a month before the Great War ended; and Mrs. Alexander Maitland, daughter of President James McCosh, in memory of her husband. The professors who did their best to educate me. My fabulous classmates in the Class of 1951, many of whom, over these past fifty years, have become good friends to this intense and determined nerd of college days. (I was not smart enough to avoid long hours of studying.) And Professor Burton G. Malkiel, Graduate School, Class of 1964, with whom I share so many investment principles, and who has both supported me and sharpened my thinking not only in professional circles, but in his two decades of service on the Vanguard Board of Directors.

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[*] I give special note to the extraordinary British philosopher Sir Isaiah Berlin, whose 1953 essay "The Fox and the Hedgehog" was the source of my inspiration to use this theme.

I owe special gratitude to a marvelous long-time friend, a member of the Class of 1952, who now happens to rank among the University's most dedicated and effective Trustees. He befriended me when we both lived in Holder Hall during my sophomore year, and invited this insecure scholarship student to his family's home near Philadelphia. He introduced me to his young sister, then just 14 years of age. *Mirabile dictu!* Eight years later, Eve and I married and became the proud parents of six fine children (including Sandra, Class of 1990), and, so far, the grandparents of twelve. Had we not attended Princeton together, I would likely have never met John J. F. Sherrerd, Class of 1952. Thank you, Jay, for all you have done to enrich my life.

A Remarkable Accident

Whatever the case, my career began with a remarkable accident that took place a half-century ago in the reading room of the newly-opened Firestone Library. I had been puzzling over the choice of a topic for my senior thesis in the Department of Economics, and had determined only what I would *not* consider: Any subject on which any Princeton thesis had ever been written. There went Adam Smith, Karl Marx, and John Maynard Keynes, all in one fell swoop. I of course had no idea where to turn next. But in December 1949, I happened to open *Fortune* magazine and find, on page 116, an article entitled "Big Money in Boston." It was, of course, about the tiny, but "rapidly expanding and somewhat contentious" mutual fund industry, with "great potential significance to U.S. business." My fortuitous discovery was, at least in a parochial way, the miracle on which the career I have followed would depend, for I knew that I had found the topic for my thesis.

Read today, my thesis sounds terribly idealistic, if not callow. In its final chapter, I concluded that the infant mutual fund industry's best chance for success lay in giving the shareholders a fair shake: "Its future growth can be maximized by a reduction of sales loads and management fees;" that "the principal function of (mutual funds) is the management of their investment portfolios. Everything else is incidental;" and that serving the interests of shareholders should "be the function around which all others are satellite." Whether those simple thoughts were naive idealism, idle prattle, or a design for what Vanguard would stand for, I leave to far wiser heads. But my thesis grade did give my class standing a huge boost, and, despite a shaky sophomore year (I almost lost my scholarship, which would have ended my days at Princeton), I graduated *magna cum laude*.

Walter L. Morgan, Fellow Princetonian

I had no way of knowing that Walter L. Morgan, Class of 1920, would read my thesis. (I had sent it to a senior officer of Wellington Fund who had discussed the industry with me when I did my research.) Mr. Morgan was impressed, and when I graduated, he offered me a job. After what turned out to be an unnecessary amount of soul-searching, I accepted, and, as they say, the rest is history. Walter Morgan truly made a difference in my life. He gave me my first break, and he became my mentor. Then he entrusted me, at age 36, with the leadership of Wellington, the company he founded in 1928. But far more than that, we became close friends, establishing a mutual admiration society that endured for nearly a half a century, until his death last summer. He had just reached his 100th birthday, still bright, alert, interested *and* interesting, the oldest then-living alumnus of the Class of 1920. When I decided to dedicate my soon-to-be-published book, *Common Sense on Mutual Funds,* to him, I had an advance copy of its cover and dedication printed and framed, and gave it to him before what was to be his last birthday. It includes the phrase "fellow Princetonian," and we shared great pride in that designation. This morning, I know that in some mysterious way he's here with us, sharing this high honor with me.

