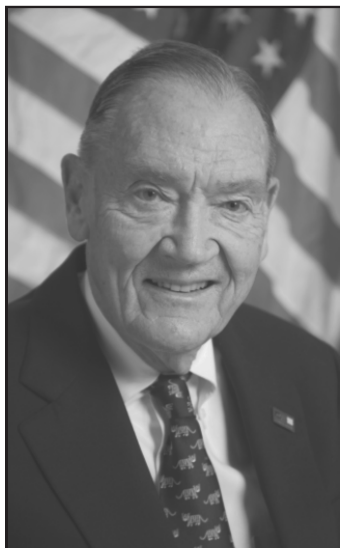
JOHN C. BOGLE



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I arrived at Philadelphia's 30th Street Station on September 16, 2014, at 6:00 a.m. to meet John (Jack) C. Bogle. Jack, his wife, one of his six children, and I were set to board an early Amtrak Acela train headed to Washington, D.C. Jack was scheduled to testify before the Senate Finance Committee at 9:00 a.m. on the challenges with the U.S. retirement system. I was Jack's staff assistant, a role I was privileged to hold from 2011 to 2019. During those years, I was his go-to person for everything on his agenda; he often introduced me as his "good right arm."

But our trip to D.C. that morning would not go as planned. An electrical problem had disabled all train service between Philadelphia and Washington. None of us had driven ourselves to the train station, and we needed to leave right away if we were going to make it through rush hour traffic. Jack made himself quite clear: we were going to get there in time.

I ran to the rental car counter—no luck. Jack's frustration rose. He had a chance to advocate on behalf of investors with the nation's policymakers, but the aging infrastructure of Amtrak's northeast corridor was jeopardizing his opportunity.

"I have an idea." Uber had recently arrived in Philadelphia. I had used it a few times to get around town, but it was still relatively unknown to many in the region. I opened the app and hailed a car. A Cadillac Escalade quickly met us beneath 30th Street Station's porte cochere. Jack jumped in. His family and I followed.

"Can we make it to Washington by 9?" Jack asked.

"Better buckle up," replied the driver.

A few hours later, we arrived at the Dirksen Senate Office Building. We made our way through security and up to the second floor. Jack sat down at 8:58 a.m., ready to serve as the voice of America's retirement investors. His testimony made waves.

Our mad dash to Washington is emblematic of many of John Bogle's qualities: his determination, his resilience, and his uncompromising dedication to the interests of investors. Bogle is best known as the founder of Vanguard and the creator of the first index mutual fund. But that sentence only scratches the surface of his legacy as an innovator and advocate for the best interests of investors. Dubbed "St. Jack," derisively by rivals and earnestly by acolytes, Bogle's career spanned nearly seven decades. Over that long period, Bogle led a revolution that reshaped the industry.

Bogle created Vanguard with a unique corporate structure in which the company is owned by its U.S. mutual funds, which are themselves owned by their investors. This led Bogle to frequently cite Vanguard as the only "mutual" mutual fund company. With this structure in place,

Bogle's first strategic move at Vanguard was the creation of the first index mutual fund, originally called First Index Investment Trust. As Bogle was fond of saying, "strategy follows structure." He believed that the mutual ownership structure, which aligned the interests of the management company with those of its fund investors, inevitably led to the low-cost indexing strategy. Successful index funds depend on low costs, and the mutual ownership structure enhances returns to fund shareholders by keeping costs low.

The Saga Begins

The New Jersey–born Bogle was a student at Princeton University in the late 1940s and early 1950s. As a junior in late 1949, he needed to settle on a topic for his senior thesis. Bogle refused to reexamine the theories of Adam Smith, John Maynard Keynes, or Karl Marx—paths that were well-worn by many of his classmates. He wanted to find a topic that would cover new ground. Sitting in the then-new Firestone Library, he paged through the December 1949 issue of *Fortune*. Inspiration struck when he turned to an article titled "Big Money in Boston" about the burgeoning mutual fund industry. The article described the industry as "tiny . . . but contentious," a description that resonated with Bogle. He decided at that moment to write his senior thesis on the mutual fund industry, titled "The Economic Role of the Investment Company." The thesis enabled him to graduate *magna cum laude* in 1951.

Bogle's thesis caught the attention of Walter L. Morgan, founder of Wellington Management Company. Morgan offered Bogle a position at Wellington and became Bogle's mentor. Bogle's intense work ethic allowed him to have a hand in nearly every aspect of Wellington's operations, and he quickly rose through the ranks. By the mid-1960s, however, Wellington's conservative approach to investment management was falling out of favor with investors in the era of high-flying "go-go" stocks. Morgan determined that change was needed to get the firm back on course, and he put the still-young Bogle in charge of Wellington's adaptation to the changing market environment. Bogle's solution was a merger with a small Boston-based firm named for its four partners, Thorndike, Doran, Paine, and Lewis (TDP&L). TDP&L managed aggressive equity portfolios, including the then-hot Ivest Fund, as well as a growing pension business. Bogle thought the merger was the solution to revitalizing Wellington.

