Eric Balchunas on Fiduciaries, Jack Bogle, and all things ETFs

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Andrew

0:00

Welcome to the investing for beginners podcast. I'm your host for today, Andrew Sather. We have a special guest with us today. His name is Eric Balchunas. Did I pronounce that correctly?

E

Eric

0:12

You did. You're in the 20 percentile.

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Andrew

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All right. It took me took a second effort. So Eric is the Senior ETF analyst for Bloomberg Intelligence. And he's got a really cool book called The Bogle effect. If investors aren't aware of who John Bogle is, he is definitely a legend. And I was not aware of how much he impacted the financial world until reading this book. And there were a lot of really cool things in the book. So Eric, thanks for taking time out of your day and joining us today.

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Eric

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Yeah, that's music to my ears because people do know who he is, or at least know his name. And I wanted to make sure I introduced some new information and went deeper and wider than, you know, past attempts at talking about Vanguard.

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Andrew

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I think you certainly did before we got into all of that because your role as senior ETF analyst ties all in with Jack Bogle and everything. But in case we have somebody who's tuning in to our podcast for the very first time, maybe their absolute beginner, there was a word, a particular word in there in the book that was mentioned many, many times as a fiduciary. So can you break down what that word means fiduciary and why it's important for investors to know

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Eric

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simply put, it just means putting the client's interests ahead of yours. So that's what a lot of advisors today now are, quote, fiduciary advisors. That means they try to pick the funds that can do the best for the client. This is a shift from past decades where brokers put people in funds because the fund paid them, and that is called suitability, which is a lot less stringent criteria. Like is that fun suitable for that client. It's almost like a loophole to put them in stuff that just gives you a kickback. To be honest, that system is something Bogle had a heavy hand in disrupting, so now the fiduciary is putting your client's interest first. Bogle and Vanguard use that word a lot because they have a structure that lowers fees all the time, and they consider themselves to be strong fiduciaries. So that's really all it means. You would think everybody in the industry was a fiduciary not, and that's you know, this is why there's a lot of stories come out of Wall Street are not positive, they usually end badly and people getting screwed over rises and falls. It's a wild industry. But due to the Bogle effect, I think it's more and more becoming a very fiduciary industry. But that's generally what that means, in a nutshell, is putting the client's interests first.

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Andrew

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Amazing how common sense that sounds. And

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Eric

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I always tell people, you think that would be like the way it was for 100 years, but it's now it's like a new thing.

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Andrew

2:46

Yeah, I think if you want a breakdown of what the opposite of a fiduciary is, you should read Michael Lewis's book, liars, poker; there are some great examples of working against

E

Eric

2:56

Yeah, totally. I mean, I think if you're on Wall Street, and your client is an institution, and they're just like, look, go out and just trade and make me money. And I'll give you 2%, that's fine. I mean, that's where a lot of hedge funds operate, whatnot. I think for the broad mass of people, though, back in the day, when they used the broker, there was just a lot of money being put in funds that the broker wouldn't invest in themselves. Whereas when you become a fiduciary advisor, you really start to think about, well, what fun would be best for my client. And that mental shift, that incentive shift is a huge reason for the rise of index funds and ETFs. Because now, the advisors who always knew that was the better move. But now they're more incentivized to do it. And that has become a huge driver. And it's interesting that in the US now, I'd say that, I think it's around 70% of the assets are now managed by fiduciary asset base fee advisors. But that's, that number has slowly grown over the years. So 70% is probably going to keep growing. But overseas, it's almost nothing. And that's why the Bogle effect and indexing and all this has, has barely begun to crack through in other countries because they're still run that way where a broker puts the client in a fund because the fund gave them a payment. And by the way, the payment comes from the investor's money, which is like, it's basically like, I'm going to take money from you, to put you in this fund that I know isn't that good. And that is essentially a big part of what Bogle and Vanguard disrupted.

