

Bogleheads XV!

“The Undisputed Champion of the
Long Run”

“Indexing Is Capitalism at its Best”

John C. Bogle

Philadelphia, PA

September 29, 2016

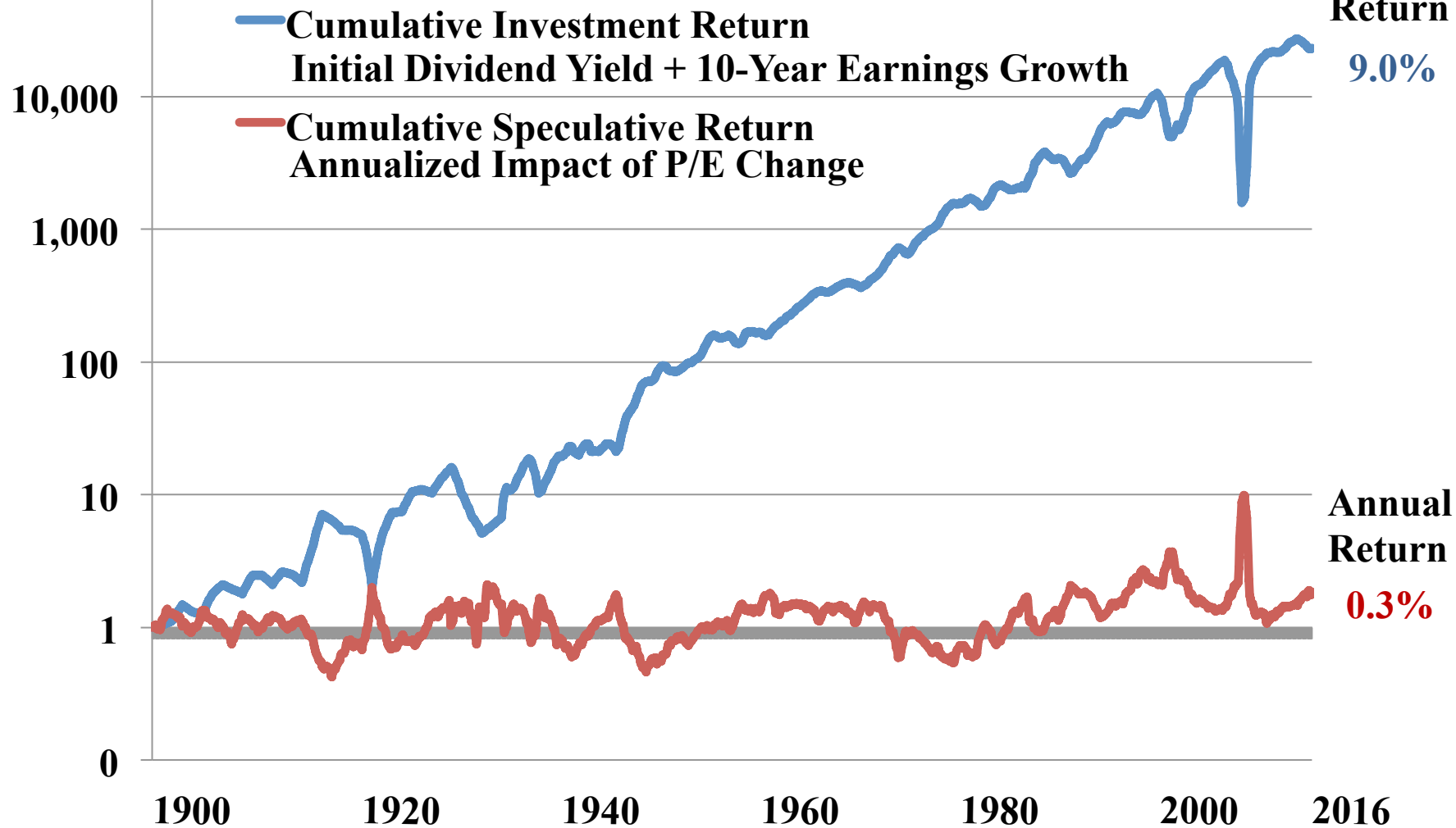
V. Looking Ahead

