In The Vanguard®

SPRING 2002

Investing Your Money

For Investment Success, Be On Your Best Behavior

You don't know Richard H. Thaler, but he knows you. He knows how you think and how you act. And when it comes to your decisions about money and investing, he's pretty sure that he knows some of the mistakes you'll make before you even make them.

Mr. Thaler, a professor of behavioral science and economics at the University of Chicago, knows you so well because he has been studying you for nearly two decades. His research—and that of others in his field—has shed light on the motivations and biases that shape our decisions concerning everything from betting on long shots at the racetrack to picking retirement investments.

Most important, research in what is known as behavioral finance has turned on its head the long-held theory that investors are supremely rational individuals who carefully weigh choices and always choose the options that benefit them the most.

As it turns out, the reality is far different. People are often extremely irrational. They aren't very good at identifying options, let alone choosing the right one. And while investors—both pros and novices—make mistakes as the result of fear and greed, they are also prone to all sorts of mental errors, such as misinterpreting information and miscalculating probabilities.

"There are a lot of things that make us human," said Mr. Thaler, who has written numerous research papers and several books, including *The Winner's Curse*. "But some of them happen to be things that

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Featured In This Issue

Investing Your Money

Guest Commentary: Some Investment Hang-Ups Are Easily Solved

By Andrew Tobias


Andrew Tobias

I had a friend whose back was a wreck every time he returned from a trip. The problem was the travel bag he insisted on lugging around. The solution was simple: Stop lugging it. And the high-tech methodology for realizing that solution was equally simple: the wheel. Get a roll-on bag, I implored. Well, he wouldn't, because roll-ons looked wimpy. It was a psychological thing. But now that he's had to undergo back surgery—yes, it came to that—he's become much more rational and, yes, has discovered the wheel.

It's the same thing here. The hard part isn't knowing what to do, but getting past the hang-ups that keep you from doing it. Thanks to the article above, you may be motivated to spot and solve some of these hang-ups *before* you need surgery.

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THE Vanguard GROUP

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Vanguard At A Glance

Rajiv L. Gupta

New Director Joins Board

Rajiv L. Gupta has been elected to the board of directors of The Vanguard Group, Inc., and to the boards of trustees of 84 of Vanguard's mutual funds. Mr. Gupta is the chairman and chief executive officer of Rohm and Haas, one of the world's largest manufacturers of specialty chemicals.

If you're interested in learning more about your fund's trustees, please check the fund's annual report. Fund reports are being expanded to include additional background information on board members. •

Fund News

Vanguard Proposes To Add Two Stock Funds

Vanguard has announced proposals to reorganize two existing stock funds—Schroder International Smaller Companies Fund and Provident Investment Counsel Mid Cap Fund A—as new Vanguard® funds. If approved, the tax-free reorganizations are expected to be completed by July. The new funds, Vanguard® International Explorer™ Fund and Vanguard® Mid-Cap Growth Fund, would each have a minimum initial investment of $10,000 ($1,000 for IRAs and custodial accounts). •

Fixed Annuity Introduced

Vanguard has expanded its annuity offerings by launching the Vanguard® Fixed Annuity—Single 5, issued by Jefferson Pilot LifeAmerica Insurance Company. The Vanguard® Single 5 offers a new tax-deferred option for building retirement assets, with a guaranteed interest rate for the first five policy years and annual fixed interest rates thereafter. As of March 31, 2002, the annual effective interest rate was 5.10%, which is subject to change.

The minimum purchase in the Vanguard Single 5 is $10,000. Fixed annuity holders may move their assets tax-free into the Vanguard Single 5 from other annuity providers through a "1035" exchange. The Vanguard Single 5 has been approved for sale in 50 states and the District of Columbia.

For more information, please call Vanguard Annuity and Insurance Services at 1-800-562-1367 or visit **Vanguard.com**™. •

You can read *In The Vanguard* online at **Vanguard.com**. Just click on "News & Views" at the top of the Personal Investors homepage.

A registration statement relating to Vanguard International Explorer Fund and Vanguard Mid-Cap Growth Fund has been filed with the SEC but has not yet become effective. These securities may not be sold, nor may offers to buy be accepted, prior to the time the registration statement becomes effective. The new Vanguard funds are being formed through the proposed reorganization of two other existing funds, known as Schroder International Smaller Companies Fund and Provident Investment Counsel Mid Cap Fund A, respectively. Shareholders of those other funds may or may not approve the reorganization proposal. If the proposal is not approved by those shareholders, the registration statement previously filed for the two new Vanguard funds will be withdrawn.

This communication shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state in which such an offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

Proxy statements relating to Schroder International Smaller Companies Fund and Provident Investment Counsel Mid Cap Fund A have been filed with the SEC but have not yet become effective. The registration statement for Vanguard International Explorer Fund and Vanguard Mid-Cap Growth Fund (Reg. No. 811-07433), the proxy statement for Schroder International Smaller Companies Fund (Reg. No. 811-1911), and the proxy statement for Provident Investment Counsel Mid Cap Fund A (Reg. No. 811-06498) each contain important information for investors and may be obtained without charge from the SEC's website.

The Vanguard Fixed Annuity—Single 5, single premium deferred annuity, Policy Form 94-522, or applicable state variation, is issued by **Jefferson Pilot LifeAmerica Insurance Company**, service address: Greensboro, N.C.

The Winter 2002 edition of *In The Vanguard* published an incorrect phone number for Vanguard Brokerage Services®. The correct number is 1-877-817-7304.

When it comes to stock investing, dividends have been a valuable player. To find out about Vanguard funds that emphasize dividend-paying stocks, call Vanguard®. To research or buy dividend-paying individual stocks, consider using Vanguard Brokerage Services®.

Stock Dividends Look More And More Attractive

During the stock market boom of the 1990s, income dividends were often dismissed as quaint relics of markets past. But with all the turmoil in the financial markets over the past two years, stocks that pay dividends are looking increasingly attractive. Unlike capital gains, dividends are a much more consistent component of total return. Moreover, dividends can be solid evidence of a company's fiscal health, an important feature in light of recent widely reported corporate accounting scandals.

Dividends Matter

"Historically, dividends provided more than 40% of the market's return," said Jeffrey S. Molitor, head of Vanguard's Portfolio Review Group.

From the end of 1925 through 2001, reinvested dividends constituted 4.6 percentage points of the 10.7% annualized return of the Standard & Poor's 500 Index, a widely used barometer of the U.S. stock market. During much of the 20th century, the vast majority of U.S. stocks paid dividends, and their yields usually exceeded those of bonds. Investors reasoned that, because stocks were riskier than bonds, dividend yields on stocks had to be higher than bond yields. Dividend increases were generally regarded as a sign that a company was in good health and had attractive prospects, Mr. Molitor said.

Times have changed. The average yield of the S&P 500 Index was 1.4% in 2001, and only one-third of the 500 companies paid dividends. Ever since the tax exemption for dividends was repealed in 1986, many investors have scorned the payouts because they are taxed as ordinary income, while long-term capital gains are taxed at a maximum rate of 20%. In addition, some investors and companies view dividends as money better used to expand a company or to repurchase stock to boost the stock price.

"There is a perception among some corporate managements that if you give the money back to shareholders in the form of dividends, you're just not creative or forward-looking enough," Mr. Molitor said.

Dividends' Place In Your Portfolio

For those living off their investment income, dividend-paying stocks can be valuable in a low-interest-rate environment. But, as noted earlier, they can also play an important role if you don't need current income, because reinvesting dividends can significantly add to long-term returns. In a tax-deferred account, dividend-paying stocks can pay off handsomely. Dividends can also provide a little peace of mind.

"Dividends are real, as opposed to some of the gimmickry used in accounting to pump up earnings," Mr. Molitor noted. "A dividend increase can say a lot more about a company than an increase in reported earnings."

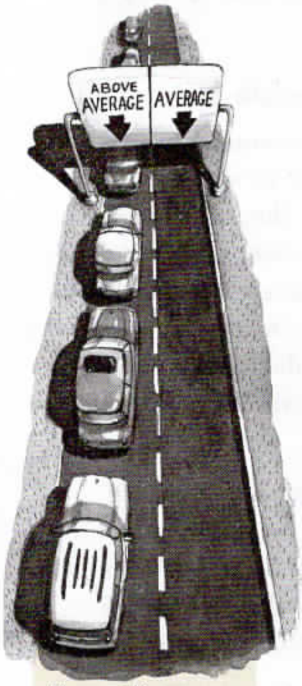
But there are a few caveats, he added. "Sometimes, dividends *can* be too high. Very high yields could indicate that there's a problem at the company or that the dividend is not sustainable. Management could be stretching dividends to make the stock more attractive."

Also, be aware that concentrating on high-yield stocks could result in a portfolio too heavily weighted in certain sectors such as financial services and utilities. You can mitigate this concentration risk by investing part of your portfolio, instead, in a diversified, value-oriented stock fund or in a balanced fund that gives you broad exposure to income-producing stocks.

Above all else, dividend-producing stocks are not a substitute for bonds, which are more stable in both price and income. "The yield on an individual stock doesn't have the certainty of payment of a bond," Mr. Molitor said. "A bond coupon is a fixed contractual obligation. A dividend payment is variable at the discretion of the board."

There's a place for dividend-paying stocks or stock funds in most investors' portfolios, but as with most things, moderation and thoughtful planning are important. •

For Investment Success, Be On Your Best Behavior (continued from page 1)



Like most drivers, investors tend to think they're above-average. But overconfidence can drive your portfolio to the risky side of the road.

aren't very helpful when it comes to making investment decisions."

You're An Open Book

Here's what behavioral experts know about you:

- You hate to lose. (And you hate even more to admit it when you do.)
- You're overoptimistic and overconfident.
- You love patterns. (In fact, you even see them where they don't exist.)
- You sometimes overreact and sometimes under-react, and your timing tends to be off either way.

Some of the most revealing insights into investor behavior have come not from finance professors but from psychologists. A key finding, by Daniel Kahneman, a psychology professor at Princeton University, and the late Amos Tversky, is that people derive more pain from a loss than they do pleasure from a gain. For example, researchers have found that many people will make a bet in which they could lose $100 only if they could potentially win two or three times that amount.

"The fact of life is that we are wired to be more sensitive to losses than to gains," Mr. Thaler said. "Unfortunately, this means that people pay far too much attention to short-term market fluctuations."

This aversion to loss drives many investors to hold on to losing funds or securities far longer than they should, researchers say. Some investors are loath to admit that they picked a stinker, while others are waiting to "get back to even" before they sell. In some cases, the fear of a loss leads investors to sell a winning stock that is still rising in hopes of cashing out before anything bad happens.

Born On The Bright Side?

Loss aversion, however, does not mean that people distrust their own judgment. In fact, there is a mountain of evidence to suggest that most people think they are above-average in many ways. Numerous surveys have shown that people tend to believe they are better-than-average drivers, are less likely to lose their jobs than their coworkers, and have a better shot than their friends at avoiding a heart attack.

In a 1998 article in the *Journal of Portfolio Management*, Dr. Kahneman and Mark W. Riepe, a senior vice president and research chief at Charles Schwab & Co., wrote: "The combination of overconfidence and optimism is a potent brew, which causes people to overestimate their knowledge, underestimate risks, and exaggerate their ability to control events."

Overconfidence is a key factor in people's tendency to concentrate their investments in a particular asset class, market sector, or company, according to Mr. Thaler. "That's certainly the case when it comes to company stock," he said. "People think they have some sort of inside information, and everyone thinks the company they work for is above-average. The second point can't possibly be the case, and there's no evidence whatsoever to support the first point."

Following The Pattern

Human beings like patterns. Many people believe that randomness is the exception rather than the rule. Surveys have shown that in a coin-toss experiment many people believe that a sequence of heads-tails-heads-tails-heads is more likely to occur than all heads, all tails, or some other order. In fact, the probability of any of these results is the same.

Our fondness for patterns sometimes leads us to assume that funds or securities that have done well in the past will continue to do so and those that have performed poorly will remain in the dumps.

Anchors Away!