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Andrew

4:24

Yeah. So can you describe may be the basics of active versus passive? Again, if somebody's a beginner, they don't really know what we're talking about in that sense because Bogle definitely played arguably the biggest role in this; why the adoption of passive investing?

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Eric

4:40

Yeah, I mean, simply put, if you think about the s&p 500 or the Russell 1000, these are indexes. And an index just tracks a group of stocks, and it's weighted by the size of the stock. And that thing is sort of what we call market beta. It's just generally the market, and that's passive. So if you invest in a fund that holds the s&p 500 stocks, which are weighted by market cap. So Apple and Amazon are near the top. And then a company like, I don't know, something like urban outfitters would be near the bottom; they might not be in the s&p, so don't quote me on that. But you don't, I mean, a smaller company would be towards the bottom. That's what passive is; it is just buying the market. And what would Bogle really, I think one of the big things he did is, he now allows you to buy the market at no cost. So back in the day, there was no such thing as a cheap index fund; they had index funds. And when he introduced it, it was, I think, 45 basis points or point four or 5% at first. And you know, some people took it, but over the years, Vanguard lowered the fee. And so the reason there's a huge boom in passive investing, really, is because it's cheap. So owning the s&p 500 at a point o 3% of an annual fee is a very compelling value proposition. The other thing is, over the years, it's just been proven that an active fund that basically tries to beat the s&p by picking stocks and deviating from the benchmark has largely underperformed, and if you go, any given year, only about a third can outperform. But as you go along bigger timeframes, like ten years, 20 years, it goes down to 10 5%. And so a lot of investors are like, well, am I going to pay 80 basis points, or 100 basis points a year for a 20 or 10% chance of outperforming? Or should I just lock in the market return for no cost? And almost everybody is picking the latter decision. But again, the no cost is where the Bogle effect really comes in. Because Vanguard's structure is owned by the investors. So over the years, whenever they've gotten assets, the board, which is the investors, people who are elected by the investors, vote to lower the fees. So the fee of Vanguard funds has gone from 4050 bips in 1975 76, down to three or four for both stocks and bonds. And so this is massive, and it's caused a gigantic sea change. So rarely I think passive is about just tracking an index. But for almost no cost. That's really the passive is activist thinking and trying to beat that index by picking stocks or bonds in a way that you think is, you know, can outperform, but it's hard.

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Andrew

7:17

There are lots of flavors of it, too, for sure. Um, so flavors. Yeah.

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Andrew

7:20

So how do you believe Jack Bogle? I thought it was interesting how you talked about some of the more personal things that happened to him. So he had a heart attack that you highlighted in the book, as well as the dedication to his face. So how do you think that shaped his journey and creating Vanguard and maybe touch on, like, the ownership structure again, because Sure, we see a lot of defy and a lot of this focus on ownership of cryptos and everything. He kind of pioneered that already. It's kind of already a concept.

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Eric

7:51

Absolutely, in the book, I say Bogle is really the OG of defy, it's not technically decentralized finance, but it's a good pure, similar thing. Because Bogle just removed a lot of your money from other people's pockets. And when you invest in a cheap index fund, you basically get to keep every cent, and that's in the spirit of defy, in my opinion. Now, the Vanguard mutual ownership structure is major. And this is why I wrote the book because I felt index funds got too much credit for the index fund revolution. They're only popular because they're cheap. And they're only cheap because Bogle started a company where the funds owned the company, and the investors owned the funds; ipso facto, there are only the shareholders who are the investors. And so, as I said, every time they get extra money mentioned, if you were in a co-op, and you have extra money, of course, you're going to vote for your own self-interest. So the own self-interest of the Vanguard's owners is to lower fees in the funds; they're in the right. It's a beautiful thing, right? There are mutual ownership structures in the insurance industry. That's a little more common there, but not asset management; it makes no sense. And there's really no economic incentive to set up a company like this. Nobody goes to Wall Street to turn over all the future profits to the investors that just, you know, it's almost anti-capitalist that the reason Bogle did it, he was a different kind of guy. But there was this really weird circumstance in the way he had a falling out with his partners in the 60s. He read the book; you'll know what I'm talking about. So there was a circumstance that happened mixed with Bogel's just general, you know, abnormal mindset and populist attitude. And I think he was a natural fiduciary kind of guy. So he set up Vanguard as mutually owned. And then, for the next 45 years, he pioneered the idea of low costs, and the costs went down and down and down.

