

# Bogleheads XV!

“The Undisputed Champion of the  
Long Run”

“Indexing Is Capitalism at its Best”

John C. Bogle

Philadelphia, PA

September 29, 2016

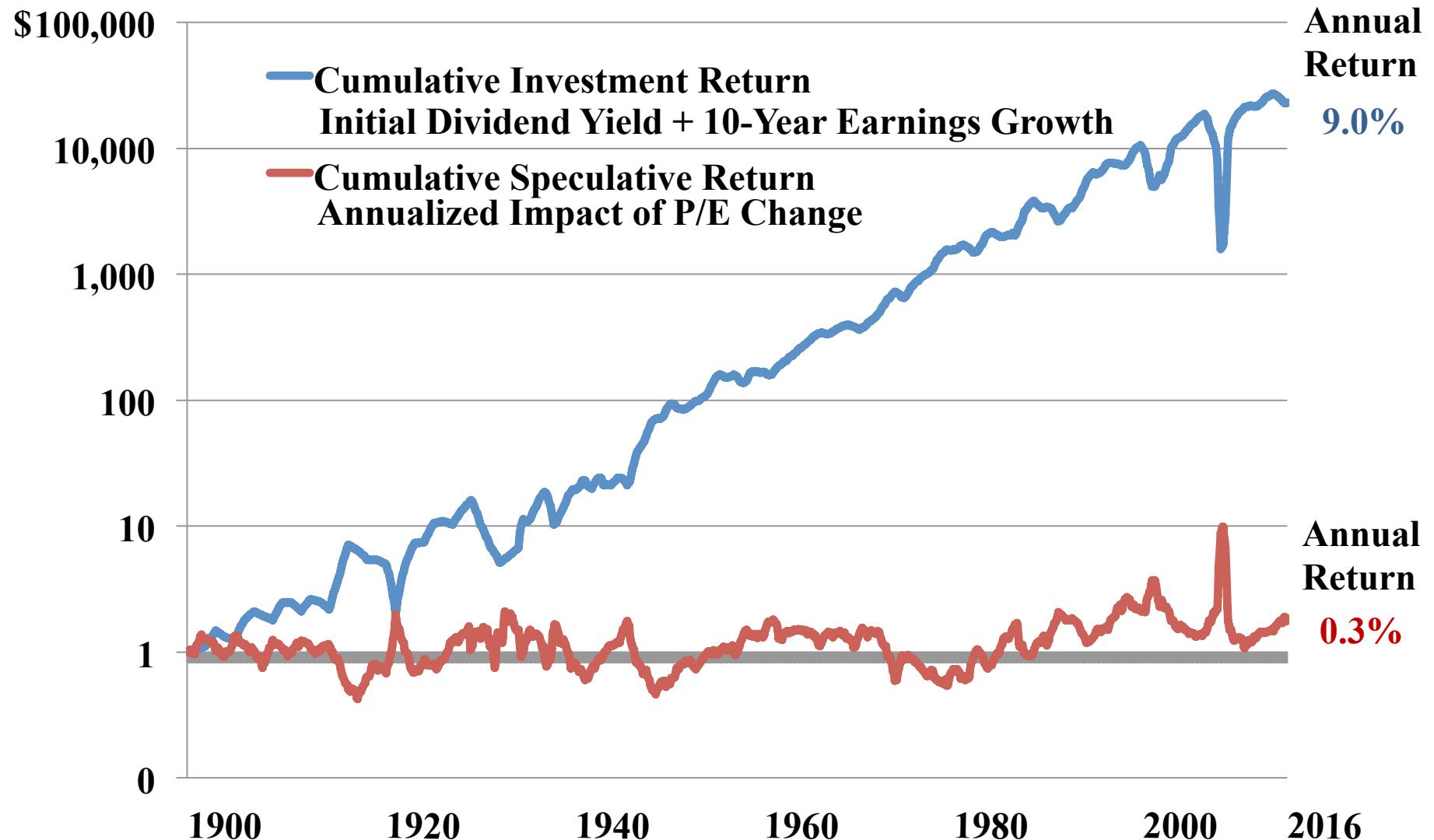
