

Fund Essentials™

investing for

growth



THE **Vanguard** GROUP

Vanguard® stock funds

*Growth opportunities for
long-term investors*



When asked why they invest, many investors reply that they seek growth. But just what does “growth” mean? Reinvesting income from a bond or money market fund can lead to growing account balances, but **long-term growth** of capital comes primarily from investments in stocks.

If you have an ambitious investment goal that is five years or more away and you can withstand short-term volatility, growth-oriented stock funds may be appropriate for you. This brochure shows you why you should **consider investing in stock funds** for growth of capital, what points to consider when you choose a fund, and how Vanguard can help you meet your investment goals.

Why is growth of capital so important?

It's up to you to invest for a secure retirement. Because employers are increasingly placing the responsibility for retirement savings in employees' hands, you need to be well-informed so that you can choose your retirement plan investments carefully.

We're living longer. Because of medical advances and healthier lifestyles, there's an increased need to accumulate sufficient assets to fund longer retirements.

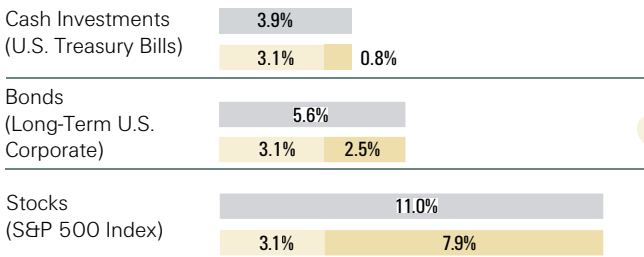
Inflation erodes savings. Inflation—even at today's relatively benign level—steadily erodes investment returns. As shown below, stocks have historically outpaced inflation far better than the other major asset classes, despite their potentially higher fluctuations.

College costs continue to rise. College costs have increased steadily for years, and typically at rates that have outpaced inflation. To meet the rising costs, parents should start early with a long-term savings plan for their children's education.

You can build wealth for the future. It's likely that you will want to ensure the long-term financial security of your family and possibly provide for other beneficiaries, such as charitable organizations.

How inflation affects your returns

Average Annual Returns: 1926–2000



- Average Annual Total Return
- Average Annual Inflation
- Return After Inflation

Treasury bills are guaranteed as to timely payment of principal and interest. Past performance is no guarantee of future results.

Source: The Vanguard Group.

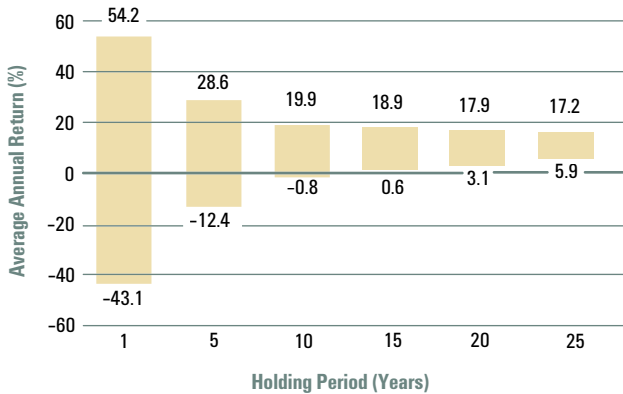
What are the risks?

Stock prices fluctuate every day, so you can lose money if you sell shares when prices have fallen. Prices of small-company stocks often fluctuate more than prices of large-company stocks, and the returns of international stocks may be hurt by declines in the values of foreign currencies or by unfavorable developments in a particular country or region.

It's important to realize, though, that the risk of holding stocks decreases the longer you hold them. As the chart below shows, fluctuations in the average annual returns for stocks become smaller the longer the holding period, which means that you are less likely to lose principal over longer periods.

Range of returns on common stocks

1926–2000



Total returns produced by stocks have varied greatly over the short run, as shown above. Historically, however, total returns have been more consistent over longer periods—a key advantage of long-term investing. But there's still risk: Long-term returns in future years could be higher or lower than the ranges shown.

Stock investments are represented by returns of the Standard & Poor's 500 Index.

Source: The Vanguard Group.

What should you consider when selecting a fund for growth?

To determine whether a particular stock fund is right for you, ask yourself a few questions.

- 1. What is your investment time frame?** In other words, how long do you intend to invest? If you are investing for a retirement that is 20 years or more away, you can afford to invest more aggressively than if retirement were only a few years away. A general guideline is that stock funds intended to produce growth of capital are appropriate for investors who have time frames of at least five years.
- 2. How do the stated risks of the fund compare to your tolerance for risk?** Some indications of the riskiness of a stock fund include its investment focus, number of holdings, and turnover rate (see the chart on pages 6–7 for examples). If you're not comfortable with the risks, you'll probably want to look at another fund.
- 3. How does the fund you're considering fit in with the rest of your portfolio?** Ask yourself whether the fund fills a specific need in your portfolio. You'll also want to be sure that it doesn't cause you to exceed your desired mix of stocks, bonds, and cash investments.

