

# John Bogle

MALVERN, PENNSYLVANIA | No one would dispute that John Bogle is a true legend in the world of investing. Not only did he found Vanguard Group—the world's largest provider of mutual funds, managing \$3.8 trillion (U.S.) in assets—the 87-year-old retired CEO is also credited with creating the world's first index mutual fund. A Princeton University economics graduate, Bogle spent his career championing low-cost index funds that mimic benchmarks, such as the S&P 500, because he discovered that few active managers could beat them. Today, as president of Bogle Financial Markets Research Center, he is involved in research and plays an indexing-advocacy role. We spoke with Bogle about why some exchange-traded funds (ETFs) are dangerous; why gold is a loser's game; and why Canadians should invest in the U.S. stock market.

**Index funds have come into vogue in recent years. How did you come to launch Vanguard 500, the first traditional index fund, in 1976?**

In 1951, I wrote my Princeton senior thesis on mutual funds, "The Economic Role of the Investing Company." I said mutual funds can make no claim to superiority over the market averages. I had looked anecdotally at a bunch of funds, pretty much large-cap Dow Jones Industrial Average kinds of funds. I could not see that they were out-managing the market. When I started Vanguard in 1974, it was pretty unique in the annals of the mutual fund industry because the people who invested in the funds [the fund's shareholders] also owned the management company with Vanguard Group. Once you have that structure, keeping the management costs low is everything. Everybody had the opportunity to start the first index fund, but only the newly created Vanguard had the motive to do so.

**Does it surprise you that famous stock-picker Warren Buffett plans to put 90% of his wife's inheritance into the Vanguard 500 fund?**

No. He has talked favourably about the 500 Index Fund for maybe 20 years. We have met a number of times. He believes, like I do, that owning the market at a very low cost is the best route. For him to say that publicly, though, is quite remarkable.

**What do you think of the boom in exchange-traded funds?**

ETFs are index funds, but they can be dangerous. There is a huge amount of trading. The largest holders of the SPDR and Vanguard ETFs are large financial institutions, and they trade them back and forth. I think average investors should not trade a lot. The evidence is overpowering. The more you trade, the less you earn. Index funds should be bought and held forever.

**How will indexing affect the mutual fund industry?**

Fund managers are worried. Last fall, a group of active managers got together in New York to figure out what they can do to stop the trend toward index funds. Fund companies know it's virtually impossible to beat the market over a long period. Because of that, the amount of cash in mutual funds will start to dwindle. Over the next decade, many will go out of business, merge with somebody else or sell their companies. This is a tidal wave—a tsunami—and it's not going to stop.

**What's your outlook on U.S. stocks?**

I don't make year-to-year predictions. My 10-year view is that stock market returns will be considerably less than they have been over the 65 years I have been in the business. They averaged about 11%, but I think stock market returns in the future would be fine if they did 4% or 6% a year each year over the next 10 years. Valuations are high, dividends are low, while earn-

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"Watch costs. Don't overpay, because costs come out of the returns you get."

ings growth is problematical.

**Will U.S. president Donald Trump have a big impact on the stock market?**

Trump is the new John Maynard Keynes. He proposes to spend a lot on infrastructure—maybe \$1 trillion—borrow and run big deficits. That is near-term bullish. In the long run, my fear is that anything that increases racial tension and the inequality gap, hits world trade and reduces our support for NATO, is bad for our society, economy and markets. Clearly, the market is paying more attention to the short run.

**What about diversifying with international investments or gold?**

It's not necessary to invest internationally, because half of the revenue and earnings of U.S. corporations come from outside the United States. Gold is the best diversifier of all. In the short run, it can help you if there is rampant or hyper-inflation. In the long run, it's a loser's game. It has no internal rate of return. Bonds have interest rates. Stocks have a dividend yield or earnings growth. Gold has nothing like that. It's complete speculation. If you are enamoured with gold, 5% of your portfolio is okay.

**Do you have a favourite investment book?**

I like Burton Malkiel's *A Random Walk Down Wall Street*. He comes to the same conclusion that I do—that indexing is the way. My *Little Book of Common Sense Investing* says pretty much the same thing.

**What advice would you give to Canadian investors?**

You want more diversification than the Canadian market can provide. That's why Canadians should invest some money in the U.S. market. There is no country like the United States, with its diversified industrial base, technology leadership, innovation and strong pressure to build companies to make them grow. Canadians should also be careful of costs, because fees for Canadian mutual funds are very, very high.

**How do you invest your personal portfolio?**

I have 50% in stocks and 50% bonds. My favourite holdings are Vanguard's Wellington Fund, a balanced mutual fund which is a legacy investment from my first career at Wellington Management Co., and the Vanguard 500 Index Fund. /Shirley Won