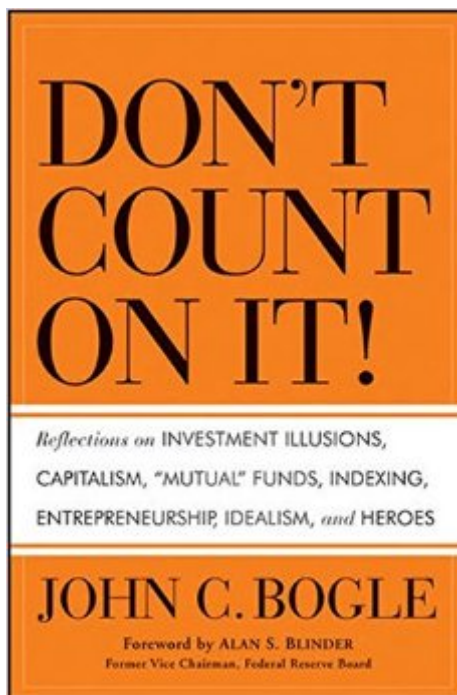


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# Don't Count On It!: Reflections On Investment Illusions, Capitalism, "Mutual" Funds, Indexing, Entrepreneurship, Idealism, And Heroes



## Synopsis

Q&A with Author John C. Bogle     Author John C. Bogle     In *Don't Count on It*, you discuss how we deceive ourselves, particularly with numbers. Can you describe what you consider to be the absolute worst illusion investors fall prey to? The most damaging illusion for investors is their belief that they capture the stock market's return. For example, if the stock market provides an annual return of 7%, we know that the average investor's return will fall short of that by the amount of fees they pay. Those fees amount to about 2.5% annually for the typical investor, so their net return is down to 4.5%. Taxes might knock another 1% off of that, reducing the investor's annual return to 3.5% -- just half of the market's return. If you compound those figures over 50 years, \$1 grows by \$4.60 at 3.5%, and by \$28.50 at 7%. In other words, the investor's cumulative return is less than 20% of the market's return. That's an enormous gap; one that can easily mean the difference between achieving one's long-term financial goals and falling well short of them. If you could change just one thing about the practice of capitalism today, what would it be, and why is it the most important? The biggest problem with capitalism today is our tremendous focus on the short-term. Institutional investors--who own 70% of our corporations--are predominantly concerned with whether or not the quarterly earnings of the companies they own will meet the stock market's expectations. As a result, our corporate managers move heaven and earth to try to meet those targets, so as to keep their firm's stock price high and maximize their stock-based compensation. But building corporate value over the long-term is hard; there are no quick or easy shortcuts. And as the past decade has demonstrated, decisions made to boost earnings and stock prices in the short-term tend to end up destroying shareholder value over the long-term. The sooner we can realign our focus from the short-term to the long-term, the better for all concerned. What do you think about ETFs? I like some; I am appalled by others. Specifically, I favor low cost ETFs that are focused on broadly diversified portfolios of stocks and bonds that investors can hold for a lifetime. These ETFs should provide investors with their fair share of whatever the returns our financial markets will provide. That's a winner's game. On the other hand, I'm not happy with ETFs--the vast majority--that exist to enable investors to speculate, to play their hunches on which country or market sector will outperform or underperform over the short term. The turnover rates are enormous, holding periods are measured in mere days, and costs are far higher than those levied by broad market ETFs. That kind of speculation is a loser's game. So I believe that ETFs have the potential to play a significant role in the portfolios of long-term investors. Unfortunately, to this point their use seems to be dominated by those engaged in far more destructive investment approaches. You talk about inspiring the next generation of leaders and your mentors in *Don't Count on It*.

