

MEL LINDAUER | TAYLOR LARIMORE | MICHAEL LeBOEUF

Foreword by John C. Bogle

The **Bogleheads'** *Guide to* **INVESTING**

SECOND EDITION



WILEY

Table of Contents

[Cover](#)

[Acknowledgments](#)

[Foreword](#)

[BOGLE AND THE BOGLEHEADS](#)

[THE BOGLEHEADS MESSAGE](#)

[THE BOGLEHEADS AND BENJAMIN FRANKLIN](#)

[WHAT'S A BOGLE TO THINK ABOUT THE
BOGLEHEADS?](#)

[Introduction](#)

[MEET OUR LEADER](#)

[MEET THE BOGLEHEADS](#)

[ABOUT THE BOGLEHEADS' GUIDE](#)

[Part I: Essentials of Successful Investing](#)

[Chapter One: Choose a Sound Financial Lifestyle](#)

[WHAT'S YOUR FINANCIAL LIFESTYLE?](#)

[TAKE THESE STEPS BEFORE YOU START
INVESTING](#)

[Chapter Two: Start Early and Invest Regularly](#)

[THE MAGIC IS IN THE COMPOUNDING](#)

[THIS ABOVE ALL: SAVING IS THE KEY TO
WEALTH](#)

[FINDING THE MONEY TO INVEST](#)

[SUMMARY: THE MOST IMPORTANT THINGS](#)

[Chapter Three: Know What You're Buying: Part One](#)

[STOCKS](#)

[BONDS](#)

Chapter Four: Know What You're Buying: Part Two

MUTUAL FUNDS

MUTUAL FUND MANAGEMENT STYLES

ANNUITIES

EXCHANGE-TRADED FUNDS

WHAT WE'VE LEARNED

Chapter Five: Preserve Your Buying Power with
Inflation-Protected Bonds

I BONDS

TIPS

SUMMARY: I BOND VERSUS TIPS

Chapter Six: How Much Do You Need to Save?

PUTTING WHAT WE'VE LEARNED TO WORK

Chapter Seven: Keep It Simple

HOW INVESTING IS DIFFERENT FROM MOST
OF LIFE

INDEX INVESTING: IT PAYS TO BE LAZY

WHY INDEXING IS SO EFFECTIVE

HOW TO BUY INDEX FUNDS

BOGLEHEADS AND ACTIVELY MANAGED
FUNDS

Chapter Eight: Asset Allocation

THE EFFICIENT MARKET THEORY (EMT).

MODERN PORTFOLIO THEORY

DESIGNING OUR PERSONAL ASSET
ALLOCATION PLAN

PORTFOLIO GUIDELINES

Chapter Nine: Costs Matter

FEES COVERED BY THE PROSPECTUS

FEES NOT COVERED BY THE PROSPECTUS
ADDING IT ALL TOGETHER
TAKING ADVANTAGE OF LOWER COSTS
LOW COST AS A PREDICTOR
CONCLUSION

Chapter Ten: Taxes: Part One

THE DEVASTATING IMPACT OF TAXES
HOW MUTUAL FUNDS ARE TAXED
TURNOVER AND TAXES
INVESTING IN TAXABLE ACCOUNTS
BONDS IN YOUR TAXABLE ACCOUNT

Chapter Eleven: Taxes: Part Two

USE TAX-SHELTERED ACCOUNTS
PLACING FUNDS FOR MAXIMUM AFTER-TAX
RETURN
TAX-SAVVY IDEAS

Chapter Twelve: Diversification

Chapter Thirteen: Performance Chasing and Market
Timing Are Hazardous to Your Wealth

PAST PERFORMANCE DOES NOT PREDICT
FUTURE PERFORMANCE
MARKET TIMING
FINANCIAL NEWSLETTERS
FINANCIAL SHOWS ON TV
WALL \$TREET WEEK
FINANCIAL MAGAZINES
THE BOGLEHEADS CONTEST
PREDICTING INTEREST RATES
STAY THE COURSE

Chapter Fourteen: Savvy Ways to Invest for College

METHODS OF SAVING FOR COLLEGE

SUMMARY OF COLLEGE SAVINGS PLANS

Chapter Fifteen: How to Manage a Windfall
Successfully

WINDFALLS ARE ABOUT A WHOLE LOT MORE
THAN MONEY

Chapter Sixteen: I helped put two children through
Harvard—my broker's children.