And the index fund was really a nice match made in heaven for that structure. index funds were not invented by Bogle, but he definitely championed them. And the makeup of Bogle, I think you're right because I interviewed 50 people, and I asked them all the same question, why has nobody copied the Vanguard structure? And everybody said because there's no economic incentive to do that. Well, then I said, Well, then why did Vogel do it? And they all said the same thing? That's a good question. So chapter four is called x. Waiting Bogle where I tried to break down what went into somebody who would do this, again, created an $8 trillion company, and he, you know, assets. And he only ended up with a net worth of 80 million, which is a good amount for most people, but it wouldn't even put them in the top 1000 richest people on Wall Street. And so that is interesting to study, and I got came up with a couple of things. First, he grew up in the Great Depression; he was just one of those world war two types, like my grandmother, who like saved everything, and just didn't like to spend money, turn the lights off anytime they weren't in a room, that kind of mindset.

He also had a huge experience in the 60s of thinking you should like go and ride the growth wave, but then the whole market crashed. And after that, he swore he would never take the bait again in a market cycle. And that's important; I think because he just kept to this one strategy for 40 years; it's not easy. In markets, sometimes you get carried away, and you're like, Oh, this is different now. And it never really is different. It's just these cycles that he was able to stay the course through many cycles because of what he saw in the 60s. And I think his heart was another big one. He had it he was; he was told he wasn't gonna live till past 35. He had a bad heart. So he went to the hospital constantly. When he played racquetball, he would have to bring a defibrillator with him. I think I've butchered the pronunciation of that. But one of those things that get your heart going again. And that's how near-death he was his whole life; he even had a heart transplant later in life. So I think that gave him a jolt of life and purpose, knowing that death was nearby. And I do think he wasn't a religious fanatic at all, but he loved the Bible. He loved the stories of underdogs. And he always felt that if you do the right thing, you know, God will get your back and, you know, give you help. And the Bible is the most quoted book from all of his books. That's why I put that in there. So he also loved to read all poetry and history. And I think he saw himself as a sort of populist hero in his own story. And then, you know, I think he was a guy who just didn't have a need for money, which is an odd pursuit; most people go to Wall Street because they love money. He just didn't want he didn't have that gene. He did like the praise; he liked adulation and praise. And so being like the saint jack and the guy doing good for investors really suited his internal need for that praise. So like I said, he wasn't perfect. Everybody has different needs and things that drive them. I just feel like he was almost miscast in this industry. And I tried to explain that, in a way, because, again, nobody's done this since. And it's just such an odd situation to have this company that is owned by the investors. And so it was a, you know, interesting answering that question, but I feel like I got it as deep as I could with it. And I think people can learn from this guy; I think there are a lot of elements of him that speak to investors and young people today who are looking to make money but also do good for the world. I think he was way ahead of that, you know, because he did this during the Wall Street greed is good stuff. He did it during the big short in the 90s. I mean, he did it before it was kind of in vogue. Now, I think it's a little more in vogue to have this sort of conscious business attitude. So I give him a lot of credit for being way ahead of that curve.

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Andrew

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And if there's maybe one other thing that stands stood out to me, I'm gonna butcher the statistic you put in there; it was something like 80% of the fun, or the growth of the funds that he created, wasn't for decades later. And so for a long time period, he was kind of pioneering his own trail, not really getting a lot of that credit and not getting today it's, you know, Vanguards a huge behemoth. It's a colossus; as he said, he didn't have that. He didn't know that it was going to be that way. But he had the patience and the discipline to stick through his approach, whether it looked in vogue or not.