There's a good reason that an experienced salesperson will try to establish a high price for a car before allowing a buyer to negotiate a lower one: Sales pros are keenly aware of the power of "anchoring"—the tendency to base estimates and predictions on a previously established value.

Anchoring is why people tend to judge the performance of a security or a fund not from a long-term perspective but relative to the price they paid for it, to some previous high or low price, or to an estimate provided by an analyst.

Researchers have found that anchors tend to stay put. In the face of new information, people may slightly modify an anchor, but they are unlikely to cut it loose. The result: A significant *underreaction* to new information and a high likelihood that investors won't identify a significant turning point until long after it has taken place.

Interestingly, people tend to *overreact* to what they think are long-term trends. Once we're convinced that a trend has developed, we act as though it will continue indefinitely (a tendency that's related to our fascination with patterns). Both of these behaviors ignore the strong gravitational pull of average behavior—what economists call "regression to the mean."

Grabbing The Attention Grabbers

Certain behaviors are simply a way for people to deal with complexity. Terrance Odean of the University of California at Berkeley and Brad M. Barber of the University of California at Davis, both finance professors, recently found that stocks that make a big move up or down—or that are in the news—on a particular day have high trading volumes the next day. They found that small investors are the net buyers of these "attention-grabbing" stocks.

"It's a natural reaction," Mr. Odean said. "There are too many choices. You can't evaluate several thousand stocks, so you take a shortcut and buy the ones that grab your attention." •

Investing Your Money

What Our Cost Advantage Means: It's In Your Wallet

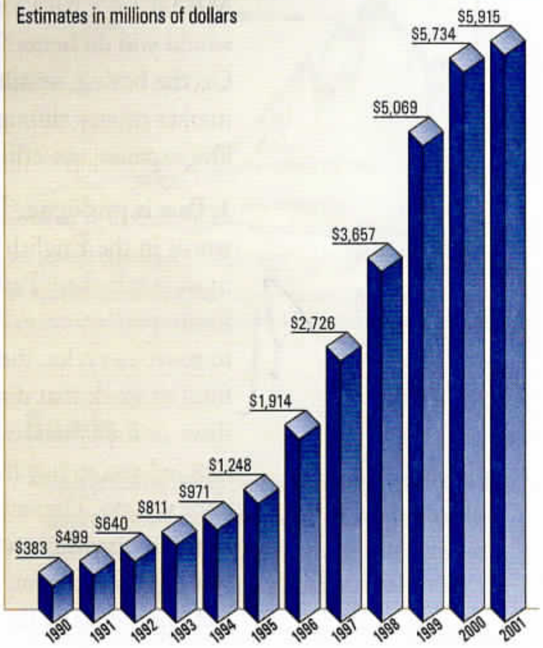
You've heard it from us many times: Cost matters. But just what advantage do you and other clients get from Vanguard's unique at-cost operating structure—a key reason that the costs of investing with us are low?

To give a dollars-and-cents answer, we start with the difference between the average expense ratio of Vanguard funds (0.27%, or $2.70 per $1,000 in fund assets, in 2001) and the average expense ratio for the mutual fund industry (1.32%, or $13.20 per $1,000, according to Lipper Inc.). That advantage of 1.05%, multiplied by Vanguard's average assets of $563 billion in 2001, amounted to $5.92 billion last year.

This cost differential is nearly 12 times higher than it was ten years ago, because our expense ratio has declined as our asset base expanded. •

The Value We Add

Estimates in millions of dollars



Source: The Vanguard Group.

Our funds' shareholders kept nearly $6 billion more in their pockets than if Vanguard had charged the industry average expense ratio.

Guest Commentary: Some Investment Hang-Ups Are Easily Solved (continued from page 1)

1. Loss aversion. Reluctant to take losses—and, thus, admit to mistakes? Me, too! If you have good reason to believe the asset you own is truly misperceived, then maybe you should hold on or even buy more. Otherwise, though, the solution is simple and (in a taxable account) rewarding: Sell it! You will get a nice tax loss to soften the blow. With me, even harder than admitting my mistake is imagining how truly horrible I would feel—how my heart would fairly burst with remorse—if, having sold the fund or stock, it then went up. The solution for this is never, ever to look at the investment again. Unless it is going down.

2. Overconfidence. Did the bull market of the 1990s have you feeling like a genius? Well, *that* psychological problem is probably less of an issue these days, but still: Admit it. Unless you work at it very, very hard—and probably not even then—you will not beat the market. Most mutual fund managers fail to match the broad market indexes over any significant period, and they are working at it full-time! They have MBAs! They have *analysts* with MBAs! Why would you do better? The solution is simple: Go the boring, sensible route. Invest your stock market money through one or two no-load, low-expense, tax-efficient index funds.

3. Past is prologue. The eight most important words in the English language are also the eight most overlooked: Past results are no guarantee of future performance. In fact, because things tend to move in cycles, the reverse is often true: The fund or stock that did astonishingly well the last three or four years, establishing a clear pattern that led you to buy it, does astonishingly badly once you do. The same holds for "systems" that in some cases have worked for *decades*, like the one that had you buying the five highest-yielding stocks in the Dow.

The solution? Stop trying so hard! It's the same as above. For that portion of your assets you want in the market, a lifetime of periodic investing in one or two index funds will serve you so much better than a lifetime of trying, but failing, to find the magic formula. (I know, because I'm still trying.)

The other, much harder, solution: Really do your homework and find investments others have ignored or shunned that nonetheless, to the dispassionate eye, represent very good value. For this you probably need to have studied accounting and to have a distinctly contrary streak. Yes, a few investors are able to do it, just as a few top talents get rich singing or playing golf. The rest of us would do much better not to try to compete with them.

4. Numerology. I had a friend who had almost all his assets tied up in AOL stock. He promised me, when I begged him to diversify, that he would sell when it got back up to \$50. (It was then \$44, down from a peak of \$81.) At \$39, he said, "\$45 is the new \$50." He would sell when it got back to \$45. Couldn't bear to sell at \$39. *"Sell!"* I begged. *"Diversify!"* And so it went, all the way down to \$23. If this is how you make financial decisions—through a sort of superstitious numerology, as if you were playing roulette—you would be much better off not calling the shots yourself.

This kind of advice is no fun. It's like saying, "Don't waste your money on lottery tickets—the odds are against you." But fun can be expensive. •

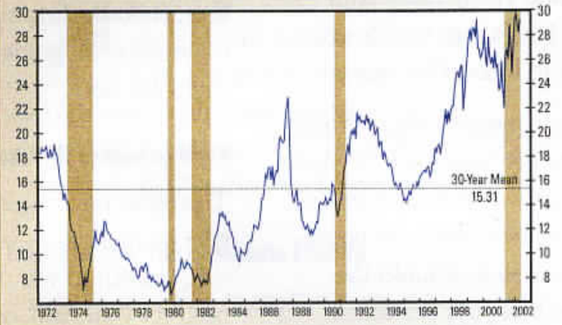
Andrew Tobias is the author of several best-selling books, including The Only Investment Guide You'll Ever Need.

Market Barometer: First-Quarter 2002

The Investment Environment

- During the first three months of 2002, many economists and policy makers declared the recession officially over, a view supported by surprisingly strong economic growth, an improving employment picture, solid performance by the industrial sector, and evidence that many companies were quickly working through their inventory stockpiles.
- The Federal Reserve Board's Open Market Committee left interest rates alone during the three months, but in mid-March signaled that it is more likely to hike rates in the future than to stand pat.

S&P 500 Price/Earnings Ratio



The ratio is based on operating earnings. Last observation: March 2002. Shaded areas indicate recessions. Sources: Standard & Poor's Corporation; Crandall, Pierce & Company.

U.S. Stocks

- The U.S. stock market got off to a slow start in 2002, but kicked into high gear in March, apparently in response to the improving health of the U.S. economy.
- For the three months, the broad U.S. stock market—as represented by the Wilshire 5000 Index—returned 1.0%. The market's best performers were small stocks and value-oriented shares.
- The stock market's lackluster performance early in the year was related to poor corporate profits and concern about the integrity of financial statements in the wake of the Enron accounting scandal.

Global Equity Markets

- Returns for European markets were slightly positive for the three months. However, the best performers were the emerging markets, which followed up strong 2001 performances with solid first-quarter returns. The MSCI Emerging Markets Free Index returned 11.4% (in U.S. dollars) during the three months.
- The U.S. dollar strengthened relative to most major currencies during the quarter, diminishing the returns from foreign investments for U.S. investors.

Global Market Indexes

Last observations: March 28, 2002. Sources: Standard & Poor's Corporation; Dow Jones and Company; Crandall, Pierce & Company.

U.S. Treasury Issue Yields

Maturity	Dec. 31, 2001	Mar. 28, 2002	Year-to-Date Change (percentage points)
3 Months	1.72%	1.78%	0.06
2 Years	3.02	3.72	0.70
5 Years	4.30	4.84	0.54
10 Years	5.05	5.40	0.35
30 Years	5.47	5.80	0.34

Source: The Vanguard Group.

Bonds

- Bond prices fell during the three months in reaction to the generally positive economic news. (Economic growth is often viewed as bad for bond prices because expansion can lead to higher inflation and higher interest rates.)
- The yield of the benchmark 10-year U.S. Treasury note, which moves in the opposite direction from its price, rose to 5.40% from 5.05%.
- The Fed's target for short-term interest rates remained at 1.75%—a four-decade low.

Chasing Higher Yields May Net Higher Risk

Over the past 15 months, many fixed income investors have taken a big pay cut. Since January 2001, the Federal Reserve Board has trimmed short-term interest rates by 4.75 percentage points, reducing the yields of bond and money market investments. In February 2001, the average money market fund yielded 5.03%; in February 2002, it paid a 1.18% rate, which works out to a 76% drop in interest income.

If you are one of the many investors who felt the axe, you have two ways to get back some of what the Fed has taken away: Cut costs or take more risk. This article reviews these options for boosting your investment income and debunks the dangerous misconception that your portfolio's annual yield is an appropriate measure of what you can spend.

"The big question is: How much spending can your portfolio support?" said Jack Brod, principal of Vanguard® Asset Management and Trust Services. The answer to that question depends on your *total return*—not just your income, but also the change in the capital value of your stocks and bonds.

Yield Enhancer I: Lower Your Costs

A risk-free way to boost your investment income is to cut your investment expenses. After all, every dollar you pay to a mutual fund company or brokerage is a dollar less you can spend.

Consider two hypothetical bond funds, investing in similar securities and yielding 5% before costs. One charges the average expense ratio for bond funds—1.08%, as calculated by Lipper Inc. The other charges 0.30%. After expenses, the low-cost fund yields 4.70%, while the higher-cost fund pays 3.92%. On a $100,000 investment, you get a $780 raise simply by moving from the average-cost fund to the low-cost fund.

This cost–yield relationship holds in every segment of the fixed income market. If you're buying individual bonds or CDs from a brokerage firm, choose a firm that keeps commissions and other sales charges low. The less you pay, the more you keep.

Yield Enhancer II: Take On More Risk

The other way to generate more income is to take on more risk—credit risk or interest rate risk, or both. If you don't have an immediate need for your cash, consider shifting some assets from a money market fund to a short-term bond fund. Unlike money market funds, short-term bond funds are subject to interest rate risk: If rates rise, the value of these funds can decline. To compensate for this risk, short-term bonds offer a higher yield. Over time, this higher yield has more than compensated for the occasional declines in a bond fund's principal value.

The table below shows that as of February 28, the average short-term government bond fund yielded 3.30%, 2.12 percentage points more than the average money market fund. At any point along the maturity spectrum, in fact, you generally get more income by investing in longer-term bonds. The longer the maturity, however, the greater the interest rate risk.

You can squeeze out additional income by taking on credit risk—the risk that a bond issuer will be unable to pay the interest or repay the principal, on time or at all. The U.S. government won't go bankrupt, but a corporation can. Your reward for taking on credit risk is a higher yield relative to government bonds of the same maturity. As of February 28, the average short-term corporate bond fund was yielding 0.72 percentage point more than its government bond counterpart (see table at left).

