

**Bogle: Six Lessons for Investors**

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**By:** Marc Davis

Investors who ignored history took a major hit in 2008, but that doesn't mean ordinary people can't get a leg up on their portfolios now and in the future, says John Bogle, founder and former chief executive of the mutual fund giant Vanguard Group and a longtime proponent of low-cost index fund investing.

The rules are pretty simple, Bogle wrote recently in *The Wall Street Journal*. He broke them down for readers in six steps, and it comes as no surprise that the king of "set it and forget" fund investing wants people to take a big step back from the go-go days of supposed market-beating hedge fund superstars.

Here's how Bogle broke it down:

- First off, beware of market forecasts, even those coming from supposed experts. Twelve major Wall Street firms forecast, on average, a year-end close for the S&P 500 stock index at 1,640 with earnings at \$97. They were off by nearly half in both cases. The index ended the year at 903, with estimated earnings at \$50, Bogle notes.
- Second, don't forget about asset allocation. Diversify your portfolio, says Bogle, and include high-grade, short-term bonds. Investors tend to overestimate the performance of stocks (and Wall Street makes the most money on selling them, of course), while underestimating the value of "dry powder" in their portfolio in the form of bonds. Don't think so much about what stock gains you might miss, Bogle counsels; instead, consider the real consequences to your nest egg if stocks go splat.
- Chasing returns is dangerous business. Mutual funds with great records, Bogle warns, often falter. Many a well-managed, profitable fund plummeted last year by 50 percent or more, including some of Vanguard's own managed equity funds. Buying a "market-beating" fund means you will, doubtlessly, trail the market in at least one year of every three you are invested. If you can stomach the down year, go for it. But don't expect the laws of gravity to be repealed.

- Owning the whole market remains the strategy of choice, he says. Index funds, which Bogle pioneered at Vanguard, are certain to lag the market averages each year but by a miniscule amount. Sounds pretty bad, but that slight lag exceeds by a substantial amount the average return of actively managed funds. The difference, Bogle explains, is cost. Index funds are very cheap, while managed funds take huge fees for their promised performance. Over the long haul, index funds win.
- Look before you leap into alternative asset classes. The Ivy League's major endowments made headlines during the recent bull market by producing huge returns in non-traditional investments like timber, emerging markets, and commodity funds. Some of it made sense, but mostly the markets were being distorted by the presence of so much freely investable cash. When it became clear that the U.S. economy would falter, global economies crashed to earth and many of these alternative investments fell hard, too. That's performance chasing at its worst, Bogle says.
- Finally, beware of financial "innovation." Most of it is designed to enrich the innovator, not the investor, Bogle writes. The more bureaucratic layers in the innovation, the more in fees can be sucked up by banks, underwriters, and salespeople. In this game, those who control the information win, and that too often is not the investor.

Can we stop greed and stupidity on Wall Street? Probably not, but Bogle's advice can keep you from overstepping when the siren call of easy money starts up again, as it inevitably will. The trick is learning from the mistakes of today, and applying those lessons tomorrow.

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