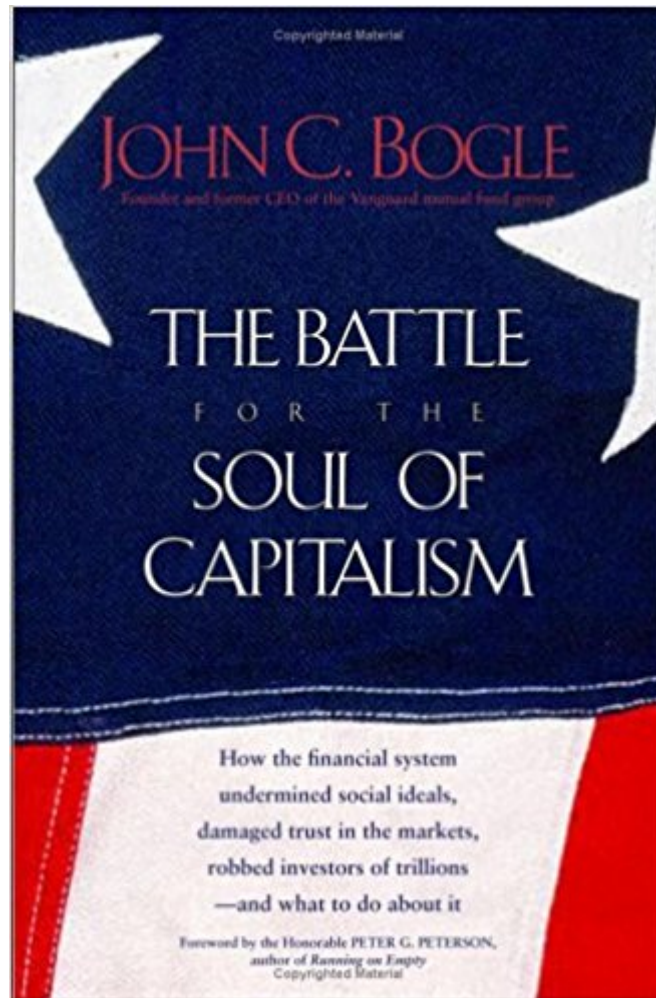




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The Battle For The Soul Of Capitalism



Synopsis

There is no one better qualified to tell us about the failures of the American financial system and the grotesque abuses that have taken place in recent years than John Bogle, who as founder and former chief executive of the Vanguard mutual funds group has seen firsthand the innermost workings of the financial industry. A zealous advocate for the small investor for more than fifty years, Bogle has championed the restoration of integrity in industry practices. As an astute observer and commentator, he knows that a trustworthy business and financial complex is essential to America's continuing leadership in the world and to social and economic progress at home. This book tells not just a story about what went wrong but, more important, the story of why we lost our way and of how we can right our course. Bogle argues for a return to a governance structure in which owners' capital that has been put at risk is used in their interests rather than in the interests of corporate and financial managers. Given that ownership is now consolidated in the hands of relatively few large mutual and pension funds, the specific reforms Bogle details in this book are essential as well as practical. Every investor, analyst, Wall-Streeter, policy maker, and businessperson should read this deeply informed book.

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Customer Reviews

Despite its inflated title, this volume is a worthy jeremiad against corporate excess, especially the kind hastened by the mutual fund industry that Bogle, former CEO of low-cost Vanguard, knows well. Among the problems: inflated executive compensation and creative accounting that allows

companies to claim profits even when they're in the red. Mutual fund companies, Bogle charges, care more about short-term results than long-term value, and many of them gain profits for larger parent corporations by charging investors unnecessary fees that undermine the funds' net returns. To remedy such problems, Bogle writes, mutual fund owners and their fiduciaries must exercise the corporate responsibility they now shirk, and fund boards must be reshaped to serve the interests of shareholders. He advances in all seriousness Warren Buffett's once-joking idea for a high tax on short-term trading gains and calls for a federal commission to examine the way pension funds are managed, as well as the state of our retirement systems in general. While other recent books, such as David Swensen's *Unconventional Success: A Fundamental Approach to Personal Investment*, marry similar criticisms with more advice for individual investors, Bogle— a rock-ribbed Republican businessman— still deserves attention in the precincts of power. (Oct.) Copyright © Reed Business Information, a division of Reed Elsevier Inc. All rights reserved.