E

Eric

13:47

Yeah, that's a great point you bring up, and I stress that in the book; listen to this stat. So the Vanguard has 8.3 trillion today. 97% of those assets came after he stepped down to CEO. Well, Apple, I think 83% of their market cap is after Steve Jobs. So there is a pattern of people who are pioneers; this doesn't catch hold right away; they got to build this big Foundation. And so yeah, the patient's, you know, was incredible. The other thing that made it take a long time was two things. One is he operated outside of that broker system, I explained. At the time, the only way to sell a fund was to give the broker money; he wouldn't do it. He had to get people to leave the whole system, which was not easy to use; they'll leave their job and go out on their own. And that's scary and created a product so enticing that many brokers reformed themselves and became the advisor's fiduciary because they wanted to buy Vanguard funds. So he changed that that takes a while. Nothing is an index that doesn't make intuitive sense. It does now, maybe today more so, but back in the day, it seemed like average, and you know, an American like winners, and he had to really try to present all these other arguments for why it wasn't average and overtime while you actually won Okay so that all that took a lot of time. And then once the world turned, and they kind of got it all the fiduciary movement and started it damn, I mean, it was like an explosion. And obviously, the assets went straight up like a hockey stick and continue to grow. They have grown by a trillion dollars in the past three years each year, like a trillion a year, and then take it 1 billion a day. It's just, that's another reason I think we take it for granted. But those numbers are astonishing. But he saw barely any of it. In fact, in he has a book where he has all his speeches from the 80s and 90s. And every Christmas party, his speech would be like, Oh, we've got one extra billion this year; we went from 7 billion to 8 billion. And he was so happy about that. Now they take in a billion a day. That's crazy.

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Andrew

15:46

That's definitely not pocket change. Yeah. So, Eric, I wanted to ask you this because knowing you have a podcast about ETFs, called trillions, correct? Yes. So you're definitely way more of an ETF specialist than I am. Vogel's definitely changed the world and made it; he saved people trillions of dollars, right? billions or trillions of dollars, there was a quote in the book that you did that you actually quoted his book. He said, In short, our prototypical client is a financially astute investor who knows what he or she wants when he or she wants it, and how to get it. So my question for you is this one's kind of tough. But how do you keep investors who maybe don't know what they want? And they don't know how to get it? How do we get them to learn about some of the fundamentals of buy and hold? Don't freak out when the markets are crashing? When the lessons eight of the index are not the most exciting topic? To say the least. So how do you get people excited about it enough to learn the fundamentals? So that they follow, they internalize, and they follow it when the market goes down?

E

Eric

16:57

Yeah, it's a good question. And you're right; every time there's a sell-off, Vanguard is the only company that takes inflows, even though the market is falling. So clearly, the type of person who is their poor investor, let's figure this out. For other people, I think there are two charts that make me think of this one is a chart where he shows the death of $10,000, which gets 7% A year versus 5%. It's only a 2% difference; it seems like no biggie. But over 50 years, the 7% gets you $300,000, the percentage, and $140,000. So the idea of going into an index fund and holding it really starts to gap and the compound and kicks in without the costs, and it's beautiful. So I would look at long-term charts that are by dollar. I think that really says a lot. The other thing is that it's human; I found I figured it out, and it was only gone for a second; I'm actually impressed; I grabbed it back from the cosmos. The other thing that he talked about that I think was really useful was where stock market returns come from; you have people who get up and work every day, and they create value in corporations; that value is then put into cash flow, which gets transferred to you with dividends and earnings growth, that's called investment return, that investment return has been really consistent over 100 years, every decade, there's a positive investment. What happens is the third, the other type of returns of speculative return, which is just people bidding up stocks beyond what they're worth, and then it crashes down. So he has this chart of the investment return to the age decade, the last 100 years. And it's all very consistent positive. And he overlays the actual return, which includes the speculation, and it's all over the map. So what he was trying to say was, don't get carried, don't look at the speculative return, just keep your eye on the prize, which is the investment return. That's what you're here for. And that's consistent. So you have to see through the fog and the distraction of that speculative return which goes up and down.

