Jack Bogle: Investing Outside U.S. Not Worth the Risk

By **Carla Fried** | December 09, 2014 at 11:00 AM**.**

Also, Bogle says role of advisors should be to keep clients from making bad investment choices.

Jack Bogle, founder of Vanguard

Michael Jordan's statue is outside the Chicago Bulls' United Center Stadium. Willie Mays Jr.'s statute is on the grounds of the San Francisco Giants' AT&T Park. They are tributes to game-changing careers, both for their teams and for their leagues.

Jack Bogle is another game changer. His bronze likeness is on the campus of Vanguard headquarters in Valley Forge, Pennsylvania, testament to his pioneering role in bringing low-cost investing to the masses.

It's nearly 40 years since Bogle pushed long and hard to get Vanguard to introduce the first low-cost index mutual fund. At the time, some people dubbed it Bogle's Folly. Now, there's now more than $1.7 trillion invested in U.S. index-based funds and exchange-traded funds, according to the Investment Company Institute. Over the past 12 months, inflows into such passive funds were almost five times as great as those going into actively managed funds, according to Morningstar, Inc.

The 85-year-old Bogle recently took time from another busy day at the office to talk about where he's investing, and how investors — and the advisers they work with — can strive for better outcomes. An edited excerpt of the conversation:

You've often reminded investors that what's done well in the past probably won't do well in the future. So for a patient investor with a long horizon, where should they be investing today?

I like the U.S. The U.S. is the most productive country in the world. It is the most rapidly growing of the industrialized nations, other than Switzerland. We still have plenty of problems, but we're much better than France, Britain and Germany. And we don't even want to talk about Italy and Greece. And importantly — people forget this too quickly — we have the most established government and legal institutions.

When you look at global market capitalization it's true that the U.S. accounts for about 48 percent and other countries 52 percent. But the top three markets outside the U.S. are the U.K., Japan and France. What's the excitement about there? Emerging markets have great potential, but have fragile sovereigns and fragile institutions.

I wouldn't invest outside the U.S. If someone wants to invest 20 percent or less of their portfolio outside the U.S., that's fine. I wouldn't do it, but if you want to, that's fine.

Have you ever invested in international markets?

Not really. Other than when I had small amounts when we launched [Vanguard] International Growth and the [Vanguard] International Index fund, I had small investments in both. It's hard to believe that the differences in returns over the long term will be huge. That's just not what we have seen for the most part. Why take the currency risk?

OK, but U.S. stocks have more than doubled since their low in March of 2009. So what about valuation? Shouldn't we be less enthusiastic about U.S. stocks?

It would be nice to only invest when valuations are low. Moments of great depression in stock values are a great time to buy. You can't invest at 2009 valuations today. So what are you going to do? You have to invest at today's valuations. You can't not invest now. Choose to not invest and you are ensuring you will have nothing 40, 50 years from now.

You're investing for a lifetime. A 40-year-old probably has a 50-year life expectancy. That's what you're investing for. I am an indexer. That's well known. I'd keep it simple and have my money in the S&P 500 or a broad market index, and the rest in the in a bond index.

Speaking of bonds, you've no doubt seen the strong flows into the next generation of bond funds: non-traditional, unconstrained or whatever else they're being called. The explicit message to investors: Your core, intermediate-term high-grade bond fund isn't going to cut it given where yields are now, and at a time when we face a secular rise in interest rates. Has the argument for sticking with a core bond fund changed?

For me it hasn't. But the great marketing powers in this industry are fast to promise something they can't deliver. They are promising better returns without talking about the risks many of these portfolios are taking.

Is there any new product or service that's launched in, say, the past 10 years that has been a net positive in your view?

I am thinking.

On the face of it, no. New products aren't typically about the business of investing. They are about getting people to buy and sell things. There are very few companies that focus on the long-term business of investing. Dodge & Cox and Longleaf are two exceptions.

The best thing you can do for yourself is to make your choice [of a long-term strategy], keep it simple and stick with it. When presented with all these new products, it's caveat emptor. And don't let your behavior get the best of you. Behavioral problems can cost you as much as the other embedded costs of active fund investing.

You've long pointed to 2 percent as your estimate of those costs — of the total average cost of fund expense ratios, trading and taxes. So on top of that our behavioral biases are costing us another 2 percent?

About 1.5 percent. Doing the wrong thing at the wrong time is killing you.

You once told a story about an adviser who said he was worried he'd be fired if he kept telling his clients to just stick to their long-term plan. He said his clients don't see the value in doing nothing.

Right. And my point is that advisers need to sell their value as keeping their clients from doing the wrong thing at the wrong time. That's what advisers have to offer: *Keeping you from making a mistake is what you need me for.*

Yet we have a business where everyone thinks you have to do something, not realizing that every time you do something you're likely doing something that is going to cost you too much, or is a an emotional response that won't serve your long-term goals.

Target-date funds [TDFs] are one new product that addresses some behavioral issues by automating portfolio allocation and rebalancing for the investor. They've become quite popular in 401(k) plans, especially with younger workers. If one of your 12 grandchildren announced he or she was going to invest in a low-cost TDF, would you be OK with that?

I'd tell them to look if there's a low-cost balanced index fund instead. I just like the fixed 60/40 split. We can discuss whether 65/35 is maybe better, but I like the static allocation. And I am talking about a balanced index that sticks to the U.S. for stocks and high-quality intermediate-term bonds for the fixed-income portion.

You don’t think the way that TDFs automatically adjust asset allocations as the investor gets closer to the target date is valuable?

Exactly. It may be, it may not be. We don’t really know. But we do know that a 60/40 bond fund has delivered over the long term.

In “The Little Book of Common Sense Investing” you gave a nod to the human desire to try to score a big win. You advised that while at least 95 percent of one’s investments should be Serious Money invested in low-cost index funds as part of a well-considered long-term plan, the remaining 5 percent could be Funny Money — a gambler’s pot. Have you ever had a Funny Money account?

Back when I was just out of college I saved some money and bought a few stocks. I honestly can’t remember what they were. But that was the last time I bought stocks for myself. I haven’t had a Funny Money account for more than 55 years.

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