

MARKETS

In Bogle Family, It's Either Passive or Aggressive

While Vanguard Group's Founder May Be the Father of Passive Investing, His Fund-Manager Son Sides With Active Stock-Picking

By LIAM PLEVEN

Updated Nov. 28, 2013 5:59 p.m. ET

On their regular Friday morning phone calls, Jack Bogle and his son, John, catch up on family news. Sometimes they will compare notes on a particularly gnarly crossword. But the conversation often turns to a big topic among the Bogle clan: the best strategy for investing in stocks.



'The only thing that works with any consistency is low cost,' says John 'Jack' Bogle, left. 'There are going to be opportunities for active management,' says John Bogle Jr. *John Bogle Jr.*

For them, it is more than just shooting the breeze.

Jack Bogle is the founder of Vanguard Group and considered by many investors as the father of passive investing, or using funds that try to capture the return on an entire broad basket of securities, such as the S&P 500. Mr. Bogle has been a public decrier of hedge funds and so-called active mutual funds that charge hefty fees and try to pick certain stocks to beat the market, calling it a "loser's game."

His son, John, is a fund manager who has succeeded at doing just that.

That might lead other families to steer clear of the subject. But John Bogle Jr., who is 54 years old, says neither can resist. "We talk about it all the time," says John Bogle. As for their differences: "We can totally laugh about them."

The diverging approaches between the Bogles are emblematic of a broader divide separating fans of investing in funds that track market indexes and those who favor investing with active stock pickers. With stocks at records this year, the debate is shaping the future of the multitrillion-dollar asset-management industry.

This year, index funds grew to hold a third of the roughly \$7 trillion in stock mutual funds and exchange-traded funds, a record share, according to Vanguard.

Yet active mutual funds that focus on U.S. stocks are on track to have net inflows for the first time since 2005, according to research firm Morningstar.



Father and son circa 1971 *John Bogle Jr.*

The elder Mr. Bogle, who is 84, began his career in 1951. At Vanguard, he opened the first index mutual fund for individual investors in 1976, and he has vocal admirers ranging from billionaire [Warren Buffett](#) to members of an online investing forum at [Bogleheads.org](#). His premise, and that of other fans of index investing, is that index funds are generally less expensive than stock-picking funds, and therefore favorable for average investors. He now heads the Bogle Financial Markets Research Center, on Vanguard's campus in Malvern, Pa.

He has likened stock picking to gambling, as in a 2005 speech to a group of investors when he stated that "mutual-fund croupiers rake huge sums off the stock-market table." He has also been known to rail against hedge funds.

"He says hedge funds are bad," says John Bogle, whose firm also runs hedge funds. "I'm pretty sure all hedge funds are not bad."

More than two decades ago, the two Bogles were on the same team. The younger Mr. Bogle worked on index funds briefly at State Street Corp. , having joined the firm after business school. But soon he decided he wanted to build a computer program to help fund managers beat the market.

He recalls thinking: "Maybe this is something I should try to figure out for myself."

In 1990, he joined Numeric Investors LLC, an investment firm run by a former colleague, Langdon Wheeler. Mr. Bogle was "competitive," says Mr. Wheeler, but he added, "I don't think that John needed to differentiate himself from his dad. I think he was legitimately fascinated by this."

Says his father: "He would not have been happy as an indexer."

The junior Mr. Bogle then started Bogle Investment Management LP, his current firm, in 1999. Like many active managers, he uses computer models to analyze earnings surprises, relative stock valuations, corporate accounting and the like.

The flagship [Bogle Small Cap Growth Fund](#) was launched 14 years ago and has delivered an annualized return since then of 12.4%, compared with 8.6% for its benchmark index, the Russell 2000, according to Morningstar.

But there have been some down times, particularly during the financial crisis, when the fund fell further than the Russell 2000. The period essentially made one of the elder Mr. Bogle's points, that the market tends to catch up with funds that have outperformed in the past. There was no I-told-you-so moment, he says; "I never thought it, let alone said it."

But Jack Bogle, a relentless advocate for low fees, does poke fun at his son's prosperity.

"I often tease him," Jack Bogle says. His son's firm manages about \$1.1 billion and its small-cap mutual fund charges annual fees of 1.35%, much higher than the 0.24% annual fee for a Vanguard index fund that tracks

similar stocks, but about average for active managers offering similar services.

John Bogle has a ready reply: He is making money for clients and for himself. "Is there anything wrong with that?" he said once in response.

