



Fireside Chat: A Discussion With John Bogle

Live Webinar

June 17, 2009 10:00 – 11:00 am EDT

A Discussion With John Bogle



John C. Bogle

Founder
The Vanguard Group



Jim Wiandt

Publisher
Journal of Indexes

Index Funds in Mid-2009: A Status Report

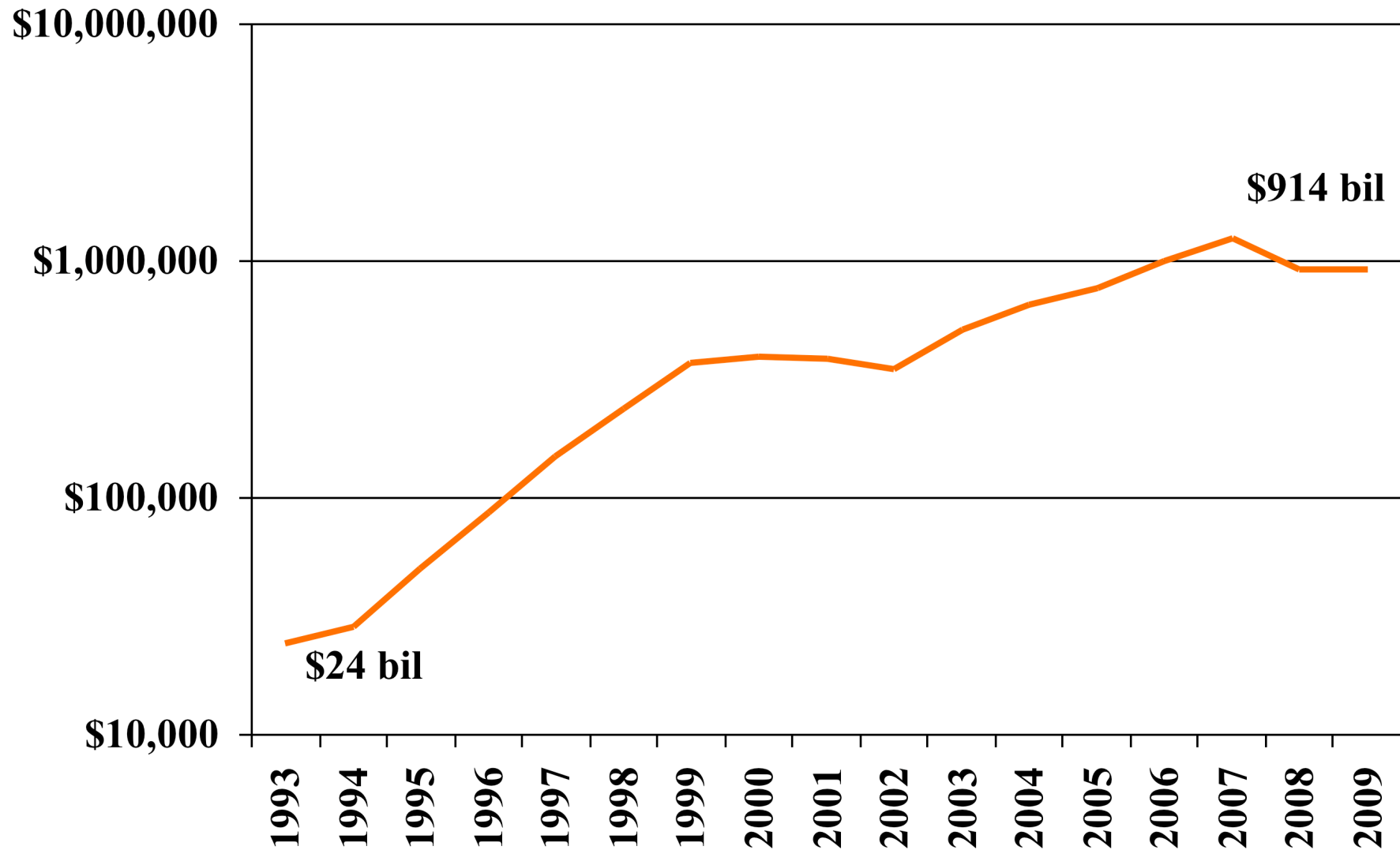
**Remarks by John C. Bogle
Founder, The Vanguard Group**