Looking Ahead—Perspective

Cumulative Investment and Speculative Returns, 1900-2016

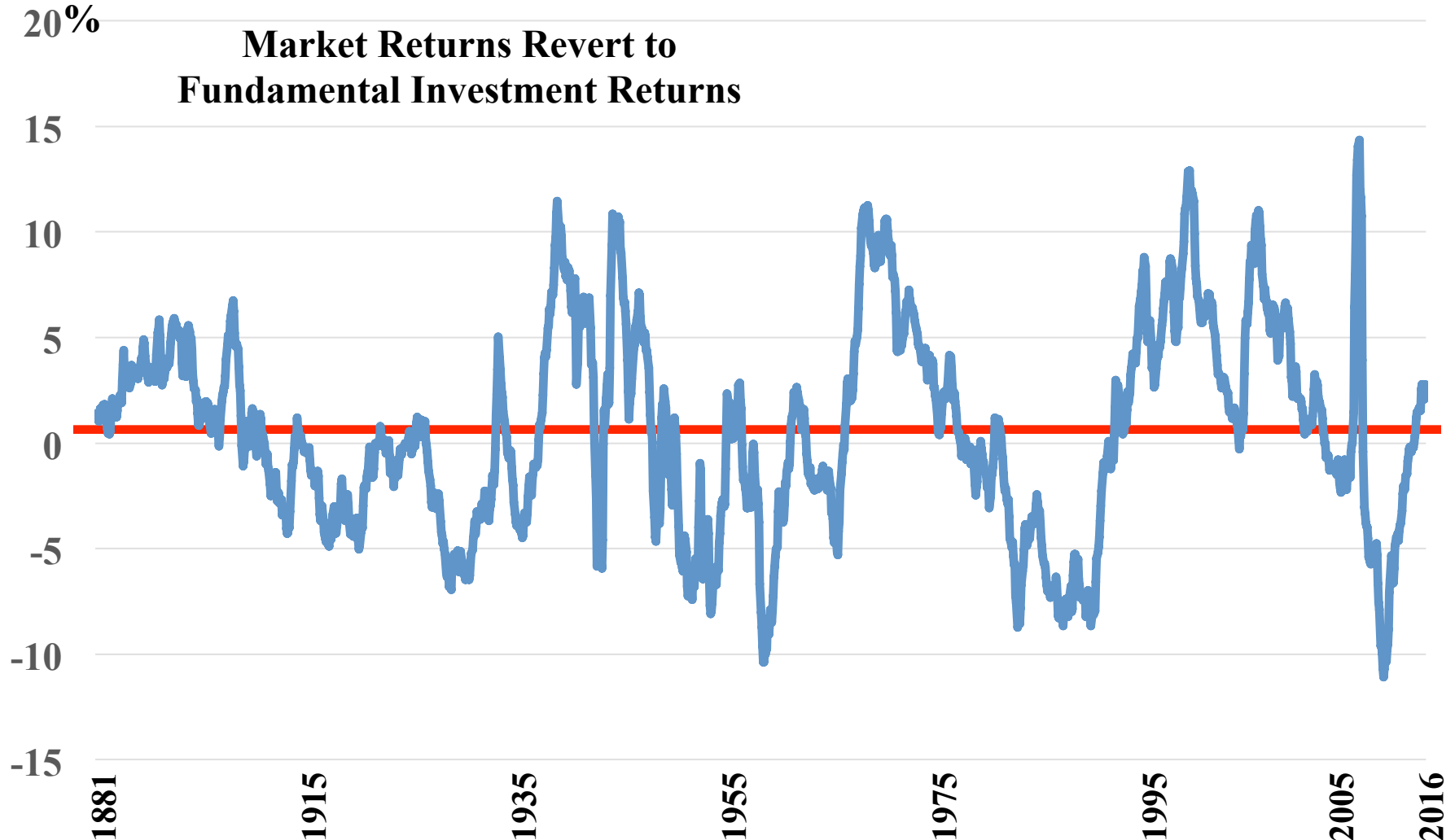
Value of Initial \$1

\$100,000



IN THE LONG RUN, FUNDAMENTALS MATTER, VALUATIONS DON'T ...