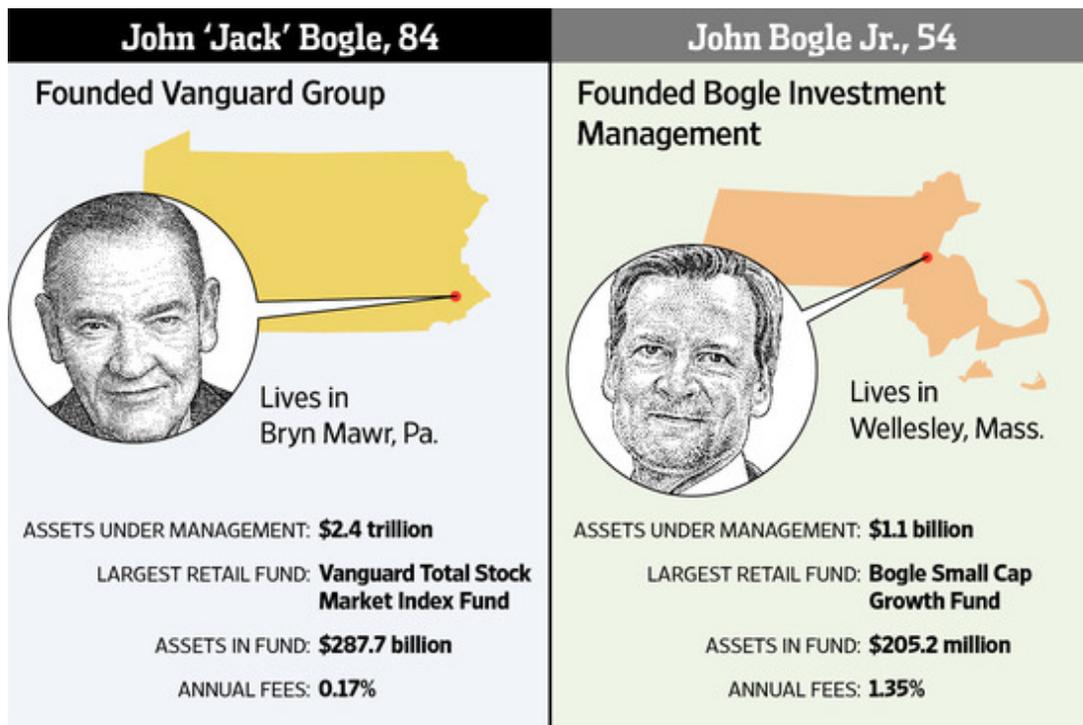
This year, John Bogle's fund has generated total returns of 40%, through Tuesday, according to Morningstar, compared with 35% for the Russell 2000 and 34% for the similar Vanguard fund, according to Morningstar.

Even his father benefits. He is an investor in the small-cap fund. "We come about it very differently, but we end up pretty close to the same place," the elder Mr. Bogle says. "He's done what he's done very well... Will it work forever? I don't know. But I'm not going to bet against him."

Indeed, the elder Mr. Bogle's stake in his son's mutual fund is one of his few nonindex investments. "We do some things for family reasons," he says. "If it's not consistent, well, life isn't always consistent."

The younger Mr. Bogle spreads his bets, too—the money for his own two children is in Vanguard index funds.

"For the average investor, indexing is absolutely the way to go," he says.



Sources: Bogle family; Vanguard Group; Bogle Investment Management; Morningstar

Write to Liam Plevin at liam.plevin@wsj.com

Copyright 2013 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com

BOGLE INVESTMENT MANAGEMENT
SMALL CAP GROWTH FUND

Inception Date: October 1, 1999

Total Returns as of September 30, 2013	Investor Shares	Institutional Shares	Russell 2000
One Years Annualized	38.23%	38.35%	30.06%
Five Years Annualized	16.07%	16.18%	11.15%
Ten Years Annualized	9.74%	9.85%	9.64%
Since Inception Annualized	12.01%	12.12%	8.21%

The performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so that an Investor's shares upon redemption, may be worth more or less than their original cost. Certain fee waivers are in effect. In the absence of fee waivers, total return would be reduced. Current performance may be lower or higher than the performance data quoted. Returns current to the most recent month-end are available at <http://boglefunds.com/mutualfund>.

Expense Ratios With Waivers and Reimbursements

Investor Shares 1.35% For the year ended 8/31/13

Institutional Shares 1.25% For the year ended 8/31/13

Expense Ratios If Waivers and Reimbursements Were Not in Place

Investor Shares 1.49% For the year ended 8/31/13

Institutional Shares 1.39% For the year ended 8/31/13

Fee waivers and reimbursements are contractual and have been renewed through 12/31/14.

This reprint is intended as sales literature only for the Bogle Small Cap Growth Fund, and not for any other investment product discussed in the article

You should consider the investment objectives, risks, charges, and expenses of the Bogle Small Cap Growth Fund carefully before investing. Visit <http://boglefunds.com/mutualfund> for prospectus containing this and other information about the Fund. Read it carefully before you invest.

Shares of Bogle Small Cap Growth Fund are distributed by Foreside Funds Distributors LLC, Berwyn, Pennsylvania.