Live Webinar Presentation

**New York, NY
June 17, 2009**

Index Fund Assets, 1993 – 2009*

(millions)

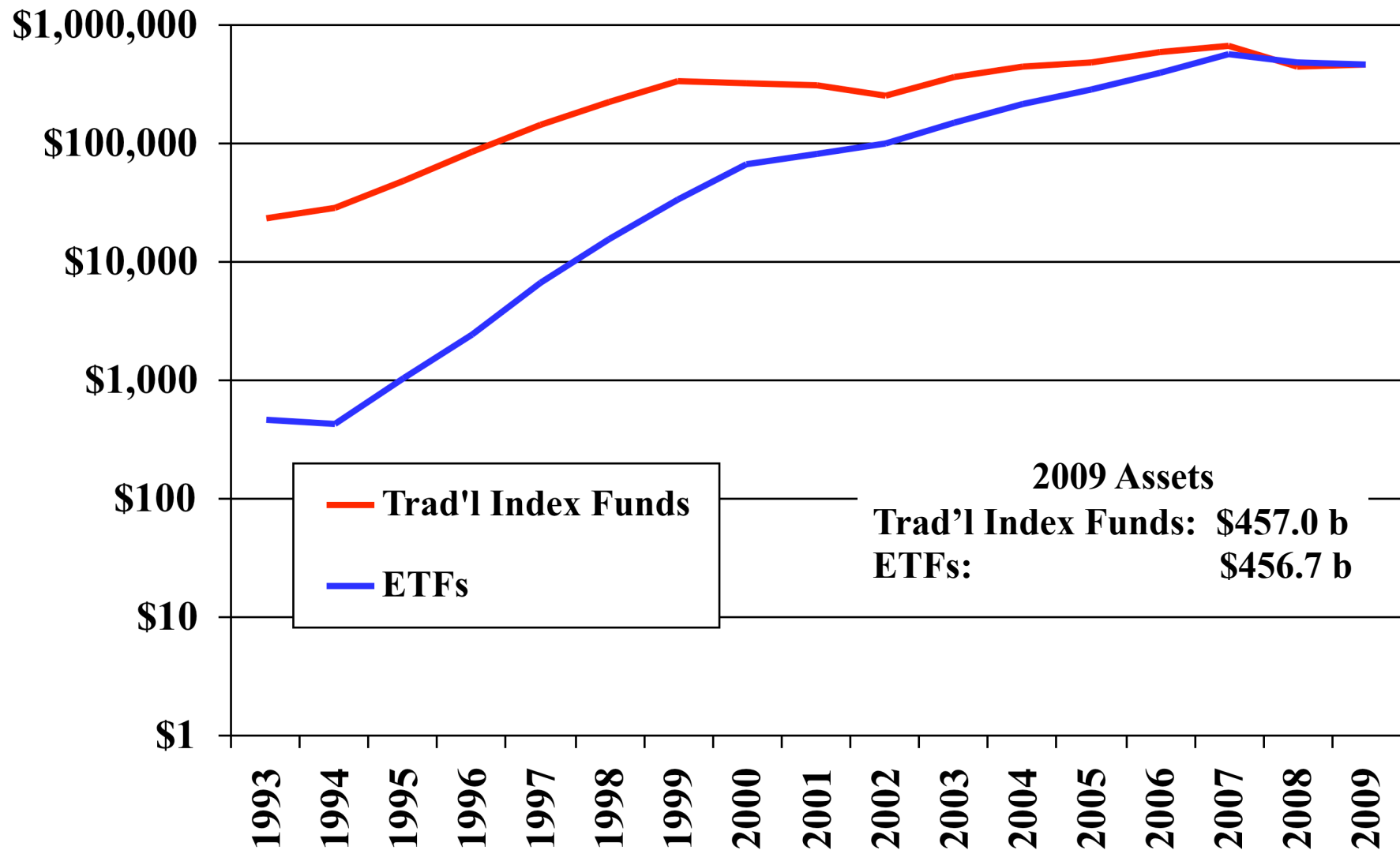