THE ALPHABET SOUP OF FINANCIAL
DESIGNATIONS

Part II: Follow-Through Strategies to Keep You on Target

Chapter Seventeen: Track Your Progress and
Rebalance When Necessary

PRINCIPLES OF REBALANCING

ASSESSING A PORTFOLIO

WHEN SHOULD I REBALANCE?

MARKET FORCES

HOW TO REBALANCE

OTHER REBALANCING CONSIDERATIONS

Chapter Eighteen: Tune Out the “Noise”

THE GREAT WALL STREET MARKETING
MACHINE

WHAT THE INVESTMENT MEDIA DON'T WANT
YOU TO KNOW

THE THREE BIGGEST LIES—WALL STREET
VERSION

SEPARATING SOOTHSAYERS FROM THE TRUTH
SAYERS

Chapter Nineteen: Mastering Your Investments
Means Mastering Your Emotions

WELCOME TO THE FIELD OF BEHAVIORAL
ECONOMICS

GREED AND FEAR

HOW SMART PEOPLE MAKE BAD INVESTMENT
DECISIONS

KEEPING EMOTIONS IN CHECK

HOW TO ESCAPE THE EMOTIONAL TRAPS

Chapter Twenty: Making Your Money Last Longer
Than You Do

THE RETIREE'S SPENDING DILEMMA

THE TWO BEST WAYS TO INSURE INCOME FOR
LIFE

THREE MORE WAYS TO ENSURE INCOME FOR
LIFE

A PRUDENT PLAN FOR TAPPING YOUR
PORTFOLIO

Chapter Twenty-One: Protect Your Assets by Being
Well-Insured

COMMON INSURANCE MISTAKES

THREE KEY RULES FOR BEING PROPERLY
INSURED

LIFE INSURANCE

HEALTH CARE

LONG-TERM DISABILITY COVERAGE

PROTECTING YOUR PROPERTY

LONG-TERM CARE

LOCATING GOOD INSURANCE COMPANIES AND
AGENTS

[Chapter Twenty-Two: Passing It On When You Pass On](#)

[DOCUMENTS WE'LL NEED](#)

[OTHER CONSIDERATIONS](#)

[GIFTING](#)

[LETTER OF INSTRUCTION](#)

[DISCLAIMER](#)

[Chapter Twenty-Three: You Can Do It](#)

[WHAT WE'VE LEARNED](#)

[HELP FROM THE BOGLEHEADS](#)

[IN CLOSING](#)

[Appendices](#)

[Appendix I: Glossary of Financial Terms](#)

[Appendix II: Books We Recommend](#)

[BOOKS FOR NOVICE INVESTORS](#)

[BOOKS FOR INTERMEDIATE INVESTORS](#)

[BOOKS FOR THOSE WHO WANT TO LEARN MORE](#)

[Appendix III: Financial Websites We Recommend](#)

[Appendix IV: Vanguard Asset Allocation
Questionnaire and Pie Charts](#)

[About the Authors](#)

[Index](#)

[End User License Agreement](#)

List of Table

Chapter Three

[Table 3.1 Owning Individual Bonds](#)

[Table 3.2 Owning Bond Mutual Funds](#)

Chapter Five

[Table 5.1 Effects of Inflation over Various Time Periods](#)

[Table 5.2 Real After-Tax Return of \\$1,000 1% I Bond and \\$1,000 1.5% I Bond with ...](#)

[Table 5.3 Real After-Tax Return of \\$1,000 1% I Bond and \\$1,000 1.5% I Bond with ...](#)

[Table 5.4 Real After-Tax Return of \\$1,000 1.8% I Bond and \\$1,000 2.0% I Bond wit...](#)

[Table 5.5 I Bond Fixed-Rate History](#)

[Table 5.6 \\$1,000 1% Bond versus \\$1,000 1.5% 10-Year TIPS](#)

[Table 5.7 \\$1,000 1% I Bond versus \\$1,000 1.75% 20-Year TIPS](#)

Chapter Six

[Table 6.1 Estimated Returns](#)

[Table 6.2 Five Years to Retirement](#)

[Table 6.3 Ten Years to Retirement](#)

[Table 6.4 Fifteen Years to Retirement](#)

[Table 6.5 Twenty Years to Retirement](#)