"This is an important book for the post-Enron era. In his characteristic hard hitting style, one of the legends of the mutual fund industry presents an insider's view of what's wrong with corporate America and what can be done to improve it."— Burton G. Malkiel, Princeton University (Burton G. Malkiel) Simply put, capitalism has too many characters and not enough men of character. When one of the few tells us that the system he loves is ailing, and how he'd fix it, we had best listen."— Cliff Asness Ph.D., Managing and Founding Principal, AQR Capital Management (Cliff Asness) "In his characteristic style, Bogle delivers strong medicine for what ails our capital markets and corporate governance framework. Not all will agree with everything that he has written, but they would be wise to take note, as his message is resounding and his proposals go to the heart of crucial debates about management, ownership, and value creation."— Devin Wenig, President, Business Divisions, Reuters Group (Devin Wenig) "Jack Bogle has written a brilliant and insightful book that highlights the many ways that our economy has suffered because managers have placed their own economic interests ahead of those of owners and investors. Bogle offers prescriptions that, if enacted, will help prevent a repeat of the scandals that we have witnessed over the past five years."— Eliot Spitzer, Attorney General, New York (Eliot Spitzer) "John Bogle has written an insightful book with great historical and contemporary perspective. His analysis of what has gone wrong and what needs to be done should be required reading for students, financial practitioners, and official policymakers."— Henry Kaufman, President of Henry Kaufman and Company, Inc. (Henry Kaufman) "This is a must-read book for anyone interested in how to restore badly needed integrity, and efficiency, to our capital

markets." — •Honorable Peter G. Peterson (Honorable Peter G. Peterson)"Bogle describes the continuous struggle for control of our capitalistic system, the odds being heavily in favor of the — managers. — Individual investors and beneficiaries remain helpless, — intermediaries are passive or conflicted, and boards not yet effective. — You owe it to yourself to — read this book and — reflect — on his call — for further federal intervention to restore some balance." — •Ira Millstein, Senior Partner, Weil, Gotshal & Manges LLP — — (Ira Millstein)"A wake-up call to policy makers. Anyone who cares about the future of [America] needs to read [this] book." — •Jack Treynor, President of Treynor Capital Management, Inc. (Jack Treynor)"Once again Jack Bogle is the clearest and most courageous voice pointing out critical flaws in our governance and financial system but also showing in constructive, brilliant ways how to make the timely repairs. This book presents a rare blend of erudition, experience, and utility. It should be required reading for CEOs, public policy leaders, and MBA students — — if not all informed investors." — •Jeffrey Sonnenfeld, Yale University (Jeffrey Sonnenfeld)"In this tour de force, Bogle subjects corporate America to a forceful critique. — Keen insights, rich experience, and moral courage shine throughout. — Anyone interested in our corporate system should read this book, and those who do will never see corporate America the same again." — •Lucian Bebchuk, Harvard University — — (Lucian Bebchuk)"This superb book should be a required reading for every business student in college. — Like a fine surgeon, Jack Bogle dissects what is wrong with the capital markets from an investor — —'s view, and at the same time provides a well-reasoned cure." — •Lynn Turner, Former Chief Accountant of the U.S. Securities and Exchange Commission (Lynn Turner)"Jack Bogle has done more to protect corporate shareholders from mounting abuses at the hands of greedy and negligent CEOs, directors, and money managers than anyone in America. The case he makes here is so powerful and well reasoned that our Washington politicians will be hard pressed to ignore it." — •Mario Cuomo, 52nd Governor, New York State (Mario Cuomo)"John Bogle has done more to help ordinary investors than any other person in America today. — He continues his battle on behalf of shareholders with this impassioned new book. — Every investor and every policy maker should read his ideas for reform." — •Peter Fitzgerald, U.S. Senator for Illinois, Retired (Peter Fitzgerald)"The American wage earners — —'s pension and 401(k) savings are now a major source of capital. — Incredibly, although the source of capital is democratized, wealth is more concentrated. Jack Bogle finds this contradiction unacceptable and in this book shows us how to democratize the rewards of capitalism." — •Ray Carey, author of Democratic Capitalism: The Way to a World of Peace and Plenty (Ray Carey)"This book is a gift to the reading and investing public. Bogle uniquely