Higher Interest Rate And Credit Risks Can Mean Higher Yields

Average Fund*	Yield As Of February 28, 2002	Months With A Loss In The 266 Months Since 1980
Money Market	1.18%	0
Short-Term Government Bond	3.30	40
Short-Term Corporate Bond	4.02	37

*Derived from data provided by Lipper Inc. for Average Money Market Fund, Average 1–5 Year Government Fund, and Average 1–5 Year Investment-Grade Fund.

Interest rate risk and credit risk are real. In 1994 and 1999, the net asset value of the average short-term government bond fund—the least-risky bond option—declined as interest rates rose sharply. Over time, however, these risks have been modest for investors with all but the shortest time horizons. Short-term corporate bond funds, for example, have suffered only 37 monthly losses since 1980. In its worst 12 months during the 1980s and 1990s—January 1994 to December 1994—the average 1–5 year investment-grade corporate bond fund returned –0.37%. (Source: Lipper Inc.)

Chasing after yield has its risks. To avoid stumbling, consider your portfolio's total return.

Total Return: The Complete Picture

It may be tempting to explore more extreme strategies for enhancing yield, such as loading up on a high-yield bond fund or moving from bonds to high-income investments such as real estate stocks. But these strategies are based on the fallacy that "you can live off the income." In truth, yield by itself is a poor guide to what you can afford to spend. And chasing yield can warp your asset allocation, jeopardizing your chances of meeting your long-term financial goals.

Consider the following example. Suppose you had a \$100,000 portfolio split evenly between stocks and bonds. At the start of 2001, it was invested 50/50 in the Lehman Aggregate Bond Index and the Wilshire 5000 Index for stocks. In 2001, your assets would have yielded almost \$3,800 in interest and dividend income. Even as your portfolio was generating cash, however, its value would have declined with the tumbling stock market. By December 31, its overall market value would have dropped to about \$95,000, and the yield on its bonds would have been down by more than a percentage point.

In this example, a focus on yield alone poses two dangers. First, if these assets are meant to finance a long-term goal—such as 20 years in retirement—you may need to reinvest some of the investment income because the value of the portfolio has declined, diminishing its ability to generate income in the future.

The second, and even greater, danger is the temptation to plan your future spending based on that 2001 yield. To get the same \$3,800 in income in 2002 from your smaller, lower-yielding portfolio, you'd have to shift your assets from an even mix of stocks and bonds to about 60% bonds/40% stocks. However, this asset allocation might not be appropriate for your long-term goals.

If you stay focused on total return, you'll have a better idea of how much you can spend. During some periods—the roaring bull market of the late 1990s, for instance—you may be able to spend more than the income produced by your investments. In others, such as the 2001–2002 bear market, you may have to spend less. "Just as businesses have to cut spending when the economy goes down," said Mr. Brod, "investors need to trim their spending when the financial markets decline." In all periods, however, it's return, not income, that determines what you can spend.

Remember The Big Picture

You can squeeze more income from your investments at the margin by cutting costs or taking modestly higher risks. But it's perilous to view yield as the measure of what you can spend. Focus, instead, on the total return provided by the mix of stock and bond funds best suited to your risk tolerance and goals, and you'll be less likely to stumble chasing after yield. •

Vanguard Can Help Estimate What You Can Spend

Vanguard offers two resources for investors who want advice on developing an asset allocation and spending plan to help them meet their goals: **Personal Financial Planning Service**, which offers one-time planning services; and **Asset Management and Trust Services**, which provides ongoing asset management and advisory services.

Find out more about either of these resources by visiting us online at **www.vanguard.com**. Or call 1-800-892-3335 for more information. Also, see the related article on page 15.

Even a flourishing portfolio may need some periodic pruning. If you need help refining your investment plan or assessing your risk tolerance, call us for a copy of our PlainTalk® guide *Get a Financial Start*. Or read it online at **Vanguard.com**.

Look Before You Sell

In today's meandering markets, you may be tempted to sell what seems to be a poorly performing mutual fund. However, it's important to look beyond mere numbers before doing so.

"Deciding to sell a fund requires two levels of evaluation," said Michael S. McLaughlin, principal in Vanguard® Investment Counseling and Research. "First, evaluate whether the fund still fits into your personal investment objectives. Second, examine the fund itself."

The following questions can make this analysis an easier one.

Does this fund still meet my goals?

When you bought your fund, it probably fit into either your long-term or short-term investment goals. If the fund doesn't align well with your current goals and time horizon, then, yes—it may be time to sell it and reallocate the assets to a different fund.

For example, many investors purchased growth stock funds in the late 1990s at the height of the bull market, expecting that the funds' robust returns would quickly help them to meet their near-term goals, like a down payment on a home. But, these volatile funds are not appropriate for investors with less than a five-year time horizon.

If you have a short-term horizon, selling that inappropriate fund may be prudent, especially if capital losses can be realized for tax purposes. Or, if the fund's gyrations have your stomach in a knot, your fund likely doesn't fit your investment personality.

On the other hand, if you have 10 or 20 years and an ability to handle periodic setbacks, consider staying put, as stocks historically have turned in the highest long-term returns.

Does the fund help me to build a diversified portfolio?

Think that holding several funds results in a diversified portfolio? Not always. Holding several funds may give you exposure to hundreds of companies, but if the funds are all growth-oriented, your portfolio isn't diversified.

Concentrating assets in one investment style (e.g., growth or value) or capitalization size increases portfolio risk, since funds of similar types tend to rise and fall in lockstep. If your portfolio is overweighted in a particular style or market sector, you may want to reallocate your assets to achieve a better investment balance.

Once you are comfortable with the fund's position in your investment portfolio, then you can turn your attention to a fund-specific evaluation.

Is the fund's long-term performance in line with those of its appropriate benchmarks and peer funds?

In 2001, a Vanguard international fund fell nearly –19%. To some, this seemed like a signal to sell. However, the fund actually did better than its benchmark and its average peer. The decline did not point to a problem with the fund; it reflected the overall decline of the international markets. In fact, the fund was performing in line with its stated objective. So it's important to make comparisons against appropriate indexes and peer groups of comparable funds.

This example also illustrates another problem—relying on short-term performance data when deciding to buy or sell a fund. A more comprehensive evaluation would include scrutiny of a fund's long-term record. In fact, over ten years the international fund had a respectable 8% annualized return and outperformed 75% of similar funds.

Has the fund strayed from its investment objective?

Some funds aren't particularly loyal to a specific investment style; they modify their approach as market conditions change. This is known as "style drift."

You can use Morningstar.com to check for style drift in your fund by looking for changes in sector weightings and portfolio concentration that are inconsistent with the fund's stated approach. If you find that the fund isn't sticking to its mandate, then it isn't fulfilling its role in your portfolio, so it may be time to sell. •

Changed Jobs?

If you need assistance in rolling assets from an employer-sponsored retirement plan to a Vanguard IRA®, go to Vanguard.com/?rollover or call our retirement specialists at 1-800-523-7708.

Don't Wait To Take Advantage Of The New Tax Rules–Act Now

Now that you've filed your 1040, you may feel like forgetting about your finances until next year. But it's never too early to put your dollars to work for retirement goals. And the new tax law—with higher maximum contribution limits for IRAs and employer-sponsored plans—offers even more reason to start your contributions early. Spreading those contributions over a number of months, rather than investing one lump sum at the deadline, gives you a jump on your yearly investments and the benefits of investing regularly.

This article recaps a few of the changes under the new tax rules. Keep one thing in mind: All of these new, more-generous retirement savings provisions will expire after 2010, unless Congress acts to extend them. That's all the more reason to take advantage of the new limits right away.

New Ceilings For Your Stashes

For 2002, maximum annual contribution limits have been raised to $3,000 (an increase of $1,000) for both traditional and Roth IRAs, and the annual deferral limit has been raised to $11,000 (a $500 increase) for most employer-sponsored retirement plans (see tables at right). The limits for IRAs will go up by another $1,000 in 2005 and again in 2008, when you will be allowed to contribute $5,000. For employer-sponsored retirement plans, the employee deferral limits will increase by $1,000 each year until the annual maximum reaches $15,000 in 2006.

People aged 50 or over have another advantage: For IRAs, they can contribute an additional $500 each year now through 2005 and an additional $1,000 each year starting in 2006. These catch-up provisions are even more generous with employer plans, as the accompanying tables show: By 2006, a worker aged 50 or over can defer up to $20,000 a year—$5,000 more than the limit for those under 50. For those who haven't been "maxing out" in the past, this is a great opportunity to boost your savings.

To take advantage of this year's new limits for employer-sponsored plans, you'll need to act soon to raise your contribution level. (In fact, depending on your income and your employer's policies, you may not be able to set aside enough between now and December 31, 2002, to reach the contribution limit.) If you're turning 50 this year, you don't have to wait until your birthday to hike up your deferral to the new maximum for those aged 50 or over. Even if your 50th birthday falls in December 2002, you can begin your higher contributions now.

In deciding whether to direct more contributions to an employer plan, consider that an additional $500 a year is only an extra $41.66 a month out of your salary. And because you contribute pre-tax dollars, the impact on your take-home pay is even less. Assuming an 8% annual return, that extra $500 annual deferral translates into an extra

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New Yearly Limits Boost Savings Outlook

New Annual Contribution Limits For IRAs

Tax Year	Under Age 50	Aged 50 Or Over
2001	$2,000	$2,000
2002–2004	**3,000**	**3,500**
2005	4,000	4,500
2006-2007	4,000	5,000
2008 and later	5,000	6,000

New Annual Deferral Limits For Employees For 401(k), 403(b), 457, And SAR-SEP Plans

Year	Under Age 50	Aged 50 Or Over
2001	$10,500	$10,500
2002	**11,000**	**12,000**
2003	12,000	14,000
2004	13,000	16,000
2005	14,000	18,000
2006 and later	15,000	20,000

Don't Wait To Take Advantage Of The New Tax Rules—Act Now (continued from page 11)

$24,000 in savings over 20 years. (Obviously, if you defer up to the new, higher contribution limits in coming years, your additional savings will be even greater.) Procrastination can be costly. If you wait 12 months to boost your salary deferral by $500 a year, your wealth in 20 years would be about $2,400 lower, assuming an 8% average annual return. (These hypothetical examples do not reflect returns on any particular investments.)

Few people contribute the maximum allowed to their plans, and most spend their retirement savings when they change jobs. While, *on average*, plan participants contribute 7% of their pay, few consistently save that amount throughout their careers. Typically, those who can benefit the most from years of compounding returns—younger workers—often defer much less. Vanguard estimates that the average 401(k) participant saves only two-thirds of what he or she will need for retirement security. Contributing the maximum allowed under the new tax law will increase your chances for a secure retirement, or possibly even allow an early retirement.

It Only Gets Better

Besides the higher contribution limits, other changes have made IRAs and employer-sponsored retirement plans more attractive.

For example, there is greater flexibility in rolling your assets between various retirement plans. You can now roll over most assets from a 401(k) plan into a 403(b), and vice versa, so long as the plans permit. It's also easier to roll an existing IRA into your 401(k) or 403(b). And if you have assets in a governmental Section 457 plan and have left service, you may now roll over those assets into an IRA—a boon if you want more investment choices than your 457 currently offers.

In addition, Congress reduced the maximum waiting time for an employee to become fully vested in an employer's matching contributions to a retirement plan. Under the new schedule, matching contributions must be fully vested after only three years of service, down from the previous five years. Or if the employer uses a schedule that involves vesting in increments, contributions must be fully vested at six years, down from the previous seven.

A final reminder: The new tax rules provide many benefits—but only to investors who take advantage of them. •

What You Can Do

- Your tax rate is 1 percentage point lower now than in 2000 and will drop again in 2004 and 2006. You can earmark some or all of your tax savings for retirement with little impact on your current lifestyle.
- If income limits prevent you from making a tax-deductible contribution to a traditional IRA or an after-tax contribution to a Roth IRA, catch up in your 401(k) or 403(b) plan. Catch-up contributions for those aged 50 or over aren't affected by nondiscrimination testing, which sometimes prevents highly compensated workers from saving the maximum allowable amount.
- If you have a Vanguard IRA, consider setting up an Automatic Investment Plan to have contributions to your IRA automatically deducted from your bank account.
- If you don't have a Vanguard IRA, open one now. You can invest in a wide array of low-cost Vanguard mutual funds, or in any of the thousands of no-load non-Vanguard funds available through Vanguard Brokerage Services. VBS® also provides access to individual stocks, bonds, and CDs.

