# The Vanguard Wellesley Way

Vanguard Wellesley is a fund we have long admired at Young Research. It was once a go-to fund for clients, readers, close friends, and even dear family members.

What gave Vanguard Wellesley Income so much appeal?

Wellesley is the more conservative and younger cousin of the Vanguard Wellington Fund—the nation's oldest balanced mutual fund.

Over its almost 51-year history, Wellesley has invested an average of 65% in bonds and 35% in stocks. The bonds are primarily intermediate-term investment-grade corporates; the stocks are dividend-paying blue-chip names.

## Wellesley's Baptism by Fire

Wellesley was started in July of 1970. Not great timing for a fund with a bond-heavy allocation. Over the first 11 years of Wellesley's life, interest rates more than doubled. Remember, when interest rates rise, bond prices fall.

How did Wellesley do during one of the worst onslaughts on record for bond investors?

It performed like a champ.

Wellesley was down only twice during that 11-year period—a loss of 3.5% and 6.4%.

Wellesley is still managed by Wellington Management, but as the fund has gained heft, its universe of opportunities has dwindled to levels we no longer find appealing.

The Vanguard Wellesley Way of investing in a mix of investment-grade corporate bonds and dividend-paying stocks remains, however a winning strategy. Wellesley's 65-35 allocation has offered consistency and relative stability for conservative investors, especially those investors in the later stages of retirement.

## Vanguard Wellesley Income this Century

The chart below highlights the performance of Vanguard Wellesley's 65-35 mix so far this century. With two of the worst bear markets on record, one of which saw the over-hyped Nasdaq composite fall by over 80% from its high, Wellesley marched higher with much shallower corrections.

## An Open Market Alternative to Wellesley

For clients of our investment counsel firm, we have taken what Wellesley (and Wellington) pioneered and improved upon it (in our humble opinion of course).

We focus not only on blue-chip dividend payers, but also smaller high-quality dividend payers and we especially like companies that have a record of making regular annual dividend increases. We have greatly expanded our universe of available common stocks by investing in both U.S. and international dividend payers. Foreign markets are loaded with higher-yielding names.

Long-time followers and readers of *Richard C. Young's Intelligence Report* will know this common stock strategy as Young Research's Retirement Compounders® strategy.

## Protection from U.S. Dollar Debasement

We have further improved on the Wellesley Way in our managed portfolios by building on my over five decades of experience following and analyzing global currency and precious metals markets.

Why? With deficits now measured in the trillions, who wouldn't want at least some protection from the ever-rising risk of U.S. dollar debasement?

## Bond Investing: Opportunity and Flexibility

Our bond strategy is where you may find the most value. Buying individual bonds is not the province of individual investors. Individual investors are left out of the primary market, where new issues can come to market at deep discounts to bonds already trading on the secondary market. We participate in the new issue market on behalf of our investment counsel clients.

Importantly though, we aren't so big that we are effectively forced to build bond portfolios for clients that mirror an index. We also have free reign to invest across the fixed income markets. If long-bonds look risky or don't offer enough return, we can favor short-term bonds. If low-grade bonds are being given away, we have the ability to take them. Vanguard Wellesley maintains about the same maturity and quality portfolio regardless of how the fixed income landscape evolves.