And it can be enticing and seductive and then painful. That was powerful. I thought because people can kind of understand that. You know, and also, you can tell people don't ever trade. But I think it's easier not to do that. If you understand why you shouldn't. And I think that those are two big things. So the growth of $10,000. And the speculative return versus investment return, I think, were powerful ways. And I have a lot of that in the book because I didn't write a how-to book; I didn't want to do that. The old ETF book I wrote in 2016 was a little more about how to fish, but I thought you would probably pick up on this because the way he explained this over 40 years is true today still, and so you're going to pick up how to just from reading this, but I didn't like beat it over the head. But and let's face it, trading is legal. You can do it. Some people have fun with it. What we've seen a lot is portfolios go to something like 80% Cheap index funds, right to get all the stocks and bonds covered, and then we'll get to 20%; they do a lot of speculative stuff for crypto ETFs, stuff like that. That seems to be the modern portfolio where you can sort of have your cake and eat it too. And I also think the 10 20% off can sometimes keep you keep an itch scratched, so you don't mess with the 80%, which does create wealth most efficiently if you don't touch it, and you let it compound.

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Andrew

20:10

So I'm gonna hold on to this one last question on this, and then we'll move on to something more interesting. You know, Dave, my co-host, Dave talks a lot about how sometimes a financial literacy across our country or even is not the greatest; he gives an example of being in the banking industry and people coming in and saying, with me, I don't have money in my account. You know, I have checks. So how do beginner investors average investors? How do they really internalize that message? Because I get it? I certainly get it. But I also spent a lot of time, you know, is it reading books like yours? Reading books, like Bogles? Isn't listening to podcasts like yours? Like, how do we get people from, instead of learning these lessons the hard way, getting burned? Because they don't, you know, they panic sell? How do we get them from that to learning these lessons? How would you recommend somebody do that today? How would you recommend, you know, the next generation?

E

Eric

21:03

Well, you know, this stuff that goes up? Like, if you have all your money in crypto, it's tough to say anything? Well, some people are all in on this stuff. And, you know, I think I would just recommend, you know, don't give investment advice, that's more for an advisor, but just cover the whole market with to, you know, to low-cost ETFs, like the total market equity, total market bond, and just get that covered. Because you don't want to miss out on anything, you do that you'll never have FOMO for stocks or bonds. And those are also diversified; they're never going to go down that much. Even in 2008, I think the s&p was down 35%. That's a lot. But if you stretch out ten years, it wasn't that bad and still generally goes up. So you have to just think about that. Because what other options do you have, you could speculate on something that could lose all your money, I think, putting it into the markets, you get, again, the return that corporations produce by creating value, and that's really just running capitalism's coattails with stocks and bonds. And so get that. And then for the other stuff, again, that may be just more you are interested in, like when you think semiconductors are just such a great thing, they add a little series on top, you know, something like that. I don't think there's any harm in that. I think, to your point, though, half the country doesn't own stocks, or bonds, which I talked about in the book, because even Vogel feared that the people who own stocks were leaving the other part of the country behind and that would present a problem. And I think we're seeing after creating the wealth gap.

