

Fund Essentials®



THE **Vanguard** GROUP®

Vanguard[®] stock funds

*Growth opportunities for
long-term investors*



Contents

Stock Fund Basics	2
Key Characteristics of Stock Funds	7
What Are the Risks?	10
How to Choose the Right Stock Fund	13
Why Vanguard Stock Funds?	14
Vanguard Stock Funds to Meet Your Needs	16
Key Fund Facts	18

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 investment goal that is five or more years away and you can tolerate the inevitable swings in the market, stock funds may be appropriate for you.

This brochure describes 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.

Stock

Fund Basics

What Is a Stock?

Stock represents partial ownership of a corporation. Each share of stock is a claim on its proportionate stake in the corporation's assets and profits—or losses. In other words, a stockholder shares in the company's financial performance, good or bad.

Some companies pay a majority of their profits to stockholders in the form of dividends. Others reinvest profits back into the company as they seek to increase future sales and earnings, which may in turn increase the value of their shares. Most companies do some of both.

What Is a Stock Mutual Fund?

Stock funds are a pooling-together of many investors' money to purchase a portfolio of stocks. Investors in stock funds have a number of options in choosing funds, as shown below.

Choices for stock fund investors

Investment style	Average market capitalization	Management style
<ul style="list-style-type: none"> • Growth-oriented • Value-oriented • Blend 	<ul style="list-style-type: none"> • Small-cap • Mid-cap • Large-cap 	<ul style="list-style-type: none"> • Active • Passive (index)

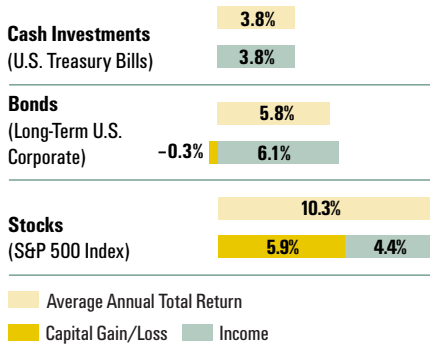
Advantages of Stock Funds

There are several reasons you may find it advantageous to invest in stock funds. Here’s a closer look at those reasons.

Potential for higher returns. Over the years, stock funds have historically offered the best opportunities for growth of capital. As the chart below shows, the average annual returns of stocks have handily outpaced the returns of bonds and cash investments.

How stocks have outperformed over time

Average annual returns, 1926–2005



The returns for each asset class will differ year to year from the historical figures shown in the chart. Note that Treasury bills are guaranteed as to the timely payment of principal and interest; U.S. corporate bonds and stocks carry no such guarantee. Past performance cannot be used to predict future returns.

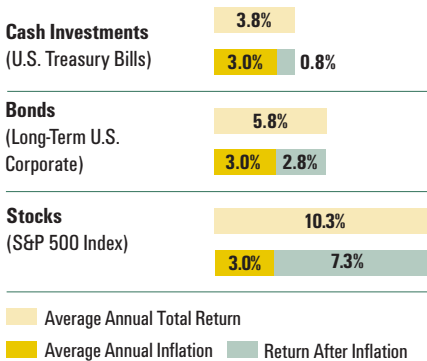
Source: Vanguard.

The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Best defense against inflation. Inflation—even at the relatively benign levels seen over the past several years—can steadily erode investment returns. As you can see in the chart below, stocks—despite their potentially higher fluctuations—have historically outpaced inflation far better than bonds and cash investments.

How inflation affects returns

Average annual returns, 1926–2005



Note that Treasury bills are guaranteed as to the timely payment of principal and interest; U.S. corporate bonds and stocks carry no such guarantees. Past performance cannot be used to predict future returns.

Source: Vanguard.

Disadvantages of Stock Funds

As with any investment, stock funds also have some potential disadvantages.

Volatility of returns. The stock market may undergo periods in which returns are lower than those of other asset classes. Stock returns are also affected by investor psychology, which can swing abruptly between optimism and pessimism.

