



The Clash of the Cultures: Investment vs. Speculation

By John C. Bogle

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Recommended Reading by Warren Buffet in his March 2013 Letter to Shareholders

How speculation has come to dominate investment—a hard-hitting look from the creator of the first index fund.

Over the course of his sixty-year career in the mutual fund industry, Vanguard Group founder John C. Bogle has witnessed a massive shift in the culture of the financial sector. The prudent, value-adding culture of long-term investment has been crowded out by an aggressive, value-destroying culture of short-term speculation. Mr. Bogle has not been merely an eye-witness to these changes, but one of the financial sector's most active participants. In *The Clash of the Cultures*, he urges a return to the common sense principles of long-term investing.

Provocative and refreshingly candid, this book discusses Mr. Bogle's views on the changing culture in the mutual fund industry, how speculation has invaded our national retirement system, the failure of our institutional money managers to effectively participate in corporate governance, and the need for a federal standard of fiduciary duty.

Mr. Bogle recounts the history of the index mutual fund, how he created it, and how exchange-traded index funds have altered its original concept of long-term investing. He also presents a first-hand history of Wellington Fund, a real-world case study on the success of investment and the failure of speculation. The book concludes with ten simple rules that will help investors meet their financial goals. Here, he presents a common sense strategy that "may not be the best strategy ever devised. But the number of strategies that are worse is infinite."

The Clash of the Cultures: Investment vs. Speculation completes the trilogy of best-selling books, beginning with *Bogle on Investing: The First 50 Years* (2001) and *Don't Count on It!* (2011)

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Editorial Review

Amazon.com Review

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**

From the Inside Flap

During the course of his sixty-one year career, mutual fund pioneer and Vanguard Group founder John C. Bogle has seen enormous expansion and remarkable change in the financial sector of the U.S. economy. In his tenth book, *The Clash of the Cultures: Investment vs. Speculation*, he brings his considerable wisdom and experience to bear on the most troubling developments of the recent era—the crowding out of long-term investment by short-term speculation.

During Bogle’s career in the investment profession, he’s witnessed a change in the very nature of our

financial system, and not for the better. Our aggressive culture of destructive and costly speculation has come to dominate the earlier prudent culture of investment. To the detriment of our society, the idea of stewardship has gotten lost in the shuffle, replaced by salesmanship and innovations that have ill-served investors.

Far more than being a mere eyewitness to the last six decades of financial history, Bogle has been one of its most active participants. The many first-hand experiences he recounts include the creation of the first index fund and the creation of the first exchange-traded fund; and his critical role in the rise, the fall, and the renaissance of Wellington Fund, a real-world case study of the clash between investment and speculation. He sheds new light on the dramatic change in the culture of the mutual fund industry, the multiple ways in which speculation has invaded our retirement system, and the need for a federal standard of fiduciary duty.

Insightful and instructive, the book paints an alarming picture of how the financial world has moved away from a culture focused on value-adding long-term investment towards a value-destroying culture of rampant speculation—and the inevitable clash of these two cultures brought about by this transformation. Bogle concludes his book by outlining ten simple investment rules to help investors avoid the many hazards of investing and, by focusing on simplicity and economy, to meet their investment goals.

Users Review

From reader reviews:

Harvey Hobbs:

Reading a reserve tends to be new life style with this era globalization. With reading you can get a lot of information that can give you benefit in your life. Using book everyone in this world can easily share their idea. Ebooks can also inspire a lot of people. Plenty of author can inspire their reader with their story or perhaps their experience. Not only the story that share in the ebooks. But also they write about the knowledge about something that you need example of this. How to get the good score toefl, or how to teach your sons or daughters, there are many kinds of book that you can get now. The authors nowadays always try to improve their talent in writing, they also doing some research before they write on their book. One of them is this The Clash of the Cultures: Investment vs. Speculation.

Leona Ferretti:

Spent a free time and energy to be fun activity to try and do! A lot of people spent their spare time with their family, or their particular friends. Usually they accomplishing activity like watching television, going to beach, or picnic inside park. They actually doing same thing every week. Do you feel it? Will you something different to fill your free time/ holiday? Might be reading a book might be option to fill your no cost time/ holiday. The first thing that you will ask may be what kinds of guide that you should read. If you want to consider look for book, may be the guide untitled The Clash of the Cultures: Investment vs. Speculation can be very good book to read. May be it can be best activity to you.

Robin Adams:

Reading can called mind hangout, why? Because when you find yourself reading a book especially book

entitled The Clash of the Cultures: Investment vs. Speculation your thoughts will drift away through every dimension, wandering in most aspects that maybe unknown for but surely can become your mind friends. Imaging each word written in a book then become one application form conclusion and explanation which maybe you never get ahead of. The The Clash of the Cultures: Investment vs. Speculation giving you an additional experience more than blown away the mind but also giving you useful facts for your better life within this era. So now let us teach you the relaxing pattern at this point is your body and mind is going to be pleased when you are finished reading it, like winning a casino game. Do you want to try this extraordinary wasting spare time activity?

Lee Witherspoon:

As we know that book is very important thing to add our understanding for everything. By a guide we can know everything we want. A book is a set of written, printed, illustrated or perhaps blank sheet. Every year seemed to be exactly added. This publication The Clash of the Cultures: Investment vs. Speculation was filled with regards to science. Spend your spare time to add your knowledge about your research competence. Some people has various feel when they reading some sort of book. If you know how big selling point of a book, you can truly feel enjoy to read a e-book. In the modern era like at this point, many ways to get book that you simply wanted.

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