So I kind of end the book, looking at some people who might be able to try to bring the rest of the country into it. And just a couple of ideas. One is to have somebody have to pass a litter of financial literacy tests. And then, when they're 18, they can actually unlock an account that has been holding index funds since they were 18. Sort of like a pre-funded account. But you can only unlock it like a driver's license if you pass all these tests. I think that would go a long way. Rather than having the stupid stock-picking class tests of contests they do in school, I think this other method, I think people have to sort of shift how they think about it and look at it that way. But also have the people have to do what they want to do, you know, like in, it's okay to learn the hard way like I was 20 something in the 90s. And, you know, me and my roommates who got carried away with like Oracle and Microsoft, we start these steps are going to go up forever. And they would go up, you know, a couple of percents a day. It was fun. And we thought we had extra money, and then everything, obviously, the internet bubble burst. And that taught us, Yeah, maybe we should just like, buy a fund and just not try this. And also you get your responsibilities in life. And you don't think you have time to dabble do day trading. So I think a lot of people just learn the hard way, which is fine; experience a great teacher. And you know, they get older, they have more reasons to not put too much speculation in their portfolio. So that does end up driving them to things like the next ones naturally. So but yeah, I would; I think my book has a lot in there. But he wrote a book; I reviewed all of his books; he wrote 12 books that were really on a mission. His book, The Little Book of common sense, to me, is awesome, in short, sweet. And if you read that, it's like a nice shot of just pure truth. And it's like eating spinach for investment advice. Do you know what I mean? It's like green vegetables. Read that book. And I think you're, I mean, you know, that's really good stuff in there. But some people aren't interested in that; they want to actually gamble, and there are other books for that. And I'm not I'm trying to encourage them, but if really building wealth is your goal, I would just read that book.

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Andrew

24:36

Yeah, that's good advice. The other good chapter there is called Some Worry. So can you give us some of the biggest misconceptions about passive indexing and maybe one that grinds your gears the most? Maybe we could start there.

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Eric

24:50

Yeah, there's a bunch like, oh, it's creating a stock market bubble. I'm like, well, passive has taken in 2 trillion in the past ten years, and the stock market has grown by 43 trillion. So So, it's still passive funds ETFs. And index funds still only own about 16 17% of the stock market, they are growing, but they're still they're not enough to move stocks around. Anybody who's watched financial news over the past year knows that stocks are moving plenty on earnings like earnings come out, the stock was up or down activist is definitely in control. That's good. That's a weird one and easy to diffuse. The one that I always found so silly is that passive investors are weak hands. Like they're all going to run for the hills when it gets bad. Actually, every solo shows the opposite; they're much stronger. Because I think they're resigned to the fact that a three basis point index fund is the best thing they can get their hands on. So what am I going to do, jump to some fun that might have had a good year or like, just like, now, this is the best that can do, I'll just hang in there? And so they become they're the most disciplined investor, if anything, they're gonna help put a floor on us off because they're gonna keep investing. And so that's one that grinds my gears a lot, the one that has a merit that I talked about the bulk of, you know, customer service, I think the cheaper everything gets, you don't have a ton of money to build out customer service. And I think Vanguard, in particular, has to look at that. And consider that because they have 27% of the assets but only take home 5% of the revenue. That's why people like them. But that 5% The revenue is there's not a ton of money to do customer service with. So I think that's an issue that's legitimate. Another one that we like to watch is ownership. The more BlackRock and Vanguard get big, the more voting power they have. So they're each going to own seven 8% of shares, and those numbers could double in the next ten years, take it on 15% of each stock; it gives them a lot of power. And the question is, how do they deal with that? Do they? Do they democratize that by letting everybody who's in their funds fill out a poll or elect to put their vote as a percentage of the total vote? I think they should consider those kinds of things. Rather than having this small group that, you know, is in New York City, comprised of a quilt people doing all of that voting, I think they really have to think about how to open that up because there's a lot of power to walk around with.

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Andrew

27:03

It certainly is a lot of power. And it's one of those things I worry about, too, like democratization is a good idea. But if the people who are getting into passive index funds are doing that, so they don't have to know what's going on with these businesses. Do we really want them voting on the businesses? The question I have for you on that?

