Honoring the Hero Jack Bogle

Jack Bogle, founder of Vanguard, died in January at age 89 at his home in Bryn Mawr, PA. It's hard to think of any other person who had as massive an impact on investors, Wall Street, and the wealth management industry through his leadership, thirteen books, and educational efforts. **It was his unwavering conviction (backed by empirical data) that in the long run, most active investment managers can't perform better than broad market averages, and this became his rallying cry in bringing index funds to investors.**

Jack was the creator of the index fund, a low-cost vehicle for investors to achieve diversification by accessing hundreds (or thousands) of companies within one mutual fund. As he told the New York Times in 2012, "In investing, you get what you *don't* pay for. So intelligent investors will use low-cost index funds to build a diversified portfolio of stocks and bonds, and they will stay the course. And they won't be foolish enough to think that they can consistently outsmart the market."

Sorry, Warren, the statue has already been erected!

Billionaire investor Warren Buffett wrote in his 2017 annual letter that "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. In his early years, Jack was frequently mocked by the investment-management industry. Today, however, he has the satisfaction of knowing that he helped millions of investors realize far better returns on their savings than they otherwise would have earned. He is a hero to them and to me."

Jack Bogle attended Princeton University on scholarship (the market crash of 1929 having wiped out his family's fortune). His senior thesis tackled the mutual fund industry's potential to be an ideal champion of the small stockholder. Walter Morgan, a 1920 Princeton graduate and founder of the Wellington Fund, read the thesis and hired Jack Bogle largely on the merits of his writing and ideas. Thus began Bogle's storied career.

Bogle ultimately founded and led Vanguard, the world's largest mutual fund organization, with more than $5.1 trillion in assets under management today. He adopted for Vanguard a unique corporate structure of operating "at cost" in order to charge investors fees that are far lower than those of virtually all rivals. Vanguard's average expense ratio is 0.11%, while the industry average expense ratio is over five times greater, at 0.62%.

At Rockwood, we also hold dear the desire to preserve wealth for our clients, by minimizing fees and utilizing mutual funds to invest in thousands of companies in a diversified manner. Some Vanguard mutual funds (notably their short-term and municipal bond funds) are used as building blocks in our portfolios, though it is Jack's unrelenting push toward transparency and accountability that we embrace most firmly.

Common sense, Bogle's self-described philosophy on investing, was not always so common. Decrying the financial industry's glorification of one or another star mutual fund manager, Bogle was often in return mocked by the investment-management industry. Funnily enough, rarely were the same fund managers glorified for their prowess consistently. Their fame was often fleeting, as consistently timing investments to outperform the market has been shown time and time again to be unachievable by most.

A 2016 report from Bloomberg attempted to quantify Bogle's impact, calculating that Vanguard had saved its investors a total of $175 billion in fees that would have gone to Wall Street folks who provide nothing of value; it had saved investors an additional $140 billion in trading costs that add nothing of value; and it saved outside investors $200 billion by forcing competitors to lower their fees in order to compete with Vanguard.

Remembrances of Jack and his impact came swiftly and from all corners of the financial industry, with many remembering the man's integrity and humbleness:

- *Cliff Asness, Chief Investment Officer at AQR Capital:* "Very sad day. The world lost a giant and I lost my hero. Nobody has ever done more for investors, and asked less for himself, than Jack Bogle."
- *Arthur Levitt, former SEC Chairman:* "He stood for everything good in the business community. He was dedicated first and foremost to numbers that were clear, precise, and reliable. I know of no one in the business community who was his equal."
- *Mohamad El-Erian, Chief Economic Advisor at Allianz:* "He will be remembered not only for leaving a huge mark on the investment management industry that will continue to benefit many investors for a long time, but also for his admirable graciousness, impressive wit, strong communication skills, and consistent thoughtfulness."
- *Charles Schwab, founder of Charles Schwab Corp:* "Jack was a pioneer who brought the wisdom of low-cost, long-term investing to millions of people since founding Vanguard and extolling the power of index investing. Like all pioneers, he pushed into new territories, and we're all better off because of it."
- *Abby Johnson, Chief Executive Officer at Fidelity Investments:* "Jack Bogle was an icon in the mutual fund industry; he more or less single-handedly popularized index funds. Jack was always a tough competitor of ours and kept us on our toes, and for that I am grateful. All of us at Fidelity extend our condolences to his family."

Jack Bogle is survived by his wife, Eve, their six children, and numerous grandchildren. His legacy is also felt by everyone with access to inexpensive index funds, whether through their 401(k) plans or for personal investments. Despite the heft of Bogle's contributions to the industry, his values and generosity are equally notable. He regularly gave half of his salary to charity. He shared in 2012, "My only regret about money is that I don't have more of it to give away."

