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**Basic Investing**  
**Safety in Numbers**  
**How to Start an Investment Club**



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**Speakers**



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## What Is BetterInvesting?

- 501(c)(3) non-profit organization
- 70 years of investing education
- Pioneer of modern investment clubs
- Nationwide
  - Each chapter run by volunteers

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## Agenda

What is an investment club?

What to expect?

How do you set one up?

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**A group of 5-25 people who want to build an investment portfolio**

- **By pooling their money and sharing ideas and the workload**
- **In an affordable, educational and profitable way**

**The group forms a partnership**

- **Each partner contributes regularly to the club's investment account**
- **The club decides by majority vote how to invest the pooled funds**
- **Each partner participates in managing the 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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### You do NOT have to know how to invest to start a club

Many clubs have been started by beginners who wanted to learn

### You do NOT have to be rich

- Many people belong to investment clubs for education & ideas and invest most of their funds in their private portfolios
- If costs are affordable, people who are committed to the club's goals will be able to participate, regardless of differences in their incomes
- Although individual wealth doesn't matter, each partner should be able to handle setbacks, especially in the beginning

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### What do you invest in?

Most clubs start out with stocks

- Lots of readily available information about stocks
- Lots of readily available information about evaluation methods
- Lots of companies (stocks) with familiar names (Apple, Walmart, Verizon, Nike, PG&E, McDonald's, etc.)
- Stocks are a good starting point

Some clubs stick to stock investing exclusively

Some go on to buy other securities: mutual funds, ETFs & bonds

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### How are Potential Investments Evaluated? In a BetterInvesting club, partners learn to:

Recognize characteristics of quality stocks

- Strong sales & earnings potential, low debt, etc.

Understand why poor-quality stocks are a bad bargain at any price

Recognize a good price for a good quality stock

- Sometimes quality “goes on sale”

Monitor stocks in the portfolio on a regular basis

- BI investors don't “marry” their stocks

Develop a selling strategy to limit damage from stocks that disappoint

Evaluate mutual funds and other kinds of securities

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**Advantages of clubs**

**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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**For some people, there are disadvantages**

**1. Group activity**

**2. Long-term commitment**

**3. Monthly time involved**

**4. Potential setbacks, 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 fabulous wealth  
or getting rich quick  
But...**

**Instant riches are often short-lived  
Building real wealth takes practice, patience and time**

**Clubs can offer an inexpensive way to practice and make mistakes  
while learning how to invest profitably**

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### **An Investment Club is a Partnership**

- **Each member signs the club's Partnership Agreement**
- **A club is like a business in that the objective is to make a profit**
- **Per the Federal Securities and Exchange Commission (SEC), EACH CLUB PARTNER must ACTIVELY participate in running the club**
  - **If you invest money from passive partners, you could be required to register with the SEC**

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### Contributions (“Dues”) Are Investments

- All the money you and other partners put into the club are INVESTMENTS
- Most funds will be used to buy securities for the portfolio
- Some will be used for start-up and ongoing expenses
- In either case, the 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
- \* Finding and acquiring profitable investments
- \* Helping all members build wealth over the years

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**Affordability – Each club decides what this means**

- 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 \$20-\$30 or as high as \$100+. It's whatever the partnership decides. Most of these funds will be invested in the club portfolio
  - Members do not have to invest equal amounts
- Some clubs have **annual or periodic investments** per partner for ongoing expenses or else use club profits. Don't skimp on necessary items but do pay attention. Expenses cut into profits.
  - Use discount brokers to reduce or eliminate trading fees.
  - Plan to pay for club accounting and tax software every year
- Annual **membership/subscription fees** for club or per partner

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**What happens in a 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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### **“Watching” 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** – good quality stocks the club has reviewed but not yet bought because the prices have been too high
  - Track the stocks on a list with their current & “buy” prices
  - Use to “challenge” current holdings

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### **Investment Timing – 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  
Consensus (majority) is required**

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### Time Commitments

Once the club is up and running, in general:

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 or education presentation: 2 to 8 hours depending on experience

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### When an Investment Goes “South”

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, no matter how good the research. So:

1. Never blame the partner who presented a stock that disappoints  
Remember, the purchase was made by majority vote
2. Conversely, never give extra credit to someone who finds a wonderful stock for the club
3. Expect that all partners will make some bad calls over time
4. Never “marry” an investment. If the quality does not hold up, get a “divorce” (sell the investment) sooner rather than later
5. Learn from both good and bad experiences

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When will a new club make its first investment?

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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**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/divvy up 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**

- Start up clubs usually need 10-25 people**
- It is not unusual 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 so you can begin to say what being a club partner will cost, including:**

**Initial investment per partner**

**Monthly investments per partner**

**Periodic or annual shared expenses (investments), if any**

**Legal Documents**

- **Get a Federal Tax Identification Number - IRS form SS-4**
- **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 in compliance with SEC rules**
- **Check for state/local tax & regulatory rules**

### Fiscal Issues

1. Set up a discount brokerage account with checking  
You don't need a full-service broker; you're going to learn to do your own research and trading
2. Review/acquire club accounting software  
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>



- EXPLORE INVESTMENT CLUBS ^
- LEARN ABOUT INVESTMENT CLUBS
- INVESTMENT CLUB NEAR YOU
- HOW TO START AN INVESTMENT CLUB
- INVESTMENT CLUB ACCOUNTING

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**An Alternative**

**If you're 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>

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## Questions and Comments

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