

Fund Watch *continued*

energy and Asia. Hecht says that he relieved Stephens of sole responsibility for Contrarian, handing a third of assets to Andy Pilara Jr. and another third to Rick Barry. The fund now rarely puts more than 5% of assets into one stock or more than 20% into a single sector. The changes seem to be working. Contrarian is up 30% this year, thanks to conventional value plays like industrial and financial stocks.

RS Funds also worked to restore its reputation as a superior picker of small to mid-size growers. It folded the lagging **RS Global Low-Priced Stock** into **RS Partners** and liquidated **RS Developing Countries**. And it moved the spotlight from Stephens, 53, to a new generation. Stephens (whom the firm did not make available for an interview) now shares his chief investment officer title with Callinan and Pilara.

Indeed, Callinan, 39, seems to be the poster boy for RS Funds. Assets in his small-cap **RS Emerging Growth** zoomed from \$280 million last fall to \$1.2 billion in August, helped by a three-year annualized return of 40%. Callinan likes high-risk, high-growth plays (read: Internet stocks and IPOs). "I get bored with stable companies," he says. "I have to have companies that are new and exciting."

Wallace, 45, runs the much smaller (\$99 million) Diversified Growth. He's easily bored too and turned over his portfolio four times last year. His fund has a 39% three-year annualized return.

One thing hasn't changed, notes Morningstar's Traulsen: the firm's style. "These are still investments for aggressive types," he says. "They're the tattoo parlor of the fund world." Hecht takes pride in his firm's edge. "We've gone back to our roots," he says. "And we like it that way." —LISA REILLY CULLEN

THE BASICS**The RS Funds**

Sales charge:
None

Total assets:
\$2.5 billion

Phone:
800-766-3863

Web address:
www.rsim.com

In Appreciation**Bogle: Going but not forgotten**

No one would have expected John C. Bogle, iconoclastic founder of Vanguard funds, to go gentle into that good night. And he didn't. When top executives at Vanguard began pushing their feisty senior chairman out the board room door, Bogle complained to the press. But rules are rules. Vanguard in August coldly confirmed that Bogle, who started the firm in 1974 and has been the conscience of the fund industry ever since, must step down from its board of directors in December. The rule book is explicit: No director may stay beyond the end of the year in which he turns 70. Bogle hit 70 in May, so he's out at year-end—sorry, no exceptions.

Why should you care? Bogle, through word and deed, has consistently made the mutual fund world safer for ordinary investors. Year after year, he drove Vanguard's costs lower, while publicly scolding his competitors, arguing that their higher expenses "cannot be justified." He warned that swelling assets were turning the typical fund into a "lumbering pachyderm"—and closed several Vanguard funds to new investors before they reached mammoth proportions. Even after retiring from active management, Bogle called frequent buying and selling of funds "bogus," and blasted fund supermarkets (where offerings can be traded rapidly) as "casino capitalism."

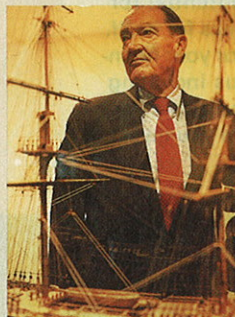
The press loved it. So did many of Vanguard's 14 million shareholders. The Vanguard Diehards bulletin board at www.morningstar.com has seen a flood of postings. "St. Jack, we love you," said one. "Who can possibly fill Bogle's shoes?" lamented another.

My view? Vanguard's independent directors should have allowed Bogle to stay on the board. But now that he's been pushed off, the important question is whether Vanguard share-

holders should leave too. And the answer to that, in my opinion, is a resounding no.

Under chief executive John Brennan, 45, Vanguard has less of the fire and soul that Bogle provided—and how could it not, considering Bogle's outsize personality? But the firm and its funds are run at least as

smoothly and efficiently as ever. Keeping costs low remains the prime directive. Spokesman Brian Mattes insists that "there is absolutely no chance of any change" to the corporate structure created by Bogle, under which Vanguard's fund investors share ownership in the company itself. And it's not as if Bogle were dead. He expects to maintain an office at Vanguard and to stay active by writing, speaking and cajoling the fund industry to treat its customers more fairly. The bottom line: Being a Vanguard shareholder will probably be a lot less interesting without Bogle, but it should be no less economical or rewarding. —JASON ZWEIG



Forced retirement looms for Vanguard's founder.