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John C. Bogle

The Journal of Portfolio Management Winter 2008, 34 (2) 95 - 102
DOI: 10.3905/jpm.2008.701621

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Abstract

While the simple investment principles espoused 60 years ago by Benjamin Graham remain valid today, investment strategies have become far more active, as the financial sector has come to play a dominant role in our economy. Mutual funds have become less diversified; their portfolio turnover has risen sixfold; and investors now hold fund shares for dramatically shorter periods. Fund expense ratios have risen sharply, a manifestation of the soaring costs of the U.S. financial sector, estimated at \$528 billion in 2007. Financial sector earnings have risen commensurately, to more than \$200 billion, contributing as much as one-third of the aggregate profits of the S&P 500. As gross return in the financial markets, minus the costs of intermediation, must equal the net return delivered to investors, such costs constitute a substantial drag on investor wealth. Yet both the profession and the academic community have largely ignored systemwide costs. It is high time for an in-depth study of the costs and benefits of our financial system, to ensure that it functions in the national public interest and in the interest of investors.

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