



SOCIETY OF ACTUARIES

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A Balanced Outlook:

The Latest Views of Jack Bogle

by Richard Q. Wendt

The tenor of the popular media has recently suggested that current market conditions are pretty dismal and that expectations for future stock market returns should be scaled back. One of the primary proponents of conservatism is Warren Buffet, who dropped the expected return for his pension fund to 6.5 percent.

Jack Bogle, former chairman of The Vanguard Group, had a very busy October as he gave three major speeches that month. Readers are urged to check the web site at the Bogle Financial Markets Research Center for copies of his speeches (www.vanguard.com/bogle_site/bogle_home.html).

I found all three October speeches to be very well written and to present a more moderate view of market expectations. This article will provide a capsule review of Bogle's latest speeches.

The first speech, "Don't Count On It!: The Perils of Numeracy," may resonate with some actuaries. Bogle's premise is that society places too much trust in numbers. In his words, "*Numbers are not reality*" [emphasis in original]. Ironically, he holds actuarial tables up as a standard for accurate data—if he only knew the truth!

One of his major criticisms is that projecting future returns at past historical rates is foolish. Unfortunately, it's a practice that's all too common. He also points out that the historical data may be more theoretical than real; the data may grossly overstate the capturable returns.

The second speech is titled "After the Fall: What Lies Ahead for Capitalism and the Financial Markets?" Here, Bogle shares his thoughts on recent market history and on the outlook for the future. He points out that the 45 percent drop in stock prices since January 2000 may have corrected almost all of the speculative bubble that peaked in early 2000. His expectation is for stock market returns in the seven to ten percent range.

The third speech is titled "The Investment Dilemma of the Philanthropic Investor." Although geared to an audience of private and public foundations and includes some of the same material as the prior speech, there are some tasty nuggets. For example, Bogle points out that there has historically been significant long-term mean reversion in the stock market by stating, "When past returns are exceptionally low (say, below two percent per year), future returns are apt to rise."

Be sure to check out these speeches and bookmark your Web browser to check for future additions. ☛



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SOA Offers New Insurance Coverage Products To Members

We are pleased to announce that the Society of Actuaries is offering new insurance coverage products to its members to be administered through Marsh Affinity Group Services.

By purchasing insurance programs through the SOA, members can take advantage of a wide variety of benefits. These programs have been researched by the SOA and have been proven to be an excellent source of protection for members. Also, with the mass-purchasing power of the SOA, members can benefit from the group rates offered.

Insurance plans currently being made available to SOA members will be launched throughout 2003 and include:

- Professional liability insurance
- Disability Income Insurance
- Term life insurance
- 10-Year term life insurance
- Catastrophe major medical insurance
- Major medical market basket

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Look for more information in future communications as the programs become available. Members who have any questions, or who would like more information, may contact the insurance administrator:

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