SPECIAL REPORT: The Trouble with BlackRo… er… ummm, Vanguard

Dear Survivor,

Your Survival Guy is not thrilled about the announcement of Vanguard's new CEO, Salim Ramji. As one of the kings at BlackRock, Ramji helped put them on the ETF map. If you follow the money, you know that BlackRock has made a huge push into the advisory business.

You know that index ETFs have raced to zero fees and are a commodity today. Now, they need to make money selling advice and stuffing portfolios with annuity-like (read high fees) products.

I'm sure Ramji is a nice guy. Maybe he isn't. After all, he's used to getting his way, seeing he was a debate champ who could probably talk a dog off a meat wagon. Is that who you want running your money?

Jack Bogle would be rolling in his grave. Like Bogle, my father-in-law, Richard C. Young, taught many of you about the importance of keeping fees low, how to eschew 12b-1 fees, front and back-end loads, and the like. The Vanguard of today is not the Vanguard he recommended to you back then. Act accordingly, or steel yourself to ignore the onslaught of solicitations for your money.

20-years Later, Another Changing of the (Van)Guard

"I've been following Dick Young for decades," you told me recently. And it's a refrain I hear often in my conversations with you. There's a reason *Richard C. Young's Intelligence Report* was read by tens of thousands of subscribers every month: you.

You looked forward to the opening stories. You enjoyed hearing about Dick and Debbie's trips rolling down Main Street America on their Harley Davidsons. You enjoyed reading his tightly packaged investment advice. You saved the letters, underlined them, and shared them with your spouse. The letters were a reminder that simple is sophisticated. That you could do this.

The key to making it work? My favorite three letters in investing: Y-O-U. You know it is time that makes compound interest magical. Time and not blowing your money on the next big thing. You can't lose your money. Easy to say, harder to do. It requires discipline, and his monthly letter helped keep you on track.

I remember it like it was yesterday. Twenty years ago, I was hanging up from a conversation with a client when Dick told me we were leaving Vanguard as the custodian for our client accounts. Earlier, Vanguard had called and said we could stay, but they were no longer working with outside advisors. Instead, they were looking to grow their advisory business internally using their own funds. The writing was on the wall, and we moved to Fidelity.

When Dick Young recommended Vanguard, it was not just one head of the three-headed index fund monster (Vanguard, BlackRock, and State Street) investors are faced with today.

And yet, the money flows into the big three like lemmings running to a cliff, aimlessly buying along the way. This chase never ends well. A new CEO coming in from BlackRock, is a move to derive new streams of income from you.

I'm not being unfair to Vanguard. Times change, and investors need to adjust accordingly. Investors need to pay attention. Dick Young had your back. He still does.

Intelligence Report: Regime Change at Vanguard Spells Trouble

You'll want to pay attention to your money if you're still with Vanguard, because the company is changing. As a BlackRock alum, Salim Ramji will be the first outsider to become CEO in Vanguard's roughly 50-year history.

You've already seen Vanguard move in this direction. It's been blown off course by selling fee-based advice, stuffing investors into their low-cost (in other words, no revenue) index funds. There was a time when Vanguard, a shareholder-owned company, sought to strip away bells and whistles in a crusade toward lower and lower fees. But that ship has sailed. Now, when you go to Vanguard's website, it's like entering a department store. Simple, it is not.

The success of index funds has resulted in a race to zero fees. The success of other firms offering the same product has turned index funds into commodities. Now, the index fund business is stepping up the pace, looking for new channels of growth. The game is about charging for advice and then putting investors in these no-cost funds or ETFs. They created a middleman to generate cash and upsell from there.

The original gangsters like Jack Bogle and my father-in-law Dick Young, through his Intelligence Report newsletter, helped put Vanguard on the map. Both guided investors into low expense, low turnover, no 12b-1 fee, and no front or back-end loaded products. Vanguard happened to be the belle of the ball. All to your benefit. They understood this is a relationship business built on trust. And so many trusted Vanguard.

Unfortunately, now we're too many CEOs removed from Bogle. The divergence began when they parked Bogle's office in some annex far from the C suites. You could see the changes taking place. Now, we have something that is far from the original Vanguard brand. It's become Big Box investing. That's too bad.

Big Box Investing and Taxes

When it comes to investing, don't let taxes wag the dog. Everyone wants the best way to save on taxes, but to consolidate assets with a "do-everything" Big Box outfit is simply that: a way for them to gather your assets and charge fees.

But that's the direction the industry is heading, and the evidence is Ramji's hiring by Vanguard.

Times change, and the low-cost index fund has turned into a commodity where the likes of Vanguard, BlackRock, State Street, and Fidelity offer them at zero cost. The race to the bottom is nothing new in this industry. Remember the high-cost stock commissions of yesteryear? They're gone. The same has happened with fees on index funds/ ETFs.

The replacement by the big dogs has been to bundle them into "target date" maturity funds stuffed into 401(k)s or buying index funds in brokerage accounts as a bundled group (essentially a custom target date) and charging fees.

It's like going grocery shopping—one-stop investing for your entire financial life, including taxes/estate planning—with the personal attention equivalence of a reward card.