Ernst H. von Metzsch

Veteran Manager Shares Views On Stocks, Accounting, The Economy

In late February, *In The Vanguard* spoke with Ernst H. von Metzsch, a senior vice president at Boston-based Wellington Management Company, LLP. Mr. von Metzsch, portfolio manager of Vanguard® Wellington™ Fund and Vanguard® Energy Fund, has been an investment manager for nearly two decades.

What has driven the rebound in value stocks over the past two years?

A lot of it had to do with the fact that in the late 1990s the market lost interest in "old" metrics such as dividend yields and price/earnings ratios. But in early 2000, investors got over the fad in which they paid enormous multiples for companies that had very questionable growth prospects.

What's interesting about the value recovery is that it occurred even though many factors were working against value stocks during this uptrend. Interest rates have been declining; a fall in rates tends to help growth stocks more. Also, value stocks—a group that includes a lot of economically sensitive companies—started to do well right about the time that the world economy was slowing down. That normally doesn't happen. And finally, the dollar has been quite strong, which usually hurts manufacturing and basic industries, who must compete with foreign producers.

We think that value has recovered to a large extent, and at this point it's less obvious whether growth or value will outperform in the future. The arguments for value are that if the economy recovers, interest rates are likely to trend up, and that hurts value stocks less. Also, in basic commodities such as aluminum, oil, and gas, where operating rates are high, a recovery would be positive.

When evaluating companies, how do you gauge the quality of financial disclosure?

Money managers are dependent on the numbers that companies disclose and that accountants approve. Unfortunately, some numbers we shouldn't trust at all. This issue really goes beyond Enron. The recent problems came about because over the past ten years there has been so much pressure on companies to produce earnings growth. In addition, the role of accounting firms has been muddied because many have also become consultants who are being paid to help companies achieve these numbers.

As money managers, we weigh the accounting, but the key is knowing a company's management, and knowing whether their finances are accounted for in an aggressive or conservative manner.

We hope that some good comes out of all of this. I think there has been a shift already. Twelve months ago, every company was under pressure to increase earnings. Now, the pressure from the analysts is to make sure that your accounting is as clean as a whistle.

What is your economic outlook?

Historically, monetary easing has boosted economic growth, but with some lag. The support that the economy has received from the consumer is quite remarkable. But there are some signs that the support may not last. U.S. consumers have a negative savings rate. Monthly debt payments as a percentage of disposable income are at a historic high. And the wealth effect of the stock market, which had a positive influence in the late 1990s, has reversed.

We think that GDP will increase in 2002 so that by year-end we might have a growth rate as high as 3%. The improvement should come from the easing and from the fact that inflation is low, in part because energy prices fell so dramatically over the past year. As for stocks, we would be quite happy if the market ended the year where it is today, with the S&P 500 at 1,100.

What has surprised you about the financial markets over the past year?

I was surprised by the way the market recovered after September 11. Remarkably, more-leveraged companies came back even stronger than larger, more-established companies. To us, that meant that there was still a lot of speculative, momentum-driven investing going on. •

New Exchange Privilege In Effect For Index And International Funds

Shareholders of Vanguard's stock index and international funds may now conduct telephone and online exchanges, except between 2:30 p.m. and 4 p.m., Eastern time, on business days. Telephone and online exchanges will be limited to two exchanges out of a fund within any rolling 12-month period. There will be no limit on the number of exchanges into a fund. Written exchanges will still be permitted.

The exchange privilege applies to nonretirement accounts and to most retirement accounts (including traditional and Roth IRAs) for stock and balanced index funds (including Vanguard® 500 Index Fund and Vanguard® Total Stock Market Index Fund), most international funds, and Vanguard® Growth and Income Fund. The exchange policy for Vanguard's other funds remains unchanged. •

Investment Centers To Adopt Appointment-Only Approach

Vanguard's three investment centers—Charlotte, N.C.; Malvern, Pa.; and Scottsdale, Ariz.—will soon be serving clients by appointment only. Beginning May 6, 2002, the centers will no longer be open for routine account transactions on a walk-in basis. This change will enable us to provide a higher level of assistance to clients who require personal, specialized service for complicated situations, including stock certificate transfers; brokerage account transfers; direct rollovers and IRA asset transfers; transfer of account ownership related to the passing of a shareholder; required minimum distributions; and college education planning. For more information on this change, please call 1-800-892-3335. •

RMD Service Eases Withdrawal Worries

Once you reach age 70½, the IRS generally requires you to withdraw at least a minimum amount—known as a required minimum distribution (RMD)—from your traditional IRA, SEP–IRA, SIMPLE IRA, and other tax-advantaged retirement plans. Recent tax-law changes may enable you to withdraw a smaller sum. We would be happy to calculate your RMD from your Vanguard IRAs at no cost to you. To learn more about our free RMD service, visit **www.vanguard.com/?rmd** and download our *Required Minimum Distributions* kit, featuring helpful information on required distributions and the necessary forms for Vanguard's RMD service. •

How To Prepay Your IRA Custodial Fee

To cover the cost of tax reporting, Vanguard charges a custodial fee of $10 a year for each fund account having a balance of less than $5,000 in traditional, Roth, SEP–, and SIMPLE IRAs. (The same fee applies to individual 403(b)(7) fund accounts, regardless of balance.) For example, if you have an IRA invested in two funds that both have balances of less than $5,000, you will owe two fees, or $20 for the year.

If you wish to prepay an IRA custodial fee, please complete an Invest-By-Mail form for each affected fund account and send the forms to Vanguard, along with a check made payable to Vanguard Fiduciary Trust Company. The form is found at the bottom of your transaction-confirmation statement. You can also send a check, along with a brief note (including your fund and account numbers) explaining that you wish to prepay the fee, to: The Vanguard Group, P.O. Box 1110, Valley Forge, PA 19482.

The last day to prepay the fee is June 5. If Vanguard does not receive your check by June 5, the fee will be deducted automatically from each fund account.

Note that the IRA custodial fees are waived if you have $50,000 or more in total Vanguard assets, regardless of whether your assets are in nonretirement, IRA, 403(b)(7), annuity, employer-sponsored retirement plan, or brokerage accounts.

Note that custodial fees will be changing for 403(b)(7) and SIMPLE IRA accounts later this year. Account holders will receive a letter detailing the changes. •

For more information on Vanguard's advice and guidance services, please call us at 1-800-892-3335 or visit the "Planning & Advice" area of **Vanguard.com**.

Vanguard Offers A Spectrum Of Advice Services

It wasn't too long ago that the definition of "good" investment advice was the names of a few hot technology stocks and Internet IPOs. But as so many have found, buying a bevy of dot-coms isn't a surefire way to investment success. And most investors need more than watercooler banter to assemble a well-diversified portfolio that will meet their long-term needs.

Indeed, one of the keys to successful investing is proper planning. Some investors are natural do-it-yourselfers—whether it's pumping their own gas, painting their houses, or preparing for a financially secure retirement. But even for them, there may be cases when getting expert advice makes good sense.

For example, if you have substantial assets and several concurrent goals (e.g., saving for a secure retirement, paying for a child's education, and providing long-term care for an elderly parent), turning to an investment professional for help in developing a plan may make sense.

You may also need an expert's advice if you come into a sizable inheritance or receive a lump-sum distribution from a company retirement plan. Or you may want a professional to validate the plan that you've developed on your own.

Whether you want to go it alone or work with a professional, Vanguard can help. Here's a look at the spectrum of advice and guidance services that Vanguard offers.

PlainTalk Guides

Vanguard's PlainTalk guided investment programs are designed to help you meet specific goals. The newest guide, *Get a Financial Start*, offers detailed assistance with identifying your financial objectives and allocating your assets.

Personal Financial Planning Service

For a one-time fee of $500, a Vanguard financial planner will provide detailed advice and a personalized plan in one of the following areas:

- **Investment planning.** Your planner will work with you to develop the proper asset allocation for your portfolio, taking into account both your Vanguard investments and other holdings.
- **Retirement planning.** Your planner will evaluate your current financial situation and prepare a detailed analysis of what you'll need for a comfortable retirement. The analysis is tailored to your circumstances, so it can be of benefit even if you have already retired.
- **Estate planning.** Your planner will focus on issues such as reducing the impact of transfer costs on your assets, identifying opportunities to distribute assets more efficiently during your lifetime, and examining the benefits of trusts.

Asset Management And Trust Services

Vanguard Asset Management and Trust Services (AMTS) offers integrated services for investors seeking discretionary wealth management. If you possess $500,000 or more in investable assets, AMTS can help simplify your financial life and preserve your family's wealth for future generations. Experienced investment managers and trust officers will work with you in areas ranging from building your assets to transferring them to your heirs. AMTS fees are among the lowest in the industry. •

Caveat Investor: Fund Rankings And Recommendations

Enticing cover stories like "The Best Mutual Funds To Buy Now," "Five Safe Stocks," and "Funds That You Can Hold Forever" are standard fare for investment-oriented publications. If only the returns for such investments lived up to the expectations that these articles create.

While fund rankings and recommendations grab attention, they rarely capture the best future returns. If you sat down with a stack of back issues of various investment publications, you'd be struck by the plethora of conflicting recommendations. Further investigation would reveal something else: the generally lackluster performances of funds or portfolios of funds after they appear on a "recommended" list.

Here are three reasons to beware of articles that promote specific funds or stocks—yes, even when they recommend Vanguard funds.

1. Past Performance Does Not Predict Future Returns

Most fund rankings and recommendations are based primarily on short-term past performance. But a fund's recent performance has virtually no bearing on its future long-term returns.

Funds with impressive past returns are subject to "reversion to the mean"—the tendency of top-performing funds to revert to average results over time. Investors who jump into a hot fund on the say-so of their favorite "expert" are apt to find that they joined the party as it was winding down.

We examined a variety of December 1996 publications to see how their investment recommendations looked five years later. The results were not impressive. One magazine meticulously ranked domestic equity funds in seven categories according to their three-year average annual returns—after taxes and sales loads. Together, the seven number-one funds had averaged a gaudy annual return of 22.8%, versus 17.7% for the Standard & Poor's 500 Index.

In the ensuing five years, the stock market's performance has cooled, but not as much as the performance of those seven funds: Their average annual return fell to 8.8%, well below the S&P 500's 10.7% average return.

2. One Size Never Fits All

A "must-buy" fund that's being hyped to millions of readers may be inappropriate for you. For example, if you already own one large-capitalization value fund, you probably don't need to add another one simply because an article says it's a good fund. And if you are a risk-averse investor, you shouldn't invest in an aggressive growth fund no matter how "good" it is.

3. Short-Term Returns Are Irrelevant For Long-Term Investors

Your goal as an investor is not necessarily to pick this year's highest-performing funds but to construct a balanced portfolio that will help you meet your investment objectives while minimizing your risk and costs. In keeping with that goal, you should select funds that are appropriate for your time horizon. Most ratings and recommendations focus on short-term performance, so if you are a long-term investor, that information is probably irrelevant to you.