*Domestic and Int'l equity fund assets

I. ETFs: A Truly Great Business Model

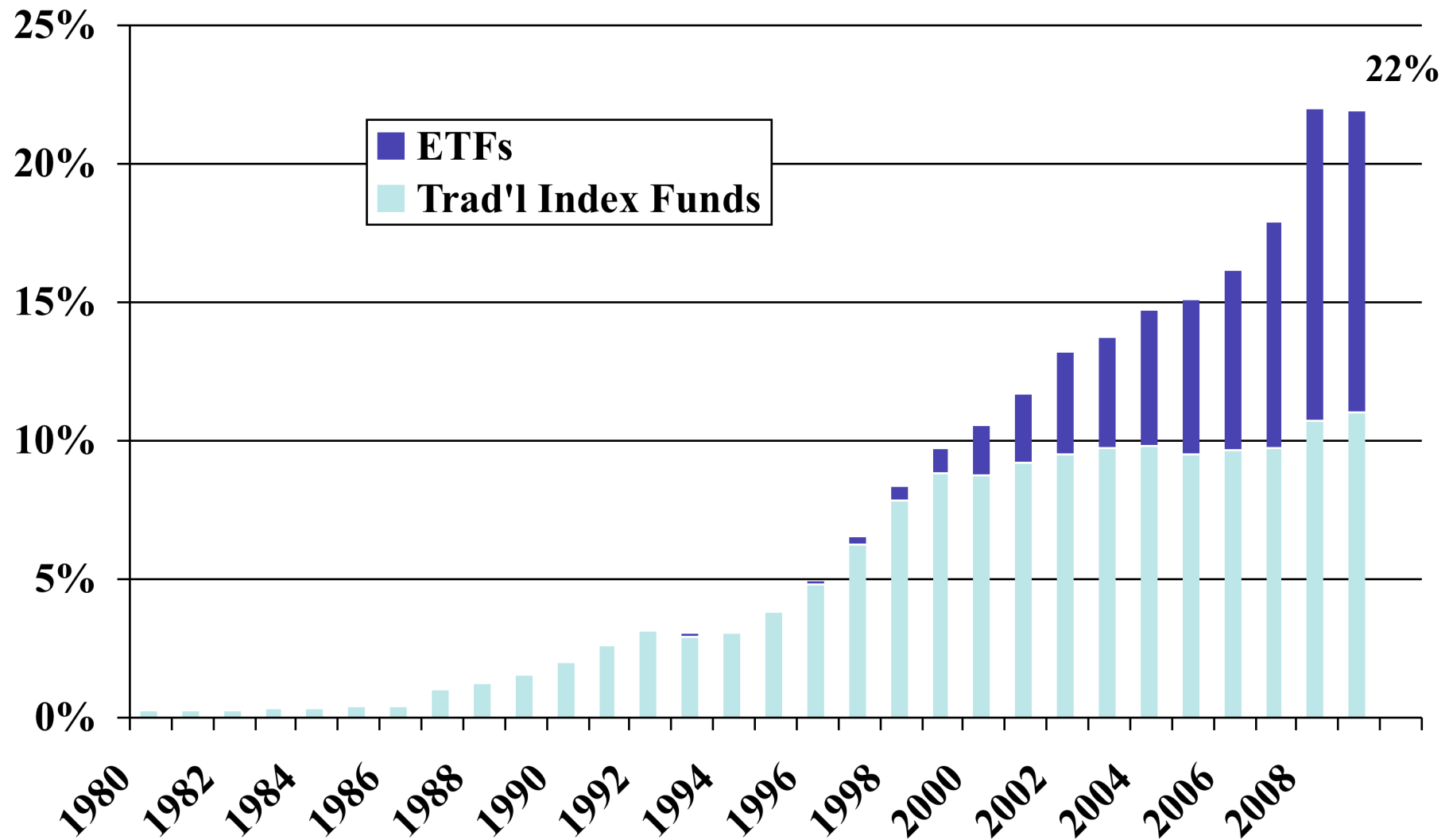
Index Fund Assets, 1993 – 2009*

(millions)

