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BOOK REVIEW

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TRILLIONS

By Robin Wigglesworth

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(*Reviewed by Javier Estrada, IESE Business School, Barcelona, Spain*)

Readers of the Journal of Investment Management are of course familiar with index funds and exchange-traded funds (ETFs). But my guess is that they may be a little less familiar with the history of these products, other than the fact that John Bogle and Vanguard played a big role in their creation. Enter *Trillions*, by Robin Wigglesworth, a thoroughly entertaining book that tracks the history of passive investing.

Although most investors may not, many academics do know about Louis Bachelier and his revolutionary idea that stock prices follow a random walk. They also know about Jimmie Savage, Alfred Cowles, James Lorie, Paul Cootner, and of course Paul Samuelson, Bill Sharpe, and Gene Fama, all making an early appearance in Wigglesworth book. If you are less familiar with these names, you'll learn about their contributions and the role they played in the inspiration of passive investing in a succinct and entertaining way.

Early on in the book, Wigglesworth highlights the seminars led by James Lorie and Larry Fisher at the University of Chicago, attended by some open-minded investments professionals, in which academics presented their quantitative papers. The attendees included Rex Sinquefield, William Fouse, John McQuown, and Dean LeBaron, not necessarily household names, but as the reader learns, critical players in the development of index funds. Interestingly, seminar attendees also included two household names, Burton Malkiel (author of the classic *A Random Walk Down Wall Street*) and John Bogle (founder of Vanguard and lead evangelist of passive investing).

Although it may come as a surprise to some, the first passive fund was not created by Bogle or launched by Vanguard. In fact, it was designed for Samsonite by McQuown's team at Wells Fargo, housed in a unit of the bank (Wells Fargo Investment Advisors, WFIA) created for this purpose, and managed by Fouse. The fund was launched in July, 1971, with a $6 million investment from Samsonite's pension fund, and its goal was to equally weigh the 1,500 or so stocks listed in the New York Stock Exchange.

It did not look that way at the time but a revolution had started. The reason it did not look that way at the time is because equal weighting requires a near-continuous rebalancing, which increases a fund's trading costs significantly. In Fouse's words, the fund was "virtually unmanageable." But that early effort was not futile.

In fact, it was the seed that grew into another WFIA's fund, launched in November, 1973, open to all the bank's institutional clients, and seeded with $5 million from Wells Fargo's own pension plan and another $5 million from Illinois Bell's retirement system. The fund's goal was to track the performance of the S&P 500, thus using weights based on market-cap (as opposed to equal weights), which makes a fund far less costly and by implication far more manageable.

Because success has many parents, Wigglesworth discusses two other early efforts that may be able to claim a pioneering launch of an index fund. One was led by Sinquefield at American National Bank, which launched the first publicly-marketed fund tracking the S&P 500, in September, 1973. The other was led by LeBaron at Batterymarch Financial Management, which started offering an index fund on the S&P 500 in 1972-73, but found no takers until the end of 1974. By the end of 1975, Wells Fargo, American National Bank, and Batterymarch were all running successful (about $150 m, $120 m, and $100 m, respectively) and cheap (with fees in the 0.3–0.6% range) index funds for pension funds and endowments.

The book obviously discusses what is much better known to investors, including Jack Bogle, Vanguard, and their critical role in popularizing index funds. It also discusses the role of Dimensional Fund Advisors, founded by David Booth (together with Sinquefield and Larry Klotz). And of course the role of State Street in launching the first ETF, the Standard & Poor's Depositary Receipts (SPDR) on January 29, 1993. Again, success has many parents and Wigglesworth also discusses the previous launch of the Toronto 35 Index Participation Fund (TIPS) on March 9, 1990, which beat the SPDR to market largely due to a more relaxed regulator.

A discussion of Barclays Global Investors (BGI) and its creation of the iShares brand in May, 2000, could not be missing from a book on passive investing—and of course it's not. Nor is what Wigglesworth dubs "the deal of the century," BlackRock's $13.5 billion acquisition of BGI from Barclays in June, 2009, thus acquiring the iShares brand. On the back of such acquisition BlackRock became the largest asset manager in the world.

Tracing the history of passive investing from Louis Bachelier's doctoral thesis in 1900 all the way to the current discussions and controversies on the topic is not an easy task but one at which Wigglesworth succeeds at. The current discussions and controversies come late in the book and include the more recent launch of thematic and actively-managed ETFs, the increasing influence of index providers, and the potential distortions that the massive adoption of ETFs may cause, all of which is an ideal complement to the book's history of passive investing.

By the end of the book, Wigglesworth tries to strike a balance between the pros and cons of passive investing, falling heavily on the side of the pros. He claims, crediting Bogle for the insight, that "the index fund is one of the few truly, nearly unambiguously beneficial inventions, a disruptive technology that has already saved investors hundreds of billions of dollars, sums that will undoubtedly reach trillions in years to come." I wholeheartedly agree. And I praise Wigglesworth's book for a fantastic account of the history that led to such disruption.