# V. Looking Ahead

# Looking Ahead—Perspective

## Cumulative Investment and Speculative Returns, 1900-2016

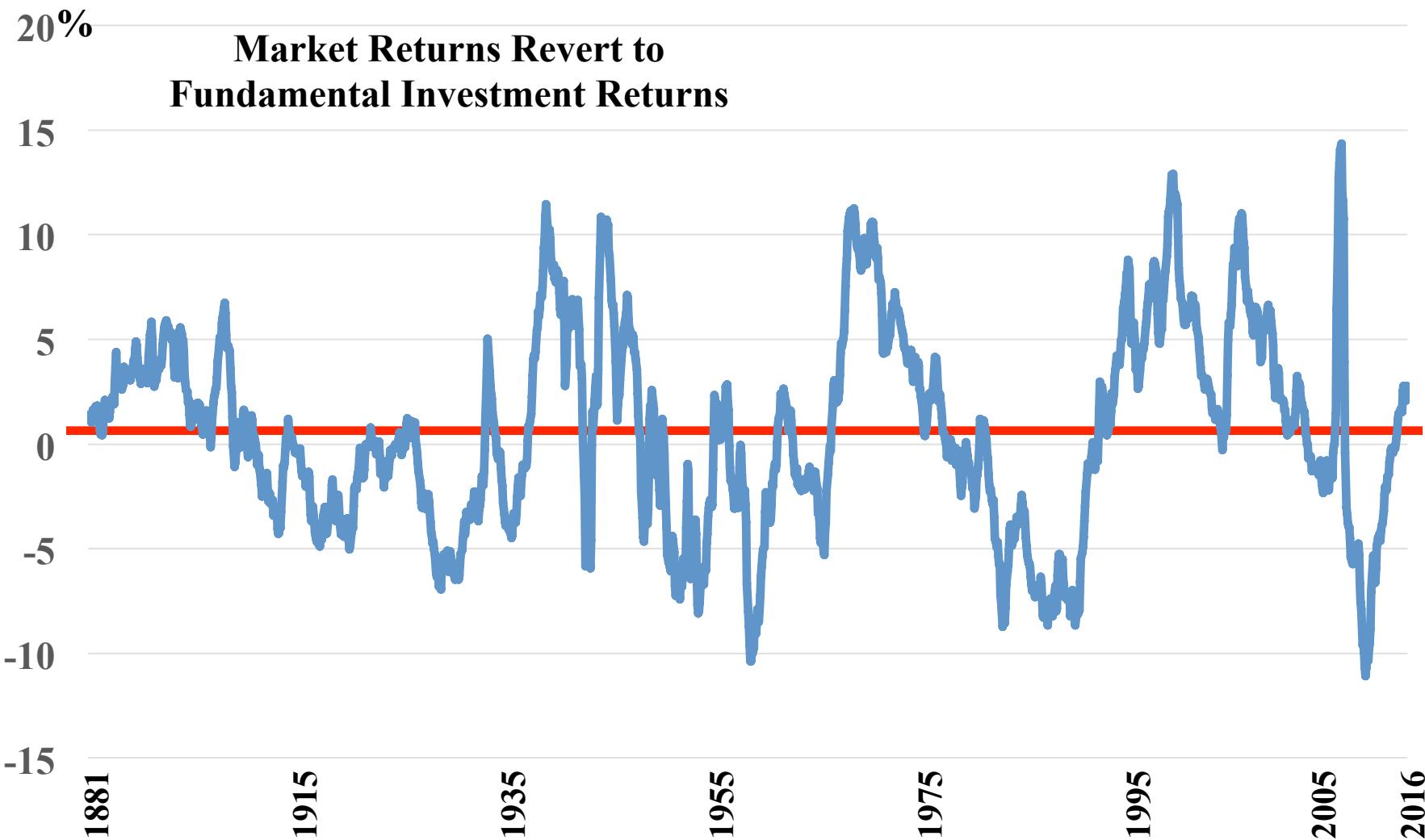
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Value of Initial \$1