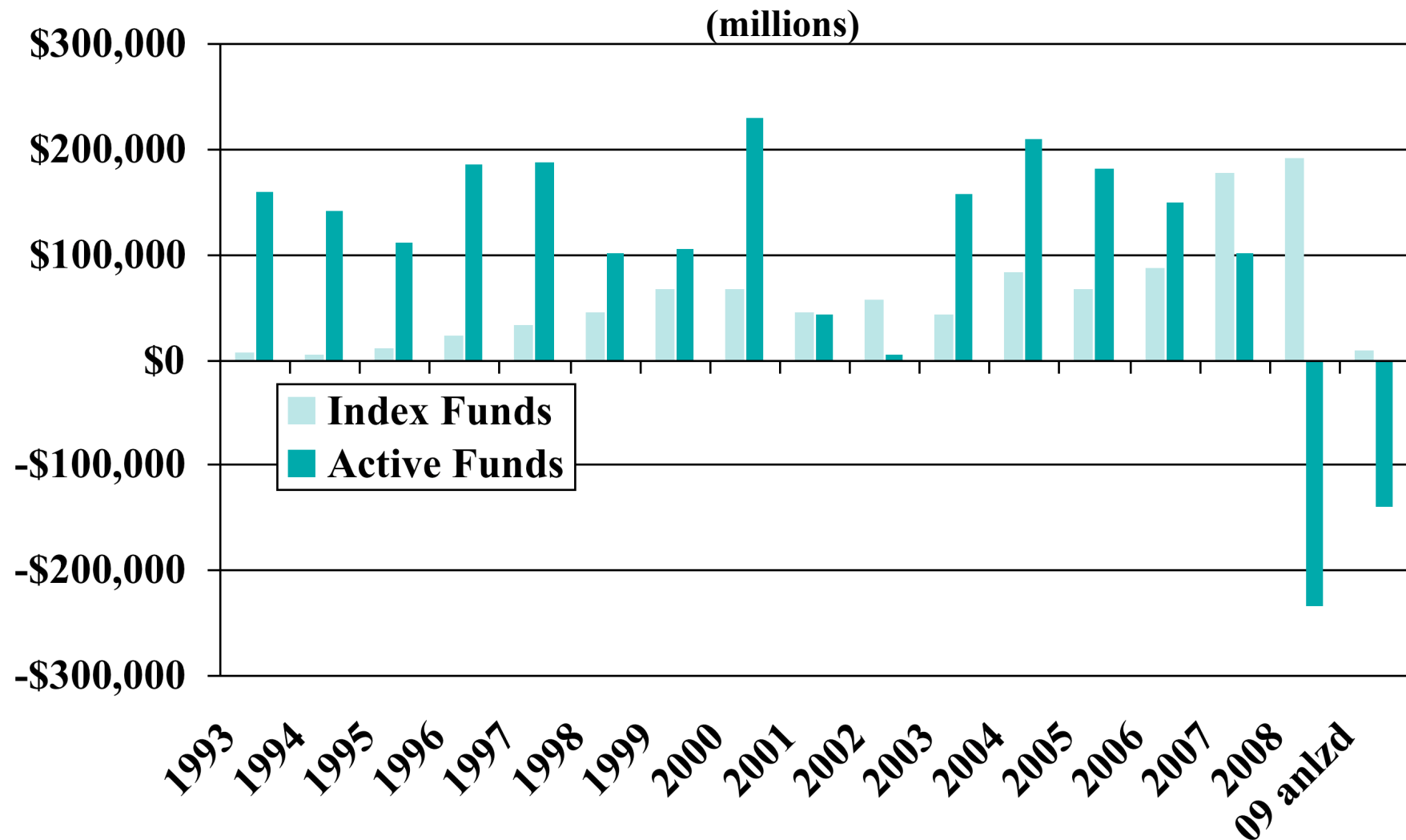


*Domestic and Int'l equity fund assets

Share of Equity Fund Assets, 1980 - 2009

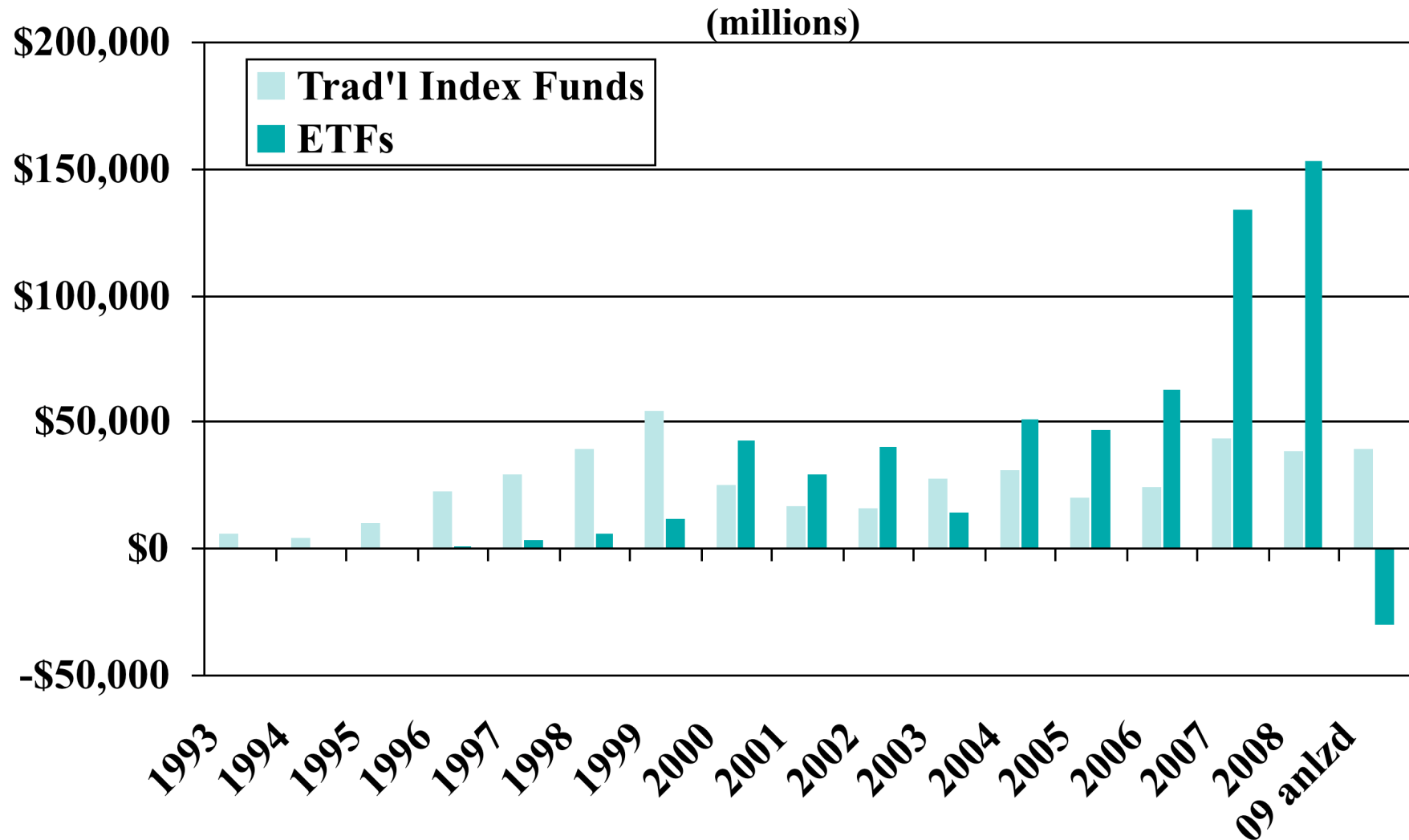


Indexed Equity vs. Active Funds, Net New Cash Flow, 1993 – 2009*



*Domestic and Int'l equity funds

Traditional Index Funds vs. ETFs, Net New Cash Flow, 1993 – 2009*



*Domestic and Int'l equity funds

II. ETFs – A Flawed Investment Model?

“Trading the Market All Day Long in Real Time”

Five Highest Turnover ETFs

| Fund | Annual Share Turnover |
|--------------------------------|----------------------------------|
| 1. iShares Real Estate | 23,977% |
| 2. SPDRs | 10,105% |
| 3. Financial SPDR | 9,693% |
| 4. PowerShares QQQ | 8,774% |
| 5. iShares Russell 2000 | 7,763% |

Five Lowest Turnover ETFs

| Fund | Annual Share Turnover |
|---------------------------------|----------------------------------|
| 38. Vanguard European | 188% |
| 37. BLDRs Asia 50 | 200% |
| 36. Vanguard Health Care | 204% |
| 35. Vanguard Pacific | 235% |
| 34. iShares Europe 350 | 241% |

Note: 38 ETFs analyzed

Major Markets

10a.