Quickly after assuming my awesome new responsibility at Wellington, I impulsively made a career-threatening error. Seeking additional portfolio management talent, I merged Wellington with a Boston-based investment counsel firm in 1966. By January 1974, amidst the most ferocious bear market since 1929-1933, my new partners succeeded in firing me. But in the aftermath of the battle, I took a wild risk and formed a new company. I called it Vanguard, a name intended to suggest that its novel structure (more about that later) would one day lead the way in the mutual fund industry. It began as a tiny administrative company—just 27 young employees (crewmembers, as we have called them ever since) and me. Only after a painful, obstacle-ridden, seven-year struggle—at first opposed by the Securities and Exchange Commission—would it finally develop the form and structure that it enjoys today. But it has been built, just as my thesis suggested, on vastly reduced management fees; not merely on *reduced* sales loads, but *no* loads; by focusing on prudent management rather than aggressive marketing; and by holding the interests of shareholders paramount. If, as some accounts have it, we *do* lead the way in this industry, the path may well have been laid in a Princeton thesis written almost 50 years ago.

The Foxes—Truly A Skulk

And now to the fox and the hedgehog. In the mutual fund business today, indeed in our global financial system, the foxes hold sway, both in investment philosophy and in business philosophy. As to investment philosophy, the skulk—a large crowd of fund foxes—holds to the idea that investing is complicated and complex, so much so that to achieve investment success individual investors have no choice but to employ professional portfolio managers. Only these experts, or so it is said, can possibly steer them through a hyper-active system that constitutes the complex maze of the global financial markets. In seeking to invest your money successfully, the industry's managers present powerful credentials, including excellent education, years of experience, cunning, and even investment legerdemain; they hover over their portfolios by the hour, constantly monitoring and changing holdings, often with astonishing frequency, not only as a company's products and prospects change, but as its market price waxes and wanes. Further, some among this skulk expect to slyly sell stocks when the market is high, and buy them back when the market falls. In all, the managers add extra opportunity and accept the extra risk required in the search for superior returns. Alas, however, to the limited extent that these strategies have proven to work effectively—and for a relative handful of funds at that (of course, it would be absurd to imagine they could work for all funds as a group)—the very costs incurred by the fund managers were almost always so high as to consume any value added, even by the most cunning of the portfolio manager-foxes. Fund shareholders were left with annual returns that were generally less than 85% of the returns realized in the stock market.

The reason for this shortfall is largely fund costs. The *all-in* costs of the fund foxes now approach 3% per year on average: 1½% from management fees and expenses, often 1% or more from the costs of churning the portfolio, plus another ½%-plus annually for investors who pay sales commissions. Now, let's think long-term instead of short-term. Let's be conservative and set the total croupier's take—the amount gathered by the managers, dealers, and brokers—at 2½ % per year. The *positive* impact of compound interest that magnifies long-term returns, unfortunately, also magnifies the *negative* impact of costs, so that an assumed 2½% *annual* cost consumes 20% of the investor's capital in a decade. As time goes on, costs consume 45% of capital in a quarter century, and—believe it or not—and almost 70% of your capital in 50 years. *The investor, who puts up 100% of the initial capital, receives but 30% of the long-term pre-tax return.* The remaining 70% has been consumed by the financial foxes.

These numbers are more than mere mathematical abstractions. A recent chart in *Business Week* showed that since the greatest bull market in all history began in 1982, a $10,000 investment in the average equity mutual fund would have increased to *$114,000*; the same investment in the stock market (the Standard & Poor's 500 Index) would have grown to *$194,000*—a staggering $80,000 increment

simply for *not* being a fox. That is the American financial system today, and that is how capital formation works in the mutual fund industry. To the extent that another investment approach can avoid, or at least minimize, the inherent pitfalls that are built into the traditional mutual fund system, that approach will hold the winning hand.

When Mr. Market Speaks, Funds Listen

Where might that approach begin? By investing for the long term. The ultimate example of long-term investing is simply buying and holding the stocks of America's businesses. Short-term speculation, its polar opposite, is buying shares—pieces of paper if you will—of hundreds of stocks listed on the nation's stock exchanges, and then feverishly trading them in the market casino. The strategy of America's most successful investor is the paradigm of long-term investing. Warren Buffett purchases the shares of a few businesses and holds them, ignoring the noise created by a man he calls "Mr. Market," who comes by and offers him a different price for the businesses in his portfolio each day. The foxy managers of the fund industry however, do precisely the opposite, trading the pieces of paper in their portfolios at turnover rates of 50% to 200% annually. Responding at each moment to the prices set by Mr. Market's madness, they pay little attention to the value of a corporation. As Columbia Law School Professor Louis Lowenstein has observed: Fund managers "exhibit a persistent emphasis on momentary stock prices. The subtleties and nuances of a particular business escape them."