What did your mentors have in common that you think is the most important trait in inspiring young people today? In other words, how can each of us be better mentors? I think at the most basic level, my mentors were good people; men of strong character who loved their work. They realized that the work they did made a difference in people's lives, and they did that work with a great deal of ability, pride, and professionalism. They woke up every day and tried their best to make the world a little bit better. That's what I took away from the relationships I had with my mentors, and the extent that I've been able to emulate them, I think, explains a great deal of what I've been able to accomplish in my own career. My views on mentoring have a lot in common with the themes of *Don't Count on It*. That is, these relationships are largely built upon trust, and attempts to quantify them are doomed to failure. Mentoring, in my mind, is less about helping someone fill out a checklist of accomplishments, and much more about passing along the immeasurable qualities one needs to be successful in their field --character, professionalism, honesty, intellectual curiosity, even humor. If you possess sufficient amounts of those characteristics, you're likely to be successful in whatever field you work in. Praise for *Don't Count On It!* "This collection of Jack Bogle's writings couldn't be more timely. The clarity of his thinkingâ and his insistence on the relevance of ethical standardsâ are totally relevant as we strive to rebuild a broken financial system. For too many years, his strong voice has been lost amid the cacophony of competing self-interests, misdirected complexity, and unbounded greed. Read, learn, and support Jack's mission to reform the industry that has been his life's work." â "PAUL VOLCKER, Chairman of the President's Economic Recovery Advisory Board and former Chairman of the Federal Reserve (1979â "1987) "Jack Bogle has given investors throughout the world more wisdom and plain financial 'horse sense' than any person in the history of markets. This compendium of his best writings, particularly his post-crisis guidance, is absolutely essential reading for investors and those who care about the future of our society." â "ARTHUR LEVITT, former Chairman, U.S. Securities and Exchange Commission "Jack Bogle is one of the most lucid men in finance." â "NASSIM N.TALEB, PhD, author of *The Black Swan* "Jack Bogle is one of the financial wise men whose experience spans the postâ "World War II years. This book, encompassing his insights on financial behavior, pitfalls, and remedies, with a special focus on mutual funds, is an essential read. We can only benefit from his observations." â "HENRY KAUFMAN, President, Henry Kaufman & Company, Inc. "It was not an easy sell. The joke at first was that only finance professors invested in Vanguard's original index fund. But what a triumph it has been. And what a focused and passionate drive it took: it is a zero-sum game and only costs are certain. Thank you, Jack." â "JEREMY GRANTHAM, Cofounder and Chairman, GMO "On finance, Jack Bogle thinks unconventionally. So, this sound rebel turns out to be right most of the

time. Meanwhile, many of us sometimes engage in self-deception. So, this book will set us straight. And in the last few pages, Jack writes, and I agree, that Peter Bernstein was a giant. So is Jack Bogle." â "JEAN-MARIE EVEILLARD, Senior Adviser, First Eagle Investment Management

Insights into investing and leadership from the founder of The Vanguard Group Throughout his legendary career, John Bogle-founder of the Vanguard mutual fund group and creator of the first index mutual fund-has helped investors build wealth the right way, while, at the same time, leading a tireless campaign to restore common sense to the investment world. A collection of essays based on speeches delivered to professional groups and college students in recent years, in Don't Count on It is organized around eight themes

Illusion versus reality in investing Indexing to market returns Failures of capitalism The flawed structure of the mutual fund industry The spirit of entrepreneurship What is enough in business, and in life Advice to America's future leaders The unforgettable characters who have shaped his career

Widely acclaimed for his role as the conscience of the mutual fund industry and a relentless advocate for individual investors, in Don't Count on It, Bogle continues to inspire, while pushing the mutual fund industry to measure up to their promise.

