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MONEY

The unsung hero of your comfortable retirement

John Bogle invented tracker funds but gave up the chance to make billions for himself — to help the rest of us save more

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I have met my hero. He isn't a celebrity and most of you will never have heard of him but John Bogle has made my retirement (and probably yours) a lot more comfortable than it would otherwise have been. If you have a private pension, this octogenarian has ensured you may be able to afford Waitrose rather than Asda, champagne rather than Asti Spumante and Pizza Express rather than Pizza Hut.

He has helped millions of ordinary people invest cheaply and relatively safely in the stock market. The firm he founded more than 40 years ago, Vanguard, is the second-biggest fund manager in the world, looking after more than $3.5 trillion (£2.8 trillion) of investments and savings.

Even Warren Buffett, the legendary American investor, has advised his wife that, if he dies before her, she should put 90% of his multibillion-dollar fortune into Vanguard's low-cost funds.

Bogle, 87, who rarely speaks to the British media, said modestly: "If I have made a difference to the lives of individual investors, I feel good about that."

When he set up Vanguard in 1975, Bogle did two revolutionary things. First, he established the world's first passive fund that ordinary people could invest in; a fund that buys the shares of all of the companies in an index such as the FTSE 100. This cheap and diversified way to buy into the stock market is also known as a tracker fund, as it "tracks" the movement of the entire index.

Second, and equally importantly, Bogle took the extraordinary decision to set up Vanguard as a

mutual, meaning it is owned by its customers — it is basically a giant co-op fund manager.

Rather than giving profits to external shareholders, he has instead reduced the fees we all pay. Vanguard has relentlessly driven down fund management fees, leaving substantially more money for the individual saver. Indeed, even if you don't have funds with Vanguard, other firms have had to lower their fees as a result of its strategy.

Yet those decisions have come at a cost, both financial and personal. Bogle doesn't own the very valuable business that Vanguard has become: "I didn't expect Vanguard to get this big. And maybe it would never have gotten this big if it wasn't organised as a mutual."

And if he had owned it? "Maybe I'd be worth a few billion. But by normal standards I am quite well-to-do. I am not wondering where the next meal is coming from. And I have what I want, and the key to it is I've never wanted much."

For a man who chose not to make a fortune for himself he is still wealthy, but is said to be worth millions rather than billions, and has talked in the past about his regret that he does not have more to give to charity.

Bogle may not be bothered about losing out financially but there is the personal cost, too. Vanguard is not popular in the industry — unsurprisingly, given that the firm has highlighted quite how much money its competitors make at the expense of ordinary investors.

I asked him how much he was hated and he laughed: "We don't have a good measure of hate. I am told I am respected."

Clearly, though, it does hurt a little. "The last time I spoke at the Investment Company Institute annual meeting — the general membership meeting — was about 1975," he said. "They haven't asked me since. It is extraordinary. The reality is that this is my 65th year in the business, the 40th anniversary of the first-ever index fund [I launched] and my 60th wedding anniversary. And so I thought I would write to them, saying: 'How about inviting me to speak this year?' "

It is no wonder the American fund manager is unpopular among its competitors: it is taking so much business from them. Between January and September, nearly half of all the money invested passively has gone to Vanguard, which took $190bn into its tracker funds, according to the investment research firm Morningstar.*How did it begin?*Vanguard's extraordinary success has been many decades in the making. Its roots can be traced back to 1951, when Bogle wrote his graduate thesis about the fund management industry. It was entitled: "The economic role of the investment company."

He told me: "Mutual funds can make no claim to superiority over the market average. They couldn't beat the indices." He discovered that active fund managers who buy shares expecting them to go up and sell shares expecting them to go down actually perform no better than the general stock market. With this he laid the foundations for the tracker funds that are now so popular.

Bizarrely, despite his critical analysis, the thesis got him a job at one of America's biggest active fund management firms at the time, Wellington. Yet over two decades later, having become chief executive, he was fired for making a disastrous acquisition: "It was not a happy moment in my

life. I was devastated. But without it going wrong I wouldn't have started Vanguard."

Shortly afterwards, in 1975 — 24 years after writing it — he revisited his student thesis and set up Vanguard.

One of the main reasons for the company's success is that it has low fees based on low costs. "I wanted to be the low-cost provider in the business, and we are," Bogle said. "You can buy our American index funds, classic low-cost funds, at a charge of just 0.1%."

Bogle points out that the true costs of actively managed funds are hidden. "The average active fund turns over about 80% of its portfolio a year [buying and selling shares] and that adds another approximate 0.65% costs a year.

"And so I think active funds cost about 2% a year, and if the market returns 6% a year then savers only get 4%. If you compound that over many years, savers may well get around only 30% of the money they should have gotten in an index fund."

It is this harsh financial reality that has seen many investors — including me — put their long-term savings into Vanguard's tracker funds. They are cheap, meaning more of my savings are left in the pot, and cash isn't taken out for excessive charges and fees.