Here's the Prescription

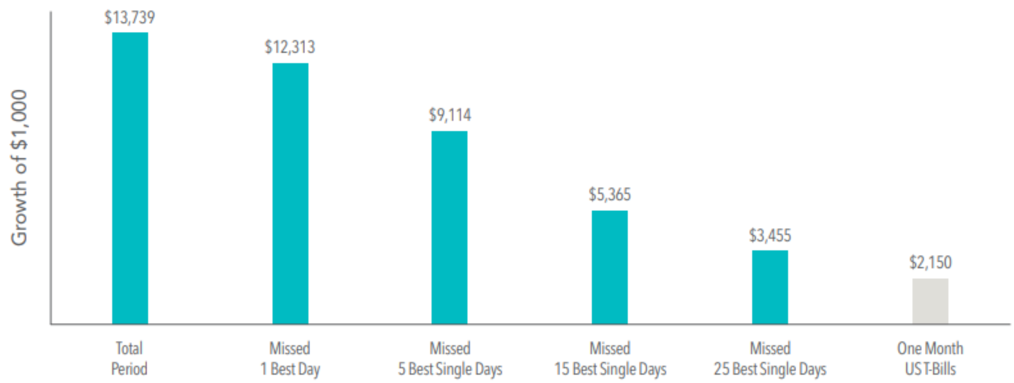
As much as we value the unfettered access to information the internet provides, **we recognize the potential harm that too much information can cause**. Take, for example, a friend of mine, who was experiencing some troubling medical symptoms. Typing her symptoms into a search engine led to an evening of research and mounting consternation. By the end of the night, the vast quantity of unfiltered information led her to conclude that something was seriously wrong.

One of the key characteristics that distinguishes experts is their ability to filter information and make increasingly refined distinctions about the situation at hand. For example, you might describe your troubling symptoms to a doctor simply as a pain in the chest, but a trained physician will be able to ask questions and test several hypotheses before reaching the conclusion that rather than the cardiac arrest you suspected, you are experiencing something completely different. While many of us may have the capacity to elevate our understanding to a high level within a chosen field, reaching this point takes time, dedication, and experience.

My friend, having convinced herself that something was seriously wrong, booked an appointment with a physician. The doctor asked several pertinent questions, performed some straightforward tests, and recommended the following treatment plan: **reassurance and education**. Not surgery. Not drugs. But an understanding of why and how she had experienced her condition. The consultative nature of a relationship with a trusted professional—both when a situation arises and as we progress through life—is one of the key benefits that an expert can provide.

Exhibit 1: Reacting Can Hurt Performance

Performance of US Large Company Index, 1990-2017



	Total Period	Missed 1 Best Day	Missed 5 Best Single Days	Missed 15 Best Single Days	Missed 25 Best Single Days	One Month US T-Bills
Annualized Compound Return	9.81%	9.38%	8.21%	6.18%	4.53%	2.77%

In US dollars. For illustrative purposes. The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s), and reinvested the entire portfolio in the S&P 500 at the end of the missed best day(s). Annualized returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero.

S&P data © 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. "One-Month US T-Bills" is the IA SBBI US 30 Day TBill TR USD, provided by Ibbotson Associates via Morningstar Direct. Data is calculated off rounded daily index values. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

There are striking parallels with the work of a professional financial advisor. The first responsibility of the doctor or advisor is to understand the person they're serving so that they can fully assess their situation. Once the plan is underway, the role of the professional is to monitor the person's situation, evaluate whether the course of action remains appropriate, and help maintain the discipline required for the plan to work as intended.

Like my friend's doctor, advisors may have experienced conversations with clients that are triggered by news reports or informed by unqualified sources. In some cases, all that is required to help put the client's mind at ease is a reminder to focus on what is within their control as well as reassurance and (re)education that they have a financial plan in place that is helping them move toward their objectives. The benefits of working with the right advisor are demonstrated through the ability to both help clients pursue their financial goals and help them have a positive experience along the way.

Trouble might arise when we confuse simple and complex conditions. Probably no harm is done when a person, recognizing the onset of a common cold, takes cold medicine, drinks plenty of fluids, and rests. But had my self-diagnosing friend not made an appointment with a specialist, and instead moved from self-diagnosis to self-medication, she may have caused herself real harm. Similarly, thinking that all aspects of your own financial situation can be handled through a basic internet search or casual conversation with a friend might result in a less-than-optimal financial outcome.

Without the guidance of an advisor, self-medicating investors might overreact to short-term market volatility by selling some of their investments. In doing so, they risk missing out on some of the best days, since there is no reliable way to predict when positive returns in equity markets will occur. One might think that missing a few days of strong returns would not make much difference over the long term. But as illustrated in *Exhibit 1* above, had an investor missed the 25 single best days in the world's biggest equity market, the US, between 1990 and the end of 2017, their annualized return would have dropped from 9.81% to 4.53%. Such an outcome can have a major impact on an investor's financial "treatment" plan.

Improving financial health is a lot like improving physical health. The challenges associated with pursuing a better financial outcome include diagnosis of the current situation, development of the appropriate course of action, and sticking with the treatment plan. Many advisors are trained on the intricacies of complex financial situations and work to understand how their clients feel about money and how their clients might react to future events. By providing the prescription of reassurance and education over time, we at Rockwood believe we can play a vital role in clients' lives.

Rockwood Wealth Management
www.RockwoodWealth.com
(267) 983-6400

John R. Augenblick, MBA, CFP®, President
Brian D. Booth, CFP®, Partner
Kenny B. Bauer, EA, CFP®
Maureen C. Gribb
Scott H. Kelley, MBA
Megan J. Lottier, CPA, MST
Dina Megretskaia, EA, CFP®
Rob T. Stephenson, AIF®
Mark T. Kelly, CPA, CAIA, MST, Partner
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Courtney L. Durham
John T. Hagan
Janelle E. Lear
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Craig E. Morgenstern, CFA
Patti A. Vidakovic