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Modern asset class investing principles, research, and perspectives for long-term investors

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Jack Bogle's Influence

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John C. "Jack" Bogle, the founder and former chairman of the Vanguard Group, passed away last month at age 89.

Personally, I can't think of another person in history who has had a bigger and more positive impact on long-term investing than Bogle. In one of the many articles written about him since his death, Burton Malkiel (author of the classic *A Random Walk Down Wall Street*) said it best:

> *The best example of an American business hero was Jack Bogle, whose ideas transformed an industry and who gave generations of investors a way to participate in the growth of the American economy, to save efficiently, and to achieve financial security and a comfortable retirement.*[1]

Malkiel captured the essence of Bogle's contribution to America (and, increasingly, the world). Bogle was a *business* hero who genuinely *cared* about the people he and his firm served, and he radically *transformed* an ethically challenged industry against overwhelming odds and billions of dollars of Wall Street marketing capital. For one person to have such an impact is truly amazing and awe-inspiring.

Bogle and Vanguard's story isn't often characterized this way. Instead, the focus is almost always on the low *cost* of index funds, period. An index fund, which simply mirrors a published benchmark like the S&P 500, is inexpensive to build and manage. Therefore, long-term investors in an *expensive* index fund are as clueless as an investor who pays the much higher fees of an active fund. They are voluntarily and unnecessarily redistributing money from their pockets to those of people who haven't earned it.

The true value of an index fund lies in its *diversification*. Indexing (and its more sophisticated cousin, asset class investing) diversifies portfolios in a way that eliminates the risks for which the investors are not compensated.

This is what Malkiel was getting at. Indexing offers the opportunity for serious investors to participate in the growth of the U.S. economy instead of subjecting their hard-earned (in most cases) wealth to the instability, uncertainty, and inherent fallibility of those who think they can consistently pick the winners and losers in the short-term economic lottery. The growth in the U.S. economy has translated into a 9.7% annual return for the S&P 500 index over the past 90 years, and over the past 15 years the index has outperformed 90% of active funds.[2]

Does that sound like a much less stressful, less complex, and more certain way to build your wealth over time or "Bogle's folly" (as indexing was considered early on)?

And Bogle, like the great Ben Graham of an earlier era, preached common sense, prudence, patience, and confidence when investing in such a dynamic free market economy as ours. Bogle's 1999 book, *Common Sense on Mutual Funds: New Imperatives for the Intelligent Investor,* is as important in many ways to serious investors as Graham's *The Intelligent Investor*, which was first published in 1949. If Graham were alive today, I'm sure he would be a strong advocate of indexing (as is his former student at Columbia Warren Buffett).

I believe Bogle's greatest contribution to investors was his constant *advocacy* of a broadly diversified, buy-and-hold approach to investing. He enjoyed a very wide following among prominent financial journalists, like Jason Zweig of *The Wall Street Journal* (who, not surprisingly, is also a huge fan of Ben Graham), and he was very active as a public speaker. Without his constant and very passionate beating of the indexing drum, our jobs at Equius would have been much more difficult—particularly in our early years, the mid-1990s.

Contrary to popular belief, Bogle did not invent the index fund. That honor goes to John "Mac" McQuown and David Booth at Wells Fargo Bank in San Francisco and Rex Sinquefield at American National Bank & Trust in Chicago in 1973 (all founders of Dimensional Fund Advisors). But their funds were for institutional clients only. McQuown then collaborated with Bogle, who created the first retail index fund for Vanguard in 1976.

The science of passive investing didn't stop with these individuals. We owe much to academics like Eugene Fama and Ken French for a more advanced framework that offers better-than-market performance while staying true to indexing's fundamental principles. But Bogle rightly deserves his place in history, and we're all better off because this man lived and shared his values with us so well and for so long.

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[1] "The Secrets of Jack Bogle's Investment Success," *The Wall Street Journal*, Jan. 17, 2019.

[2] Source: Standard & Poor's. 15-year comparison is to all large cap funds (SPIVA report).

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