Real Returns: Stock Market* Versus Investment Fundamentals, Rolling 10-Year Periods, 1881-2016



***Stock Market Return = Investment Return + Speculative Return**

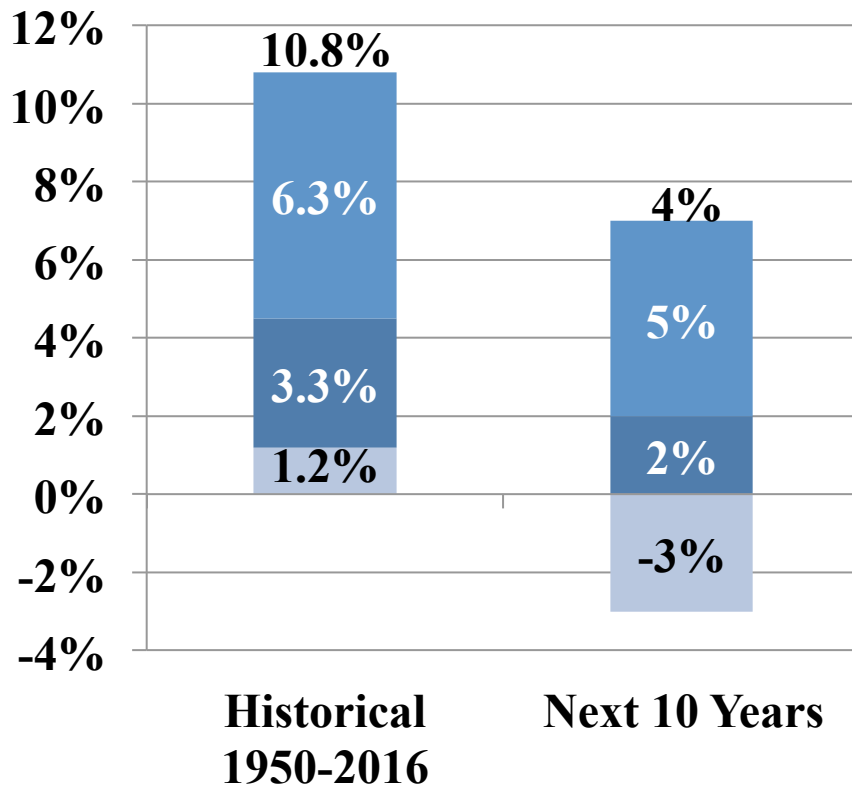
WHAT'S AHEAD FOR STOCKS . . .

Looking Ahead 1.

Reasonable Expectations for Stocks— Below Long-Term Norms

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**Sources of Annual
Returns on Stocks**



*Assumed decline in
P/E from 23x to 17x

	Historical Returns	<u>Prospective</u>	
		Active	Index
Gross Return	11%	4%	4%
Costs	-2	-2	-0.05
Net Return	9%	2%	3.95%

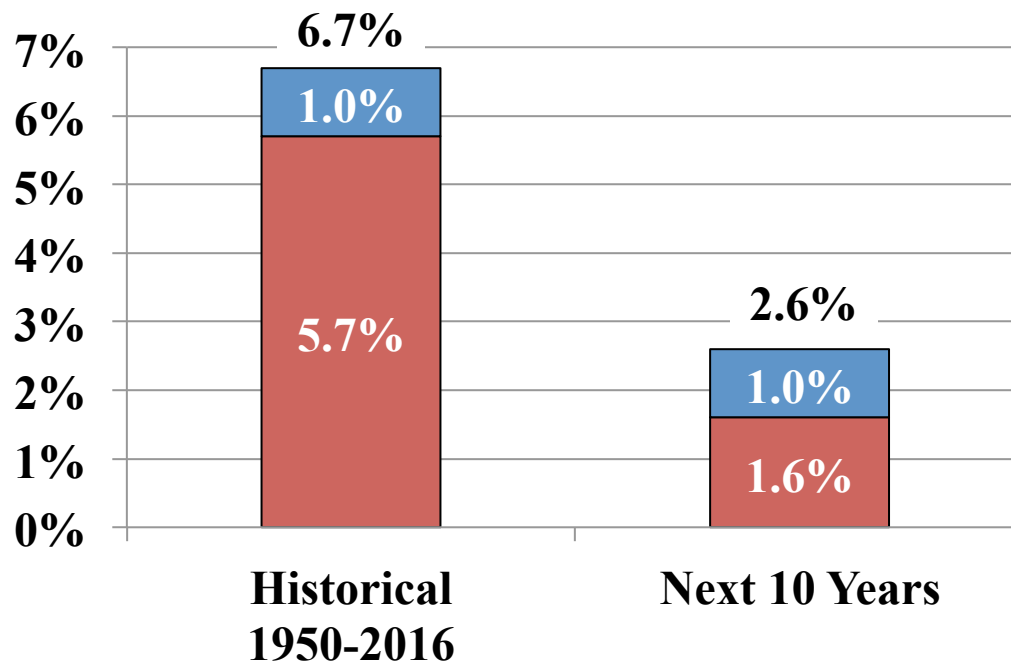
- Earnings Growth*
- Dividend Yield
- Speculative Return*

WHAT ABOUT BONDS? . . .