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

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

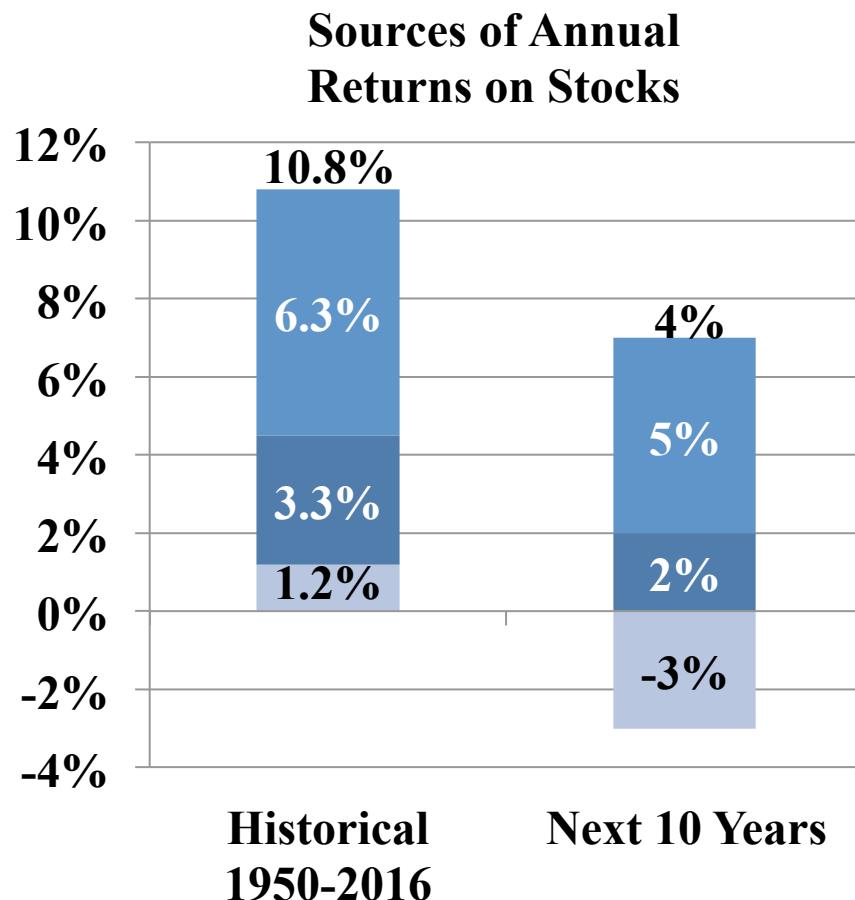


\*Stock Market Return = Investment Return + Speculative Return

WHAT'S AHEAD FOR STOCKS ...

# Looking Ahead 1.

## Reasonable Expectations for Stocks— Below Long-Term Norms



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

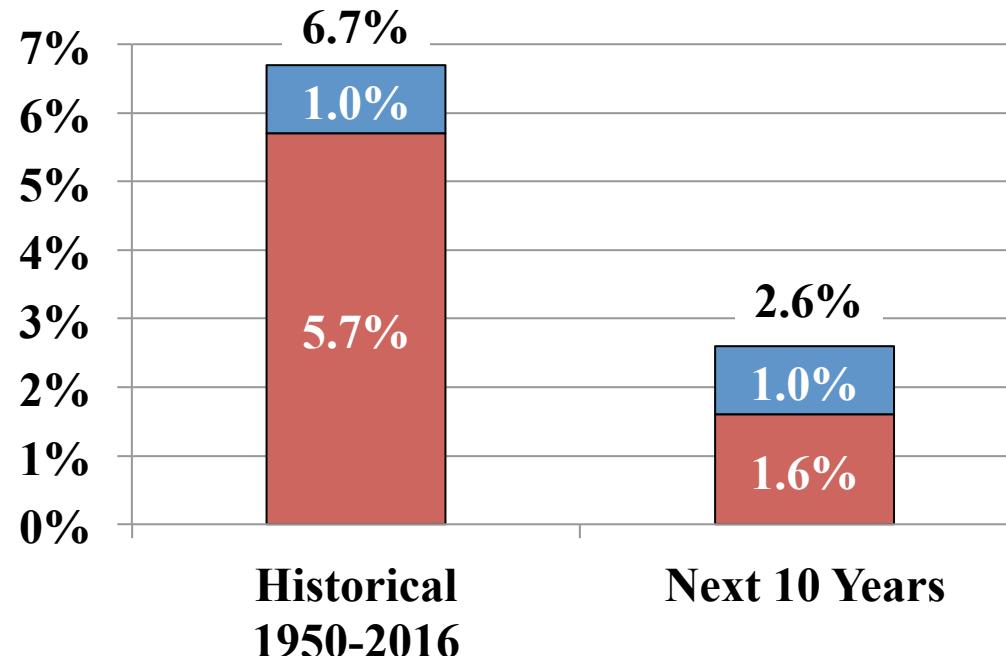
	Historical Returns	Prospective Active Index	
Gross Return	11%	4%	4%
Costs	-2	-2	-0.05
Net Return	9%	2%	3.95%