Annualized Five-Year ETF Performance: *Fund* Returns vs. *Investor* Returns

| | Fund Return | Investor Return | Investor Lag | # of Funds | # of Funds w/Investor Lag |
|------------------|----------------|--------------------|-----------------|---------------|------------------------------|
| Large-cap Blend | -1.4% | -5.7% | -4.3% | 14 | 14 |
| Large-cap Growth | -1.7% | -7.7% | -6.0% | 6 | 5 |
| Large-cap Value | -1.8% | -2.2% | -0.4% | 9 | 5 |
| Mid-cap Blend | +0.4% | -3.0% | -3.4% | 5 | 5 |
| Small-cap Blend | -0.5% | -6.9% | -6.4% | 3 | 3 |
| European/Pacific | +3.1% | +0.5% | -2.6% | 6 | 5 |
| Emerging Mkt. | +15.6% | +3.8% | -11.8% | 3 | 3 |

Major Sectors

10b.

Annualized Five-Year ETF Performance: *Fund* Returns vs. *Investor* Returns

| | Fund Return | Investor Return | Investor Lag | # of Funds | # of Funds w/Investor Lag |
|-----------------------------------|----------------|--------------------|-----------------|---------------|------------------------------|
| Financials | -10.7% | -28.6% | -17.9% | 5 | 5 |
| Health Care | -1.3% | -3.1% | -1.8% | 4 | 3 |
| Communications | +1.9% | -3.7% | -5.7% | 2 | 2 |
| Energy | +8.6% | +4.0% | -4.6% | 7 | 6 |
| REITs | -2.5% | -11.8% | -9.3% | 3 | 3 |
| Technology | -2.6% | -8.3% | -5.7% | 9 | 8 |
| Utilities | +5.5% | +2.1% | -3.4% | 3 | 1 |
| Total (major markets and sectors) | | | | 79 | 68 |

Annualized Five-Year Performance:

ETF Returns vs. Vanguard Mutual Fund Returns

| ETF Category | Fund Return | Investor Return | (a) | Vanguard Fund | Fund Return | Investor Return | (b) | (a) – (b) |
|-----------------|----------------|--------------------|-----------------|------------------|----------------|--------------------|-----------------|------------|
| | | | Investor Lag | | | | Investor Lag | ETF Lag |
| LCB | -1.4% | -5.7% | -4.3% | 500 Index | -2.0% | +0.8% | +2.8% | -7.1% |
| LCG | -1.7% | -7.7% | -6.0% | Growth Index | -1.8% | -0.8% | +1.0% | -7.0% |
| LCV | -1.8% | -2.2% | -0.4% | Value Index | -1.2% | -1.0% | +0.2% | -0.6% |
| MCB | +0.4% | -3.0% | -3.4% | MC Index | +0.3% | -0.5% | -0.8% | -2.6% |
| SCB | -0.5% | -6.9% | -6.4% | SC Index | -0.2% | +1.2% | +1.4% | -7.8% |
| Em. Mkt | +15.6% | +3.8% | -11.8% | EM Index | +14.5% | +7.0% | -7.5% | -4.3% |
| REITs | -2.5% | -11.8% | -9.3% | REIT Index | -1.5% | +1.2% | +2.7% | -12.0% |

