Vanguard Diehards Know the Secret

Improving Your Retirement | Sue Stevens

One of the great life lessons is that with great wealth comes great responsibility. In the end, it's all about sharing your knowledge with others to allow them to reach the point in life where they too can give back.

That's what I see when I look at Jack Bogle and the Vanguard Diehards. Bogle is a man of passion and vision. He has spent his life in service of others. Always the champion of the little guy, it's no wonder he has inspired a band of like-minded individuals who choose to spend their time offering a helping hand to others through the electronic bulletin board known as the Vanguard Diehards.

Recently I had the privilege of attending the Diehards VI Reunion in Alexandria, Virginia. I want to reflect on some of the more important overarching principles that were conveyed.

Simplicity

We spend a lot of time thinking about how to structure our personal finances. Sometimes, arguably most times, we overthink or overanalyze things that may not matter as much as we initially thought.

One example of this is how we approach asset allocation and rebalancing. I've been fortunate enough to get an inside look at Bogle's portfolio over the years. I'm not sure it makes sense to do that this year, because Bogle emphasized he is not a slave to rebalancing.

Overall, Bogle's asset allocation is about 40% stocks, 60% bonds. He divides his portfolio into three buckets (taxable, retirement, charitable), more or less. The taxable portfolio is invested approximately 20% stock, 80% bonds. The retirement portfolio is invested approximately 60% stock, 40% bonds.

That really hasn't changed much in several years. And he isn't religious about rebalancing at a particular time. In fact, he hasn't rebalanced in over a year.

One thing I've learned over the years about investing other people's money (as a financial advisor) is less rebalancing is usually better. For one thing, it decreases transaction costs.

It's fine to periodically rebalance if you're outside the target ranges you've established in your Investment Policy Statement. But if your portfolio is basically on target, you just stay the course, as Bogle might say.

Common Sense

An audience member at the reunion posed this question: "If you were creating an asset allocation for a young person in their 20s, would you include TIPS?" (TIPS are Treasury Inflation-Protected Securities—a type of inflation-linked bond.)

The answer was: "Use your common sense." If splitting the investment pie into pieces created a situation where you'd only have $300 (or some small amount) allocated to a bond fund, understand that it's fine to just put 100% into a stock fund for a person in their 20s. Said Bill Bernstein, author of "The Four Pillars of Investing" and a panelist at the reunion, "For God's sake, don't take these numbers all that seriously!" That theme was echoed by many throughout the reunion.

Another good example of common sense is using "human capital" to guide your overall asset allocation. Human capital is basically the economic value that you have invested in your job. Bogle discussed the rule of thumb that implies you invest approximately your age in bonds (or your age minus 10). So if you're 40, you would have 40% of your assets in bonds. This makes good sense—as you get older and the number of years you have to work decreases, you shift more of your assets to a preservation strategy that increases your allocation to bonds.

But again, you don't want to be a slave to adages and formulas unnecessarily. Common sense may dictate that there may be good reason why you'd hold more bonds earlier in your life or more stock later in life. For example, someone who made millions early in their career may want to start preserving that wealth earlier in life than others. Or perhaps you have a situation where you know you'll have more than enough money to cover your lifetime needs, so you invest more aggressively for the next generation.

Psychology also plays an important role in investing. You can't ignore people's irrational behavior. One mechanism that was discussed was dollar-cost averaging into a position in your portfolio—especially as the market is hitting new highs. Even if it turned out that you would have been better off investing in one lump sum right away, there may be a psychological value to spreading out the risk over time. That's just common sense—if for no other reason than to avoid panic as the market lurches up and down over the short term.

Legacy

Just before dinner at the Diehards Reunion, there was a spirited discussion between Bogle and Bill Bernstein about their concerns in the world today. One of their shared concerns was the growing gap between the rich and the poor in America.

Bogle reminded the audience that over the past 30 years, the inflation-adjusted wage for the average American has not risen. But the rich are getting much richer. The top 1% of Americans has doubled their inflation-adjusted wealth. Throughout history, this type of scenario has ended badly.

Bogle sees the youth in America as providing the much-needed catalyst to help our country find its way to a better, more equitable solution. Everyone can help in their own way. Not everyone can pledge billions of dollars to aid humanitarian efforts, as Bill Gates and Warren Buffett recently have done. But the freely given helping hand to fellow investors found on the Vanguard Diehard conversation board (either the one on www.morningstar.com or the one at www.bogleheads.org) serves a need.

On a related note, although not necessarily a topic specifically discussed at the reunion, socially conscious investing is becoming of more and more interest to many investors. Going forward, I will start writing more about this in *Practical Finance*.

I highly encourage you to go to http://johncbogle.com/wordpress to see Bogle's "eBlog," current speeches (which I always find inspirational), and links to other related content.

To wrap up, I want to share this quote from Bogle thanking the Diehards for hosting the reunion. It sums up his assessment of the group (and I think it also describes what many people see in Bogle himself): He referred to the Diehards as "a warm and witty group of human beings who are committed to helping one another puzzle through the investment maze, to avoid the potholes along the way, and to stand as living testimony to 'the majesty of simplicity,' at least when practiced in 'an empire of parsimony.'"