[Table 6.6 Twenty-Five Years to Retirement](#)

[Table 6.7 Thirty Years to Retirement](#)

Chapter Eight

[Table 8.1 Annualized Returns of Large Domestic Stocks for Different Time Periods...](#)

[Table 8.2 Worst Annual Loss Based on Stock/Bond Allocation \(1926-2012\).](#)

[Table 8.3 Vanguard Total Stock Market Index Fund Breakdown \(February 2014\)](#)

[Table 8.4 Comparison of Domestic Index versus International Index Returns](#)

[Table 8.5 Comparison of Annual Returns for VBMFX and VIPSX](#)

Chapter Ten

[Table 10.1 Relative Tax Efficiency Ranking for Major Asset Classes](#)

Chapter Eleven

[Table 11.1 Comparison of Traditional and Roth IRAs](#)

[Table 11.2 Results of Fund Placement with Stocks in Taxable Account](#)

[Table 11.3 Results of Fund Placement with Bonds in Taxable Account](#)

Chapter Twelve

[Table 12.1 Correlation to Dow Jones U.S. Total Stock Market Index \(as of 11/30/2...](#)

[Table 12.2 Sample of a Five-Year *R*-squared Fund Table](#)

Chapter Thirteen

[Table 13.1 Best and Worst Asset Classes, 1994-2004](#)

[Table 13.2 Investing Based on *The Granville Market Letter*](#)

[Table 13.3 Wall Street Experts' 2002 Predictions](#)

[Table 13.4 Buy-and-Hold Investing versus Active Trading](#)

Chapter Fourteen

[Table 14.1 Expected Lifetime Earnings per Education Level](#)

Chapter Sixteen

[Table 16.1 Professional Designations and Their Acronyms](#)

Chapter Seventeen

[Table 17.1 Effect of Market Forces on Returns: Stocks Up](#)

[Table 17.2 Effect of Market Forces on Returns: Stocks Down](#)

[Table 17.3 Changes Needed to Rebalance Portfolio](#)

Chapter Twenty-One

[Table 21.1 Computing How Much Life Insurance You Need](#)

List of Illustrations

Chapter Five

[Figure 5.1 T-Bill Returns](#)

Chapter Six

[Figure 6.1 Online Calculator for Required Savings for Retirement](#)

ADDITIONAL PRAISE FOR *THE BOGLEHEADS' GUIDE TO INVESTING*

"This book is written with great charm, wit, and humility by a troika of retired, self-educated investors who themselves have become experts in financial planning and investing. Here they share what they have learned at the school of hard knocks. It is to trust the wisdom of their chosen mentor, John Bogle, who advocates investing in low cost, tax efficient mutual funds and using common sense in all financial decisions. Furthermore, the authors have mastered the complexities of their subject to the point where they can explain financial concepts simply and clearly. Readers and clients often ask me to recommend a book on financial planning investing. I will recommend this one."

—*Kay H. Kamin, president of Sutton Place Financial Inc. and financial columnist for Today's Chicago Woman*

"The Bogleheads' Guide offers up the distilled wisdom from thousands of posts on the web's most distinguished investment board. The authors mix a heady brew of down-home common sense and advanced financial economics, while providing a clear, concise, and easily followed action plan that is highly effective, low cost, low risk, and low maintenance. Read and profit!"

—*Frank Armstrong, III, CFP, president, Investor Solutions, Inc.*

"From beginning investors to those in retirement, *The Bogleheads' Guide to Investing* is packed with simple and sophisticated investment advice, offering an abundance of resources for a winning investment strategy. It is written with wit, clarity, and wisdom, and is sure to become a treasured resource for long-term investors."

—*Bill Schultheis, author, The Coffeehouse Investor*

The Bogleheads'

Guide to Investing

Second Edition

Mel Lindauer

Taylor Larimore

Michael LeBoeuf

Foreword by John C. Bogle

WILEY

Cover image: © iStock.com/ImpaKPro

Cover design: Wiley

Copyright © 2014 by Taylor Larimore, Mel Lindauer, and Michael LeBoeuf.

All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

The First Edition was published by John Wiley & Sons, Inc. in 2006. It was then published as a paperback edition in 2007.

Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600, or on the Web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at www.wiley.com/go/permissions.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit www.wiley.com.