Potential capital losses. You may have to redeem shares of your stock fund at prices that are lower than your original purchase price, thus realizing a capital loss.

Interested in **purchasing individual stocks?**

Although most investors are best served by investing in stocks primarily through mutual funds, there may be a place in your portfolio for a small percentage of individual stock holdings. If you would like to buy stocks, Vanguard offers brokerage services. Call us at 800-992-8327 or visit www.vanguard.com for information.

Key Characteristics of Stock Funds

As you consider an investment in stock funds, keep in mind these three important attributes: management style, investment style, and average market capitalization.

Management style. The majority of stock funds are actively managed—that is, they employ a fund manager or managers who choose the stocks to buy and sell for the fund's portfolio in an effort to produce investment results that surpass those of the fund's target benchmark. There are also index funds, which are passively managed and try to track market benchmarks as closely as possible—not beat them. These funds simply buy and hold all or a large representative sample of the securities in their target benchmark.

Diversification. A stock fund may hold hundreds, even thousands, of stocks from different issuers. Through diversification of holdings within and among industries, poor performance by one company or industry sector would likely have only a slight effect on your investment. In contrast, it is very difficult and expensive to achieve adequate diversification through investments in individual stocks. As a result, you could lose a significant part of your investment if one of the stocks you hold hits a rough stretch.

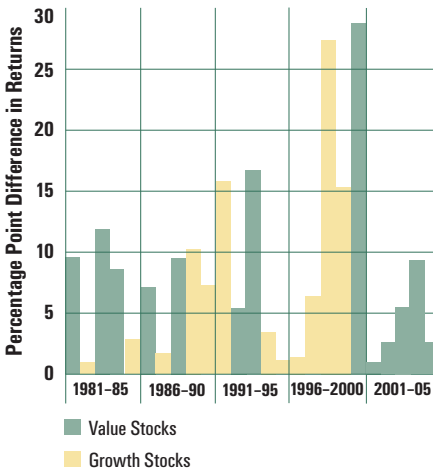
Professional investment management. You can rely on the capabilities of professional fund managers—who have access to extensive company research and market information—to decide which stocks to buy and sell. This service is valuable because few investors have the time or expertise to manage extensive portfolios of individual stocks.

Convenience. You can buy or sell stock fund shares at any time. In addition, many funds offer telephone and online redemption options as well as automatic investment plans and recordkeeping services.

Investment style. A common way to categorize a stock fund is to identify whether it holds primarily “growth” stocks, primarily “value” stocks, or a blend of the two. Growth stocks are those that are believed to exhibit above-average prospects for continued earnings growth. Value stocks are those that appear undervalued relative to the performance of the company and market expectations of future performance. As the chart below shows, growth stocks and value stocks have taken turns dominating the market over the past 25 years. Including value and growth stocks in your portfolio can add balance and diversification to your holdings. You may also consider a fund that holds a blend of both types.

Taking turns leading the market

Value versus growth stocks, 1981–2005



The information shown in this chart is not representative of the past or future performance of any Vanguard growth or value fund.

Growth stocks are represented by the S&P 500/Citigroup Growth Index; value stocks are represented by the S&P 500/Citigroup Value Index.

Source: Standard & Poor's/Citigroup.

Average market capitalization. Stock funds can also be characterized by the size of the companies in which they primarily invest. Investment professionals typically divide stocks into one of three market capitalization segments: small-cap (companies whose outstanding stock has an approximate total market value of less than \$1.8 billion), mid-cap (between \$1.8 billion and \$14 billion), or large-cap (over \$14 billion). The average capitalization of a fund typically gives you a good indication of the types of companies it invests in—whether they are smaller companies or large-cap industry leaders. Some funds—known as multi-cap funds—hold stocks in *all* of the market capitalization ranges.

