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Words From the Wise: Jack Bogle on Building a Better Investment Industry

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John C. Bogle, founder of The Vanguard Group and author numerous books on investing, recently sat down with Antti Ilmanen and Rodney N. Sullivan of AQR to discuss contemporary challenges facing investors. This is the third in a series of [“Words From the Wise”](#) interviews to be published on AQR.com.

Jack Bogle, a giant among business giants, discusses in detail his *raison d'être*: building a better investment industry in support of investment success for individuals and societies — a mission he plunges into with enthusiasm and vigor like no other has before or perhaps ever will again. We begin by discussing the mutual fund industry as it was in 1951, when Jack entered the business, and now. We see how the industry has grown with dramatic changes in leadership. We also learn how Jack revolutionized the fund business with the first index mutual fund but also how he launched some active management funds which have demonstrated long-term success; today Vanguard is seeing inflows for both passive and active management. Jack also makes clear a longing for the days when investors' interests were foremost to the mutual fund industry. In his view, it was a time when investment management was at first a profession with elements of a business, rather than a business first with elements of a profession, as exists today. Also, we learn about his criteria for any asset management firm to successfully serve both clients and business needs.

We then discuss Jack's thoughts on portfolio theory and the benefits of diversifying investments globally as well as across alternative asset classes and strategies. Here, he argues for simplicity and prefers a “plain vanilla” 60/40 U.S. equity/fixed income, balanced index portfolio as appropriate for most investors, including his own 12 grandchildren.

The conversation then turns to expected-returns modeling. Though he strongly advocates sticking to a 60/40 index approach, Jack has shown amazing prescience over many years in producing rather accurate long-term return forecasts for stocks and bonds. We delve into his expected return model and get his prognostications on returns for the decade ahead (hint: not stellar).

As we have discussed in prior “Words From the Wise” articles, there are daunting challenges facing the community of defined-benefit (DB) and defined-contribution (DC) plans. It is well known that Jack favors market solutions, but among his policy recommendations is to establish a federal retirement board to create rules and guidelines to help individual investors succeed by encouraging intelligent investing while discouraging errors.

We conclude with a story on the “mistake” that ultimately led to the founding of Vanguard, and hearing from Jack about his heroes and role models.