There's no relationship. There's no customization or personal attention. The meat department doesn't care about what's in produce. Your money is handled by little fiefdoms run by the "C" suite sitting in air-conditioned offices above the shop.

Your personal attention comes from the checkout guy, who is more concerned about getting off work and punching in your phone or loyalty number. And you thought food inflation was high, wait til you see the fees—somewhere in that mile-long receipt.

This is a relationship business. It's between you and your advisor. Don't be lulled to sleep thinking you're getting the best of both worlds using a one-stop shop or Big Box Advisor for tax, estate, and investment advice. There's a reason they can pay for the ads you see on TV.

Vanguard, BlackRock, State Street like Self-Driving Cars

Are you paying attention to the trillions and trillions of dollars tied up in passive index funds, mainly between the big three money managers: Vanguard, BlackRock, and State Street? Investors send money to these behemoths through 401(k)s, target date funds, and managed accounts like they're riding in a self-driving car on autopilot. No thought whatsoever about what's coming down the road.

There's no analysis by the firms. There's no pushback to consider another option. The money comes in and they indiscriminately buy more of the same stuff. What happens when prices turn down like they always seem to do and the buying turns to selling?

Everyone's a buyer in a momentum-driven up-market. What happens when all this buying from Baby Boomers, for example, turns to selling to fund their retirements? You've heard about the pig-in-the-python and the power this group has had over markets. But once it's digested, what's the catalyst to move markets higher? You know the lack of savings by the next generations. How will they fill the void?

Look at the composition of the S&P 500—a market cap weighted index. The largest stocks by size carry the most weight—a formula based on price. In other words, it's a measurement based on emotions (prices). It's not calculated based on dividend yield, something retirees may crave to help pay for their ever-increasing (inflation) bills down the road. Prices are based on emotions, and emotions have a way of changing.

With a balanced approach that's not passive or on autopilot, you aren't simply throwing money at an index. You construct a portfolio based on an eclectic selection of securities that may be driven by metrics other than market cap or prices. It's why I like consolidating assets with Fidelity Investments and using their platform to construct portfolios that fit your needs, not just passively throwing money at an index.

Concerns: Does Vanguard Have Your Back or Theirs?

Vanguard is not the Vanguard of yesteryear. That's not necessarily a bad development if you're at Vanguard, but it is if you're, like me, an expert on Vanguard and see how much it has changed.

There was a time when, without hesitation, we recommended Vanguard products, most often the Wellington fund (note: It's not managed by Vanguard but rather by subadvisor Wellington Management Co, up the road in Boston, MA). It's so big today.

The problem with getting big is that the universe shrinks. Not to pick on Warren Buffett, but he's a good example. The list of companies he can buy today is short because Berkshire Hathaway has gotten so big he needs to buy huge companies to even move the needle.

When I look at the Wellington Fund's holdings today, it's in the same boat. Large chunks of money concentrated in a handful of huge companies. But that's what it takes to move the needle. It doesn't have much choice.

But here's what I want to get into. The big three fund managers, Vanguard, BlackRock, and State Street, run the mutual fund/ETF universe. And they run a chunk of Washington, D.C. Their army of lobbyists have the ear of legislators. When you see the constant changes being made by the IRS to their rules on IRAs, don't think they're doing it without someone whispering in their ear.

Let's consider the ever-changing rules for IRA withdrawals, specifically the time for the first RMD (required minimum distribution), now scheduled for 73 years of age, was 70.5, and will soon be 75. This change is not being made for your benefit. You see, the low-hanging fruit at the big three is "money in motion." In other words, when distributions are taken, assets under management fall.

How to stop the outflow? Keep moving the age out.

Hey, you gotta eat. That's why you have the money—to fund one's living expenses with the proceeds. It ain't cheap to fly private to Paris.

Just follow the money.

When you understand the motivation behind the rule changes, it helps clear your mind as to who's got your back. Who's your fiduciary working for?

Vanguard Investors: Are Your Financial Affairs in Order?

When founder Jack Bogle was exiled far, far away from the decision-makers—in an annex away from the C-suites at the Valley Forge, PA campus—it became apparent that change was in the air.

Why? Again, just follow the money. More streams of income were needed as Bogle's wildly successful product—the passive index fund—became a commodity, and the push for a higher fee advisory business took flight. Here's my concern with investors well into their retirement: As we get older, dealing with websites, trying to print out our statements, and other tasks, become a massive chore.

Look at any of the big three and their websites, and you're bombarded with the green movement, ESG, and DEI. The push to move you to electronic delivery is fierce. Not that it's a problem, but come tax time, when patience is short, you just want your reports now.

Sounds to me like the confusion this creates is on purpose.

Why do they make you more dependent on them? As if investing isn't scary enough, they want you to think, "I can't do this anymore. I *need* help." Being needy and frustrated is never a good feeling, but it's especially bad when money is involved.

Sometimes, you need Your Survival Guy—a field guide who understands what it takes to get you on the right track and keep you there. You spent your life working to have the retirement you deserve. You don't want another job. This shouldn't be left for the self-checkout lane. It's your life, after all, not theirs.