Source: Morningstar

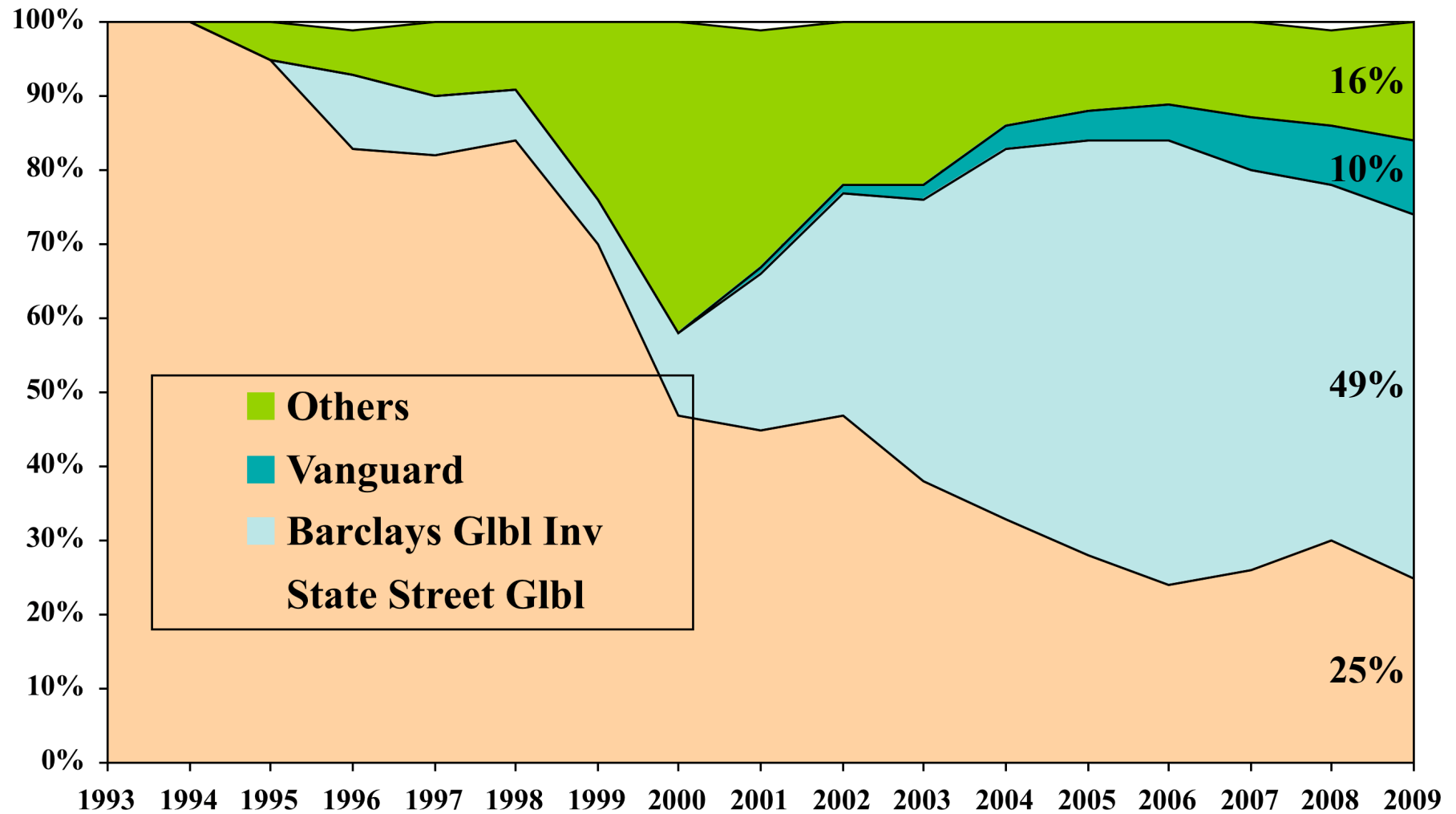
III. ETFs – The State of the Industry*

| | Number | Share of Total | Assets | Share of Total |
|--------------------------|---------------|---------------------------|----------------|---------------------------|
| Broad Market ETFs | 21 | 3% | \$147 b | 22% |
| Specialty ETFs** | 667 | 97% | \$526 b | 78% |