British investors can buy Vanguard's funds using any investment platform, such as TD Direct and Charles Stanley Direct — you cannot buy them directly from the company unless you have over £100,000 to invest.

This is set to change next year, however, when all investors can buy direct.

Bogle stepped down as chief executive in 1996 but still regularly comes into the office and says he gets "at least a letter a day from fund-holders to thank me".

He adds: "It's really nice, it's really gratifying. When I travel, there is always going to be someone who recognises me, no matter where. My wife puts up with it but she says: 'We want you in the family. We don't care about your reputation'."*The critics*There are two criticisms levelled at passive investing.

First, if you bought an index at the height, say, of the technology, media and telecoms boom in 1999/2000, you would have put a lot of your money into such shares just before they collapsed. Bogle responds: "We are not jumping on the bandwagon of hot stocks at all. We would have owned some of those technology stocks which went bust, but so would everyone else."

The second criticism is that in the past passive funds have almost always voted with the board and failed to hold executives to account. "That is fair," Bogle said. "But the industry is going through a metamorphosis from an absolute passive, do whatever the board recommends, approve the accounts and call it a day phase to a much more activist phase, at least considering things like executive compensation. It is gradually changing for the better, taking a much more active role in governance.

"There was the old Wall Street rule: if you don't like the management, sell the stock. But the attitude of the index fund now has to be if you don't like the management, fix the management,

because you can't sell the stock."*A child of the depression*To me, Bogle is like the boy in the Hans Christian Andersen fairy tale, The Emperor's New Clothes, the only one pointing out the realities of stock market investing when all others are willing to pretend — because there is money to be made from keeping quiet. So what makes him different?

He was born in 1929 into a wealthy family, but the stock market crash and Great Depression changed all that. "When I was born, we were rich, but within three to four years we had nothing. All our stocks fell 90%-95%.

"But that was probably the greatest break anybody could ever have, because we kids had to work from a young age. If you wanted something, you had to earn it. And I loved doing it: waitering, delivering newspapers, working in the post office. I loved meeting people." Maybe that is why he has always been on the side of the small private investor. "We are in the business of helping ordinary human beings," he said.*On the American election*With just two days to go to the election, what does Bogle think of the race for the White House? "US politics today is depressing and to some degree disgusting. All these personal invectives, the personal behaviour of more than one of the candidates is not good.

"For the last eight years we have had no action out of Congress at all, because it was Republican, dedicated to not allowing the president to do anything. That was the great mission and motif. And that's just tragic. We ought to be able to work together. I have been a Republican all my life, though I haven't always voted Republican. But this time, I am, with great reluctance, going to vote for Hillary Clinton.

"This is a great nation that has to be preserved, protected and defended, and that's part of the job. On the 4th of July [American independence day] my family and I read part of the Declaration of Independence and sing God Bless America."

And how would Bogle like to be remembered? When he wrote his first book about investment, in 1993, "Paul Samuelson, the great Nobel laureate economist at MIT, wrote the foreword. He wrote: 'John Bogle has changed a basic industry in the optimal direction: of very few can this be said.' "

Those words take some of the sting out of the industry's animosity towards him. Even so: come on, America's Investment Company Institute — invite Mr Bogle to speak. Like Dolly Parton at Glastonbury, he is an icon who deserves the stage.

