

[PDF] The Clash Of The Cultures: Investment Vs. Speculation

John C. Bogle, Arthur Levitt Jr. - pdf download free book

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Description:

Featured Guest Review by William J. Bernstein

There's something rotten at the core of the American financial system; we all know it.

Before I go any further, I'll have to put my own biases on the table. While I'm in general a big believer in the power of free markets, there are certain things they don't do particularly well. Consider, for example, airline safety. Free market fundamentalism would dictate leaving it in the hands of consumers, who would logically shun those companies that killed too many passengers. We're smarter than that, of course; in large part because of government regulation, the average year

passes without a major airline crash. Ditto the interstate highway system; does anyone really believe that Smith's invisible hand would have produced anything like this gem at the heart of our economy had not Dwight Eisenhower not been so impressed with Hitler's autobahns?

Of course, there are some activities that the government should stay out of: it should regulate airlines, but it shouldn't run them; and it shouldn't produce food, automobiles, and almost all other goods. This begs a much larger question: just where do free markets fail?

Which brings me to Jack Bogle's marvelous book about American finance, a system that, as we've seen in the past few years, has failed in a number of areas. As the author shows, it has done so by maximizing profits for managers, minimizing them for owners, and the customer be damned. For more than half a century, Mr. Bogle has not only observed this evolving spiral of immorality and self-interest from the inside, but has also been instrumental in creating, almost singlehandedly, what is thus far the major alternative to it: the customer-owned Vanguard Group.

There's a paradox at the heart of *The Clash of the Cultures* that should rivet any capital markets participant: just how is that the more market oriented an investment company is, the poorer are its results? The author recounts in painful detail the sorry performance of mutual funds managed by the large publicly traded financial companies, and the poor stewardship at the heart of that failure. The superb performance of the funds run by Vanguard, which is essentially a non-profit organization, stands in stark contrast. And it's not just Vanguard; it turns out that TIAA-CREF, which is also essentially a non-profit, the government-run Thrift Savings Plan, and privately held fund companies all do much better than large publicly traded finance companies. It's as if, say, the Red Cross, Department of Labor, and Salvation Army had all founded nonprofit automobile manufacturers that turned out better and cheaper cars than General Motors and Toyota.

Bogle identifies the speculative (as opposed to investment) mind set of the publicly traded companies as the chief culprit; because of their next-quarter/short-term focus, they trade frequently (as do their customers), pay scant attention to the costs of these activities, and often extract revenues from their funds and their shareholders in less ethical ways as well.

But that's only part of the story. *The Clash of the Cultures* gets to the heart of this remarkable and, for our nation, critical, conundrum of how in some economic spheres, nonprofits can outperform the invisible hand. It's required reading for every concerned citizen and every worried investor, and food for thought for anyone with an open mind and a curiosity about the world.

Review "*The Clash of the Cultures: Investment vs. Speculation*" is a must read for investors who want to understand the forces that are working against them and what they can do about it to maximize their investment returns. It should come as no surprise to those who know Jack and his philosophy that the final words of his final book are: 'Stay the course!'—**Forbes**

"*The Clash of the Cultures: Investment vs. Speculation* is . . . an enjoyable read that ends with 10 lessons for investors that, while simple, are deeply valuable to the general public. . . *Clash of the Cultures* is a great summary of the breadth of Bogle's 60-plus years in the investment field. He offers observations on the shocking change in the culture of finance that he has witnessed first-hand. Among the most important of the shifts is that short-term speculation has crowded out long-term investment. Though this has been great for the financial sector, it has come at the expense of the public." —**CBS MoneyWatch**

“Bogle, as the Godfather of index investing, has ideas that are timeless and based on simple math, and at the same time exhibit uncommon sense and a routinely overlooked view of how investors are consistently overcharged by the financial services industry. Fortunately, his wisdom is widely available to everyone. Much of that wisdom has been assembled in Bogle's most recent book *The Clash of the Cultures: Investment vs. Speculation* (Wiley, 2012). While most of the insights are time-honored themes in the Bogle canon, they are very useful for individual investors.” —**Reuters**