At first, things went well. Bogle and his new partners appeared in a football-inspired illustration on the cover of *Institutional Investor* magazine in 1968, with Bogle depicted as a three-armed quarterback

handing the ball off to his colleagues. But the good times didn't last. By 1973, the stock market began what would become a harrowing 50 percent decline. Wellington Management Company's board of directors determined that a change was needed, and on January 24, 1974, Bogle was fired. His once-promising career was in shambles. Bogle would often quip that his career at Wellington ended the same way it began: "fired with enthusiasm."

The Phoenix Rises

One of John Bogle's defining character traits was his determination. He held his values and beliefs deeply, and he welcomed the opportunity to defend them. He was particularly fond of the story of Winston Churchill's (perhaps apocryphal) address to Harrow School in the early 1960s, even building his 2010 commencement speech at Trinity College around it. According to the story, Churchill, then in his 80s, returned to the school for a formal event and was asked to say a few words as the event neared its conclusion. Churchill rose, paused for a moment, and said, "Never give up. Never. Never. Never. Never. Never."

In his address to Trinity's graduating class, Bogle said, "I've especially loved the fifth 'never' in that sequence, not because of the number itself, but because that fifth 'never' is a wonderful metaphor for the numerous times in the lives of so many of us when, faced with defeat, we have had to draw on our deepest resources to fight back and defend our lives, our careers, our principles, our honor, and our character" (Bogle 2011).

That determination was evident in Bogle's response to being fired from Wellington Management Company. While he was no longer CEO of Wellington, he remained chairman of the board of the Wellington funds, which had a separate, though overlapping, board of directors. The board of the funds agreed to give Bogle an opportunity to stay on and present his vision for "The Future Structure of the Wellington Group of Investment Companies," the title of a report he presented to the board in March 1974. After considering multiple options presented in the report, the funds' board agreed to allow Bogle to form a new firm responsible for certain administrative and accounting tasks, as well as the oversight of Wellington's performance as the funds' adviser and distributor. Further, the board accepted Bogle's proposal that the new firm be owned by the funds, rather than a group of outside shareholders or company insiders. Out of Bogle's tumultuous separation from Wellington, Vanguard and its unique mutual structure were born.

A Challenge to Judgment

In Bogle's 1951 senior thesis, he evaluated the long-term returns of mutual funds and concluded that they "can make no claim to superiority over the market averages" (Bogle 2001).[1] He would later suggest that this may have been an early germ of the concept of index funds. However, according to Bogle, the proximate inspiration for his creation of the first index mutual fund was a paper written by Nobel Laureate Paul Samuelson (1974) called "Challenge to Judgment."

Samuelson's essay succinctly made the case for index investing. He suggested that, in practice, most professional investors could not outperform the market averages year after year. He called for "someone, somewhere" to create a fund that merely tracked the market average at low cost. Bogle saw himself as that "someone." His aforementioned mantra, "strategy follows structure," led Bogle to conclude that the indexing strategy was a perfect fit for Vanguard. Because of Vanguard's unique corporate structure, a major way that the firm can return value for shareholders is through low costs—and indexing is the ultimate low-cost investing strategy. While other investment management firms of the day were concerned with making profits for the management company's owners, whether public or private, Vanguard had a unique incentive to offer funds at the lowest possible cost. Bogle was determined that Vanguard's first strategic move would be the creation of the first index mutual fund.

Yet there was a hitch—the arrangement with Wellington precluded Vanguard from engaging in investment management; Vanguard's purview generally extended only to behind-the-scenes administrative tasks. Bogle's determination once again proved advantageous. Because the index fund merely seeks to track the benchmark without evaluating individual securities, Bogle suggested to Vanguard's board of directors that the fund did not require investment management and was, therefore, in accordance with the arrangement between Vanguard and Wellington. The board allowed Bogle to move forward. But the road to launching the fund still had some significant bumps ahead.

Four Wall Street investment banks, led by Dean Witter & Co., were given the task of underwriting the initial public offering of the fund. They expected to raise $150 million for the fund's initial portfolio. But when the fund was set to launch on August 31, 1976, only $11.3 million had been raised—not even enough to purchase all 500 stocks in the S&P 500 Index. The underwriters suggested that they simply return the initial investors' money, but Bogle refused. Bogle recalled saying,

1 Bogle (2001) includes the complete text of John C. Bogle's 1951 Princeton University senior thesis, "The Economic Role of the Investment Company."

"We now have the world's first index fund, and this is the beginning of something big" (Bogle 2014). First Index Investment Trust was born.