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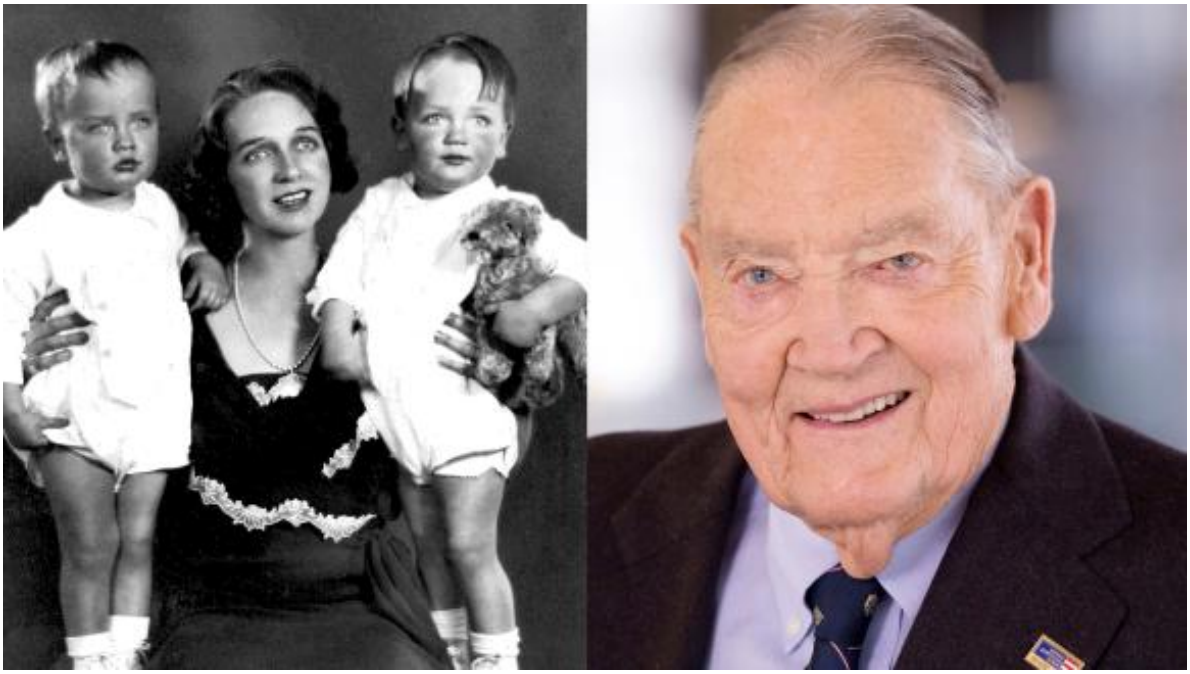
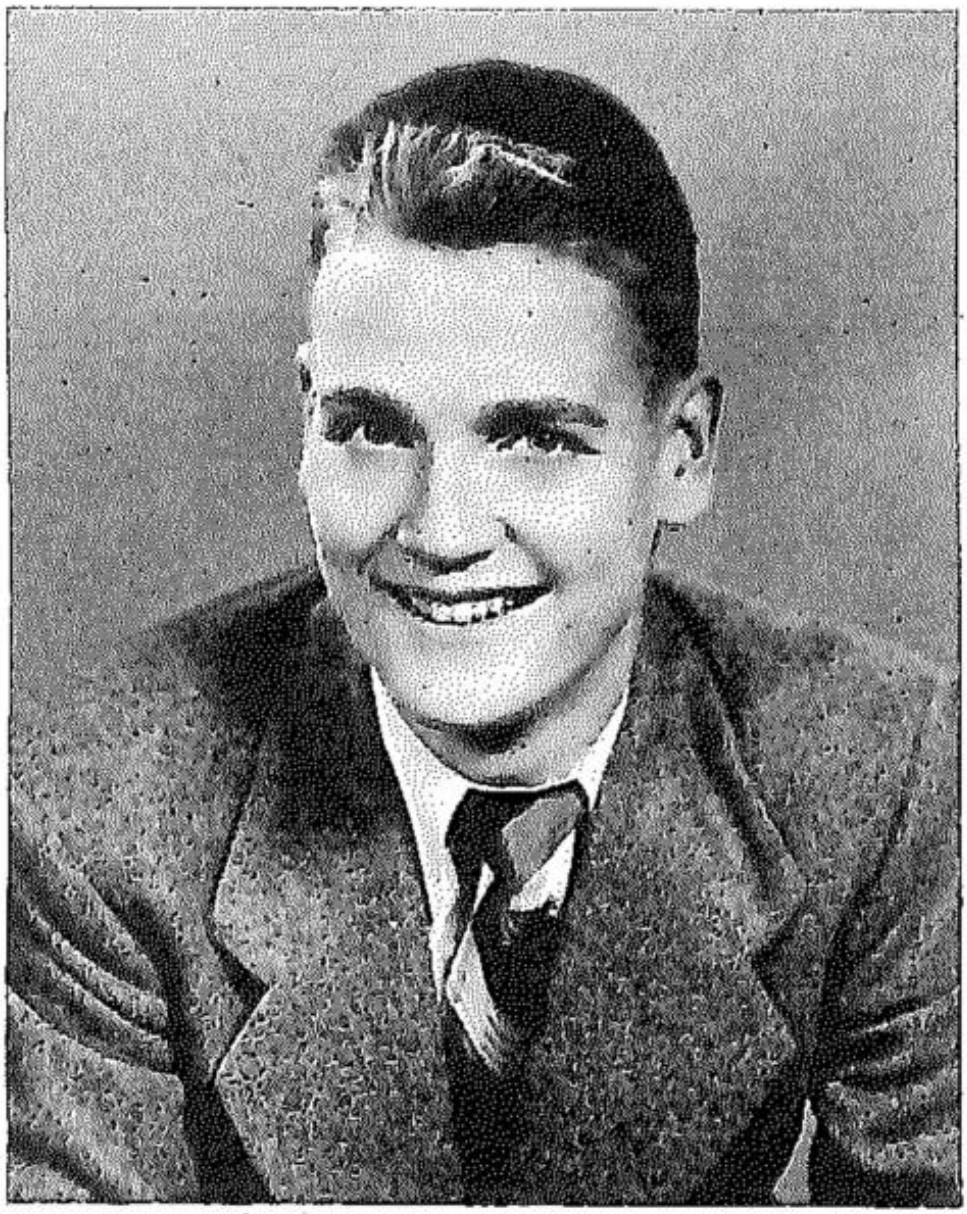


John Bogle, bear in hand, with his mother and twin brother in 1930, and today, aged 87



Most Likely to Succeed
JOHN C. BOGLE

John Bogle at school in 1945

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