To make matters worse, the feverish trading of stocks by fund managers—it *is* short-term speculation—for their fund shareholders has now spread to the shareholders themselves. Perhaps following the example set by their managers, fund investors now turn over *their own fund shares* at feverish rates, switching their funds to pick the next winner, or to time the market—fruitless pursuits, both—every three years. (In the 1950s and 1960s, the average holding period for a fund investor was twelve years.) The astonishing brevity of this period gives the lie to the industry's marquee motto: "For the long-term investor." Fund investors—the clients now acting as foxes—trade their funds just as if they were stocks, most feverishly in the marketplaces whose advertisements helped bring you the Super Bowl. These fund supermarkets constitute yet *another* series of casinos, with yet *another* set of croupiers to reduce the returns of the gamblers. Lord Keynes had it right: "When the capital development of a country becomes the by-product of a casino, the job is likely to be ill-done."

Enter the Hedgehog

Successful long-term investors like Warren Buffett are almost impossible to identify in advance, so we'll have to look to an unconventional adversary to take on the foxes and better serve the interest of fund investors. The hedgehog I have in mind, as you might imagine, is Vanguard, a firm that has tried to fill this near-vacuum since our founding in 1974. And the one great thing this hedgehog knows is an utterly simple, self-evident, overarching mathematical truth: The returns of all investors *must* equal the returns of the stock market as a whole. A return of 10% per year in the market clearly can't be parlayed into a return of an 11% for the average investor. Equally obvious conclusion: Investor returns, less the costs of investing, *must* fall short of market returns by the amount of investment expenses.

That early insight, such as it may be, reminded me of an idea that, believe it or not, also appeared in that Princeton thesis of a quarter-century earlier. Studying the record, I had concluded that "mutual funds can make no claim to superiority to the market averages." My readings in the academic journals around the time Vanguard was formed gave powerful theoretical reinforcement to that conclusion, and my careful study of mutual fund returns in the 1945-1975 period added powerful pragmatic evidence that confirmed the inability of fund managers to add value to their investors' assets. Vanguard's very first strategic decision, made in 1975, only months after we began, was obvious: To form the first market index mutual fund—an unmanaged portfolio of the 500 stocks in the Standard & Poor's 500 Index—in history. Derided for years as "Bogle's folly," it took, unimaginably, another full decade until a single competitor had the guts—or wisdom—to follow. In the words of *The Wall Street Journal*, the Vanguard Index 500 Fund has become, heaven forbid, "the industry darling."

With $80 billion of assets, our pioneering index fund is now the second-largest mutual fund in the world, well on its way to becoming the largest before the new century arrives. The decisions that followed over the years took the same direction. Following that first 500 Index Fund, we formed index funds covering our entire stock market, a wide variety of U.S. stock market sectors, international equity markets, and the bond market. We also developed stringently-managed bond funds that offered investors market-like portfolios with clearly-defined quality and maturity standards, entailing little trading and operating with minimal expenses. What is more, we shaped most of our managed equity funds to parallel particular investment styles, focusing on long-term horizons, relatively low portfolio turnover, and, yes again, minimal costs, achieved by negotiating fees at arm's length with external advisory firms. This hedgehog strategy remains the rock on which our investment philosophy rests.

Status Quo Versus Reality

The survival of this industry, *as we know it today*, depends on the maintenance of the status quo by the foxes. Financial success for the mutual fund manager is represented far less by earning even a *market* return on the *investor's* capital than by earning a *staggering* return on the *manager's* capital. (If you don't believe that, merely compare the returns that the managers have earned on their own capital to the returns they have earned on the funds they supervise.) Were this not so, managers would not seek huge asset size for their actively managed funds, which clearly impedes the achievement of superior returns, nor spend billions on marketing shares to new investors, the cost of which is borne by existing shareholders who receive no benefit in return—except perhaps the pleasure of seeing their former portfolio manager perform on television with Don Rickles and Lily Tomlin. It goes without saying that despite the pleas in my thesis, non-management—largely marketing—functions have superseded those of management, and the interest of the managers has superseded the interest of the fund shareholders.

