

**Bogle, John C. – The Clash of the Cultures: Investment vs. Speculation**

John Wiley & Sons, 2012, [Finance] Grade ★★★★★

This is John Bogle's tenth book and he surely does celebrate in style. I have read most of Mr Bogle's books and *The Clash of the Cultures* is definitely the one that most resembles being a living person's testament. Experiences, battles, triumphs and insights from over sixty years within the financial industry, laid out in 350 extraordinarily well written pages. As the founder of Vanguard Group in 1974 and the world's first index fund in 1975, he has indeed had a unique position from which to observe the vast changes in the financial markets since, and they have not been to his liking, to put it mildly. As the former chairman of the SEC, Arthur Lewitt once said: "The entire financial services industry should be glad Bogle is merely an expert witness, and not the judge or jury as well". But what I personally have come to appreciate the most, as an arduous reader of Mr Bogle, is the fact that he is not only the man behind a well-executed idea, but he also backs it up with a genuine passion for investing and old-fashioned fairness.

Ten years ago, upon grudgingly taking on his 1999 classic *Common Sense on Mutual Funds*, I realized that true long term investing actually is made much easier via an all-market index fund. The proof of the matter is that the average index fund – via its very construction – holds its shares about 14 times longer than the average active fund. The very concept of indexation was indeed Bogle's best solution to the problem of how to set up a framework that would ensure investing, not speculation, via a rock-bottom cost structure so that long term compounding could work its magic with the maximum amount of capital. The results have of course been outstanding. To the extent that there has been a "red blanket" around the name Bogle due to the index fund as a lesser being, it surely is time to look past that.

Bogle's perennial complaint about the financial industry has been the massive gap between the investor's interests and those of many financial professionals, where the natural temptation for the

agent is to enrich himself at the expense of their principals. The main culprits in the financial world are: outsized fees and a penchant for short-termism and failing conventionally. The gravitational force in the last few decades has forcefully pulled money and mind in the direction of Keynes's horror-place where the market "is merely a battle of wits".

But it is not only the dominance of speculation over investment that concerns Bogle, it is the addition of the worsening conduct, values and ethics of so many market participants. So what is to be done? Some changes will be market driven, for instance companies going private to escape the quarterly short-termism of the public market or pension funds moving away from high-cost, trading-intense funds without value add. Other changes must necessarily be forced upon the participants via the regulatory route. This could for example relate to transaction taxes, lower taxes on long-term holdings, better accounting standards à la Professor Alfred Rappaport's working paper from last year and fairer governance standards on executive compensation (see the Conference Board Commission report on this). In short, a both legal- and mental framework which cares for owners first and discards the three most dangerous words in the English language: Other People's Money.

A very significant role should and will be played by this book – it flat out deserves a very wide audience. Upon re-reading a few chapters of the book for this review, those wishes might very well largely have been answered. In his annual letter to shareholders, Warren Buffett went out of his way to recommend *The Clash of the Cultures*.

John Bogle is truly one of the 20<sup>th</sup> century icons of the financial world. If his status in the contemporary mind is less than that of the Templetons, Fishers or Soroses, then history will mend this right. He has brought more collective financial good to more people than arguably anyone within the industry. Enough (said).

Henrik Andersson, March 16, 2013