understands mutual funds and everyone needs to listen when he warns of the deceptions that have plagued the industry. Investors will profit if they follow his simple straightforward advice."

•Robert A.G. Monks, author of Corporate Governance (Robert A.G. Monks)"Jack Bogle's The Battle for the Soul of Capitalism is arguably the most important treatise on the bubble era. Policymakers, investment fiduciaries and individual investors should read and act upon Bogle's prescriptions. The stakes are high: our collective financial souls."

•Steve Galbraith, Limited Partner, Maverick Capital (Steve Galbraith)"Jack Bogle says exactly what needs to be said, and he does it with gusto. His tales and lessons should be required reading for any business leader, plus they offer great insights for smart investors."

•Walter Isaacson, The Aspen Institute (Walter Isaacson)"Over the past half century, American capitalism nearly lost its soul. One of the few who noticed was Jack Bogle. Now, for the first time, he tells the whole tale as only Jack Bogle can: just what happened, just how it happened, and just how to fix it. This is mandatory reading for anyone with a dollar to invest or an interest in the future of American capitalism."

•William Bernstein, author of The Birth of Plenty (William Bernstein)"Jack Bogle's brilliant tour de force provides the first integrated view of how our system of investing often destroys more value than it creates. Bogle clearly understands how the system works and how perverse motivations are undermining value creation. Always a pragmatic, he offers workable and practical solutions of how to get back on track."

•William W. George, Former Chairman and CEO of Medtronic, Inc. (William W. George)"Bogle . . . makes clear what went wrong and who is to blame."

•Paul B. Brown, New York Times (Paul B. Brown New York Times)"[Bogle's] book is yet another important contribution in an illustrious career."

•(Jeff Madrick New York Times Book Review)

Bogle, in his book, makes an excellent case that shareholders and investors in the financial sector have been taken for a ride by those in positions of fiduciary responsibility (i.e., primarily high level corporate officers and fund managers). Bogle separates his book into four sections, one examining shenanigans at the individual corporate level (mostly involving corporate governance), the second involving shenanigans by the mutual fund industry, the third involving those by other sectors of the investment industry and the fourth, most refreshingly, proscribing a set of reforms to mitigate against the problems discussed in the previous three chapters. Bogle, in the first three chapters, does an excellent job at overviewing and elaborating on the so many ways that high-level corporate officers and fund managers have been robbing their shareholders and investors blind. These include packing corporate boards with dependent cronies that serve as de facto "yes men" in setting up

their own outrageously high (at least independently of performance, which seems to bear no resemblance to performance) pay and bonuses, setting up "off book" accounts intermingled with corporate funds and then using personal funds to engage in non-market price transactions with their own companies (which, of course, always benefit them at the expense of the company), for example. It should be stressed, though, that Bogle not only examines commonly known scams such as the two above mentioned, but a whole slew. Many of these are not very well known to even many astute investors. Of course this does not mean he lists them all. The reason for this is that the book was written in 2002, immediately after the high-tech bubble of the late 1990s burst. Hence some shenanigans that came to light since then, for example the practice of "back dating", go unmentioned. In the final section of the book Bogle provides an extensive list of solutions to these many problems. Many have been already proposed by others such as Warren Buffet. Example includes providing shareholders with a greater voice, in terms of voting, with regard to officer remuneration. Another is to establish de facto independent pay boards that determine officer remuneration. A third is to separate the audit and consulting functions performed by auditing firms. The sad fact of the matter is that since this book was published about 10 years just about the only reform that Bogle has mentioned, despite the self-evident merits of the reforms he discusses, has been the portion of Sarbanes-Oxley that breaks out auditing firm's audit and consulting functions. Bogle concludes, in the final paragraphs of his book that the reforms he lays out will, eventually, be passed in his opinion because they are beneficial to share and mutual fund owners and are essential to keeping the investing public's faith in the financial markets. Unfortunately he also states, quite explicitly, that these reforms may take a very, very long time to pass. This is not very reassuring to those investors who have lost money in the past and will continue to lose money as a result of these shenanigans.