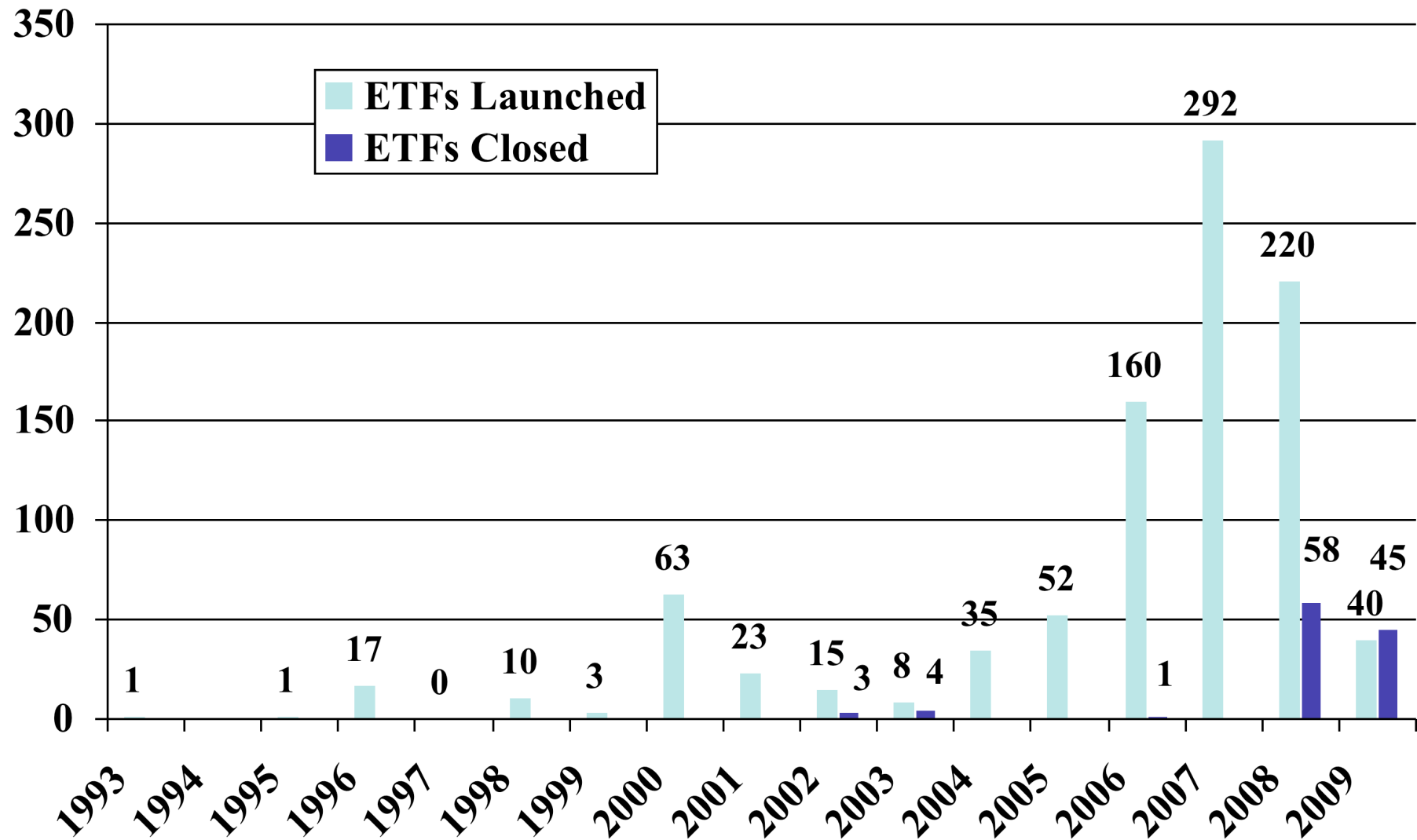
*Equity ETFs only

**ETFs focused on market sectors or styles.

ETF Market Share, 1993 - 2009



ETF Launches and Closings, 1993 - 2009



Source: IndexUniverse.com

A Selection of Shuttered ETFs

Claymore/Clear Global Vaccine

Elements Swiss Franc ETN

FocusShares ISE CCM Homeland Security

FocusShares ISE SINdex

FocusShares ISE-REVERE WalMart Suppliers

HealthShares Emerging Cancer

MacroShares Up Oil \$100

MacroShares Down Oil \$100

PowerShares Dynamic Aggressive Growth

PowerShares Dynamic Deep Value

HealthShares: 16

PowerShares: 19

Expense Ratios of Top ETF Providers

| Manager | Avg. Expense Ratio |
|---------------------|---------------------------|
| Vanguard | 0.15% |
| State Street | 0.36% |
| iShares | 0.41% |
| PowerShares | 0.64% |
| ProShares | 0.95% |

Thank You!

For More Information:

IndexUniverse.com

Vanguard.com