## Book Information

Hardcover: 603 pages

Publisher: Wiley; 1 edition (November 2, 2010)

Language: English

ISBN-10: 047064396X

ISBN-13: 978-0470643969

Product Dimensions: 6.2 x 1.8 x 9.2 inches

Shipping Weight: 1.4 pounds (View shipping rates and policies)

Average Customer Review: 4.4 out of 5 starsÂ Â See all reviewsÂ (28 customer reviews)

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## Customer Reviews

This book covers a lot of ground, with 35 chapters addressing seven main themes over a total of 586 pages. If you are already very familiar with John Bogle (who has written many books and delivered countless speeches addressing investment topics over a very long career in investments), then there is precious little in this book that you don't already know. However, if you are an investor who isn't quite that familiar with Bogle, then you may find this anthology of his major essays and

speeches over the last decade to be a very helpful introduction to important investment-related topics of today. Without divulging too much detail about the book, here's a relatively short guide to Bogle's topics. The seven parts of the book address:

1. Investment illusions. For example, as Bogle makes clear mutual funds taken as a whole simply cannot earn the markets' returns--because mutual funds have their own expenses. Indeed, Bogle's simple formula--net returns to investors = gross returns on assets minus the costs of operating the financial system--is pretty obvious, but one that investors tend to forget. Another illusion cited by Bogle is that mutual fund investors actually earn the returns of their funds. That is, if the XYZ mutual fund earns an average annual return of 8% over a 10-year period, chances are that XYZ's shareholders didn't achieve that 8% annual return, due to the well-documented tendency of investors to add to their investments when they feel optimistic (and markets are high) and reduce their investments when they feel pessimistic (and markets are low). Simply put, buying high and selling low reduces one's return.
2. The failure of capitalism. Bogle is actually a champion of capitalism, not some anti-capitalist critic.

My recent journey to Bogleheads 9 was special for one and only one reason: the opportunity to see Jack Bogle enter the room to a standing ovation of Bogleheads and speak his mind, as he always does. His god-given sportscaster's voice is truly something special--and it is always worth the price of the trip to listen to him. (If Jack had ever decided to do play-by-play for the Phillies, there is no doubt that he would have ended up in a different sort of Hall of Fame). The commute back from Philly to Chicago only made the latest Boglestock meeting even more memorable, since it gave me a few uninterrupted hours to read his new book, in the way he suggested, by moving directly to the chapter of interest, rather than reading the book as a continuum. I'll let you find your own personal gems, but let me share a few that I enjoyed. No one speaks more eloquently to Americans--particularly young Americans--in my view than Bogle. I encourage everyone, whatever your age, to read Chapters 26-30, first to yourself and then to your children. His commencement speeches, packed with sage advice, are well crafted homilies for America's youth. I'm glad they are published in a book for all to read. Part VII, "Heroes and Mentors," is also deeply personal, an acknowledgement of 29 heroes and mentors who changed his own life for the better. The obit for Dr. Bernard Lown, who at one point served as Jack's doctor, also gave me a window into a part of Jack's personal journey that I did not know about. Dare I say that Bogle writes as well about all things non-investment as he does the investment world itself? As poet Wallace Stevens once noted, "to get to the universal, you must go through the local."

When I write reviews I do not usually read the other reviews, but in this case there were a limited number of reviews and they were EXCELLENT. I therefore will not cover the same ground but come at John Bogle's work from a different angle if you will permit me. By way of disclosure I am a market professional, with 40 years of experience working with billions of dollars and performing an advising function which includes not just wealthy individuals but heads of state and finance ministers. Having said that, it is my belief that this book is extraordinary. It is a breath of fresh air in an industry of incompetence. You will learn more from reading, and re-reading this book than any course you could probably take at Harvard or Wharton in portfolio analysis, and valuation - been there, done that. Keep in mind that Wall Street is by definition the worse managed industry in America, and whose basic function is to judge the managements of other companies in other industries. For 200 years they haven't gotten it right, and my fellow Wall Streeter's are so CONFLICTED between their need to make money, and their fiduciary responsibilities that they fail in both. John Bogle is the only author I know that lays it out for you. Warren Buffett is always polite politically to Washington. He does not want to make waves just like the jovial uncle he wants to portray himself as. Bogle on the other hand has a desperate need to get the truth out there, and he writes as he speaks. This book is his voice, no question about it. Only John Bogle will hit you in the face with the truth on every topic that he writes. There are no punches pulled here. You can start to read this book anywhere you like. Throw darts at the pages and start there, just be prepared to be enlightened.

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