Library of Congress Cataloging-in-Publication Data:

ISBN 978-1-118-92128-9 (Hardcover)

ISBN 978-1-118-92235-4 (ePDF)

ISBN 978-1-118-92236-1 (ePub)

To John C. Bogle, founder of The Vanguard Group

A man whom we knew from afar for many years but have since come to know and cherish as a friend. While some mutual fund founders chose to make billions, he chose to make a difference.

Acknowledgments

Anyone who writes a book knows that many more people than the authors are responsible for turning an idea into the finished product. In bringing this particular book to fruition, we wish to acknowledge and give special thanks to the following people:

Bill Falloon, our editor at John Wiley & Sons, who proposed the idea of a Bogleheads' book to Taylor and wouldn't take no for an answer.

Alexis Hurley, for being an excellent and supportive agent.

Rick Ferri, for the countless hours and invaluable assistance he provided critiquing the chapters and checking figures to make this a better, more accurate book. He is a quality person and a true friend.

Boglehead Bob Beeman, for his original work on the after-tax, real returns of I Bonds.

Excel wizard Alec Stanley, for his work in expanding on Bob Beeman's original work and for providing other valuable spreadsheet assistance to us whenever we asked for it (and that was often).

Morningstar for creating the Vanguard Diehards Forum, and Alex Frakt and Larry Auton for creating the bogleheads.org website. Also, special thanks to Ralph Arveson for our Bogleheads contest and Bogleheads Local Chapter websites.

All those who showed so much enthusiasm for the book and offered encouragement, which made all of our hard work seem worthwhile. (You know who you are.)

Last, and certainly not least, we want to thank our wives, Pat Larimore (deceased), Marlene Lindauer, and Elke LeBoeuf for their patience and understanding during the long hours we spent working on our computers preparing this labor of love.

Foreword

Nothing is more deserving of your attention than the intellectual and moral associations of Americans. Americans of all ages, all conditions, and all dispositions constantly form associations [of a] thousand kinds . . . religious, moral, serious, futile, general or restricted, enormous or diminutive. I have often admired the extreme skill with which the inhabitants of the United States succeed in proposing a common object for the exertions of a great many men and inducing them voluntarily to pursue it.

As soon as several of the inhabitants of the United States have taken up an opinion or a feeling which they wish to promote, they look out for mutual assistance, and as soon as they have found one another out, they combine. From that moment they are no longer isolated men, but a power seen from afar, whose actions serve for an example and whose language is listened to.

Only by the reciprocal influence of men upon one another are feelings and opinions recruited, is the heart enlarged, and is the human mind developed. . . . This can only be accomplished by associations. What political power could ever carry on the vast multitude of lesser undertakings which the American citizens perform every day, with the assistance of the principle of association?

—Alexis de Tocqueville
Democracy in America, 1840

The Bogleheads of the Internet, it seems to me, are the paradigm of the American association described with such perceptive power by Alexis de Tocqueville in his seminal work. This association of intelligent, integrity-laden, and

like-minded investors has provided not only a sound *intellectual* rationale for the successful accumulation of wealth but, just as de Tocqueville suggested, a sound *moral* rationale as well. No wonder *Democracy in America*—from a Frenchman who visited America for just nine months when he was but 25 years old!—has stood the test as the defining text of the American way for nearly 170 years.

During its decade-plus of existence, the Bogleheads have moved from a loose association of dedicated investors to a formal website, Bogleheads.org. (The Bogleheads previously gathered online at the Vanguard Diehards message board on Morningstar.com.) The Bogleheads website now attracts an incredible 50,000 visits and as many as 1,500 individual posts each day. *The Bogleheads' Guide to Investing* marks a major milestone for this extraordinary association.

Two especially notable characteristics mark the Boglehead culture. One is *rationality*. These individual investors are awash in common sense, intolerant of illogic, and permeated with a preference for facts over hyperbole. Today's popular investment misconceptions—short-term focus and fast-paced trading, the conviction that exceptional past fund performance will recur, the ignorance of the importance of fund operating expenses, sales commissions, hidden portfolio turnover costs, and state and federal taxes—are anathema to them. Bogleheads have come to accept as the core of successful investing what I have called “the majesty of simplicity in an empire of parsimony.”