Need help making the right investment choices?

help

The Vanguard Investment Planner, from our Plain Talk® Library, can help you choose the appropriate investment. You can download the brochure from our website, Vanguard.com™. To receive a copy by mail, complete the attached reply card or call us at 1-800-642-8999.

Some Vanguard stock funds to meet your growth needs

We offer a broad selection of **low-cost stock funds**—both domestic and international—whose primary objective is **growth of capital**.

The funds on the following page have distinct investment styles, portfolio holdings, and risk characteristics and are intended for long-term investors.



Total Stock Market Index Fund seeks to track the investment performance of the Wilshire 5000 Total Market Index, which includes virtually all regularly traded U.S. stocks.

500 Index Fund seeks to track the investment returns of the S&P 500 Index, a widely used barometer of large-capitalization U.S. stocks.

Mid-Cap Index Fund seeks to track the investment returns of the S&P MidCap 400 Index, which includes companies with market capitalizations of \$1.5 to \$13 billion.

Windsor™ II Fund invests primarily in stocks of large companies that the fund's managers believe are under-valued at the time of purchase and offer favorable prospects for earnings growth.

Morgan™ Growth Fund invests primarily in stocks of large and midsize companies that the fund's managers believe demonstrate the potential for faster-than-average growth of revenue and earnings.

Explorer™ Fund invests primarily in stocks of smaller companies that the fund managers believe to have solid financial prospects and growth potential.

Total International Stock Index Fund invests in three Vanguard international index funds—European Stock Index, Pacific Stock Index, and Emerging Markets Stock Index—to provide exposure to stocks from some 30 countries.

Key fund facts

	Inception Date	Fund Manager	Investment Focus	Number of Holdings**	Portfolio Turnover Rate***	Fund Expense Ratio***
Total Stock Market Index Fund*	April 27, 1992	Vanguard Quantitative Equity Group	Large-capitalization blend	3,433	7.0%	0.20%
500 Index Fund*	August 31, 1976	Vanguard Quantitative Equity Group	Large-capitalization blend	510	9.0%	0.18%
Mid-Cap Index Fund	May 21, 1998	Vanguard Quantitative Equity Group	Mid-capitalization blend	406	51.0%	0.25%
Windsor II Fund*	June 24, 1985	Four co-managers	Large-capitalization value	276	26.0%	0.37%
Morgan Growth Fund*	December 31, 1968	Three co-managers	Large-capitalization growth	354	94.0%	0.40%
Explorer Fund	December 11, 1967	Five co-managers	Small-capitalization growth	817	123.0%	0.71%
Total International Stock Index Fund	April 29, 1996	Vanguard Quantitative Equity Group	International	1,406	N/A	0.34%†

*Also offers Admiral™ Shares, a separate class that offers lower expenses. The minimum initial investment for this share class is \$250,000.

**As of March 31, 2001.

***For the fund's most recent fiscal year.

†Average weighted expense ratio based on expenses incurred by the underlying funds.

Vanguard—a smart choice for growth

In addition to the seven funds already described, to the right are several other Vanguard stock funds, which are classified according to their investment styles. You can get more details about all of our funds by visiting our website, Vanguard.com, or by calling us at 1-800-642-8999.

Open your account online today

Once you've selected the funds that best meet your needs, you can open your account online using secure e-signature technology. Visit our website at www.vanguard.com/?invest to get started.

Other Vanguard stock funds

Domestic Small-Cap

Small-Cap Growth Index Fund

Small-Cap Index Fund

Tax-Managed Small-Cap Fund

Domestic Mid-Cap

Extended Market Index Fund

Strategic Equity Fund

Windsor™ Fund

Domestic Large-Cap

Calvert Social Index™ Fund

Growth and Income Fund

Growth Index Fund

Tax-Managed Capital
Appreciation Fund

Tax-Managed Growth
and Income Fund

U.S. Growth Fund

U.S. Value Fund

International

Developed Markets Index Fund

Emerging Markets Stock
Index Fund

European Stock Index Fund

Global Equity Fund

International Growth Fund

Pacific Stock Index Fund

Tax-Managed International Fund





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Vanguard funds 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 or send money. Prospectuses can be obtained directly from The Vanguard Group.

World Wide Web

www.vanguard.com

Toll-Free Information

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