The foxes, nonetheless, derogate the hedgehog with criticisms, which, as far as they go, may even be valid. But they go too far. Yes, some manager-foxes inevitably beat the market by a solid margin . . . but they are impossible to identify in advance, and, once they reach the pinnacle of performance, almost never remain there. (Reversion to the mean is alive and well in the mutual fund industry!) Yes, the large-cap Standard and Poor's 500 Stock Index not only seems high—at an astonishing 29 times earnings it *is* high—but also seems significantly overvalued relative to the small- and mid-cap stocks that represent the remaining 25% of the market's $13.5 trillion value . . . but the fundamental theory of indexing is grounded in owning the *entire* stock market, and that option is available in at least a few index funds. What is more, some 75% of the $2.8 trillion of equity mutual fund assets is invested in those same 500 S&P stocks. So, for the "500" index funds and the industry as a whole, the exposure to market risk is not significantly different. Yes, interim variations in the gap between industry and index returns will surely expand and contract in the future . . . but in the long run the mutual fund industry will have to recognize the inevitability of the failure of its existing investment *modus operandi* to earn returns that are sufficient to overcome its costs, and add economic value for fund shareholders.

Investment versus Speculation

After a half-century observing this industry, I may have become too much the philosopher, maybe even too much the cynic. But it occurs to me that most mutual fund managers are barking up the wrong tree. I just can't imagine that any of those foxes in the mutual fund industry don't understand the simple arithmetic that gives the all-market index fund its powerful advantage, let alone the extra boost added by its extraordinary tax-efficiency. That I am virtually the industry's sole apostle of indexing makes the thesis easy to ignore. But even when Warren Buffett, with his unchallenged credentials, speaks—"Most investors will find that the best way to own common stocks is through an index fund that charges minimal fees. . . it is *certain* to beat the net results delivered by the great majority of professionals"—this industry fails to listen. Except, that is, for the former chairman of one giant fund complex who defends his firm against the clear truth that underlies the superiority of the index with these words: "Investors ought to recognize that mutual funds can *never* (his word) beat the index." The index fund is not merely another kind of mutual fund. It approaches investing, not as a matter of trading pieces of paper for advantage, but as a matter of owning businesses and watching them grow. *Through an all-market index fund, investors own the shares of virtually every publicly-held business in the U.S., and hold them forever*. This overarching principle—the one great thing that the fund hedgehog knows—is not merely a good strategy for the long-term investor. It is a winning strategy.

Here, I am reminded of Occam's Razor, the principle that advises: When faced with a problem having multiple solutions, choose the simplest one. (This "principle of parsimony"—shaving away all complex solutions—was recently given the attention it deserves by William Safire in his Sunday *New York Times Magazine* column.) Occam's Razor is right on the mark in pointing to the solution to the seeming riddle of investment success, for index funds are the essence of simplicity. I should add that, contrary to much of what we read in the financial press, the principle that Sir William of Occam set out in the 14th century, works—as it *must* work—in *all* financial markets. Whether in markets in which fund returns are widely divergent—small stocks or international stocks, for example—or in markets in which fund returns are narrowly-spaced—bonds, for example—there is no longer any question of the power of the universal principle of low-cost indexing. It may threaten the financial interests of the fund *industry,* but it fosters the financial interests of the fund *shareholders*.

The Hedgehog as Businessman

Let me now turn to my second contrast between fox and hedgehog: From the industry's *investment* conduct, to its *business* conduct. Here the foxy strategy of entrepreneurs and promoters relies on guileful marketing, hot products, and inflated claims of performance success, while the hedgehog

strategy emphasizes prudence, stewardship, and service. This strategy entails a sort of "if-you-build-it-they-will-come" approach, which works only if standards are established to assure that those who *do* come are served in a first-class fashion.

The record is clear that since managers as a group will fall short of market returns by the amount of their costs, the linchpin of the hedgehog strategy is maintaining minimal costs. *In the long run*, *the rewards of investing are determined by the allocation of market returns between the fund shareholders and the managers.* To help accomplish this vital goal, Vanguard has chosen a corporate structure, unique in the mutual fund industry. It is truly *mutual*: The fund shareholders *own* the management company that administers the funds. Unlike every other company in this business, we operate our enterprise on an "at-cost" basis, with each fund paying its share of corporate expenses. In turn, we hold those expenses to the bare minimum, employing a modest marketing budget and demanding stringent cost controls in every activity we undertake. We are, in a brutal but accurate word, "cheap." (It *is,* after all, our clients' money that we are spending.) The net result is savings for our investors totaling something in the range of $3 billion to $4 billion per year, a huge enhancement in shareholder returns that often makes the difference between "average" and "superior" relative to peer funds.

