

10 Vital Steps in Forming an Investment Club

by Angele McQuade

If you've ever thought about starting an investment club but then abandoned the idea as too much work, don't give up so easily. Yes, starting a club does take time and effort, but the many rewards — such as learning to invest in the company of like-minded friends — are definitely worth it.

Not convinced? Well, I won't lie: Starting a club does require commitment, but maybe not quite as much as you assume. Plus, you won't have to do it all on your own. That's one of the perks of investment clubs: plenty of people to share the work, whether it's starting up the club itself or researching potential investments. If you want to give club life a go, these 10 steps will get you on your way.

1 Get Friendly

A club's not much of a club until you've persuaded at least a few others to join. If you don't already have a crowd clamoring to get in, look for likely prospects in familiar places. Ask around at work or in any social, recreational, volunteer or religious groups you might belong to.

Don't rule out your home, either. Lots of successful investment clubs double as family reunions, with everyone from grandparents to grandchildren playing a part. One warning, though: If your family's Thanksgiving gathering usually ends in a mess of tears and dysfunction, you should probably look outside your family tree for recruits.

Just how many recruits will you need? Fifteen to 20 potential members is a good start if you're hoping to reach that new-club sweet spot of 10 to 12 truly dedicated members.



"Our club would rather have fewer members but all of them working hard," says Carl Fisher of Investment Club YenoM in Green Bay, Wis. Once you've drafted your list of possibilities, invite them all to an informal meeting to explain just what you have in mind.

2 Get Focused

Before you schedule the introductory meeting, though, take some time to get a few things clear for yourself. You can't go into a detailed explanation of the kind of club you want to create if you're not really sure what you want.

The most important thing to get straight is your club's investment philosophy. Don't worry, you won't need to pull out any Plato for this step. This is just a mission statement of your club's investment goals. If you want to focus on investing in growth stocks with solid fundamentals over a long-term investment horizon, well, guess what? That sounds an awful lot like an investment philosophy. Punch up the wording a little and be prepared to explain exactly what it means and you'll be ready to present it at your club orientation meeting.

A thoughtful investment philosophy is your first step at discouraging potential members who are more interested in day trading and short selling. Remember, every member should share the same investment philosophy or you're pretty much dooming your club to disaster before you choose your first stock.

3 Get Specific

Let's go back to that introductory meeting for a minute. After you explain the basics of how investment clubs work and bust out your club's investment philosophy, announce a short break. This will present all those day traders a graceful opportunity to leave while giving everyone else an opportunity to chat. Just don't let anyone who's truly interested leave at that break. The second part of the meeting is when the fun really starts.

Now that you have a commitment from at least a few kindred spirits, it's time to hammer out the details. You'll need to figure out how often to meet (monthly is popular) as well as for how long (1 1/2 hours to 2 hours is usually enough time), when and where (a convenient, free location with easy parking is ideal, but don't forget clubs can also meet online instead of in person). You'll also want to decide on issues such as the minimum and maximum contributions members can make each month.

4 Get Legal

You won't want to scare off all the potential members at your first meeting, so save this next step for the second gathering. This will be the first real meeting of your new club anyway, with some heavy-duty agenda items to sort through. Elect officers right away so that the president can lead the rest of the meeting. Additional positions to consider include vice president, treasurer (plus an assistant) and secretary. You'll also want leaders for the club's education and membership functions, among others.

Next come more important decisions, especially about your club's legal framework. There are a few options to investigate thoroughly, but many clubs choose to form as a general partnership. Once you've settled on a structure, begin to create your legal partnership agreement (learn more and find an example at the BetterInvesting website).

Assign your treasurer to look into any legal regulations the club may need to follow (such as registering your partnership with your county or state). The treasurer must also request from the IRS a federal EIN (employer identification number, kind of like your club's own Social Security number).

Do some reading about self-directed investment (SDI) clubs as well. Members of SDI clubs research and select stocks together, but they invest through their individual portfolios instead of through the club. This means no legal partnership or club tax return, which in turn means no need for a partnership agreement, EIN, treasurer or club accounting software.

5 Get Detailed

You'll also need to write up your club's operating procedures or bylaws. Unlike the partnership agreement you'll only rarely — if ever — change, your bylaws can be modified as needed. Include not only details you've already set (when, where and how often to meet, for example) but

also information on matters such as member and officer responsibilities. Specify how you'll deal with late contributions or chronically absent members as well as new or departing members. Other important elements include stock selection guidelines and your education plan.

Resist the temptation to hastily draft a set of rules, thinking you'll deal with the rest later. Trust me — it won't be long before you'll be forced to confront irresponsible members or break up an argument over who was supposed to bring the refreshments. Sorting these issues out in the beginning will save you many hours of potentially club-killing drama down the road.

And although it's good to spend some time fleshing out your bylaws, don't let the task linger much beyond your third meeting. Get everything signed and legal so that you can turn your attention to your club's next big task: education.

