

The index fund turned 50. Most large-cap investors are still hunting needles

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Maxim: *Don't look for the needle in the haystack. Just buy the haystack!* — John C. Bogle

Bogle's 'folly' raised \$11 million in 1976. Half a century later, the arithmetic he bet on is quietly reshaping how Indians invest, and showing exactly where it bites.

Finding the next great stock is thrilling. Owning all of them is usually more profitable.

On 31 August 2026, the world's first index fund for ordinary investors turned 50. When John Bogle launched the First Index Investment Trust in 1976, he hoped to raise \$150 million. He raised \$11.3 million, and sceptics called it "Bogle's Folly". Today the fund, now the Vanguard 500, manages about \$1.7 trillion, and index funds hold 64% of all US stock-fund assets, [Axios reported](#) on the anniversary. Bogle himself called the launch "an abject failure", [Vanguard recalls](#).

India is somewhere in the middle of that journey. At the end of September 2026, Indian index funds managed about ₹3.2 lakh crore and exchange-traded funds about ₹11.5 lakh crore, out of an industry total of about ₹82.6 lakh crore, [AMFI data](#) show; the ETF figure includes gold ETFs and large institutional holdings. Index funds even saw net outflows in September. The haystack is growing, but most Indian equity money is still paying someone to find the needle.

The arithmetic Bogle bet on

Bogle's line comes from *The Little Book of Common Sense Investing* (2007). Picking the fund that will beat the market, he wrote, is like looking for a needle in a haystack; his advice was to stop looking and buy the haystack, as collected on [Goodreads](#).

The idea rests on simple arithmetic, which the economist William Sharpe set out in 1991. Before costs, active investors as a group must earn the market return, because together they are the market. So "after costs, the return on the average actively managed dollar will be less than the return on the average passively managed dollar," Sharpe wrote in the [Financial Analysts Journal](#). Some managers will win. The average cannot.

Bogle spent the rest of his life on the second half of that sentence, the costs. "Do not allow the tyranny of compounding costs to overwhelm the magic of compounding returns," he wrote in a [2014 paper](#). Warren Buffett tested the claim with money. In 2008 he bet that an S&P 500 index fund would beat a selection of hedge funds-of-funds over ten years. The index fund gained 125.8%, about 8.5% a year; the five funds-of-funds gained between 2.8% and 87.7% in total, Buffett reported in his [2017 letter](#). His summary: "Performance comes, performance goes. Fees never falter."

What the Indian numbers say, and where they don't

In India the answer depends on where you look and for how long. Morningstar's latest Active/Passive Barometer for India, to June 2026, compares active funds with real index funds after fees. Among large-cap funds, 87.9% beat their passive peers over one year. Over ten years, only 25.8% did,

[Business Standard reported](#). Short stretches flatter active managers; long ones expose the drag of costs in the most widely researched stocks.

That drag is easy to see on a fund page. The direct plan of UTI's Nifty 50 index fund charges 0.18% a year. ICICI Prudential's large-cap fund charges 0.72% in its direct plan and 1.14% in the regular plan sold through distributors, according to [Value Research](#). The gap looks small in a year. Over twenty, compounding turns it into a large share of the final corpus. Sebi's new expense rules, in force since April 2026, trimmed the caps further, including to 0.9% for index funds and ETFs, [Cafemutual explained](#).

The honest counterpoints matter. Small-cap funds have at times beaten passive peers more often, though inconsistently: they succeeded 75% of the time over five years but only 29.2% over three, per the same Morningstar data. And the haystack is not evenly spread: in the Nifty 50, the ten largest stocks make up about half the index, according to a [constituent list](#) from August 2026. Buying the haystack means accepting whatever the haystack is.

Five questions before you pick a haystack

1. **Which haystack?** A Nifty 50 fund owns India's largest companies; a Nifty 500 or total-market fund adds mid and small companies. Decide how much of the market you want before choosing a fund.
2. **What does it cost?** Compare total expense ratios, and choose the direct plan if you do not need a distributor's help. Among funds tracking the same index, cost is the main difference you control.
3. **How closely does it track?** Check the tracking error and tracking difference on the fund's factsheet. A cheap fund that drifts from its index is not cheap.
4. **Index fund or ETF?** ETFs trade on the exchange and need a demat account and enough trading volume; index funds are bought and sold at NAV. For a monthly SIP, an index fund is usually simpler.
5. **Where might active still earn its fee?** If you want a manager, use one where the data give active funds a fighting chance, and judge them over five years or more, not one.

The decision rule follows. Make a low-cost, broad index fund the core of your equity money, and let any search for needles be a deliberate, smaller satellite, held to a clear benchmark. If an active fund cannot beat its index fund over a full market cycle after costs, the haystack wins by default.

Fifty years of a boring idea

A \$10,000 investment in Bogle's fund at its launch would have been worth more than \$2.4 million by July 2026, [PSCA noted](#) on the anniversary. No manager had to find a single needle for that to happen. The fund simply owned the haystack, kept costs low and let the market's winners, whoever they turned out to be, do the work.

Indian investors do not have to choose between excitement and arithmetic. They can keep a small corner of the portfolio for stock-picking and conviction. But the core of a long-term plan deserves the oldest lesson of the index fund's first half-century: the needle is hard to find, expensive to look for, and already inside the haystack you can buy today.

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