- Earnings Growth\*
- Dividend Yield
- Speculative Return\*

# 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\***

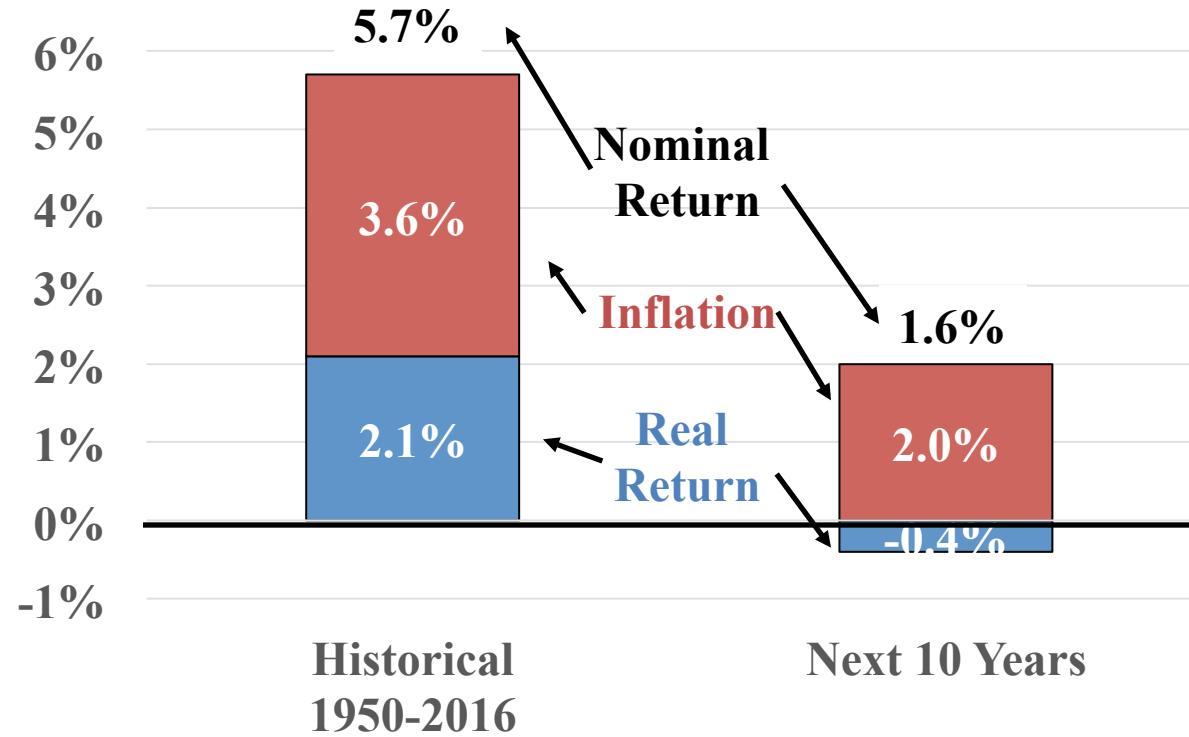


\*Assumes accepting moderate additional credit risk and significant interest rate risk vs. the U.S. Treasury 10-year note

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

# 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**

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