The second characteristic is, of all things, caring. Bogleheads care about one another. They are eager to help all investors—regular visitors to the website and new ones, informed and naïve, experienced and novice alike—who have questions on almost any investment subject, and

willing to discuss the investment issues of the day, sometimes even the national and global issues, with no holds barred (except for rudeness or coarseness). Fund selection, fund performance, types of investments, retirement planning, savings programs, tax management—none are beyond the scope of this remarkable association of investors who, without compensation or bias, strive to help their fellow investors. If there is a website that bespeaks the Golden Rule, surely the Boglehead site is its paradigm.

BOGLE AND THE BOGLEHEADS

The Bogleheads had been associating for at least three years before they came to my attention. I had heard them discussed by Vanguard's public relations staff, and early on got the idea that they were not only firm advocates of my approach to investing—expressed in the investment strategies and human values that represented Vanguard's rock foundation when I created this upstart firm in 1974—but were also a pretty special group of people.

However, it was not until February 3, 1999, that I met my first Boglehead. The occasion was “The Money Show” in Orlando, Florida, where I gave a contentious speech about investment principles (“The Clash of the Cultures in Investing: Complexity vs. Simplicity”) that at once seemed to confound the hosts who invited me to address the show, to infuriate the sponsor firms (all offering their own routes to easy riches), and to amaze and delight the audience of several thousand individual investors.

Shortly before my talk, Taylor Larimore (there with his wife Pat) introduced himself to me. Taylor, then and now considered the unofficial leader of the Bogleheads, proved to be as fine a human being as I've ever met—warm, thoughtful, intelligent, investment-savvy, and eager to help

others. A combat veteran of World War II and an exceptional sailor are only a few aspects of Taylor's background. I mention them because the first demands courage and discipline; the second, careful planning and staying the course one has set, all the while adjusting to the winds and tides. These traits, as it happens, are the principal traits of the successful investor.

In March 2000, when I spoke again in Florida, Taylor invited me to meet with the Bogleheads at his Miami condominium located at virtually the same location where Taylor was born—he honors me by calling it “the house that Jack built”—and I enthusiastically agreed. When I came down into the hotel lobby, there to meet me was Mel Lindauer, unofficial associate leader of the group, next to a sign that read “Bogleheads Meet Here.”¹ We all went to Taylor's lovely home, and Pat's hospitality at dinner made what came to be known as Diehards I an evening of extraordinary warmth, energy, and delightful conversation, and some 20 investors who had never met one another before quickly became friends.

The following year, at Diehards II, the group met in Valley Forge, Pennsylvania. The festivities began on June 8, 2001, with a dinner addressed by *Money* journalist Jason Zweig, now with 40 Bogleheads in attendance. He would later write an article extolling the group: “By singing in harmony from the same page of the same investing hymnal, the Diehards drown out market noise.” The next day included an extended visit to Vanguard's head office in Valley Forge, where I acted as host, tour guide, and keynote speaker. The questions and answer session that followed was broad-ranging, and ended with the Reverend Bob Stowe, a Massachusetts Boglehead, presenting me, on behalf of the association, with a handsome regimental bugle of World War II vintage, symbolizing my “clarion call to build an industry that protects and serves the average investor.” (I

couldn't help but respond with this quotation from St. Paul: "If the trumpet shall give an uncertain sound, who shall prepare himself to the battle?")

Diehards III, kindly hosted by website provider Morningstar, took place in Chicago on June 26, 2002, as some 50 Bogleheads from all over the country participated in the firm's annual investment conference, taking in my speech ("The Tell-Tale Chart"), and having an active series of gatherings. In Chicago, this association of good human beings who happen to be intelligent investors and who seek to spread the gospel grew ever more familiar and friendly.

The next gathering (Diehards IV) took place on May 10, 2004, when some 60 Bogleheads gathered in Denver, Colorado, guests of the annual conference of the Association for Investment Management and Research, the professional organization that represents securities analysts and money managers. (AIMR has now taken the name The CFA Institute, with the acronym standing for Chartered Financial Analyst.) The Bogleheads were given seats in a special section for my speech ("Creating Sound Governance: The Shareholder's Perspective"), which was followed by an extensive question and answer session. The final question put to me by the moderator was "What is a Boglehead?" What a treat it was to have the opportunity to tell the 1,000-person audience of investment professionals about the wonderful people who constitute this dedicated association of individual investors and the sound investment strategies that they both employ and propagate.