“Bogle's latest book tackles what looks like an artificial distinction. His *Clash of the Cultures* title conjures thoughts of world war and social strife. But he's talking about ‘investment vs. speculation’. . . As in his previous books, Bogle is a master of the clear point and the pithy quote - from the investment writings of John Maynard Keynes and Benjamin Graham, pension adviser Keith Ambachtsheer and Bogle's old mentor the late Walter L. Morgan, as well as the Gospels of Luke and John.”—**Philadelphia Inquirer**

“You know what to expect when opening a book by John Bogle, founder of the Vanguard mutual fund group and inventor of index funds: a lament about the fall from grace of the US mutual fund industry, and a restatement of his strong conviction that COSTS MATTER!!! Mr Bogle’s new book, *The Clash of the Cultures , Investment vs Speculation*, does not disappoint on either count, but it is also very much in tune with the zeitgeist in its focus on stewardship and fiduciary duty. It lambasts US mutual fund managers for neglecting to act as responsible owners of the companies they invest in on behalf of the savers whose money they look after, and for their own governance failures.”—**The Financial Times**

“[The Clash of the Cultures] echoes many familiar . . . themes worth repeating, because they are too often ignored. Investors spend so much time chasing hot asset classes and hot fund managers that they end up buying high and selling low, all the while incurring transaction costs. In Mr Bogle’s words, ‘investors need to understand not only the magic of compounding long-term returns, but the tyranny of compounding costs.’ . . . The American pension-fund industry has been particularly bad at understanding these long-run fundamentals. Many schemes assume, on the basis of past performance, a return of 7.5-8%, a figure that is highly implausible given the current low yields. . . Meanwhile, many employees in the private sector have been switched into defined-contribution schemes. . . But employees are not saving enough, are not allocating their portfolios efficiently and are incurring too many costs. It is hard to disagree with Mr Bogle that the ‘system of retirement security is imperilled, heading for a serious train wreck.’ But will anybody listen to him, when they haven’t in the past?” —**The Economist**

“John Bogle’s latest book, as much a piece of history as is it a playbook for how to repair financial markets scarred by two bear markets in 10 years and a loss of confidence, is one of those books on finance that ought not be left unread. *The Clash of the Cultures* is the latest and perhaps best book by the founder of Vanguard Group. . . Plus, for those not familiar with Bogle’s prose, the man can turn a phrase, which makes the book all the more enjoyable.”—**IndexUniverse**

“If the Occupy Wall Street movement is serious about helping people with real financial issues, then its leaders should read John Bogle’s book and embrace his ideas for change.”—**Rick Ferri, Forbes.com**

“John Bogle’s story is an oft-told tale, yet even Bogle junkies will learn some fascinating new facts from *The Clash of the Cultures*. Bogle takes of the cudgels on behalf of investors, who he believes have been poorly served by most of the industry. Bogle brings invaluable historical perspective to current issues ranging from high-frequency trading to the looming crisis in the U.S. retirement

system to the use of mutual fund investors' money to promote the growth of assets under management. Every thoughtful investor can benefit from his wisdom, served up with refreshing modesty by a giant in a field notorious for outsized egos." —**Financial Analysts Journal**

"The book is a gem. Well-researched and carefully argued, there's simply no way to argue with Bogle's premises -- that the little guy always loses, that the more you churn the more you lose, that most people's retirements are dramatically underfunded, that management looks out for itself and not the stockholders, and that greed is driving the bus. . . Read Bogle, not just to learn about how to protect your investments and understand what really happens on Wall Street. But more than that, read *The Clash Of The Cultures* and declare yourself into the three percent who have ideas and aren't afraid to use them." —**The Huffington Post**

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