Intelligence Report, Vanguard, and Amazon Priming of YOU

When you call about your investments, are you going crazy with the phone tree? How about navigating websites trying to find your statements? Do you feel like you're getting the answers you need when you need them?

When you consider how confusing investing can be—and believe me, they do it on purpose, so you'll need them—you can become frustrated. Frustration is a terrible feeling.

If you're a regular reader of Your Survival Guy, congratulations, you have some money. You have some wealth. You didn't get here by accident. We're together because you have made it your goal to keep what you've made and to beat inflation by maintaining your purchasing power for your retirement life. This is not a get-rich-quick website. There's no advertising except for you to act and make the move to meet me.

Your Survival Guy is about slow and steady success. One step in front of the other. And guess what? It works. Why, when you call the big three, Vanguard, in this case, do you end up talking with a phone rep and not a principal of the firm? Isn't your money the most important thing to you? Of course, it is, but instead of talking to someone who also believes your money is important, you're left leaving a voicemail. And when they call back, it's not convenient for you; it's convenient for them. That's no way to run a business or your money.

There's a tectonic shift taking place at Vanguard with its new CEO starting next month. This is about throwing the old Vanguard business model in the trash and pushing more products on you, the customer. It's the Amazon Priming of investments as you are the product rolling along the conveyor belt.

When my father-in-law wrote the forward to Jack Bogle's book, Vanguard was still executing Bogle's vision, not reaching for revenue. Dick wrote of the book, "Congratulations! You have made one of the wisest investment decisions of your life…Jack Bogle's basic premise is the model of simplicity and integrity: Give investors clearly defined investment products at the right price."

Read this part again, "the model of simplicity and integrity." It was a different Vanguard back when Dick recommended the company's funds month after month to his tens of thousands of readers in *Richard C. Young's Intelligence Report*. The Vanguard of today is not what it used to be, and it isn't a place for those who aren't paying attention like a hawk. And why should you have to? You don't need another job.

Are You Being Held Captive by Vanguard/BlackRock?

Being put out to pasture didn't stop Bogle from doing his research and commenting on how the passive index fund business had changed from when he founded the company.

There was a time when *Richard C. Young's Intelligence Report* was loaded with Vanguard funds. That may not be the right word—loaded. Because what drove Bogle and Young to help shepherd you into Vanguard funds was the fact that there were no loads—no 12b-1 fees either, and the expense ratio was tiny. A perfect recipe, combined with their independent voice for you, the Main Street investor. Simple yet sophisticated. The truth usually is.

Today, Vanguard's independent voice is gone. Along with BlackRock and State Street, the big three go hand in hand to Washington, D.C., lobbying for their future, not yours. They vote more shares for more publicly traded companies than any other—voting their politics with your money. Socially responsible investing, ESG, is a way to make investors feel good about paying higher fees and to allow fund company CEOs to pursue their own political agendas.

You're seeing their power in Washington, D.C., with changes to the RMD rules and how IRAs and 401(k)s are legislated.

As a rule, never believe changes in laws are meant for your benefit. Raising the RMD age buys the big three more time to keep your money. New changes in legislation to require you to complete a DOL questionnaire before transferring an IRA out to say my favored Fidelity are a way to block or slow down the money from leaving.

The forms can be simplified: "Are you sure you want to leave? Are you really, really sure? Really?"

"Yes."

It's no accident this industry is loaded with confusion. The less you know the more you rely upon them. It doesn't have to be this way.

Are You Still with Vanguard, and Are You Concerned?

A long time ago, Jack Bogle came up with a novel idea for a mutual fund company. Keep fees low, passively mimic the market, and let the shareholders mutually own the company. Then he went out to tell the world about his anti-Wall Street creation and thankfully had help along the way.

Fast forward to today, when the pressure on Vanguard to create other sources of revenue is huge. Passive index funds/ETFs have been a wild success. That success inspired a lot of competition, and that competition brought lower fees, which have been driven down close to zero dollars. Now Vanguard is bringing in a rainmaker from BlackRock to man the ship.

The reality of passive investing is that the passive index fund has become a commodity. Passive indexes are navigated with the intelligence of a self-driving car. All's good until something wrong happens. And not everyone's ready for that. Not everyone understands how dangerous trillions upon trillions of dollars can be when it's stuffed into the same car.

This means those still with Vanguard should undergo a necessary reality check: who's running your money? If you have money there, you see the emails, you see the hard sell to become your active manager with passive funds, and you see the target date funds or something similar being offered. The reversal for more fees continues.

What you don't typically see recommended are the Vanguard Wellesley or Wellington funds. They're managed by The Wellington Group, up the road from me in Boston, MA. Vanguard pays them as the sub-advisor.

And yet, these legendary funds can be held at my favored Fidelity Investments, which is still a family-run operation. An operation that isn't pressured for more earnings growth.

If you're still with Vanguard and share my concerns, we should talk. The grass can be greener.

Warm regards,

Your Survival Guy

"Your Survival Guy"

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