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Eric

27:19

Yeah, that's, that's actually a good something that the Janus CEO brought up once Index Ventures shouldn't vote; I actually don't think it's a bad idea. I don't think people at the expense really care that much. On the flip side, the way to solve that is simply have a poll. And if you're interested in this, just fill out the poll and then take all the results. And that way, you have a feeling of the consciousness of the investors who do care and then vote accordingly. That would be my pretty easy solution. But anyway, sorry. I didn't mean No,

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Andrew

27:45

I'm asking because I have no idea what the answer to this is. But who does the vote at the end of the day? Who picks? Is it somebody in Vanguard who's voting? Yes, shares? Yes.

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Eric

27:56

Yeah, the CEO of Vanguard is called the corporate governance group. But obviously, they're under the CEO. But there's they're a group made up of people who look through all these proxies and figure out what issues they want to vote with management on and against. And we have an I have a colleague, who I've quoted in the book, Bob DeVos, who follows all these promises. He likes passive ownership; he thinks they're, he's a fan of ESG. He thinks they vote more ESG-ish than the act of people who are just happy to profit. I think it's cool to have both thinks; you know, you have a little ESG voting over here with the passives. And then the profit-hungry act is voting to that's a decent mix. I'm okay with that. I think it's; there will be a couple of votes where, you know, if BlackRock and Vanguard both kind of get together, or they can really completely move the needle, they do put up reports on how they voted, so people can follow up. But they go with management a lot. There are a couple of issues they definitely vote against. It voted against the Google CEOs pay package, which would have deleted Bogle; he was about CEOs getting paid too much. But I don't think they're as tough on management and CEOs as some people want them to be. On the flip side, there's a whole group of people who think they should get out of voting ESG style because not all their investors live say, in like left or blue states. They got investors in Texas and Florida and stuff. So like I said, it's complicated.

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Andrew

29:17

I appreciate that balanced perspective because it's probably somewhere in the middle. And it's, there's always people screaming at the extremes.

E

Eric

29:24

They have; they're always gonna have a target on their back going forward now. And anytime a company has a problem, it's going to be like, well, Vanguard, the biggest donor, or Blackrock is the biggest donor. And now they're in the papers. I asked the head of iShares that and a guy who used to be the CIO of the guard, and they both had the same answer, which is, look, if we signed up for this, we're okay. You know, when you're the big dog, you're gonna get attacked, and we understand this, we accept that responsibility. And that was sort of their answer to that. So they weren't like complaining or anything, but I'm sure it's annoying. Sometimes when they get called out in an article like we're some study that says Vanguard is the dirtiest company or something. But well, if you have an index fund business, you have to Old Exxon. That's what your investors signed up for. It's just the way it is. So this will completely also these companies offer ESG funds that purposely exclude some of those stocks. So I think the best thing is to give people a choice of funds, which they do. So I tend to think it gets a little bit out of proportion sometimes in the media, and they get blamed a little too much. And they don't understand the concept of an index fund. But I go through a lot of this in the book as hardware.

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Andrew

30:24

Yeah, I saw a meme on Instagram. So obviously, take that for what it's worth, but somebody was railing about who is this BlackRock? And why did you know they own every property? Yeah. Okay.

E

Eric

30:35

Yeah. They're like, Who did they like? They discovered like they discovered this thing. And oh, my God, this company is so nefarious. It's a bunch of dudes in a back room with cigars. It's just so it is funny to see how that plays out. But no, it's much more aboveboard than that. I don't think people should worry too much.