The bottom line: Published rankings and recommendations may provide entertaining reading, but they rarely provide entertaining results. So resist the temptation to use them as shopping lists, and don't be concerned if your fund is not among those ranked. •

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Vanguard Performance Profile

SPRING 2002

Fund No.	Vanguard® Fund Name (Inception Date)	Ticker Symbol	Year To Date	Average Annual Total Returns For Periods Ended March 31, 2002: 1 Year	5 Years	10 Years	Since Inception♦	Next Report/ Prospectus Online††
Growth and Income Funds								
40	500 Index Investor Shares (8/31/1976)	VFINX	0.24%	0.09%	10.14%	13.16%	13.36%	4/2002 P
540	500 Index Admiral™ Shares (11/13/2000)	VFIAX	0.25	0.14	–	–	-10.08	4/2002 P
328	Capital Value (12/17/2001)	VCVLX	-2.63	–	–	–	-0.10	5/2002 S
82	Convertible Securities (6/17/1986)	VCVSX	-3.41	-1.15	8.17	9.37	8.75	3/2002 P
65	Equity Income Investor Shares (3/21/1988)	VEIPX	3.61	6.47	11.39	13.49	12.84	5/2002 S
565	Equity Income Admiral™ Shares (8/13/2001)	VEIRX	3.65	–	–	–	2.63	5/2002 S
93	Growth and Income Investor Shares (12/10/1986)	VQNPX	-0.11	1.47	10.95	13.52	13.39	5/2002 S
593	Growth and Income Admiral™ Shares (5/14/2001)	VGIAX	-0.09	–	–	–	-6.95	5/2002 S
123	REIT Index Investor Shares (5/13/1996)	VGSIX	8.08	22.04	7.86	–	11.57	5/2002 P
5123	REIT Index Admiral™ Shares (11/12/2001)	VGSLX	8.07	–	–	–	14.60	5/2002 P
934	Selected Value (2/15/1996)	VASVX	11.95	21.31	9.64	–	8.93	6/2002 S
101	Tax-Managed Growth and Income Investor Shares (9/6/1994)	VTGIX	0.24	0.20	10.21	–	14.45	4/2002 P
5101	Tax-Managed Growth and Income Admiral™ Shares (11/12/2001)	VTGLX	0.23	–	–	–	3.11	4/2002 P
85	Total Stock Market Index Investor Shares (4/27/1992)	VTSMX	0.97	2.47	9.81	–	12.50	4/2002 P
585	Total Stock Market Index Admiral™ Shares (11/13/2000)	VTSAX	0.94	2.52	–	–	-9.12	4/2002 P
124	U.S. Value (6/29/2000)	VUVLX	5.14	10.59	–	–	12.16	5/2002 S
57	Utilities Income (5/15/1992)	VGSUX	3.12	-10.85	8.14	–	9.41	5/2002 P
6	Value Index Investor Shares (11/2/1992)	VIVAX	1.32	-4.42	9.30	–	13.25	4/2002 P
506	Value Index Admiral™ Shares (11/13/2000)	VVIAX	1.34	-4.42	–	–	-5.77	4/2002 P
22	Windsor™ Investor Shares (10/23/1958)	VWNDX	0.96	7.30	10.40	14.03	13.01	6/2002 S
5022	Windsor™ Admiral™ Shares (11/12/2001)	VWNEX	0.99	–	–	–	9.46	6/2002 S
73	Windsor™ II Investor Shares (6/24/1985)	VWNFX	4.03	3.30	10.89	13.94	14.01	6/2002 S
573	Windsor™ II Admiral™ Shares (5/14/2001)	VWNAX	4.03	–	–	–	-2.92	6/2002 S
Growth Funds								
213	Calvert Social Index (5/31/2000)	VCSIX	-1.68%	-1.17%	–	–	-13.37%	4/2002 S
98	Extended Market Index Investor Shares (12/21/1987)	VEXMX	1.86	9.85	8.65%	11.11%	12.35	4/2002 P
598	Extended Market Index Admiral™ Shares (11/13/2000)	VEXAX	1.86	9.84	–	–	-8.40	4/2002 P
9	Growth Index Investor Shares (11/2/1992)	VIGRX	-0.87	4.62	10.11	–	12.73	4/2002 P
509	Growth Index Admiral™ Shares (11/13/2000)	VIGAX	-0.86	4.67	–	–	-15.10	4/2002 P
859	Mid-Cap Index Investor Shares (5/21/1998)	VIMSX	6.71	19.04	–	–	12.39	4/2002 P
5859	Mid-Cap Index Admiral™ Shares (11/12/2001)	VIMAX	6.71	–	–	–	15.32	4/2002 P
26	Morgan™ Growth Investor Shares (12/31/1968)	VMRGX	-1.85	-1.20	9.95	12.04	11.51	5/2002 S
526	Morgan™ Growth Admiral™ Shares (5/14/2001)	VMRAX	-1.79	–	–	–	-10.38	5/2002 S
59	PRIMECAP Investor Shares (11/1/1984)	VPMCX	1.34	-1.43	16.26	17.82	17.20	4/2002 S
559	PRIMECAP Admiral™ Shares (11/12/2001)	VPMAX	1.39	–	–	–	9.18	4/2002 S
114	Strategic Equity (8/14/1995)	VSEQX	4.46	14.37	12.56	–	14.23	6/2002 S
102	Tax-Managed Capital Appreciation Investor Shares (9/6/1994)	VMCAX	0.12	-0.73	10.66	–	13.91	4/2002 P
5102	Tax-Managed Capital Appreciation Admiral™ Shares (11/12/2001)	VTCLX	0.14	–	–	–	4.40	4/2002 P
23	U.S. Growth Investor Shares (1/6/1959)	VWUSX	-7.80	-8.69	1.50	7.66	11.84	4/2002 S
523	U.S. Growth Admiral™ Shares (8/13/2001)	VWUAX	-7.73	–	–	–	-9.76	4/2002 S
Aggressive Growth Funds								
111	Capital Opportunity Investor Shares (8/14/1995)	VHCOX	-1.52%	-3.43%	22.62%	–	16.87%	6/2002 S
5111	Capital Opportunity Admiral™ Shares (11/12/2001)	VHCAX	-1.54	–	–	–	7.72	6/2002 S
51	Energy Investor Shares (5/23/1984)	VGENX	11.80	11.53	11.36	14.35%	12.36	5/2002 P
551	Energy Admiral™ Shares (11/12/2001)	VGELX	11.84	–	–	–	14.87	5/2002 P
24	Explorer™ Investor Shares (12/11/1967)	VEXPX	1.33	13.60	14.39	12.88	9.78	6/2002 S
524	Explorer™ Admiral™ Shares (11/12/2001)	VEXRX	1.36	–	–	–	13.72	6/2002 S
544	Growth Equity (3/11/1992)	VGEQX	-3.11	-4.79	9.13	10.87	10.96	5/2002 S
52	Health Care Investor Shares (5/23/1984)	VGHCX	3.13	9.89	23.83	21.19	21.99	5/2002 P
552	Health Care Admiral™ Shares (11/12/2001)	VGHAX	3.16	–	–	–	6.09	5/2002 P
53	Precious Metals (5/23/1984)	VGPMX	25.93	67.71	1.65	4.27	3.39	5/2002 P
861	Small-Cap Growth Index (5/21/1998)	VISGX	3.59	18.19	–	–	4.64	4/2002 P
48	Small-Cap Index Investor Shares (10/3/1960)	NAESX	3.99	14.64	10.41	11.85	11.21	4/2002 P
548	Small-Cap Index Admiral™ Shares (11/13/2000)	VSMAX	4.04	14.77	–	–	6.61	4/2002 P
860	Small-Cap Value Index (5/21/1998)	VISVX	10.41	26.52	–	–	8.78	4/2002 P
116	Tax-Managed Small-Cap (3/25/1999)	VTMSX	6.84	21.62	–	–	17.19	4/2002 P
Comparative Indexes								
	Wilshire 5000		0.96%	2.55%	9.76%	12.53%		
	S&P 500		0.27	0.24	10.18	13.26		
	Wilshire 4500		1.80	9.73	8.48	10.73		
	Russell 2000		3.98	13.98	9.52	11.14		
	MSCI EAFE•		0.58	-9.10	1.18	5.77		

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Fund No.	Vanguard® Fund Name (Inception Date)	Ticker Symbol	Year To Date	Average Annual Total Returns For Periods Ended March 31, 2002 1 Year	5 Years	10 Years	Since Inception◆	Next Report/ Prospectus Online††
Exchange-Traded Shares								
970	Total Stock Market VIPERs™ (5/24/2001)	VTI						4/2002 P
	Return based on net asset value		0.95%	–	–	–	-8.96%	
	Return based on market price		0.97	–	–	–	-9.29	
965	Extended Market VIPERs™ (12/27/2001)	VXF						4/2002 P
	Return based on net asset value		1.85	–	–	–	1.94	
	Return based on market price		1.74	–	–	–	1.82	
International Funds								
227	Developed Markets Index (5/8/2000)	VDMIX	1.01%	-8.67%	–	–	-15.55%	6/2002 S
533	Emerging Markets Stock Index (5/4/1994)	VEIEX	10.39	17.30	-4.01%	–	1.13	6/2002 S
79	European Stock Index Investor Shares (6/18/1990)	VEURX	0.05	-5.51	5.44	10.28%	8.75	6/2002 S
579	European Stock Index Admiral™ Shares (8/13/2001)	VEUSX	0.11	–	–	–	-2.74	6/2002 S
129	Global Equity (8/14/1995)	VHGEX	8.29	8.92	8.88	–	9.93	6/2002 S
81	International Growth Investor Shares (9/30/1981)	VWIGX	0.40	-7.51	2.26	8.12	12.87	4/2002 S
581	International Growth Admiral™ Shares (8/13/2001)	VWILX	0.48	–	–	–	-2.17	4/2002 S
46	International Value (5/16/1983)	VTRIX	4.53	2.34	2.70	6.35	10.82	6/2002 S
72	Pacific Stock Index Investor Shares (6/18/1990)	VPACX	3.51	-16.17	-5.58	-0.11	-2.25	6/2002 S
572	Pacific Stock Index Admiral™ Shares (8/13/2001)	VPADX	3.54	–	–	–	-10.72	6/2002 S
127	Tax-Managed International (8/17/1999)	VTMGX	1.03	-8.61	–	–	-7.68	4/2002 P
113	Total International Stock Index (4/29/1996)	VGTSX	1.72	-6.35	0.56	–	0.45	6/2002 S
Balanced Funds								
78	Asset Allocation Investor Shares (11/3/1988)	VAAPX	-0.09%	4.31%	10.53%	12.38%	12.82%	5/2002 S
578	Asset Allocation Admiral™ Shares (8/13/2001)	VAARX	-0.06	–	–	–	-0.76	5/2002 S
2	Balanced Index Investor Shares (11/9/1992)	VBINX	0.67	3.87	9.35	–	10.61	4/2002 P
502	Balanced Index Admiral™ Shares (11/13/2000)	VBIAX	0.69	3.94	–	–	-1.80	4/2002 P
724	LifeStrategy® Conservative Growth (9/30/1994)	VSCGX	0.43	4.38	8.55	–	10.22	6/2002 S
122	LifeStrategy® Growth (9/30/1994)	VASGX	0.75	2.14	8.59	–	11.44	6/2002 S
723	LifeStrategy® Income (9/30/1994)	VASIX	0.16	5.03	8.39	–	9.58	6/2002 S
914	LifeStrategy® Moderate Growth (9/30/1994)	VSMGX	0.63	3.37	8.74	–	10.94	6/2002 S
56	STAR™ (3/29/1985)	VGSTX	1.09	4.64	10.31	11.59	11.91	6/2002 S
103	Tax-Managed Balanced (9/6/1994)	VTMFX	0.52	2.63	8.78	–	10.25	4/2002 P
27	Wellesley® Income Investor Shares (7/1/1970)	VWINX	2.01	8.03	10.53	11.05	11.27	5/2002 S
527	Wellesley® Income Admiral™ Shares (5/14/2001)	VWIAX	2.01	–	–	–	5.90	5/2002 S
21	Wellington™ Investor Shares (7/1/1929)	VWELX	3.30	7.91	11.26	12.61	8.41	3/2002 P
521	Wellington™ Admiral™ Shares (5/14/2001)	VWENX	3.35	–	–	–	4.11	3/2002 P