Segments of the stock market

	 Style			
		Value	Blend	Growth	
. Market Cap					Large
					Medium
					Small

The nine boxes in this grid show the focus of a stock fund in terms of its investment style and average market capitalization.

What Are the Risks?

As with any type of investment, stock funds carry certain risks. Here's a closer look.

Market risk. One of the most significant risks you face as a stock fund investor is the volatility of the overall market. Over the years, stock prices have skyrocketed—and plummeted—over short time periods. However, over the long run, stocks have provided higher returns than the other asset classes. You can reduce market risk by holding your stock investments for the long term—at least ten years.

Manager risk. Portfolio managers can choose stocks that do very well for their fund. And as your fund's share price grows, so does the value of your investment. Despite their access to a wealth of company and economic information, however, portfolio managers can make investment choices that do not live up to their expectations. As a result, their fund—and you—can lose money. You can reduce this risk by choosing an actively managed fund that is highly diversified, or you can virtually eliminate this risk by selecting an index fund.

Investment style risk. All segments of the market (such as small-cap stocks) and industry sectors (such as technology) have experienced cycles during which they have fared better or worse than the overall stock market. These periods have, in the past, lasted for as long as several years. You can reduce this risk by ensuring that your investments cover small, medium-size, and large companies in a wide variety of industries.

Specific risk. Concentrating your portfolio in too small a number of stocks or in just one or two industry groups increases your risk of losing money because of the potential for trouble at one company or in a single industry group. Even great companies with superb track records can stumble or be adversely affected by an unforeseen development. You can reduce this risk by investing in a mutual fund that holds stocks of many companies across a wide range of industries.

International risk. If you invest in an international stock fund, you should be prepared to accept risks beyond those of domestic stock funds. For example, investments denominated in foreign currencies decline in value for U.S. investors when the dollar rises relative to those currencies. In other words, a stronger dollar can reduce the returns of international funds. Also, events such as political troubles, financial crises, or natural disasters in a country can drive stock prices down. You can reduce these country-specific risks by focusing on funds that invest in a large number of countries that have well-established financial markets.

Want to learn more **about international funds?**

If you're thinking about investing in international stock funds, you may want to look at our *International Investing Fund Essentials* brochure to gain a better understanding of the benefits and risks of international funds. Vanguard offers an extensive selection of international stock funds. For more information, call us at 800-662-7447 or visit our website at www.vanguard.com.

How to Choose the Right Stock Fund

To determine whether a particular stock fund is suitable for you, ask yourself the following questions. Your answers will help you choose the right stock funds for your goals.

How long do you intend to invest? If you are investing for a retirement that is 20 or more years away, you can afford to invest more aggressively than if retirement is only a few years away. A general guideline is that stock funds are appropriate for investors who can keep their money invested for at least five years, preferably longer.

How much risk can you live with? The degree of risk you can comfortably tolerate is an important factor in selecting which type of stock fund to invest in. Keep in mind that prices of small- and mid-cap funds typically fluctuate more than those of large-cap funds, and that there are additional risks when investing outside the United States.

How does the fund fit in with the rest of your portfolio? Ask yourself whether the fund fills a specific need or gap in your portfolio. You'll also want to be sure that the investment fits in with your target asset mix of stocks, bonds, and cash investments. Finally, consider whether the fund's investment style and holdings significantly overlap or duplicate those of any other stock fund you own.

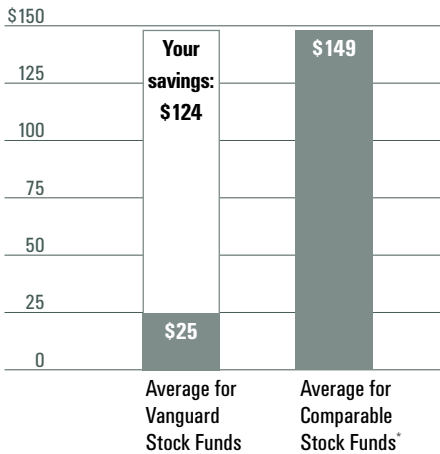
Why Vanguard Stock Funds?

