

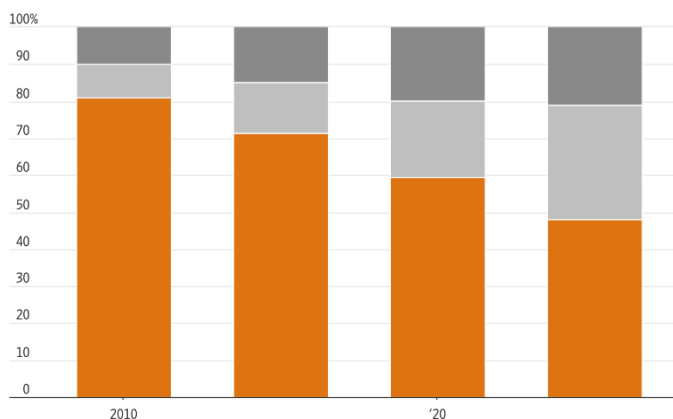
Happy 50th

Late in 1974, Nobel laureate Paul Samuelson urged the creation of a low-cost fund that would closely track the stock market. On Aug. 31, 1976, Vanguard, run by the late John Bogle, launched the Vanguard First Index Investment Trust, now known as the Vanguard 500 Index Fund (VFINX), the first retail index fund. Bogle believed that most actively managed mutual funds would underperform an index fund in the same asset class once taxes, management fees, operating expenses, commissions and portfolio transaction costs were subtracted from returns. His goal was to raise an initial \$150 million, but the initial response was underwhelming, attracting only \$11.3 million. This was enough money to buy only 280 of the 500 stocks in the S&P 500 Index. Apparently, telling people they could receive average returns turned out to be a tough sell. Ned Johnson, Fidelity's chairman, said, *"I can't believe that the great mass of investors are going to be satisfied with just receiving average returns."* (Yet, as a group, the great mass of investors must receive average returns.) Bogle called the initial offering a "complete flop," while the industry called it "Bogle's Folly". According to Bogle's son Andrew, his dad considered the "Bogle's Folly" mockery to be free media coverage. Fortunately, Bogle could not be deterred and today indexing has become a cornerstone of personal investing. In recent years, index mutual funds have been joined by another investment innovation - the exchange traded fund (ETF).

"Bogle's Folly"

Percentage of long-term fund net assets

Active funds and ETFs Index ETFs Index mutual funds



Source: Investment Company Institute

A half-century later, all share classes of the Vanguard 500 Index Fund contain \$1.67 trillion in assets, according to the Investment Company Institute. As can be seen in this chart, 50 years after the introduction of Bogle's Folly, index mutual funds and exchange-traded index funds contain more than half of the assets in domestic equity funds. Probably more embarrassing than the decline in the percentage of assets held by active funds is the fact that for the past 15 years only 10% of U.S. large cap active mutual funds have beaten the S&P 500 Index, according to S&P Global.

Index mutual funds and ETFs allow investors to own diversified, robust portfolios that were unattainable 50 years ago with annual management fees best described as inconsequential.

There are three strategies you can adopt as an investor -

- You can attempt to beat the market by working harder than everyone else.
- You can attempt to beat the market by outsmarting everyone else.
- You can invest with a long term perspective using index funds with annual rebalancing and be content to receive market equaling returns.

The first two will drive you crazy. The third will allow you to relax and enjoy life. A tip of the cap and a heartfelt "thank you" to John Bogle, a man with a vision whose simple idea permanently changed investing. Because of John Bogle, millions of investors have kept more of what the stock and bond markets have freely offered. Bogle's Folly? As the saying goes, he who laughs last, laughs best.