		Ticker Symbol	Year To Date	Average Annual Total Returns For Periods Ended March 31, 2002 1 Year	5 Years	10 Years	Since Inception◆	Current Yield†	
Bond Funds									
36	GNMA Investor Shares* (6/27/1980)	VFIIX	1.01%	6.12%	7.50%	7.23%	9.40%	5.95%	5/2002 P
536	GNMA Admiral™ Shares* (2/12/2001)	VFIJX	1.02	6.18	–	–	6.54	6.01	5/2002 P
29	High-Yield Corporate Investor Shares (12/27/1978)	VWEHX	1.30	0.04	4.56	7.54	9.60	8.56	5/2002 P
529	High-Yield Corporate Admiral™ Shares (11/12/2001)	VWEAX	1.31	–	–	–	1.88	8.59	5/2002 P
119	Inflation-Protected Securities (6/29/2000)	VIPSX	1.51	4.40	–	–	8.74	3.16◆◆	5/2002 P
314	Intermediate-Term Bond Index Investor Shares (3/1/1994)	VBIIX	-0.67	4.53	7.65	–	6.98	6.21	4/2002 P
5314	Intermediate-Term Bond Index Admiral™ Shares (11/12/2001)	VBILX	-0.66	–	–	–	-3.32	6.26	4/2002 P
71	Intermediate-Term Corporate Investor Shares (11/1/1993)	VFICX	0.01	5.30	7.26	–	6.40	6.25	5/2002 P
571	Intermediate-Term Corporate Admiral™ Shares (2/12/2001)	VFIDX	0.03	5.38	–	–	6.53	6.31	5/2002 P
35	Intermediate-Term Treasury Investor Shares* (10/28/1991)	VFITX	-0.59	3.68	7.48	7.45	7.46	5.13	5/2002 P
535	Intermediate-Term Treasury Admiral™ Shares* (2/12/2001)	VFIUX	-0.56	3.82	–	–	4.84	5.26	5/2002 P
522	Long-Term Bond Index (3/1/1994)	VBLTX	-0.97	4.19	8.68	–	7.69	6.68	4/2002 P
28	Long-Term Corporate Investor Shares (7/9/1973)	VWESX	-0.59	4.94	7.73	8.17	9.01	6.91	5/2002 P
568	Long-Term Corporate Admiral™ Shares (2/12/2001)	VWETX	-0.57	5.03	–	–	5.56	7.00	5/2002 P
83	Long-Term Treasury Investor Shares* (5/19/1986)	VUSTX	-1.49	1.26	8.33	8.45	8.42	5.64	5/2002 P
583	Long-Term Treasury Admiral™ Shares* (2/12/2001)	VUSUX	-1.46	1.40	–	–	1.91	5.77	5/2002 P
132	Short-Term Bond Index Investor Shares (3/1/1994)	VBISX	-0.05	5.41	6.77	–	6.29	4.66	4/2002 P
5132	Short-Term Bond Index Admiral™ Shares (11/12/2001)	VBIRX	-0.04	–	–	–	-1.12	4.71	4/2002 P
39	Short-Term Corporate Investor Shares (10/29/1982)	VFSTX	0.26	5.09	6.56	6.48	8.27	5.25	5/2002 P
539	Short-Term Corporate Admiral™ Shares (2/12/2001)	VFSUX	0.28	5.15	–	–	6.04	5.33	5/2002 P
49	Short-Term Federal Investor Shares* (12/31/1987)	VSGBX	0.44	5.67	6.68	6.34	7.09	4.31	5/2002 P
549	Short-Term Federal Admiral™ Shares* (2/12/2001)	VSGDX	0.46	5.73	–	–	6.42	4.37	5/2002 P
32	Short-Term Treasury Investor Shares* (10/28/1991)	VFISX	0.28	5.10	6.40	6.16	6.16	3.85	5/2002 P
532	Short-Term Treasury Admiral™ Shares* (2/13/2001)	VFIRX	0.32	5.25	–	–	6.04	3.98	5/2002 P
84	Total Bond Market Index Investor Shares (12/11/1986)	VBMFX	0.06	5.09	7.48	7.29	7.62	5.83	4/2002 P
584	Total Bond Market Index Admiral™ Shares (11/12/2001)	VBTLX	0.08	–	–	–	-1.92	5.89	4/2002 P
Comparative Indexes									
	Wilshire 5000		0.96%	2.55%	9.76%	12.53%			
	S&P 500		0.27	0.24	10.18	13.26			
	Lehman Aggregate Bond		0.09	5.35	7.57	7.38			
	Lehman Municipal Bond		0.94	3.81	6.23	6.70			
	Salomon 3-Month Treasury Bill		0.44	3.11	4.84	4.63			
	MSCI EAFE •		0.58	-9.10	1.18	5.77			

Fund No.	Vanguard® Fund Name (Inception Date)	Ticker Symbol	Year To Date	Average Annual Total Returns For Periods Ended March 31, 2002: 1 Year	5 Years	10 Years	Since Inception◆	Current Yield†	Next Report/ Prospectus Online††
Tax-Exempt Income and Money Market Funds									
100	CA Intermediate-Term Tax-Exempt Investor Shares (3/4/1994)	VCAIX	0.34%	2.88%	5.69%	–	5.93%	3.81%	3/2002 P
5100	CA Intermediate-Term Tax-Exempt Admiral™ Shares (11/12/2001)	VCADX	0.35	–	–	–	-2.43	3.86	3/2002 P
75	CA Long-Term Tax-Exempt Investor Shares (4/7/1986)	VCITX	0.33	2.37	6.29	6.90%	7.19	4.37	3/2002 P
575	CA Long-Term Tax-Exempt Admiral™ Shares (11/12/2001)	VCLAX	0.34	–	–	–	-3.13	4.42	3/2002 P
62	CA Tax-Exempt Money Market (6/1/1987)	VCTXX	0.32	2.04	2.93	2.96	3.65	1.45	3/2002 P
18	FL Long-Term Tax-Exempt Investor Shares (9/1/1992)	VFLTX	0.87	3.49	6.28	–	6.70	4.31	3/2002 P
518	FL Long-Term Tax-Exempt Admiral™ Shares (11/12/2001)	VFLRX	0.88	–	–	–	-2.16	4.36	3/2002 P
44	High-Yield Tax-Exempt Investor Shares (12/27/1978)	VWAHX	1.04	3.43	5.88	6.75	7.63	4.96	6/2002 S
544	High-Yield Tax-Exempt Admiral™ Shares (11/12/2001)	VWALX	1.05	–	–	–	-1.04	5.01	6/2002 S
58	Insured Long-Term Tax-Exempt Investor Shares (9/30/1984)	VILPX	0.86	3.08	6.12	6.80	8.53	4.21	6/2002 S
558	Insured Long-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VILQX	0.87	3.13	–	–	3.37	4.26	6/2002 S
42	Intermediate-Term Tax-Exempt Investor Shares (9/1/1977)	VWITX	0.91	3.44	5.48	6.26	6.24	3.94	6/2002 S
542	Intermediate-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VWIUX	0.93	3.49	–	–	3.66	3.99	6/2002 S
31	Limited-Term Tax-Exempt Investor Shares (8/31/1987)	VMLTX	0.36	3.46	4.75	4.88	5.67	3.24	6/2002 S
531	Limited-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VMLUX	0.37	3.51	–	–	3.63	3.29	6/2002 S
43	Long-Term Tax-Exempt Investor Shares (9/1/1977)	VWLTX	1.13	3.30	6.12	6.90	6.60	4.55	6/2002 S
543	Long-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VWLUX	1.14	3.35	–	–	3.64	4.60	6/2002 S
168	MA Tax-Exempt (12/9/1998)	VMATX	0.66	2.84	–	–	4.16	4.65	3/2002 P
14	NJ Long-Term Tax-Exempt Investor Shares (2/3/1988)	VNJTX	1.22	3.60	6.12	6.72	7.33	4.11	3/2002 P
514	NJ Long-Term Tax-Exempt Admiral™ Shares (5/14/2001)	VNJUX	1.23	–	–	–	4.42	4.16	3/2002 P
95	NJ Tax-Exempt Money Market (2/3/1988)	VNJXX	0.32	2.12	3.05	2.98	3.66	1.36	3/2002 P
76	NY Long-Term Tax-Exempt Investor Shares (4/7/1986)	VNYTX	1.04	3.23	6.11	6.70	6.81	4.19	3/2002 P
576	NY Long-Term Tax-Exempt Admiral™ Shares (5/14/2001)	VNYUX	1.05	–	–	–	3.96	4.24	3/2002 P
163	NY Tax-Exempt Money Market (9/3/1997)	VYFXX	0.32	2.10	–	–	3.11	1.41	3/2002 P
97	OH Long-Term Tax-Exempt (6/18/1990)	VOHIX	1.02	3.66	6.05	6.67	7.19	4.40	3/2002 P
96	OH Tax-Exempt Money Market (6/18/1990)	VOHXX	0.34	2.29	3.25	3.13	3.37	1.47	3/2002 P
77	PA Long-Term Tax-Exempt Investor Shares (4/7/1986)	VPAIX	0.87	3.71	6.02	6.72	7.18	4.45	3/2002 P
577	PA Long-Term Tax-Exempt Admiral™ Shares (5/14/2001)	VPALX	0.88	–	–	–	4.40	4.50	3/2002 P
63	PA Tax-Exempt Money Market (6/13/1988)	VPTXX	0.32	2.19	3.20	3.10	3.73	1.41	3/2002 P
41	Short-Term Tax-Exempt Investor Shares (9/1/1977)	VWSTX	0.32	3.35	4.07	4.02	5.23	2.24	6/2002 S
541	Short-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VWSUX	0.33	3.40	–	–	3.50	2.29	6/2002 S
45	Tax-Exempt Money Market (6/10/1980)	VMSXX	0.34	2.23	3.26	3.16	4.38	1.51	6/2002 S
Money Market Funds									
11	Admiral™ Treasury Money Market* (12/14/1992)	VUSXX	0.46%	3.21%	4.91%	–	4.72%	1.74%	4/2002 S
33	Federal Money Market* (7/13/1981)	VMFXX	0.47	3.26	5.04	4.71%	6.58	1.70	4/2002 S
30	Prime Money Market (6/4/1975)	VMMXX	0.46	3.17	5.08	4.75	7.26	1.78	4/2002 S
50	Treasury Money Market* (3/9/1983)	VMPXX	0.41	3.04	4.73	4.46	5.84	1.54	4/2002 S

Fund No.	Fund Name (Inception Date)	Standardized Average Annual Total Returns As Of March 31, 2002: 1 Year	5 Years	10 Years	Since Inception◆	Current Yield†
Vanguard® Variable Annuity**						
69	Balanced (5/23/1991)	7.53%	10.80%	11.96%	11.53%	–
145	Diversified Value (2/8/1999)	4.00	–	–	4.61	–
8	Equity Income (6/7/1993)	4.68	10.19	–	12.51	–
68	Equity Index (4/29/1991)	-0.26	9.72	12.61	12.43	–
10	Growth (6/7/1993)	-8.83	1.36	–	8.48	–
146	High Yield Bond (6/3/1996)	-0.26	3.68	–	4.69	7.84%
67	High-Grade Bond (4/29/1991)	4.40	6.98	6.68	6.87	5.37
86	International (6/3/1994)	-7.32	2.45	–	5.60	–
143	Mid-Cap Index (2/9/1999)	18.61	–	–	14.92	–
64	Money Market (5/2/1991)	2.96	4.84	4.38	4.39	1.41
147	REIT Index (2/9/1999)	21.39	–	–	13.24	–
144	Short-Term Corporate (2/8/1999)	4.56	–	–	5.42	4.45
160	Small Company Growth (6/3/1996)	16.78	21.01	–	15.35	–

Vanguard® Fixed Annuity

	Annual Effective Interest Rate As Of March 31, 2002 (Subject to Change)
Vanguard Fixed Annuity–Single 5 **	5.10%

Comparative Indexes	Year To Date	1 Year	5 Years	10 Years
Wilshire 5000	0.96%	2.55%	9.76%	12.53%
S&P 500	0.27	0.24	10.18	13.26
Lehman Aggregate Bond	0.09	5.35	7.57	7.38
Salomon 3-Month Treasury Bill	0.44	3.11	4.84	4.63

All Vanguard funds and the Vanguard Variable Annuity are offered by prospectus only. Prospectuses contain more complete information on risks, advisory fees, distribution charges, and other expenses, and should be read carefully before you invest. You can obtain Vanguard fund and annuity prospectuses by writing to us at P.O. Box 2600, Valley Forge, PA 19482-2600. The Vanguard fund and annuity total return data provided represent past performance, and the investment return and principal value of an investment will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Returns include the reinvestment of dividends and capital gains distributions. Vanguard® VIPER™ Shares are available through registered broker/dealers, who have copies of the shares' prospectuses and product descriptions, which should be read carefully before you invest or send money. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund. All figures are unaudited.