When you compare Vanguard's stock funds with those of other companies, you'll find that Vanguard funds have several important advantages.

Broad selection. We offer a diverse selection of more than 40 stock funds, ranging from conservative to aggressive. Whether you are looking for a domestic or international fund, actively managed or index fund, growth, value, or blend fund, we have one or more that are suitable for your objectives.

Low costs. As the chart at right shows, the average expenses for Vanguard stock funds in 2005 were about *one-sixth* the industry average. So when you invest in one of our stock funds, more of your money stays in your account, where it can continue to work for you.

The Vanguard low-cost advantage



Low costs allow Vanguard's stock funds to pass along more of their investment returns to you. This chart illustrates the amount deducted annually from a \$10,000 investment.

*Data as of 12/31/2005.

Experienced management professionals. Vanguard oversaw more than \$595 billion in stock fund assets as of March 31, 2006. In addition to our own internal team of talented stock fund managers, we enlist the expertise of more than 20 investment management firms, including some of the world's premier advisors. These firms—which have their own research teams, philosophies, and strategies—offer our investors the benefits of diversity of thought and an unmatched breadth and depth of investment capacity.

Vanguard Stock Funds to Meet Your Needs

To help you get started, we've provided information on several of Vanguard's more than 40 stock funds. The funds described on these two pages 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 MSCI® US Broad Market Index, which includes virtually all regularly traded U.S. stocks. *(Request the Vanguard U.S. Stock Index Funds prospectus.)*

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. *(Request the Vanguard U.S. Stock Index Funds prospectus.)*



Mid-Cap Index Fund seeks to track the investment returns of the MSCI US Mid Cap 450 Index, which includes companies with market capitalizations of \$1.8 to \$14 billion. *(Request the Vanguard U.S. Stock Index Funds prospectus.)*

Windsor™ II Fund invests primarily in stocks of large companies that the fund's managers believe are undervalued 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's managers believe to have solid financial prospects and growth potential.

Tax-Managed Capital Appreciation Fund seeks a tax-efficient total return by investing in selected stocks from the Russell 1000 Index, which encompasses most large and midsize U.S. companies. (*Request the Vanguard Tax-Managed Funds® prospectus.*)

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 more than 35 countries. (*Request the Vanguard International Stock Index Funds prospectus.*)

Key

Fund Facts

	Inception Date	Fund Manager
Total Stock Market Index Fund[†]	4/27/1992	Vanguard Quantitative Equity Group
500 Index Fund[†]	8/31/1976	Vanguard Quantitative Equity Group
Mid-Cap Index Fund[†]	5/21/1998	Vanguard Quantitative Equity Group
Windsor II Fund[†]	6/24/1985	Six co-managers
Morgan Growth Fund[†]	12/31/1968	Three co-managers
Explorer Fund[†]	12/11/1967	Six co-managers
Tax-Managed Capital Appreciation Fund^{†, ††}	9/6/1994	Vanguard Quantitative Equity Group
Total International Stock Index Fund^{†††}	4/29/1996	Vanguard Quantitative Equity Group

*As of 3/31/2006. **For the fund's latest fiscal year. ***As of 12/31/2005. [†] Also offers Admiral™ Shares, a separate share class that offers lower expenses. The minimum initial investment for this share class is \$100,000. ^{††}To discourage short-term trading—which can lead to the distribution of capital gains—the fund assesses a 1% redemption fee on shares held less than five years. ^{†††}The fund assesses a 2% redemption fee on shares held less than two months. [‡]Average weighted expense ratio based on expenses incurred by the underlying funds.

