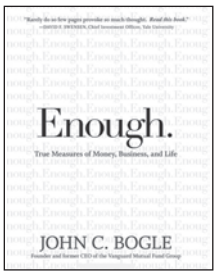
RECOMMENDED READING

Enough. True Measures of Money, Business and Life

by John C. Bogle (John Wiley & Sons, Inc., 2009)

REVIEWED BY BOWEN H. "BUZZ" McCOY, CRE



JOHN BOGLE IS THE FOUNDER AND former CEO of the Vanguard Mutual Fund Group. He created Vanguard in 1974. *Fortune Magazine* rated him as one of four "Investment Giants" of the twentieth century. *Time Magazine* rated him one of the 100 most influential people in the world. Termed by some, "… the conscience of Wall Street," Bogle distills his half-century of observations of the capital markets, and on life in general, in this provocative and stimulating book.

Bogle sets the tone of the book with a quotation from David Brooks, *New York Times* columnist: "The country's moral guardians are forever looking for decadence out of Hollywood and reality TV. But the most rampant decadence today is financial decadence, the trampling of decent norms about how to use and harness money." He goes on to quote a party conversation between Kurt Vonnegut and his pal, Joseph Heller. Vonnegut states their host, a hedge fund manager, had made more money in a single day than Heller had earned from his wildly popular novel *Catch-22* during its entire history of sales. Heller responds, "Yes, but I have something he will never have … enough."

He reinforces this point with a quotation from Socrates made 2,500 years ago: "I honor and love you; but why do you who are citizens of this great and mighty nation care so much about laying up the greatest amount of money and honor and reputation, and so little about wisdom and truth and the greatest improvement of the soul? Are you not ashamed of this? I tell you that virtue is not given by money, but that from virtue comes money and every other good of man."

Bogle details a major premise that, on balance, the financial system subtracts value from our society. In 2006 the financial sector alone accounted for more than 30 per cent of the total earnings of the 500 companies that make up the Standard & Poor's stock index. Fees are excessive and, for example, in a fund of funds investment, are piled up one atop another. There has developed a disconnect between cost and value in our financial system. Money managers have shifted from long-term investment to short-term investment. Average annual portfolio turnover has increased from an average of 15 percent to more than 100 percent, further increasing costs.

Bogle passionately subscribes to three basic investment principles: balance, diversification and focus on the long term. John Maynard Keynes defined *investment* as "… forecasting the prospective yield of an asset over its entire life." He defined *speculation* as "…the activity of forecasting the market." Seventy years ago Keynes stated: "When the enterprise becomes a mere bubble on a whirlpool of speculation and the capital development of a country becomes a by-product of the activities of a casino, the job of capitalism is likely to be ill-done." Benjamin

About the Columnist

Buzz McCoy, CRE, *was responsible for the real estate finance unit at Morgan Stanley for many years. He is a past president of The Counselors of Real Estate and a Life Trustee of the Urban Land Institute. His recent two books are:* The Dynamics of Real Estate Capital Markets: A Practitioner's Perspective *(Urban Land Institute, 2006) and* Living Into Leadership: A Journey in Ethics *(Stanford University Press, 2007).*

Graham, Warren Buffet's mentor, once stated: "In the short run the stock market is a *voting* machine … but in the long run it is a *weighing* machine." When markets are driven by investors, volatility is low. When markets are driven by speculators, by hope, greed and fear, we have high volatility and turbulence. We live in the most speculative age in history. In the 1950s the annual rate of turnover of common stocks was 25 percent. Today it is almost 300 percent if we include exchange-traded funds.

Of particular interest to CREs, Bogle devotes a chapter to defining the characteristics of professional conduct. He quotes an article in *Daedalus*, the journal of the American Academy of Arts and Sciences, which lists the six identifying qualities of a profession and a professional:

1) **A commitment to clients and to society in general**. This resonates with me, as in the old Morgan Stanley partnership, the client always came first. Today investment banks have been known to trade against their clients
2) **A body of theory or special knowledge, presumably which adds value to the client**. Not just trading securities
3) **A specialized set of professional skills**
4) T**he capacity to render judgments with integrity and under conditions of ethical uncertainty**. We are always looking for rules to tell us the answer, when often the answer is not clear. I am reminded of Hannah Arendt's wonderful description of *New Yorker* editor, William Shaun: "He had perfect moral pitch."
5) **An organized approach to learning from experience, both individually and collectively, and thus of growing new knowledge from the context of practice**
6) **The development of a professional community responsible for oversight and quality control**. This is where most professions fail. It is difficult to enforce professional sanctions.

The article concludes that the primary feature of any profession is to establish an inherently ethical relationship between the professional and the general society. A profession should be seen to create value for society rather than to extract it. It should create wealth rather than redistribute wealth.

Bogle writes also of leadership, and he has ten rules for building a great organization:

1) **Make Caring the Soul of the Organization**. Everyone deserves to be treated with courtesy, candor, friendliness and respect for their honorable work.
2) **Forget About Employees**. Think instead of crew members, or team members, each linked together, each dependent on the other.
3) **Set High Standards and Values—and Stick to Them**. Do what's right. If you are not sure, ask your boss. Good ethics is good business.
4) **Talk the Talk. Repeat the Values Endlessly. Be inspiring**. Build an organization in which those who do the hard work of routine can take great pride.
5) **Walk the Walk. Actions Speak Louder Than Words**. Personal visibility, by everyone, is an attribute of leadership.
6) **Don't Over-manage. Manage by values, not by numbers**. Let spirit and spontaneity rise.
7) **Recognize Individual Achievement**. Validate the value of the individual through small human touches.
8) **A Reminder—Loyalty Is a Two-Way Street**. If you expect loyalty, give loyalty in return.
9) **Lead and Manage for the Long Term. Avoid layoffs in temporary downturns**. Never demand that some arbitrary percentage of the work force be unilaterally rated unsatisfactory. Character is the bedrock of the firm that lasts.
10) **Press On, Regardless**. Keep pressing forward, no matter the circumstances.

In answer to his question of how much is enough, Bogle quotes from *American Psychologist* magazine: "It is not money that determines our happiness, but the presence of some combination of three attributes:

1) **Autonomy**. The extent to which we have the ability to control our own lives;
2) **Maintaining "connectiveness" with other human beings** in the form of love of our families, our pleasure in friends and colleagues, and an openness with those we meet in all walks of life;
3) **Exercising competence.** Using our God-given and self-motivated talents, inspired and striving to learn."

Bogle quotes the Roman poet Horace: "Whoever cultivates the golden mean avoids both the poverty of a hovel and the envy of a palace."

In these days when trust has been destroyed in our financial institutions, it is a blessing to recognize that there are John Bogles as well, who have built businesses of lasting value on Wall Street while maintaining their integrity and their dreams. ■