This book is worth your time. It outlines how there have been philosophical changes in American Business in the last 50 years at the corporate, investor, and mutual fund levels. Owners of business and investors in mutual funds have less control over their outcome and the managers have more control. The central thesis of the book is that the managers have more self interest in the bottom line and manage only for short term gain. This contrasts to ownership control which results in a focus on long term welfare of the business and quality of the product. The last part of the book focuses on the mutual fund industry and shows how managerial greed has skimmed off a lot of profits that should go to the investors (public owners). The case for index investing becomes more apparent and this seems logical since John Bogle the founder of Vanguard wrote it. It got a 4 because I felt that Bogle

at times was too repetitious and could have used more concrete examples in the book, but I learned a lot.

This book is a work of genius and integrity, with the potential to catalyze Wall Street into fulfilling the promise of moral capitalism and community ownership. Here are some highlights from my flyleaf notes: + America is no longer an ownership society--financial intermediaries "own" everything and the individual owners are passive + We can find the wisdom and will to restore moral capitalism + Earnings have been manipulated and misrepresented. + Executive compensation plus lax accounting and the fiction of quarterly earnings versus actual cash flow have hollowed industry out. + Profound conflict of interest exist across all fronts + Fund managers have siphoned off one fifth of the gross value of the funds. + Our business world chose the wrong bottom line, and ignored the importance of sustaining human, social, and community capital + Stock options are out of control. Seven specific Conference Board suggestions: 1) Corporate citizenship 2) Separate ownership from management 3) Fix the stock option mess 4) Pay on performance not peers 5) Return to long-term focus 6) Let sunlight shine on accounting 7) New mindset for Board (aggressive stewardship) Page 103: "Investment America went wrong, then, because in the contagious enthusiasm of the day, financial engineering and manufactured earnings became the coin of the valuation realm, accepted by corporate managers and investment managers alike. What is more, the emphasis on short-term price came to overwhelm the reality of long-term value, as investors failed to honor the distinction between investment and speculation drawn by John Maynard Keynes six decades earlier." In my view, this book, and three others, should comprise the Christmas reading list for all adults: *Independents Day: Awakening the American Spirit* *Day of Reckoning: How Hubris, Ideology, and Greed Are Tearing America Apart* *A Power Governments Cannot Suppress* I am personally committed to the non-violent legal ethical overthrow of the existing pathologically inept federal government and its political leaders in both Congress and the Executive who lack morality, intelligence, integrity, or conscience. Dick Cheney, not George Bush (a village idiot) is their poster child. I find it truly gratifying that a man of such financial stature as John Bogle now articulates and inspires the remorse that Wall Street must feel for running the Earth into the ground. Below are other books I recommend as a reading list toward November, five about the bad, five about the promise: *The Bad* (see my reviews): *Vice: Dick Cheney and the Hijacking of the American Presidency* *The Broken Branch: How Congress Is Failing America and How to Get It Back on Track* (Institutions of American Democracy) *Legacy of Ashes: The History of the CIA* *Fog Facts: Searching for Truth in the Land of Spin* *The Good* (see my reviews): *The Politics of Fortune: A New Agenda For*

Business LeadersThe Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits (Wharton School Publishing Paperbacks)The Wealth of Networks: How Social Production Transforms Markets and FreedomGod Bless America. We can unite and fix this. Check out Reuniting America (Unity 08 is a fraud, the last gasp of the spoils system).

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