A

Andrew

30:51

Yeah, I agree with that. So maybe let's tie up our whole conversation today if we could bring it back to this idea of compound interest, which I think Jack was very, very passionate about anything we didn't talk about with compound interest and how that applies to the average investor, how beginners can start to think about that and apply it for themselves,

E

Eric

31:13

I think I would just really get into the compound. And compounding is a beautiful thing. When it starts to happen. The amount isn't there, this, there's this great I didn't use in the book. But there is this; I believe that if you take a domino, and you double the size of the Domino, it only takes like 16 of them to knock over the Empire State Building. It's something like that. It's something that that's how ridiculous doubling every time get, you go up quickly. And then each double gets higher. And I think, honestly, the Vanguard acid level that I just gave you, where they grow by a trillion a year, that's not all flows; that's also the market going up and growing. So I think their assets are a metaphor for how a portfolio can compound. But that it's again, it's really something people should look at that I think will motivate people to not, you know, sell low and buy high. Because compounding it's like playing a tree outside; it can't mess with it or won't grow; you have to just let it grow. And that's a fair metaphor. But it's boring. And although some people in the book argue that they liked that, it's boring because once they feel comfortable in a low-cost index fund, and then they can just think about other things. And so they thought I got a good deal here, I'm not going to mess with it, and actually liked being freed up; other people find that to be boring. And again, they like to scratch pitches with speculation. And I would just take a small portion of that. Because again, you want that ad core to compound. If you mess with it, it can't do that. I have a chapter at the end called The Art of Doing nothing. And I really go into all this. And I said, there's a lot of forces trying to do something which is, namely, the media and commission-free trading and Robin Hood and stuff. And again, it's legal. But you have to in your own brain, by the way; I think emotionally, you're wired to do something when things are bad. And so this is part of what I explored in that last chapter. Because you don't want to touch it, even if it seems like you should, and it's hard. Doing nothing. When it comes to investing is actually an action. It's harder than it looks. That's why I explored it. But I think just the creation of low-cost index funds really helps behavior because when it does get worse, you're like, Well, what else am I gonna go, go all the cash and miss the next swing up, go to an active fund that had a good year, but without they might underperform next time. So I think the resignation that you're in a really good product is very helpful. So he actually, in my opinion, had a great benefit on behavior just by offering a product worth holding.

A

Andrew

33:39

The Domino's picture is a great one; I can narrow the picture, a meme that has a visualization of that. And so I think people can remember that they should remember it when they talk about compound interest. I might steal that one. When I talk about in the

E

Eric

33:51

future. You should Google that Google Domino Empire State Building thing, and you should definitely share it with your audience. It's a mind-melting stat.

A

Andrew

33:58

I believe it so your book, The Bogle effect, how John Bogle and Vanguard turned Wall Street inside out and saved investors trillions. Go check that out. It was a great overview of John Bogle's life taken from varying perspectives, which I don't think has been done on his life before. And there's also a lot of good nitty-gritty for all the other finance nerds out there. So Eric, thanks for joining us today. Where can people learn more about you? What you're doing online,

E

Eric

34:25

I'm on Twitter, a pretty good amount at Eric Balchunas, and I have the podcast you mentioned Trillion, which you can get anywhere, so I do a half an hour TV show called ETF IQ, which is every Monday on Bloomberg TV at 1 pm. Or just go and google ETF IQ and see all the past episodes there. Those would be the free ways to get me, but anybody has access to a Bloomberg terminal. That's where I put my research. But on Twitter, I release little sample sizes of that research and engage with people and stuff. So that's probably the best way to start. If you're interested in the sorting, follow some of the stuff that I'm doing

A

Andrew

34:59

Once again, @ericbalchunas.

E

Eric

35:02

Yeah, just my name. Believe it or not, it was available. The good news about having a name like mine is you can go on any social media, and you never have to use like one, two, or three after whatever. So yeah, it's just my name and an app before it.

A

Andrew

35:15

So you'll take the mispronunciations for the trade-off. You get a unique

E

Eric

35:19

Yeah, that's a good way. Yeah, I never thought of that. I think it's worth it.

A

Andrew

35:24

Awesome. Well, thanks for joining us. That is gonna wrap it up for today. Everybody, check out his book, go out there and invest with a margin of safety emphasis on the safety. Have a good one. We'll talk to you next time.