The online version of Vanguard Performance Profile at www.vanguard.com/?profile contains more complete information on fund distribution history, high/low share prices, and risk measures.

Fund No.	Vanguard® Fund Name (Inception Date)	Ticker Symbol	Year To Date	Average Annual Total Returns For Periods Ended March 31, 2002: 1 Year	5 Years	10 Years	Since Inception◆	Next Report/ Prospectus Online††
Exchange-Traded Shares								
970	Total Stock Market VIPERs™ (5/24/2001)	VTI						4/2002 P
	Return based on net asset value		0.95%	–	–	–	-8.96%	
	Return based on market price		0.97	–	–	–	-9.29	
965	Extended Market VIPERs™ (12/27/2001)	VXF						4/2002 P
	Return based on net asset value		1.85	–	–	–	1.94	
	Return based on market price		1.74	–	–	–	1.82	
International Funds								
227	Developed Markets Index (5/8/2000)	VDMIX	1.01%	-8.67%	–	–	-15.55%	6/2002 S
533	Emerging Markets Stock Index (5/4/1994)	VEIEX	10.39	17.30	-4.01%	–	1.13	6/2002 S
79	European Stock Index Investor Shares (6/18/1990)	VEURX	0.05	-5.51	5.44	10.28%	8.75	6/2002 S
579	European Stock Index Admiral™ Shares (8/13/2001)	VEUSX	0.11	–	–	–	-2.74	6/2002 S
129	Global Equity (8/14/1995)	VHGEX	8.29	8.92	8.88	–	9.93	6/2002 S
81	International Growth Investor Shares (9/30/1981)	VWIGX	0.40	-7.51	2.26	8.12	12.87	4/2002 S
581	International Growth Admiral™ Shares (8/13/2001)	VWILX	0.48	–	–	–	-2.17	4/2002 S
46	International Value (5/16/1983)	VTRIX	4.53	2.34	2.70	6.35	10.82	6/2002 S
72	Pacific Stock Index Investor Shares (6/18/1990)	VPACX	3.51	-16.17	-5.58	-0.11	-2.25	6/2002 S
572	Pacific Stock Index Admiral™ Shares (8/13/2001)	VPADX	3.54	–	–	–	-10.72	6/2002 S
127	Tax-Managed International (8/17/1999)	VTMGX	1.03	-8.61	–	–	-7.68	4/2002 P
113	Total International Stock Index (4/29/1996)	VGTSX	1.72	-6.35	0.56	–	0.45	6/2002 S
Balanced Funds								
78	Asset Allocation Investor Shares (11/3/1988)	VAAPX	-0.09%	4.31%	10.53%	12.38%	12.82%	5/2002 S
578	Asset Allocation Admiral™ Shares (8/13/2001)	VAARX	-0.06	–	–	–	-0.76	5/2002 S
2	Balanced Index Investor Shares (11/9/1992)	VBINX	0.67	3.87	9.35	–	10.61	4/2002 P
502	Balanced Index Admiral™ Shares (11/13/2000)	VBIAX	0.69	3.94	–	–	-1.80	4/2002 P
724	LifeStrategy® Conservative Growth (9/30/1994)	VSCGX	0.43	4.38	8.55	–	10.22	6/2002 S
122	LifeStrategy® Growth (9/30/1994)	VASGX	0.75	2.14	8.59	–	11.44	6/2002 S
723	LifeStrategy® Income (9/30/1994)	VASIX	0.16	5.03	8.39	–	9.58	6/2002 S
914	LifeStrategy® Moderate Growth (9/30/1994)	VSMGX	0.63	3.37	8.74	–	10.94	6/2002 S
56	STAR™ (3/29/1985)	VGSTX	1.09	4.64	10.31	11.59	11.91	6/2002 S
103	Tax-Managed Balanced (9/6/1994)	VTMFX	0.52	2.63	8.78	–	10.25	4/2002 P
27	Wellesley® Income Investor Shares (7/1/1970)	VWINX	2.01	8.03	10.53	11.05	11.27	5/2002 S
527	Wellesley® Income Admiral™ Shares (5/14/2001)	VWIAX	2.01	–	–	–	5.90	5/2002 S
21	Wellington™ Investor Shares (7/1/1929)	VWELX	3.30	7.91	11.26	12.61	8.41	3/2002 P
521	Wellington™ Admiral™ Shares (5/14/2001)	VWENX	3.35	–	–	–	4.11	3/2002 P

Fund No.	Fund Name (Inception Date)	Ticker Symbol	Year To Date	Average Annual Total Returns For Periods Ended March 31, 2002: 1 Year	5 Years	10 Years	Since Inception◆	Current Yield†	Next Report/ Prospectus Online††
Bond Funds									
36	GNMA Investor Shares* (6/27/1980)	VFIIX	1.01%	6.12%	7.50%	7.23%	9.40%	5.95%	5/2002 P
536	GNMA Admiral™ Shares* (2/12/2001)	VFIJX	1.02	6.18	–	–	6.54	6.01	5/2002 P
29	High-Yield Corporate Investor Shares (12/27/1978)	VWEHX	1.30	0.04	4.56	7.54	9.60	8.56	5/2002 P
529	High-Yield Corporate Admiral™ Shares (11/12/2001)	VWEAX	1.31	–	–	–	1.88	8.59	5/2002 P
119	Inflation-Protected Securities (6/29/2000)	VIPSX	1.51	4.40	–	–	8.74	3.16◆◆	5/2002 P
314	Intermediate-Term Bond Index Investor Shares (3/1/1994)	VBIIX	-0.67	4.53	7.65	–	6.98	6.21	4/2002 P
5314	Intermediate-Term Bond Index Admiral™ Shares (11/12/2001)	VBILX	-0.66	–	–	–	-3.32	6.26	4/2002 P
71	Intermediate-Term Corporate Investor Shares (11/1/1993)	VFICX	0.01	5.30	7.26	–	6.40	6.25	5/2002 P
571	Intermediate-Term Corporate Admiral™ Shares (2/12/2001)	VFIDX	0.03	5.38	–	–	6.53	6.31	5/2002 P
35	Intermediate-Term Treasury Investor Shares* (10/28/1991)	VFITX	-0.59	3.68	7.48	7.45	7.46	5.13	5/2002 P
535	Intermediate-Term Treasury Admiral™ Shares* (2/12/2001)	VFIUX	-0.56	3.82	–	–	4.84	5.26	5/2002 P
522	Long-Term Bond Index (3/1/1994)	VBLTX	-0.97	4.19	8.68	–	7.69	6.68	4/2002 P
28	Long-Term Corporate Investor Shares (7/9/1973)	VWESX	-0.59	4.94	7.73	8.17	9.01	6.91	5/2002 P
568	Long-Term Corporate Admiral™ Shares (2/12/2001)	VWETX	-0.57	5.03	–	–	5.56	7.00	5/2002 P
83	Long-Term Treasury Investor Shares* (5/19/1986)	VUSTX	-1.49	1.26	8.33	8.45	8.42	5.64	5/2002 P
583	Long-Term Treasury Admiral™ Shares* (2/12/2001)	VUSUX	-1.46	1.40	–	–	1.91	5.77	5/2002 P
132	Short-Term Bond Index Investor Shares (3/1/1994)	VBISX	-0.05	5.41	6.77	–	6.29	4.66	4/2002 P
5132	Short-Term Bond Index Admiral™ Shares (11/12/2001)	VBIRX	-0.04	–	–	–	-1.12	4.71	4/2002 P
39	Short-Term Corporate Investor Shares (10/29/1982)	VFSTX	0.26	5.09	6.56	6.48	8.27	5.25	5/2002 P
539	Short-Term Corporate Admiral™ Shares (2/12/2001)	VFSUX	0.28	5.15	–	–	6.04	5.33	5/2002 P
49	Short-Term Federal Investor Shares* (12/31/1987)	VSGBX	0.44	5.67	6.68	6.34	7.09	4.31	5/2002 P
549	Short-Term Federal Admiral™ Shares* (2/12/2001)	VSGDX	0.46	5.73	–	–	6.42	4.37	5/2002 P
32	Short-Term Treasury Investor Shares* (10/28/1991)	VFISX	0.28	5.10	6.40	6.16	6.16	3.85	5/2002 P
532	Short-Term Treasury Admiral™ Shares* (2/13/2001)	VFIRX	0.32	5.25	–	–	6.04	3.98	5/2002 P
84	Total Bond Market Index Investor Shares (12/11/1986)	VBMFX	0.06	5.09	7.48	7.29	7.62	5.83	4/2002 P
584	Total Bond Market Index Admiral™ Shares (11/12/2001)	VBTLX	0.08	–	–	–	-1.92	5.89	4/2002 P
Comparative Indexes									
	Wilshire 5000		0.96%	2.55%	9.76%	12.53%			
	S&P 500		0.27	0.24	10.18	13.26			
	Lehman Aggregate Bond		0.09	5.35	7.57	7.38			
	Lehman Municipal Bond		0.94	3.81	6.23	6.70			
	Salomon 3-Month Treasury Bill		0.44	3.11	4.84	4.63			
	MSCI EAFE•		0.58	-9.10	1.18	5.77			