The Cost Matters Hypothesis

It's important to keep in mind that Bogle's commitment to indexing was based on practice, not theory. He took a practical approach to indexing, rather than coming to it through academic research. Many adherents of indexing are inspired by the efficient markets hypothesis (EMH) and modern portfolio theory. But Bogle described himself, in his typically colorful way, as an "apostle of simplicity, following 'the relentless rules of humble arithmetic,'" the latter phrase inspired by U.S. Supreme Court Justice Louis Brandeis (Bogle 2014).

In juxtaposition with the EMH, Bogle coined his justification for indexing as the Cost Matters Hypothesis, or CMH. Nobel Laureate William F. Sharpe articulated a similar case in his influential paper "The Arithmetic of Active Management" (Sharpe 1991). Vanguard has also described the concept as the zero-sum game theory (Rowley, Walker, and Zhu 2019). Bogle's formulation for the CMH relies on the simple syllogism that, in aggregate, the net returns to investors equal the gross returns of the market minus the costs of intermediation. Index investors, in aggregate, hold the market portfolio and ultimately receive the market return minus the low costs of index funds.

Active investors also hold the market portfolio in aggregate. Yes, each active portfolio is idiosyncratic. Some active investors will surely outperform the markets, while others will underperform. But in aggregate, active investors hold the market portfolio and receive the gross returns of the market minus the higher costs of active investing. By necessity, investors in index funds will, in aggregate, enjoy higher returns than active investors thanks to the low costs of indexing. This syllogism has been challenged (Pedersen 2018), but the practical lesson remains compelling.

The Long Road to Acceptance

Much like how the initial underwriting of the first index mutual fund was a flop, it took decades before index funds gained wide acceptance among investors. At the outset, index funds were met with a combination of indifference and derision. Vanguard's index fund was dubbed "Bogle's Folly." One brokerage firm distributed posters depicting Uncle Sam using a stamp to cancel index fund stock certificates, with the caption, "Index Funds Are Un-American. Help Stamp Out Index

Funds!" A framed copy hung outside Bogle's office for many years, which universally amused his visitors.

In those early years, investors were unaware of, or unimpressed by, the index fund. It wasn't until the roaring bull market of the late 1990s that index funds began to gain broad traction with investors. But through those many lean years for indexing, Bogle maintained his conviction that indexing had the potential to serve investors well. Under his leadership, Vanguard continued to launch innovative index funds—the first bond index fund (1986), the first "completion" index fund tracking mid- and small-cap stocks to complement Vanguard's large-cap 500 Index Fund (1987), the first non-U.S. stock index funds (1990), and the first total U.S. stock market index fund (1992). Vanguard would continue its leadership in indexing, launching funds focused on investing styles (growth and value), market capitalization (small- and mid-cap), the cross-section of style and size (e.g., mid-cap value, small-cap growth, etc.), and fixed income maturity and quality (e.g., short-term Treasury, intermediate-term investment-grade, etc.).

Along the way, Bogle continued to emphasize the importance of focusing on the things that investors can control, particularly investment costs. Drawing on the CMH, Bogle recognized that low costs were critical to achieving investment success. He continually pushed to lower the costs of all of Vanguard's funds, both active and passive. While it took decades, both investors and competitors finally began to take heed. Today, index funds are broadly accepted by investors worldwide, fee compression is a fact of life for the industry, and price competition is fierce. Of course, the ultimate beneficiaries of these dynamics are investors. As Bogle often said, including in his 2012 book *The Clash of the Cultures*, in investing, "you not only don't get what you pay for, you get precisely what you don't pay for" (Bogle 2012).

The Advocate

Bogle spent the last two decades of his career at the helm of the Bogle Financial Markets Research Center, a small think tank that allowed him to focus on being one of the foremost advocates for the interests of investors. I had the great honor of working with him for eight years during this phase of his career. He poured all of his boundless energy into finding ways to educate investors and advocating for investor-centric changes, with the goal of helping investors achieve investment success. He wrote tirelessly, continually finding new ways to convey his timeless message. He was considered by many to be the conscience of the industry, and he inspired a devoted group of fans who call themselves the Bogleheads. He wrote 12 books, hundreds of speeches,

and scores of articles for both the mainstream press and practitioner and academic journals. Through his creation of Vanguard and the index mutual fund, and his later years dedicated to promoting financial literacy and advocacy, Bogle helped millions of investors worldwide achieve financial security.

He achieved all of this while battling a congenital heart condition. He suffered his first heart attack in his early thirties and had several more before receiving a heart transplant in 1996. His determination, grit, wisdom, resilience, and dedication to the interests of investors were an inspiration to many. He was the true embodiment of the word "fiduciary." Warren Buffett put it well in his 2017 letter to the shareholders of Berkshire Hathaway: "If a statue is ever erected to honor the person who has done the most for American investors, the hands-down choice should be Jack Bogle . . . He is a hero to them and to me."

Elected 2004

Michael W. Nolan, Jr.
Public Relations Consultant
Vanguard

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