The annual Bogleheads gatherings have continued to attract passionate investors to reconnect with friends old and new, to hear speeches from investment professionals, and, of course, to meet with their namesake. The conferences have been held all over the country—in Las Vegas, Washington, DC, San Diego, and Dallas/Ft. Worth. In

recent years, the Bogleheads have held their annual conference in Valley Forge, Pennsylvania, where Vanguard's headquarters is located.

THE BOGLEHEADS MESSAGE

The Bogleheads' Guide to Investing is a wonderful, witty, and wise book. As an investor for my entire adult lifetime, I found most rewarding the sage understanding of Messrs. Larimore, Lindauer, and LeBoeuf that the practice of investing is, as they put it, "so different from most of life." Why? Largely because our financial markets are essentially closed systems in which an advantage garnered by a given investor comes at the disadvantage of the other investors in the same market. The authors recognize this eternal truth: As a group, we investors are inevitably average, so beating the market is a zero-sum game. (After our investment costs are deducted, of course, it becomes a loser's game.) Importantly, they note that relying on the typical common sense approaches that apply to most of life's challenges is "destined to leave you poorer." For example, they warn against following life principles like these:

- If you don't know how to do something . . . hire an expert.
- You get what you pay for.
- If there's a crisis, take action!
- The best predictor of future performance is past performance.

In short, the principles that work in most aspects of our daily lives simply lead to failure in investing. Understanding that contrarian wisdom is the first step toward investment success.

But if that warning is both precisely accurate and grandly counterintuitive, the basic thrust of *The Bogleheads' Guide to Investing* is both precisely accurate and grandly intuitive. "Choose a sound financial lifestyle. Start early and invest regularly. Know what you're buying. Preserve your buying power. Keep costs and taxes low. Diversify your stock portfolio [and diversify your stock risk with a bond portfolio]." Investors who follow these simple tenets will earn their fair share of whatever returns the financial markets are kind enough to deliver in the years ahead.

THE BOGLEHEADS AND BENJAMIN FRANKLIN

When I completed my perusal of *The Bogleheads' Guide to Investing*, I had a certain sense of déjà vu. For I suddenly realized that I'd only recently seen a similar collection of sound, simple, and successful ways to save and invest that were written 250 years earlier, suggesting that these precepts may be not only effective, but eternal. They were expressed, as it happens, by Benjamin Franklin in 1757, in his widely circulated pamphlet *The Way to Wealth* (also entitled *The Art of Making Money Plenty, or Father Abraham Speaks*), republished in 2002 by the American Philosophical Society:

- If you would be wealthy, think of Saving as well as Getting.
- He that lives upon Hope will die fasting.
- There are no Gains, without Pains.
- He that hath a Trade hath an Estate.
- Taxes are indeed very heavy (but) we are taxed twice as much by our Idleness, three times as much by our Pride,

and four times as much by our Folly.

- Beware of little Expences; a small Leak will sink a great Ship.
- Learning is to the Studious, and Riches to the Careful.
- If you would have a faithful Servant, serve yourself.
- Always taking out of the Meal-tub, and never putting in, soon comes to the bottom.
- Great Estates may venture more, but little Boats should keep near shore.
- For Age and Want, save while you may; no Morning Sun lasts a whole Day.

In all, Franklin's legacy matches the legacy of the Bogleheads, "a doctrine, my friends, of Reason and Wisdom . . . and Frugality and Prudence, though excellent Things. Ask God's blessing humbly and be not uncharitable to those who seem to want it, but comfort and help them . . . What is the noblest question in the world? 'What good may I do in it?'" Again using the words Franklin chose, the members of this investment association have "dedicated themselves to assuming the obligations of virtue and of serving others."

WHAT'S A BOGLE TO THINK ABOUT THE BOGLEHEADS?

Put yourself, for a moment, dear readers, in my position. How would *you* feel if an association of American citizens named themselves "(insert your last name here) -heads"? It would all depend—wouldn't it?—on their character, their values, and the extent to which their intellectual and moral principles coincided with your own. Here, the Bogleheads gain high scores, espousing the investment strategies and human values to which I've dedicated my entire career.

More than that, just as Alexis de Tocqueville suggested, they have “taken up an opinion . . . they wish to promote, they look for mutual assistance, and as soon as they have found one another out they combine . . . influencing one another with opinions recruited, the heart enlarged, the human mind developed.”