Fund No.	Vanguard® Fund Name (Inception Date)	Ticker Symbol	Year To Date	Average Annual Total Returns For Periods Ended March 31, 2002: 1 Year	5 Years	10 Years	Since Inception♦	Current Yield†	Next Report/ Prospectus Online††
Tax-Exempt Income and Money Market Funds									
100	CA Intermediate-Term Tax-Exempt Investor Shares (3/4/1994)	VCAIX	0.34%	2.88%	5.69%	–	5.93%	3.81%	3/2002 P
5100	CA Intermediate-Term Tax-Exempt Admiral™ Shares (11/12/2001)	VCADX	0.35	–	–	–	-2.43	3.86	3/2002 P
75	CA Long-Term Tax-Exempt Investor Shares (4/7/1986)	VCITX	0.33	2.37	6.29	6.90%	7.19	4.37	3/2002 P
575	CA Long-Term Tax-Exempt Admiral™ Shares (11/12/2001)	VCLAX	0.34	–	–	–	-3.13	4.42	3/2002 P
62	CA Tax-Exempt Money Market (6/1/1987)	VCTXX	0.32	2.04	2.93	2.96	3.65	1.45	3/2002 P
18	FL Long-Term Tax-Exempt Investor Shares (9/1/1992)	VFLTX	0.87	3.49	6.28	–	6.70	4.31	3/2002 P
518	FL Long-Term Tax-Exempt Admiral™ Shares (11/12/2001)	VFLRX	0.88	–	–	–	-2.16	4.36	3/2002 P
44	High-Yield Tax-Exempt Investor Shares (12/27/1978)	VWAHX	1.04	3.43	5.88	6.75	7.63	4.96	6/2002 S
544	High-Yield Tax-Exempt Admiral™ Shares (11/12/2001)	VWALX	1.05	–	–	–	-1.04	5.01	6/2002 S
58	Insured Long-Term Tax-Exempt Investor Shares (9/30/1984)	VILPX	0.86	3.08	6.12	6.80	8.53	4.21	6/2002 S
558	Insured Long-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VILQX	0.87	3.13	–	–	3.37	4.26	6/2002 S
42	Intermediate-Term Tax-Exempt Investor Shares (9/1/1977)	VWITX	0.91	3.44	5.48	6.26	6.24	3.94	6/2002 S
542	Intermediate-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VWIUX	0.93	3.49	–	–	3.66	3.99	6/2002 S
31	Limited-Term Tax-Exempt Investor Shares (8/31/1987)	VMLTX	0.36	3.46	4.75	4.88	5.67	3.24	6/2002 S
531	Limited-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VMLUX	0.37	3.51	–	–	3.63	3.29	6/2002 S
43	Long-Term Tax-Exempt Investor Shares (9/1/1977)	VWLTX	1.13	3.30	6.12	6.90	6.60	4.55	6/2002 S
543	Long-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VWLUX	1.14	3.35	–	–	3.64	4.60	6/2002 S
168	MA Tax-Exempt (12/9/1998)	VMATX	0.66	2.84	–	–	4.16	4.65	3/2002 P
14	NJ Long-Term Tax-Exempt Investor Shares (2/3/1988)	VNJTX	1.22	3.60	6.12	6.72	7.33	4.11	3/2002 P
514	NJ Long-Term Tax-Exempt Admiral™ Shares (5/14/2001)	VNJUX	1.23	–	–	–	4.42	4.16	3/2002 P
95	NJ Tax-Exempt Money Market (2/3/1988)	VNJXX	0.32	2.12	3.05	2.98	3.66	1.36	3/2002 P
76	NY Long-Term Tax-Exempt Investor Shares (4/7/1986)	VNYTX	1.04	3.23	6.11	6.70	6.81	4.19	3/2002 P
576	NY Long-Term Tax-Exempt Admiral™ Shares (5/14/2001)	VNYUX	1.05	–	–	–	3.96	4.24	3/2002 P
163	NY Tax-Exempt Money Market (9/3/1997)	VYFXX	0.32	2.10	–	–	3.11	1.41	3/2002 P
97	OH Long-Term Tax-Exempt (6/18/1990)	VOHIX	1.02	3.66	6.05	6.67	7.19	4.40	3/2002 P
96	OH Tax-Exempt Money Market (6/18/1990)	VOHXX	0.34	2.29	3.25	3.13	3.37	1.47	3/2002 P
77	PA Long-Term Tax-Exempt Investor Shares (4/7/1986)	VPAIX	0.87	3.71	6.02	6.72	7.18	4.45	3/2002 P
577	PA Long-Term Tax-Exempt Admiral™ Shares (5/14/2001)	VPALX	0.88	–	–	–	4.40	4.50	3/2002 P
63	PA Tax-Exempt Money Market (6/13/1988)	VPTXX	0.32	2.19	3.20	3.10	3.73	1.41	3/2002 P
41	Short-Term Tax-Exempt Investor Shares (9/1/1977)	VWSTX	0.32	3.35	4.07	4.02	5.23	2.24	6/2002 S
541	Short-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VWSUX	0.33	3.40	–	–	3.50	2.29	6/2002 S
45	Tax-Exempt Money Market (6/10/1980)	VMSXX	0.34	2.23	3.26	3.16	4.38	1.51	6/2002 S
Money Market Funds									
11	Admiral™ Treasury Money Market* (12/14/1992)	VUSXX	0.46%	3.21%	4.91%	–	4.72%	1.74%	4/2002 S
33	Federal Money Market* (7/13/1981)	VMFXX	0.47	3.26	5.04	4.71%	6.58	1.70	4/2002 S
30	Prime Money Market (6/4/1975)	VMMXX	0.46	3.17	5.08	4.75	7.26	1.78	4/2002 S
50	Treasury Money Market* (3/9/1983)	VMPXX	0.41	3.04	4.73	4.46	5.84	1.54	4/2002 S

Fund No.	Fund Name (Inception Date)		Standardized Average Annual Total Returns As Of March 31, 2002: 1 Year	5 Years	10 Years	Since Inception♦	Current Yield†
Vanguard® Variable Annuity**							
69	Balanced (5/23/1991)		7.53%	10.80%	11.96%	11.53%	–
145	Diversified Value (2/8/1999)		4.00	–	–	4.61	–
8	Equity Income (6/7/1993)		4.68	10.19	–	12.51	–
68	Equity Index (4/29/1991)		-0.26	9.72	12.61	12.43	–
10	Growth (6/7/1993)		-8.83	1.36	–	8.48	–
146	High Yield Bond (6/3/1996)		-0.26	3.68	–	4.69	7.84%
67	High-Grade Bond (4/29/1991)		4.40	6.98	6.68	6.87	5.37
86	International (6/3/1994)		-7.32	2.45	–	5.60	–
143	Mid-Cap Index (2/9/1999)		18.61	–	–	14.92	–
64	Money Market (5/2/1991)		2.96	4.84	4.38	4.39	1.41
147	REIT Index (2/9/1999)		21.39	–	–	13.24	–
144	Short-Term Corporate (2/8/1999)		4.56	–	–	5.42	4.45
160	Small Company Growth (6/3/1996)		16.78	21.01	–	15.35	–
Vanguard® Fixed Annuity			Annual Effective Interest Rate As Of March 31, 2002 (Subject to Change)				
	Vanguard Fixed Annuity–Single 5 ••				5.10%		
Comparative Indexes							
	Wilshire 5000	0.96%	2.55%	9.76%	12.53%		
	S&P 500	0.27	0.24	10.18	13.26		
	Lehman Aggregate Bond	0.09	5.35	7.57	7.38		
	Salomon 3-Month Treasury Bill	0.44	3.11	4.84	4.63		

All Vanguard funds and the Vanguard Variable Annuity are offered by prospectus only. Prospectuses contain more complete information on risks, advisory fees, distribution charges, and other expenses, and should be read carefully before you invest. You can obtain Vanguard fund and annuity prospectuses by writing to us at P.O. Box 2600, Valley Forge, PA 19482-2600. The Vanguard fund and annuity total return data provided represent past performance, and the investment return and principal value of an investment will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Returns include the reinvestment of dividends and capital gains distributions. Vanguard® VIPER™ Shares are available through registered broker/dealers, who have copies of the shares' prospectuses and product descriptions, which should be read carefully before you invest or send money. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund. All figures are unaudited.

The online version of Vanguard Performance Profile at www.vanguard.com/?profile contains more complete information on fund distribution history, high/low share prices, and risk measures.

After-Tax Returns. The after-tax returns are shown in two ways: (1) assuming that an investor owned the fund during the entire period and paid taxes on the fund's distributions, and (2) assuming that an investor paid taxes on the fund's distributions and sold all shares at the end of each period.

Fund No.	Vanguard® Fund Name (Inception Date)	Average Annual Total Returns After Taxes On Distributions For Periods Ended March 31, 2002				Average Annual Total Returns After Taxes On Distributions And Sale Of Fund Shares For Periods Ended March 31, 2002			
		1 Year	5 Years	10 Years	Since Inception◆	1 Year	5 Years	10 Years	Since Inception◆
Vanguard Tax-Managed Funds®									
103	Balanced (9/6/1994)	1.49%	8.66%	–	10.10%	1.90%	7.65%	–	9.00%
102	Capital Appreciation Investor Shares (9/6/1994)	-1.97	10.44	–	13.65	-1.06	8.73	–	11.75
101	Growth & Income Investor Shares (9/6/1994)	-1.27	9.70	–	13.79	-0.50	8.19	–	11.97
127	International (8/17/1999)	-9.97	–	–	-8.36	-5.75	–	–	-6.43
116	Small-Cap (3/25/1999)	20.15	–	–	16.57	12.52	–	–	13.70

Fee-Adjusted Returns. In accordance with SEC regulations, the returns presented below take into account certain fees that may apply to Vanguard funds. For some funds, fees are levied on purchases or redemptions to offset the costs of buying and selling portfolio securities. For others, fees are assessed on redemptions made within certain time periods after a purchase to discourage short-term trading. All purchase or redemption fees are paid directly to the fund to compensate long-term shareholders for the costs of trading activity. In addition, Vanguard index funds apply a $10 annual maintenance fee, which is not reflected in the figures, to accounts with balances below $10,000.

Fund No.	Vanguard® Fund Name (Inception Date)	Ticker Symbol	Average Annual Total Returns For Periods Ended March 31, 2002			
			1 Year	5 Years	10 Years	Since Inception◆
Growth and Income Funds						
934	Selected Value (2/15/1996)	VASVX	20.11%	9.64%	–	8.93%
101	Tax-Managed Growth and Income Investor Shares (9/6/1994)	VTGIX	-0.79	10.21	–	14.45
5101	Tax-Managed Growth and Income Admiral™ Shares (11/12/2001)	VTGLX	–	–	–	1.06
Growth Funds						
59	PRIMECAP Investor Shares (11/1/1984)	VPMCX	-2.40%	16.26%	17.82%	17.20%
559	PRIMECAP Admiral™ Shares (11/12/2001)	VPMAX	–	–	–	8.10
102	Tax-Managed Capital Appreciation Investor Shares (9/6/1994)	VMCAX	-1.72	10.66	–	13.91
5102	Tax-Managed Capital Appreciation Admiral™ Shares (11/12/2001)	VTCLX	–	–	–	2.33
Aggressive Growth Funds						
111	Capital Opportunity Investor Shares (8/14/1995)	VHCOX	-4.40%	22.62%	–	16.87%
5111	Capital Opportunity Admiral™ Shares (11/12/2001)	VHCAX	–	–	–	6.65
52	Health Care Investor Shares (5/23/1984)	VGHCX	8.84	23.83	21.19%	21.99
552	Health Care Admiral™ Shares (11/12/2001)	VGHAX	–	–	–	5.08
International Fund						
533	Emerging Markets Stock Index (5/4/1994)	VEIEX	16.15%	-4.19%	–	1.01%
Balanced Fund						
103	Tax-Managed Balanced (9/6/1994)	VTMFX	1.63%	8.78%	–	10.25%

††**Next Report/Prospectus Online:** The fund's next annual report **(A)**, semiannual report **(S)**, or prospectus **(P)** is expected to be available on our website (Vanguard.com) no later than the last day of the indicated month. Account statements are posted online approximately eight days after the end of each calendar quarter.

*The U.S. government backs the fund's underlying investments but not its shares' net asset value.

**Share prices for the Vanguard Variable Annuity Plan are accumulation unit values that reflect the investment results of the respective portfolios as well as the reinvestment of all dividends and capital gains, reduced by daily mortality, expense risk, and administrative expense charges. The one-, five-, ten-year, and since inception period returns, considered "Standardized," are adjusted for the $25 annual fee charged on contracts valued at less than $25,000. With respect to contracts issued in New York State, performance figures shown are based on the actual performance of Vanguard Variable Insurance Fund as if the contracts were being offered in New York prior to their first New York offering date in November 1992. The Plan is a flexible-premium, multifunded variable annuity issued by Peoples Benefit Life Insurance Company, Form No. Series NA 100A (AUSA Life Insurance Company, Inc., in New York only, Form No. Series AV423 101 109 498 CRT).

†30-day yield for bond funds; 7-day yield for money market funds (as of March 31, 2002). The money market yields listed more closely reflect the current earnings of the portfolio than the average annual total returns shown.

•MSCI Provisional Index Series returns beginning November 16, 2001.

••The Vanguard Fixed Annuity–Single 5, single premium deferred annuity, Policy Form 94-522, or applicable state variation, is issued by Jefferson Pilot LifeAmerica Insurance Company, service address: Greensboro, NC.

Individual investors may not purchase or redeem Vanguard® Total Stock Market VIPERs™ or Vanguard® Extended Market VIPERs™ directly from the issuing fund. Instead, these investors must buy or sell VIPER™ Shares in the secondary market with the assistance of a stock broker. Also note that brokerage commissions and other fees will result in total returns that are lower than those shown here.

◆Since inception returns for less than one year are not annualized.

◆◆Yield stated in real terms; not adjusted for projected inflation.

After-tax returns are calculated using the highest individual federal income tax rates in effect at the time of each distribution. They do not reflect the impact of state and local taxes. Your after-tax return depends on your individual tax situation and, therefore, may differ from the return presented here. If you own fund shares in a tax-deferred account such as an individual retirement account or 401(k) plan, this information does not apply to your investment because these accounts are not subject to current taxes. The fund's past performance–whether before or after taxes–does not indicate how it will perform in the future.

After-tax total returns are available for many of the Vanguard funds on our website, **Vanguard.com™**. To view after-tax returns, select a Vanguard fund in the "Funds" area of the website and click on "Performance."