At the same time, our clients must be provided with an excellent level of service, distinguished not as much by efficiency and automation as by how we treat them. As I have said to our crew 1,000 times over: "Let's treat our clients as human beings—honest-to-God, down-to-earth human beings with their own hopes, fears, and financial goals." For what it is worth, at Harvard Business School we have become known as one of the two premier "service-breakthrough companies" in American business. A year ago, I was invited to reveal the secret of our success, such as it may be, to four Harvard classes. I told them that the secret was, hedgehog-like, based on a simple, unitary concept: Treating our clients as human beings—serving *them* in the same manner as we would have the honest stewards of *our* assets serve *us*.

I then asked if any of the 300 students I was addressing had ever seen the phrase "human beings" appear in a textbook on business management or corporate strategy. No heads nodded; no hands were raised. But I hope that these future leaders of American business learned something useful, if not priceless. For the hedgehog firm, Occam's razor shaves away all of the complex, and not entirely straightforward, myths that go into what is called, charitably, "modern marketing," to say nothing of shaving away all unnecessary costs. Individual human beings—no more, no less—remain the focus. Of

course, our mission of service to investors requires good communications, advanced technology, and financial controls. They are conditions *necessary*, but not conditions *sufficient* to reaching our goals. Finally, the one great thing we recognize is the primacy of the individual human being.

Reinforcement . . . from a Surprising Source

You may be surprised to learn that none other than Woodrow Wilson came at his presidential mission with the same focus. He believed that productive relationships among human beings were required for serving the nation's citizenry. In 1913, he delivered his first State of the Union address in person, renewing a custom that had lapsed with John Adams more than a century earlier. Wilson did not decide to renew that custom—one that we all now take for granted—inadvertently. Right at the start of his address, he pointed out that that a President must demonstrate that he is, "a person, not a mere department of Government, speaking naturally and with his own voice, that he is a human being trying to cooperate with other human beings in a common service." I could hardly have said it better.

Once the leader determines to treat those *whom* he serves as human beings, treating all of those *with* whom he serves as human beings quickly follows. In the ideal, some concept of the leader as servant and the servant as leader—each of whom can lift one another to a higher standard of moral and ethical service—can change the very nature of an enterprise. As the late Robert Greenleaf, founder of the servant-leadership movement has said, "it is not superior technology, nor more astute market analysis, nor a better financial base that distinguishes a superior company, but an unconventional thinking about its dream, how it organizes to serve . . . *a powerful liberating vision that must be difficult to deliver."*

I am well aware that both conducting our investment strategy with the simplicity exemplified by index funds and conducting our business strategy with the simplicity of the Golden Rule are idealistic to a fault, perhaps even stupidly and naively idealistic. So be it. I for one am prepared to rise and fall on these hedgehog-like strategies, even as I am well aware that they form a mutually-reinforcing set of values, the key to success for any enterprise. If the application of low cost to policies of prudent investing is key to investment success, a firm requires both a structure and an attitude that bring about low cost. So positioned, the hedgehog's spines are well-honed, his defenses ready to engage in a life-long competition with the clever foxes of the investment profession and the wily foxes of the world of commerce, breeds that are more sophisticated and worldly-wise, and surely more brilliant, than I could ever imagine being. In this idealism, I am proud to associate myself, once again, with Woodrow Wilson,

who said in September 1919, only days before suffering the stroke that ended his political effectiveness. "Sometimes people call me an idealist. Well, that is the way I know I'm American. America is the only idealistic nation in the world."

Liberal Education, Moral Education

When I think of the good fortune that has brought to me the extraordinary award that Princeton University bestows on me today, I give the highest order of credit to a set of strong family values and a faith in God, a fine preparation for college at Blair Academy, and the powerful reinforcement and new awakening I received through a liberal education at this remarkable place. In a recent essay in the *Princeton Alumni Weekly*, President Shapiro defined these two aims of a liberal education: "One is the importance of achieving educational objectives, a better understanding of our cultural inheritance and ourselves, a familiarity with the foundations of mathematics and science, and a clarification of what we mean by virtue . . . the other is the importance of molding a certain type of citizen." He went on to emphasize, "the search for truth and new understanding . . . and the freeing of the individual from previous ideas, the pursuit of alternative ideas, the development of the integrity and power of reason of individual goals . . . and the preparation for an independent and responsible life of choice." During my four years here, I did my best to acquire these traits.