So, of course I’m honored and of course I’m pleased, not only with the endorsement and friendship of this stellar group of followers who have named themselves after me and adopted my principles. The final objective of my career—in investing, in management, in entrepreneurship, and in public service—is to depart this world with my reputation intact. (But not too soon!) And so I confess that, yes, I’m filled with pride at how my life’s mission has found burgeoning acceptance, not only among the Bogleheads but among millions of honest-to-God, down-to-earth human beings who deserve a fair shake in their efforts to achieve financial security for their families.

Pride, of course, is hardly an unmixed blessing, and I realize that it is a trait of character to be handled with care. Here is how Benjamin Franklin wisely expressed it:

In reality, there is, perhaps, no one of our natural passions so hard to subdue as pride. Disguise it, struggle with it, beat it down, stifle it, mortify it as much as one pleases, it is still alive, and will every now and then peep out and show itself; you will see it perhaps often in my history; for even if I could conceive that I had completely overcome it, I should probably be proud of my humility.

If, in the history I have recounted today, I have allowed my own pride to peep out and show itself, I assure you that it is with great humility that I accept the honor that this association of Bogleheads has paid to this particular Bogle by their choice of name, by their enthusiastic endorsement of my principles and values, and by their dedication in this

wonderful book. Take heed of its guidance, and you will enjoy investment success.

John C. Bogle
Valley Forge, Pennsylvania
June 2014

¹It is no coincidence that Taylor and Mel, among the most active participants on the website, teamed up to write this book. They were joined by Michael LeBoeuf, whom I have also come to know, another major contributor to the Boglehead website, and an author in his own right.

Introduction

Do not value money for any more nor any less than its worth; it is a good servant but a bad master.

—Alexander Dumas fils, *Camille*, 1852

Contrary to what you may believe, a Boglehead is not one of those funny little dolls you occasionally see bouncing in the back window of a car in front of you. That's a bobblehead.

Bogleheads are an entirely different animal. While less visible than bobbleheads, our legions number in the millions. We are investors who follow the philosophy and strategy of investing advocated by John C. "Jack" Bogle, founder of The Vanguard Group.

MEET OUR LEADER

What Jack Bogle has made possible for the individual investor is truly extraordinary. Thanks to his creation of no-load, low-cost, tax-efficient mutual funds, millions of investors enjoy significantly greater returns on their investment dollars than they otherwise would have. His introduction of the first index fund for retail investors was labeled *Bogle's Folly* by its detractors. Today, that same fund, Vanguard's 500 Index fund, is the largest mutual fund in the world. Thanks to Jack Bogle, more of each investor's money is put to work for them instead of going into the pockets of brokers, fund managers, or the taxman. For the everyday investor this translates into items such as nicer homes for families, college educations for children, more enjoyable retirements for seniors, and more money to be passed on to loved ones and causes they care about.

Although a few other investment fund families have joined the low-cost revolution, it was Jack Bogle who sounded the bugle and led the charge, and it's Vanguard that continues to lead the way.

You may think that such an enormous lifetime contribution is enough for one man, but Jack Bogle is no ordinary man. Since stepping down as chairman of The Vanguard Group for a heart transplant in 1996, Jack Bogle has devoted his life to educating investors on how to get a greater return on their investment dollars. Moreover, his teachings simplify investing, making it very easy for the average person with no financial background to understand. His books, *Bogle on Mutual Funds*, *Common Sense on Mutual Funds*, and many others are classics.

In addition to creating a great family of mutual funds and teaching others how to invest efficiently and effectively, Jack Bogle is a tireless advocate for the individual investor. It's common to see him speaking to professional groups, at commencements, or being interviewed on radio and television. His editorials frequently appear in the *Wall Street Journal*. His messages to the investment community are always consistent: Give investors a "fair shake" for their money, tell them the truth, and remember that character counts. He has fittingly been labeled "the conscience of the industry." His honors are too numerous to mention, but they include being selected as one of *Time* magazine's "100 Heroes and Icons Who Shape Our Lives" in 2004. When Thomas Jefferson remarked, "One man with courage is a majority," he could have been speaking about Jack Bogle.

MEET THE BOGLEHEADS

Thanks to Morningstar, an investment research firm in Chicago, a meeting place was created in 1998 where