


Basic Investing: How to Start an Investment Club
Russell Malley

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Basic Investing
Safety in Numbers
How to Start an Investment Club



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Speaker



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What Is BetterInvesting?

- 501(c)(3) non-profit organization
- 70+ years of investing education
- Pioneer of modern investment clubs
- Nationwide

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Agenda

What is an investment club?

What to expect?

How do you set one up?

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What is an Investment Club?

Group of people building an investment portfolio

- ❖ Pool their money
- ❖ Share ideas and workload
- ❖ An affordable, educational and profitable way

Most organize as a partnership

- ❖ Each contributes money regularly
- ❖ Club makes investment decisions together
- ❖ Each participates in managing club

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Who Are the People?

Friends, family, co-workers, neighbors, church & community group members, anyone who wants to learn about investing

People like you:

- 1) Your level of investing skill and interest, not “experts”
- 2) Likely to be responsible and committed to the club
- 3) Enjoy group participation

People whose goals are:

- 1) Education – helping each other learn to invest successfully
- 2) Profit - gradually developing a profitable portfolio
- 3) Fun - enjoying the experience

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Extensive Investment Knowledge NOT Required

- Many clubs started by beginners
- Desire to learn important trait
- Learn by doing

Significant Wealth NOT Required

- People belong for education & ideas
 - Knowledge gained helps personal portfolio
- Invest most of their funds in their private portfolios
- Make membership affordable
 - Allows for greater variety of members
- Partners able to handle setbacks, especially at start

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What do you invest in?

Most clubs start out with stocks

- Plentiful available information
- Plentiful available information about evaluation methods
- Many companies (stocks) with familiar names
(Apple, Verizon, Nike, McDonald's, etc.)

Clubs may stay with stock investing exclusively

Additional options: mutual funds, ETFs & bonds

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Evaluating Potential Investments

Evaluation Goals

- ❖ Recognize characteristics of quality stocks
 - ❖ Strong sales & earnings potential, low debt, etc.
- ❖ Understand why poor-quality stocks are not a bargain at any price
- ❖ Recognize a good price for a good quality stock
 - ❖ Quality sometimes “goes on sale”
- ❖ Monitor stocks on a regular basis
- ❖ Develop a selling strategy
- ❖ Evaluate mutual funds and other kinds of securities

Teaching evaluation methods is mission of 

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Investment Club Advantages

- Shared knowledge, experience, education, ideas, workload**
- Pooled funds makes individual contributions more affordable**
- Group decision making & buying power**
- Confidence building**
- Developing and using an agreed-upon method of investing**
- Fancy math not required**
- Daily attention not required**

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Possible Disadvantages (for some)

- 1. Group activity**
- 2. Long-term commitment**
- 3. Regular time commitment**
- 4. Potential losses**
- 5. Not the place for day trading/quick turnover of holdings**
- 6. Not the place for getting rich quick**
- 7. Not the place for acquiring fabulous wealth**
- 8. Although the arithmetic is easy, clubs are not a place for the math phobic**

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We're not opposed to getting rich quick But...

Instant riches are often short-lived

Building real wealth takes practice, patience and time

Clubs can offer an inexpensive way

- Learn
- Practice
- Make mistakes (at a lower cost)
- Earn while you learn

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Investment Club as a Partnership

- **Partnership Agreement is a legal contract**
- **Each member signs the Partnership Agreement**
- **Treat the club as a business venture**
 - **Mission**
 - **Investment education**
 - **Profit**
- **EACH PARTNER must ACTIVELY participate**
- **Partners work to benefit the partnership**
 - **Commitment to mission**

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Contributions (“Dues”) Are Investments

- Money put into the club is an INVESTMENT
- Most funds used to buy securities for the portfolio
- Some funds used for start-up and ongoing expenses
 - Do not try to segregate expenses from portfolio funds
- Remember, funds are investments in the partnership

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What is an Investment Club? - Summary

A group of partners:



- * With similar investing goals
- * Learning and working together
- * In regular in-person or online meetings
- * Pooling funds, sharing ideas & workload
- * Using an agreed-upon investing approach
- * To find and acquire profitable investments
- * Over the years help all members build wealth

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What to Expect

Affordability – Each club decides this

- Many clubs have a **one-time investment** of about \$100/partner for start-up costs
- **Monthly investments** by each partner can be as low as \$10-\$30 or as high as \$100+. Partnership decides.
Most funds will be invested in the club portfolio
 - Members not required to invest equal amounts
- **Club Expenses** cut into profits.
 - Accounting and annual tax reporting
 - Use discount brokers
- Annual **membership/subscription fees** for club or per partner

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Typical monthly meeting

Administration (5-10 minutes)

- Review minutes of previous meeting
- Review treasurer's report/collect monthly investments

Education (30-45 minutes)

Presentation(s) by one or more partner(s)

Portfolio Related Activities (45-60 minutes)

- Stock watcher's reports (10-15 minutes, total, not each)
- Presentation/review of possible new stocks (30-40 minutes)
- Voting on trading decisions, if any (5-15 minutes)

Wrap-Up (5-10 minutes)

Confirm assignments for next meeting, etc.

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Monitoring Stocks

- 1. Stockwatcher – a partner who tracks news and information about a stock the club has bought**
 - **The watcher reports whether the club should continue holding the stock, sell it or buy more**
 - **Rotate watchers annually**
- 2. Watch list – quality stocks not currently at reasonable price**
 - **Track the stocks on a list with their current & “buy” prices**
 - **Use to “challenge” current holdings**

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Buying and Selling

Decisions are made when the club meets – usually monthly

Majority required – by number of members or by % ownership

Buy/sell decisions won't be made at every meeting:

Good investments may not yet have been identified
Prices of good investments may be too high

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Time Commitments

Once the club is up and running

Club meetings: 2 hours each, usually monthly

Preparing for meetings

- Officers: 1-2 hours
- Stock watchers: 1 hour
- Other club tasks: 1-2 hours

Occasional preparation:

Stock study/education presentation
2 to 8 hours experience dependent

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Manage Expectations

BI “Rule of 5” about stocks – Even for experienced investors

- One of 5 investments will soar.
- One will go down really badly.
- Three will do more or less as you expect.

In the market, nobody is perfect

- Never blame the partner who presented a stock that disappoints.
- Never give extra credit to someone who finds good performer.
- Decisions are a partnership, not individual responsibility.
- Expect all partners will make some bad calls over time.
- Never “marry” an investment. If the quality does not hold up, get a “divorce” (sell the investment) sooner rather than later.
- Learn from both good and bad experiences.

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The First Investment - Timing

Set a flexible goal, but start learning soon

1. Concentrate on learning an investment method.
2. Practice it on 10 specific stocks
3. Avoid boredom.
 - Once the club is set up, try to identify a good investment within 2 meetings.
 - This doesn't mean you buy then. The price may not be reasonable.
 - Track the price on your "watch" list.
4. At first, focus on "household names" everyone knows in order to facilitate understanding & build confidence
5. Reset the goal if 2 meetings is too soon

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What to Expect - Summary



1. Affordable – likely but check
2. Time commitments for meetings and preparation
3. Buying and selling
4. Handling Losses

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Getting Started - Organizational Meeting

- 1. Invite friends, family, colleagues.**
- 2. Explain what an investment club is.**
- 3. Have a sign-in sheet to collect names, phone numbers, email addresses.**
- 4. Explain/allocate start-up tasks.**
- 5. Set the next time/place to meet.**
- 6. Encourage people to bring potential club names next time and additional potential partners.**

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Committed Partners

- New clubs usually need 10-25 people.**
- Common for half the initial partners to drop out.**
- Always keep an eye out for good potential new partners.**
- If you become a BetterInvesting club, you are eligible to use the Visit-a-Club program to welcome visitors and potential new partners.**

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Elections, Club Name, Budget

Elect officers: President, VP, Secretary, Treasurer.