President Shapiro also pointed to the "responsibility of a university offering a *liberal education* to provide its students with a *moral education* . . . helping them to develop values that will enrich their lives as individuals and as members of society." This aging hedgehog, looking back in hindsight through glasses that inevitably have a rosy hue, can only say that the liberal and moral education placed before me at Princeton may well have ignited some deep and unimagined spark that began to influence my life and my career in the mutual fund field. This spark, nurtured by time and experience, has erupted into some sort of flame that has permeated my ideas about the proper nature of the mutual fund. The flame will spread one day to the industry and become a blaze, one that will not be easy to extinguish. It is my prayer that my mission—my crusade, if that is not too lofty a characterization of the course of my career—will help an industry to rethink its values, and accordingly be of greater service to growing millions of American investors. Serving these new owners of American business, who are contributing to the highest values of our system of capital formation even as they strive to take personal responsibility for the security of their own financial futures, has been a marvelously worthwhile life's work.

Returning Full Circle

I now close, surprisingly enough, by returning, full circle, to where I began my remarks: Finding *Fortune*, as it were, a half-century ago. Of course, I had kept a copy of my thesis, and I obtained years ago a copy of that original mutual fund article from which so much innovation was to emerge. What is more, thanks, to an enterprising Vanguard crew member, I received just weeks ago a mint-condition copy of the entire December 1949 original edition of *Fortune*. One more mystically fortuitous event occurred: the feature essay was entitled "The Moral History of U.S. Business." I have no recollection of reading it in 1949. But I read it a few weeks ago, nearly 50 years later.

As I reflect on Vanguard's two guiding principles of prudent investing and personal service, both seem to be related to the kind of moral responsibility of business expressed in the *Fortune* essay. It began by noting the non-profit motives that lie behind the labors of the American businessman: "the love of power or prestige, altruism, pugnacity, patriotism, the hope of being remembered through a product or institution." Even as I freely confess to all of these motives—life is too short to be a hypocrite—I also agree with *Fortune* on the appropriateness of the traditional tendency of American society to ask: "what are the moral credentials for the social power (the businessman) wields?" The essay begins with the example of Quaker businessman John Woolman of New Jersey, who in 1770 wrote that it is "good to advise people to take such things as were most useful, and not costly." It then cites Benjamin Franklin's favorite words—"Industry and frugality"—as "the (best) means of producing wealth and receiving virtue." Moving to 1844, the essay cites the words of William Parsons, "a merchant of probity," who described the good merchant as "an enterprising man willing to run some risks, yet not willing to risk in hazardous enterprises the property of others entrusted to his keeping, careful to indulge no extravagance and to be simple in his manner and unostentatious in his habits, not merely a merchant, but a man, with a *mind* to improve, a *heart* to cultivate, a *character* to form."

Woodrow Wilson on the Moral Impulse

As for the mind, I still strive every day—I really do!—to improve my own. As for the heart, no one—no one!—could possibly revel in the opportunity to cultivate it more than I. Tomorrow, after all, just happens to be the anniversary of the amazing grace represented by my incredibly successful heart transplant just three years ago. And as for character, whatever moral standard I may have developed, I have tried to invest my own soul and spirit in the character of the firm I founded 25 years ago. On a far

grander scale than just one human life, these standards resonate—as ever, idealistically—in how we seek to manage the billions of dollars entrusted to our stewardship, and in how I pray that my company will ever see itself, putting the will and the world of a business enterprise in the service of others—in the Nation's service.

Woodrow Wilson had a strong moral vision. In his inaugural speech as President of Princeton University in 1902, he demanded that the university graduate "derive his knowledge from the thoughts of the generations that have gone before him," noting that, "the ages of *strong and definite moral impulse* have been the ages of achievement." He then added, "university men ought to hold themselves bound to the upper roads of usefulness which run along the ridges, and command views of the general fields of life." His choice of those words, "the general fields of life," surely can be read as applying to mundane works of commerce—business and finance, the trades and the services—and to those Princetonians who would spend their careers honorably pursuing them.

In this sense, perhaps Woodrow Wilson is looking down on this morning's ceremony with approval, accepting with pleasure the fact that in 1999 the award that honors him will be presented to a Princetonian who, as a businessman, has spent his career in the field of finance. To an important extent, the wonderful life and the modest success I've been blessed to enjoy in an opportunity-laden career began right here, on this magnificent and tradition-bound campus. I fell in love with this place when I first arrived as a freshman member of the great Class of 1951. Now, more than fifty years after my arrival here in 1947, the honor of receiving the 43rd Woodrow Wilson Award "for the alumnus whose achievements exemplify the spirit of Princeton in the nation's service" is the ultimate reward. It will serve as a challenge to me to carry on the work I have begun.

Thank you.