Looking Ahead 2.

Reasonable Expectations for Bond Returns— Below Long-Term Norms

Source of Annual Returns on Bonds—
Initial Yield on **10-Year Treasury** and **Bond Portfolio***

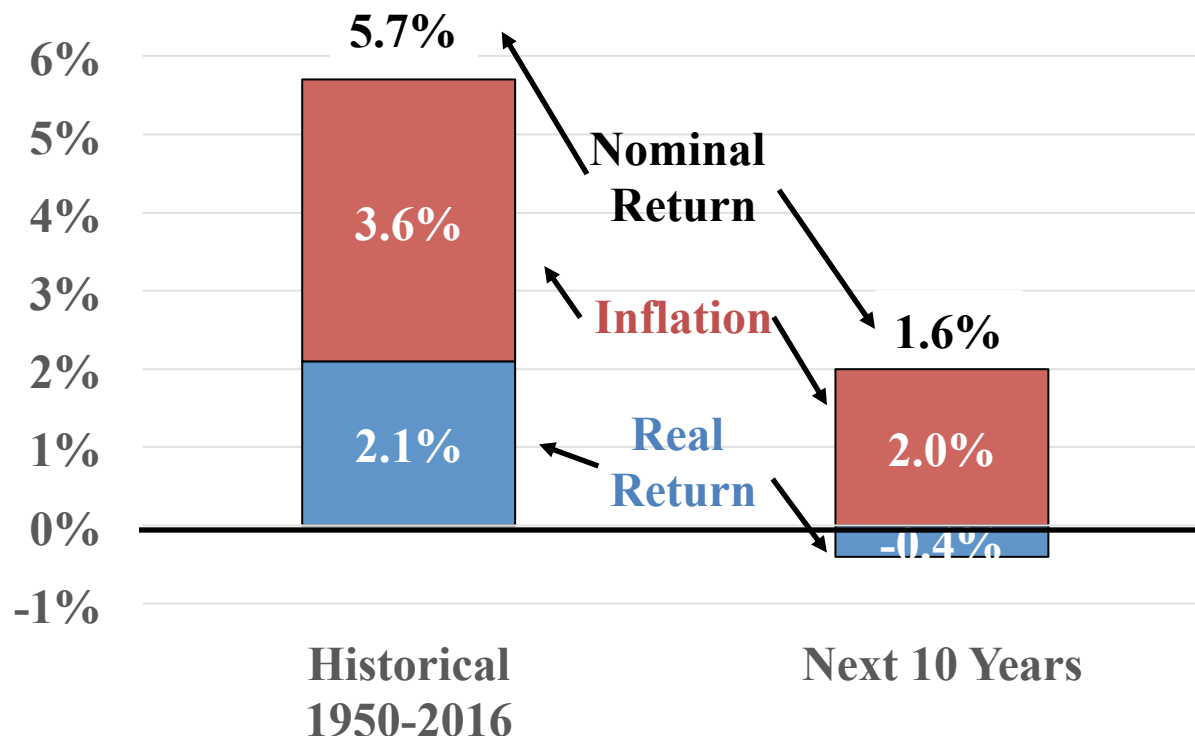


*Assumes accepting moderate additional credit risk and significant interest rate risk vs. the U.S. Treasury 10-year note

YET, REAL INTEREST RATES CLOSE TO LONG-TERM NORMS . . .

But “Real” Returns on Bonds Are Not Far Below Norms

10-Year Treasury Note



Note: Projection based on 10-year Treasury Yield September 28, 2016

PUT THEM ALL TOGETHER IN A BALANCED PORTFOLIO . . .

Looking Ahead 3.

Balanced Portfolio Returns

Below 50-Year Norm of 8.75% Nominal; 5.15%

**Reasonable Expectations: Gross Returns
(50/50 Stock/Bond):**

3.3% Nominal; 1.3% Real

Don't Forget These Deductions

-1.5% Active Fund Costs*

or

-0.05% Index Fund Costs

*** * ***

Don't Forget:

-2% Excess Taxes and

Investor Behavior for Active Funds

***Includes transaction costs but not sales loads.**