6 Get Educated

A vibrant program of continuing investment education will help club members remain engaged and enthusiastic. Plan for a lesson of 20-30 minutes each meeting, adjusting the topic to suit your members' needs. If you're all beginners, start with some basic personal finance, then move on to the fundamentals of stock selection. (If you're really stuck trying to set up your initial lessons, check out BetterInvesting's Getting Started curriculum at the website's homepage — look for the Online Tools area for ideas.) Rotate the teaching duties so that each member has a turn.

And don't drop your club's education program once you all feel comfortable with your stock analysis skills. Expand your curriculum to include industry studies, book discussions, member reports on investment classes or conferences they've attended — anything that will bring in new information and ideas your club can use to build a more profitable portfolio.

Though the University Place Investment Club near Tacoma, Wash., has been in operation for more than a decade, its members still consider education an essential part of the club's mission. "This year the entire club will be attending a daylong series on portfolio management," says member Jill Pollard. "This will be review for many of us, help bring our newer members up to speed and keep us all on the same page."

7 Get Allied

BetterInvesting membership — whether club, individual or both — will prove invaluable as you get started. BetterInvesting members gain access to all sorts of educational opportunities, from local classes to national conferences — even seminars online. You'll also get discounts on software for stock selection, club accounting and portfolio management. Other BetterInvesting products include investment-related books and a financial data subscrip-

tion as well as investment club startup packages. Make sure your associates know what comes with their membership in the association.

As you form your new club, you'll especially appreciate the members-only sections of the BetterInvesting website, with plenty of resources for starting a club and learning to invest. Most of all, you'll appreciate the association's network of volunteers. Look on the website for your closest chapter, and you might just find a friendly club member who would be honored to mentor your club.

8 Get Connected

Although stock analysis and club accounting were once tedious and time-consuming, software and online resources have driven the drudgery out of them. Take advantage of computers by purchasing club accounting software or an online service. Your treasurer will be happier, and your club records will be more accurate and accessible. Stock selection software or BetterInvesting's Online Tools — also a must — will help members cruise through their learning process more smoothly.

And don't forget about the larger investment community just as close as your own computer. BetterInvesting hosts several mailing lists; poke your virtual head in and you're sure to discover a warm, welcoming environment filled with fellow investors glad to share their knowledge.

9 Get Funded

Once you've set your minimum contribution, your treasurer should start collecting checks at every meeting. These will be deposited into your club's bank or brokerage account every month. Always open those accounts in the club's name — don't use a member's personal account in an attempt to make things easier. It won't.

Your treasurer will generate monthly accounting reports for distribution before or at each meeting; it's the responsibility of each member to look these over for obvious mistakes. Your club should also perform a thorough audit of club accounts and transactions every year.

For More Information

The BetterInvesting website (www.betterinvesting.org) has information about starting a club as well as sample documents. If you don't have a user name and password already, you'll need to register first (free with membership).

At the members homepage, click the Clubs tab. The Club Management page has a Documents & Forms link to access several sample documents, including a partnership agreement. This page also has a link to reach downloadable tax forms.

Besides BetterInvesting, club members can receive the monthly *Pursuits* newsletter by making sure the association's home office has their e-mail address. Archived newsletters are available through the Investment Clubs homepage.

BetterInvesting also hosts online discussion lists. These allow

10 Get Over Yourself

OK, this one won't be so hard. Really, it's just a reminder that one of the best parts of being in a club is the fun you can have. Don't make the easy mistake of taking your club too seriously.

Sure, the financial part should stay serious business, but add in a little social time before or after each meeting. Rotate responsibility for bringing in tasty treats. Hold an annual potluck or meet at a restaurant to celebrate all you've accomplished. Give out silly awards. Take field trips to local publicly traded companies or attend a shareholders meeting.

No matter what you do, take time to get to know your fellow club members as people, not just as investment partners. They represent the very best of what the investment club experience can offer.

And if some members lose their enthusiasm for the club over time, don't waste a lot of effort trying to "reform" them. Who wants to play club parent all the time? Henri Russell, a longtime member of Common Wealth Investment Group in Dallas who just started a new club (Women with Cents in Granbury, Texas), doesn't believe in babysitting club members just to keep them around. "You shouldn't have to remind people to come to the meetings," she says. "If they're really interested, they'll show up."

We've given you a long to-do list, but you started this club so that you could invest, right? Don't get so distracted by the work it takes to get started that you forget to focus on the stocks. Keep these 10 steps in mind as you start your own club, and soon enough, you and your fellow members will be on your way to making that first investment.

Which leads us to your bonus task: Get going already, would you? Your new club is waiting. **B**



Angele McQuade is the author of Investment Clubs for Dummies and BetterInvesting's Introduction to Successful Investing handbook.

you to tap into our community for answers regarding club operations and accounting. Under the Tools & Resources menu, go to Online Community. Then click Online Forums and look for the "subscribe" link under the E-mail Lists heading.

For club accounting products:

- www.bivio.com
- www.iclub.com

For details on applying for your club's employer identification number, or EIN:

www.irs.gov/businesses/small/article/0,,id=98350,00.html

Check your local library for books about starting an investment club, or obtain a copy of *Investment Club Operations*, part of BetterInvesting's series of investment-related books.