Your Three Big Advantages

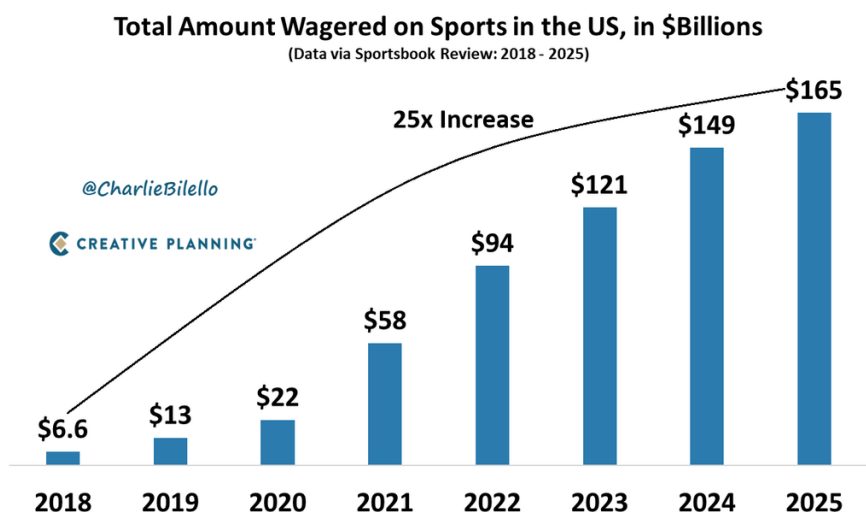
Many investors complain that stock investing is a rigged game. Institutional investors control the capital markets, their trading activities determine asset prices, and they can trade on information before it becomes known to ordinary folks. While these complaints may be true, none of the so-called advantages possessed by institutional investors can compare to the three advantages that you have over them.

Your first advantage is that you have a long-term time horizon. No institutional investor can afford such a luxury. Managers of hedge funds, mutual funds, pension plans and endowments are graded against their peers quarter to quarter. Few institutional managers can survive one year of poor performance relative to their peers and consecutive years of underperformance is a shortcut to the unemployment line. Consequently, they must adopt strategies designed to enhance short-term performance. This increases portfolio risk and the likelihood of eventual underperformance.

The second advantage that you have over institutional investors is that you're not in a performance derby with anyone else. Your portfolio can be designed to achieve a target rate of return instead of the highest possible return. Your financial plan should contain a target rate of return that will allow you to achieve your financial goals. This target rate of return will be inversely proportional to the amount of money that you plan to invest during your accumulation years. Risk-averse investors can lower their target rate of return by increasing contributions to their retirement accounts. Few investors know their target rate of return or how to calculate it. Most investors mimic institutional investors and seek to attain the highest possible return from their portfolios. But for most investors, a better investment outcome will be achieved by owning a more balanced portfolio with a higher allocation to stable assets that tend to moderate portfolio volatility when the stock market spumoni hits the fan. You can then focus your attention on your portfolio's rate of return instead of the performance of its individual components.

The third big advantage you have over institutional investors is the luxury of inattention. A major factor in market trailing performance for both institutional and individual investors is excess trading that results from reacting to noise, chasing performance, or trying to time the market. Institutional money managers are expected to validate their fees by actively trading in order to outperform market benchmarks. Limiting trading and portfolio turnover may be the correct strategy, but it can appear that they're not "doing enough" to earn their fee. Inattention to the daily financial headlines is the best antidote to the unproductive activity of portfolio tinkering. You'll be less likely to react to short-term stock market declines that are often the result of the performance chasing frenzy of institutional investors. You'll come to understand the wisdom of Warren Buffett's comment in his 1996 letter to Berkshire Hathaway shareholders: *"inactivity strikes us as intelligent behavior."*