--	--	--	--	--

Note: The minimum initial investment all account types for each fund above is \$3,000 except for Windsor II Fund and Tax-Managed Capital Appreciation Fund, which have a \$10,000 minimum. Tax-Managed Capital Appreciation Fund is not suitable for IRAs. Each index fund shown assesses a \$10 annual maintenance fee for accounts with balances of less than \$10,000. This fee, which is paid directly to the respective fund, more fairly allocates the cost of administering these accounts.

Vanguard—

A Smart Choice for Stock Funds

In addition to the eight funds already described, to the right is a listing of the other stock funds Vanguard offers, classified according to their investment styles. You can get more details about all of our funds by visiting our website at www.vanguard.com, calling us at **800-662-7447**, or returning the enclosed postage-paid reply card.



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 to get started.

Other Vanguard Stock Funds

In addition to the funds on pages 16 and 17, we offer many other stock funds, which are listed below. If you've decided that stock funds may be right for you, Vanguard is the place to come.

Domestic Small-Cap

Small-Cap Growth Index Fund*
Small-Cap Index Fund*
Small-Cap Value Index Fund*
Strategic Small-Cap Equity Fund
Tax-Managed Small-Cap Fund**

Domestic Mid-Cap

Capital Value Fund
Extended Market Index Fund*
Mid-Cap Growth Fund
Selected Value Fund
Windsor Fund

Domestic Large-Cap

Diversified Equity Fund
Dividend Appreciation Index Fund
Dividend Growth Fund
Equity Income Fund
FTSE Social Index Fund
Growth and Income Fund
Growth Equity Fund

Growth Index Fund*
Large-Cap Index Fund
PRIMECAP Core Fund
Tax-Managed Growth and
Income Fund**
U.S. Growth Fund
U.S. Value Fund
Value Index Fund*

International

Developed Markets Index Fund
Emerging Markets Stock Index Fund***
European Stock Index Fund***
Global Equity Fund
International Growth Fund
International Value Fund
Pacific Stock Index Fund***
Tax-Managed International Fund**

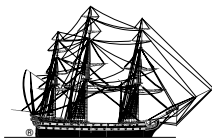
Industry-Specific

Energy Fund
REIT Index Fund

* Request the Vanguard U.S. Stock Index Funds prospectus for details on this fund.

** Request the Vanguard Tax-Managed Funds prospectus for details on this fund.

*** Request the Vanguard International Stock Index Funds prospectus for details on this fund.



THE **Vanguard** GROUP®

Post Office Box 2600
Valley Forge, PA 19482-2600

Fund Essentials, Vanguard, Windsor, Morgan, Explorer, Admiral, Vanguard Tax-Managed Funds, and the ship logo are trademarks of The Vanguard Group, Inc. *S&P 500®* and *500* are trademarks of The McGraw-Hill Companies, Inc., and have been licensed for use by The Vanguard Group, Inc. Vanguard mutual funds are not sponsored, endorsed, sold, or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the funds.

FTSE® and *FTSE4Good™* are trademarks jointly owned by the London Stock Exchange plc and The Financial Times Limited and are used by FTSE International Limited under license. The FTSE4Good US Select Index is calculated by FTSE International Limited. FTSE International

Limited does not sponsor, endorse, or promote the fund; is not in any way connected to it; and does not accept any liability in relation to its issue, operation, and trading.

The funds or securities referred to herein that are offered by The Vanguard Group and track an MSCI index are not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such funds or securities. For such funds or securities, the prospectus or the Statement of Additional Information contains a more detailed description of the limited relationship MSCI has with The Vanguard Group. All other marks are the exclusive property of their respective owners.

Vanguard Brokerage Services is a division of Vanguard Marketing Corporation.

World Wide Web
www.vanguard.com

Toll-Free Information
800-662-7447

For more information, visit www.vanguard.com, or call 800-662-7447 for Vanguard funds and 800-992-8327 for non-Vanguard funds offered through Vanguard Brokerage Services, to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information are contained in the prospectus; read and consider it carefully before investing.