Register the club name per state/local requirements.

Partnerships with county clerk – fictitious business name
LLCs and Limited partnerships with Secretary of State

Start developing a first-year budget

- ❖ **Partners can plan for expected contributions**
- ❖ **Items to include**
 - **Initial investment per partner**
 - **Monthly investments per partner**
 - **Periodic club expenses, if any.**

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Legal Documents

- **Get a Federal Tax Identification Number - IRS form SS-4**
 - **Can apply online at [irs.gov](https://www.irs.gov)**
- **Review/adopt a General Partnership Agreement**
 - **Model agreements available from BetterInvesting**
- **Review/adopt Operating Procedures**
 - **The PA and OP must require active participation by all partners to avoid SEC regulation**
- **Check for state/local tax & regulatory rules**

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Fiscal Issues

1. Set up a discount brokerage account with checking
 - i. You don't need a full-service broker; you're going to learn to do your own research and trading
 - ii. Be prepared for extensive paperwork
2. Review/acquire club accounting software
 - i. The treasurer needs it for monthly reports and tax preparation.
3. Decide whether to obtain general liability & fidelity bond insurance
4. Pay for club tax software annually

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Fiscal Sanity for Clubs

Do not collect funds from partners until you have:

- A federal tax ID number
- Discount brokerage account with checking
- Club accounting software

Clubs must operate on a strict and transparent basis

- All partner's funds must be deposited into the club brokerage/bank account under the club's name.
- No borrowing, no lending among partners or with club funds.
- Date transactions when they occur. No forward or backward dating.

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Investing Methodology and Resources

Decide on an investing approach

- > Buy for the long-term and monitor (recommended)
- > Another approach

Start thinking about minimum standards for research

- e.g.: Everyone must use particular library resources
- e.g.: All stocks must have a minimum rating of...

Start thinking about minimum resources for each partner

- Free - Library membership
- Individual expense - BI membership, BI classes, etc.

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Set-Up Issues – Summary



1. Organizational meeting
2. Elections, club name, budget
3. Legal documents
4. Fiscal issues
5. Investing methodology and resources

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Tips For Running a Club

Follow your Partnership Agreement!!

Have an agenda for each meeting

Be transparent about club operations/finances

Share club financial position each meeting

Audit your financial records regularly, at least annually.

Don't forget about filing tax returns

Be kind to your officers.

They don't control brokers, the IRS, banks, the market, etc.

Don't allow a few to dominate club decisions

Don't try to keep all members as equal owners

Voting on issues can still be on an equal basis

Seek help from your BetterInvesting chapter

We even help non-BetterInvesting clubs

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Start and Enjoy a Club! - We'll Help You!

Successful clubs are fun and long-lasting

- Find partners like you
- Keep partners interested and committed: focus club meetings on education and the portfolio as soon as possible
- Keep an eye out for potential new partners
- Keep partnership investments affordable, expenses reasonable
- Develop and consistently use a long-term investing approach
 - Invest in good quality stocks at reasonable prices
 - Monitor your stocks and sell if the quality declines
 - Invest regularly
 - Reinvest your profits
- Learn from your mistakes and celebrate your successes

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Additional Information

<https://www.betterinvesting.org/investment-clubs/learn>



The screenshot shows a vertical menu with five green buttons. The top button is labeled 'EXPLORE INVESTMENT CLUBS' with a downward arrow. Below it are four more buttons: 'LEARN ABOUT INVESTMENT CLUBS', 'INVESTMENT CLUB NEAR YOU', 'HOW TO START AN INVESTMENT CLUB', and 'INVESTMENT CLUB ACCOUNTING'.

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An Alternative

**Not quite ready to launch a new club,
consider visiting and possibly joining an
existing BetterInvesting Club.**

**Check out the list of local clubs which welcome visitors at:
<https://www.betterinvesting.org/chapters/silicon-valley/visit-a-club>**

SEC regulations do not allow investment clubs to publicly advertise for new members

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Questions and Comments

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