In The News

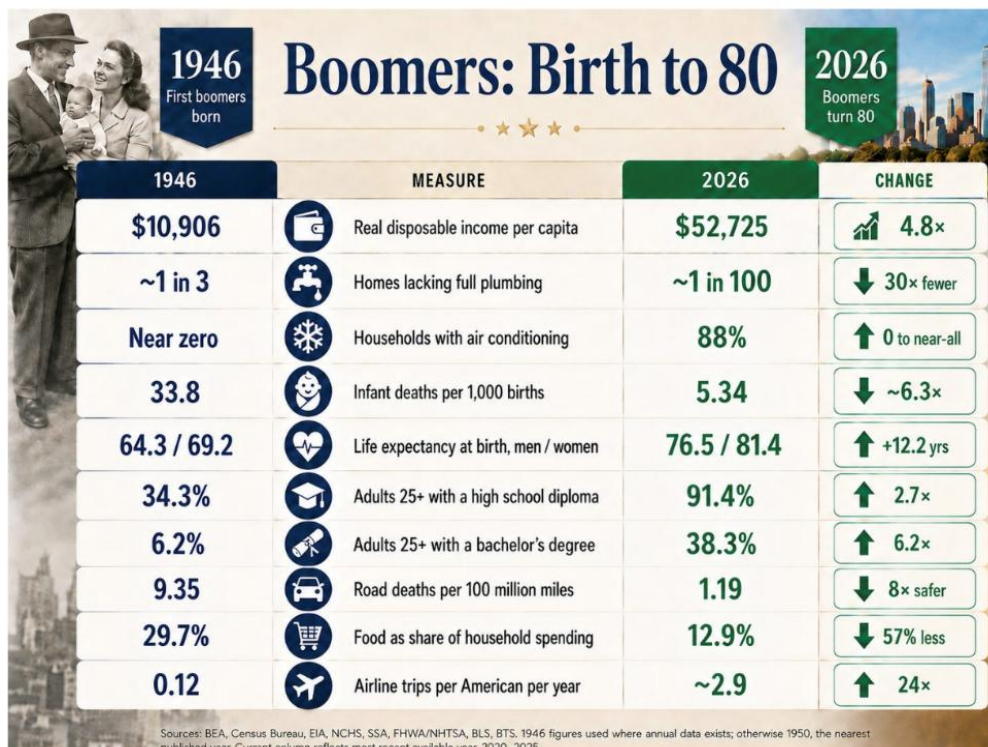


Betterment is a company that offers automated investing and financial services. It also offers a premium tier for those with portfolios in excess of \$100,000 that includes access to human financial advisors. It released its 2026 Retail Investor Survey of 1,000 U.S. retail investors evenly split across Gen Z, Millennials, Gen X, and Baby Boomers. The headline finding: sports betting is increasingly being confused with and competing with traditional investing, especially by young people. It reported that 52% of Gen Z investors (late teen - late 20s) said they've redirected money originally intended for investing into sports betting in the past year. Additionally, 26% of Gen Z investors treat sports betting as a deliberate part of their long-term financial

strategy. Perhaps more disheartening is the fact that for 60% of Gen Z respondents, social media has become their most commonly cited source of financial news. If this survey is a true indication of the investment attitude of Gen Z investors, then they are embarking on a very long walk on a short pier by taking financial advice from people who are likely to have no training, licensing or certification as a financial advisor. Apparently, for many Gen Z investors, getting rich slowly through disciplined investing is just too boring, while speculation offers the excitement and possibility of rapid wealth. The understatement of the month comes from Betterment CEO Sarah Levy, *"When a prediction market or sportsbook starts to feel like a retirement strategy, we have a problem."*

When SpaceX (SPCX) started trading on June 12th it was the largest initial public offering (IPO) of all time. Excited investors put in orders for some \$100 billion worth of stock and poured in millions more during the first few minutes of trading. SPCX was sold to IPO investors at \$135 and closed on the first day of trading at \$161. The stock continued to rally over the following days, hitting its current all-time intraday high of \$226 on June 16th. In August, the first wave of insider selling occurred. The insiders are rank-and-file employees and early shareholders who have been locked up for years. It seems that in aggregate, they are more likely to sell rather than hold. By August 5th, the stock hit its low price

since the IPO of \$108. SpaceX's early trading pattern, surging at first, then giving back those gains and falling below its IPO price, is a typical pattern for popular IPOs. Hot IPOs often come public with heavy demand, a compelling story, and valuations that require a great deal of future success to be justified. As of Sept. 9th, you can buy as much SpaceX as you want, for \$147/share. The SPCX IPO was one of the all-time great fee generating bonanzas in Wall Street history for the investment banks that backed the IPO, but so far not so great for the FOMO investors who were willing to pay any price for shares on IPO day. The lesson: great companies can still be bad investments at the wrong price. Chasing the latest hot IPO has not proven to be a prudent investment strategy.

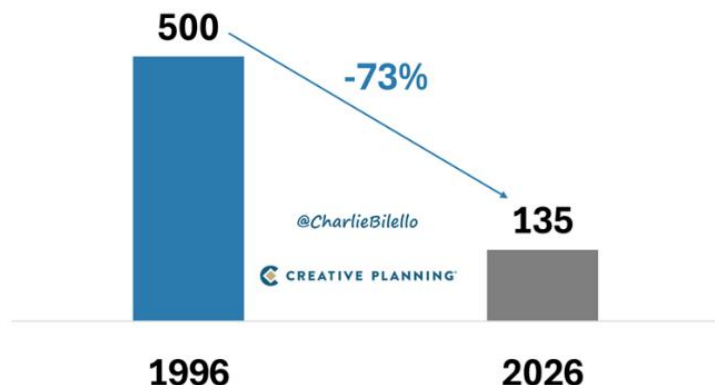


The first Baby Boomers are turning 80 this year. This chart puts into perspective the enormous material gains Americans have made over the past 80 years. Real disposable income per capita in this chart is measured in inflation adjusted 2025 dollars. It is calculated by adding wages, self-employment income, investment income (such as interest, dividends, and rent), pensions and government transfers (such as unemployment benefits and Social Security payments), subtracting taxes and dividing that number by total population. It's a per-person average that reflects the money people have available to spend or save.

Road deaths have declined 87% - not surprising when I remember the autos of my youth - no seatbelts, no airbags, no blind spot monitors, no anti-lock brakes, no cruise control, rigid steering columns that could

impale drivers in a crash, no crumple zones, no shatter proof windshields, dim headlights and hard metal dashboards with sharp knobs and edges. And let's not forget the 1974 Ford Pinto, that had the nasty tendency to explode when rearended.

S&P 500 Index: 1996 vs. Today



Creative destruction is an economic concept describing how innovation continuously dismantles old economic structures while simultaneously building new ones. The term was coined by economist Joseph Schumpeter in his 1942 book *Capitalism, Socialism and Democracy*. The core idea is that free markets give entrepreneurs and innovators the opportunity to introduce new products, technologies, or business models that render existing ones obsolete, leading to the decline or "destruction" of legacy companies and traditional jobs. This constant churn – new things destroying old things – is, in Schumpeter's view, the essential reality about capitalism. A perfect example - only 135 of the S&P 500 companies from 1996 are still in the index today. The lesson: companies change, leaders fade, and innovation never stops.

Disclaimer - The information in this newsletter is educational in nature and should not be considered as personal investment, tax, or legal advice. Each reader must determine how its content should be applied to their investment portfolio. This newsletter is not a solicitation to sell investment advisory services where such an offer would not be legal. Investing in stocks and mutual funds involves risk and the potential loss of principal. Historical data has been obtained from sources believed to be reliable. Past performance is not an indication of future returns. The calculations or other information in this newsletter regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are shown for illustrative purposes only. Unless otherwise noted, rates of return reflect historical annual compounded total returns including the reinvestment of dividends but do not include taxes, fees, or operating expenses. If included, these additional costs could materially reduce the results. Index performance is provided as a benchmark and is not illustrative of any particular investment. It is not possible to invest directly in an index. All expressions of opinion are subject to change. OCFP accepts no responsibility for losses arising from the use of the information contained herein.