

Starting An Investment Club



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What is an Investment Club?

Investment clubs have been around the United States for nearly 100 years and generally are developed with a group of people who share social interests plus a desire to learn more about investing by investing in the stock market. The investment club is not for the get-rich-quick at heart but for the individual who wants to be better off financially in five to 10 years plus learn the basics of investing in the stock market. Investment clubs encourage you to invest regularly and knowledgeably, and to understand the various risks associated with investing.

Since clubs usually limit their size (average size is 12 to 15), and opportunities for joining an existing club may be limited, individuals who are interested in learning about investing may need to consider setting up their own investment club. Most clubs already have the maximum number of members they wish to have in their club; if a club has an opening, a close family friend or relative of a member likely will be asked to join.

This publication was designed to give you the basic facts and information you will need to proceed with setting up an investment club.

What is Your Goal?

When establishing an investment club, one of the most important things for the group to decide is the club's purpose. If all the members are interested in getting

rich quickly, the investment club is not the answer. If, on the other hand, members view it as a chance to learn through the years about selecting and making wise investments, the investment club is a great way to accomplish this goal. To make your venture into an investment club successful, you should commit to at least five or more years of involvement with the club.

Investing in the stock market is a long-term proposition and one that should not be taken lightly. Forming an investment club means going into business with 10 to 20 other people – people you trust and will trust you in return.

Some other goals investment clubs might have are to make new friends and to have fun. Opportunities for new and lasting friendships abound at the local club level and can branch out to activities at regional and national levels.

How Does the Club Work?

A group of about 10 to 20 people usually organizes and establishes several ground rules for the group. Rules that should be decided early in the club's formation are:

1. **Monthly meeting date and place.** Finding a time that works for everyone can be a real challenge, but attendance at meetings is very important to accomplish club goals. Some clubs establish a fine or penalty if members do not attend a certain number of meetings during the year.
2. **Name of the club.** Have fun with this. The club name should be something that relates to others, your purpose and perhaps your location. For example, one club might choose the name Towner Women's Investment Group (TWIG). It tells what the club is about and where members are from, yet also has a fun acronym.

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3. Formation of a partnership and drawing up a club agreement. Investment clubs usually establish themselves as a legal partnership (for tax purposes). Look at different examples of club agreements to get an idea of what your members would like. Examples can be found from another local investment club, books such as those written by the Beardstown Ladies Investment Club and the “Official Guide to Starting and Running a Profitable Investment Club” written by the National Association of Investors Corp. (NAIC). Assigning a committee to develop the potential club agreement works well as a starting place. Reviewing the agreement with club members will force you to make decisions that will help the club function well in the future. In most cases, an attorney will be necessary to finalize the legal partnership agreement.

One decision to make is whether to form a partnership or corporation. Many clubs choose the partnership route because of tax consequences. In a partnership, the club usually is not liable for taxes because investment club earnings are passed to each individual member, who must pay the taxes on his or her share. In a corporation, both the club and the members will be taxed. Your choice as to which type of organization should be based on the tax rates that apply to individuals in your club, compared with the tax rate that would apply to the corporation.

- 4. Setting a minimum monthly contribution.** Monthly contributions vary from \$20 up to \$100 per member, depending upon what club members feel they can afford.
- 5. Goals for the club.** Once again, a very important goal is that, in the long term, club members want to learn about investing in stocks. Clubs that operate with the main goal of educating their members about investing will find that profits naturally follow.

Selection of Members

Just talking to two or three friends and having them invite their friends can lead to club formation. News releases to the general public or personalized letters also can inform others about the impending club formation. Once the club is formed, recruiting members could be considered making a public offering of securities to others. Recruiting members using news releases, advertisements or recruitment letters after the club is formed would be illegal.

Members also should be aware that they all are expected to participate actively. Active participation can be defined specifically for a particular club. For example, group members may need to contribute dues/fees monthly, spend time researching and tracking corporations/options etc., give reports to the club members or participate in other activities related to learning about investing in the stock market. A club that retains passive members may be considered as issuing securities and thus have legal and tax consequences.

Example of a news release and personal letter of invitation follow:

(NEWS RELEASE)

Investment Club to Form

Anyone in the *(town)* area interested in learning more about investing is invited to an organizational meeting *(insert time and place)* to consider forming an investment club.

Members of an investment club invest as a group rather than on their own and share responsibility for managing their investments with others. Clubs divide the work of studying stock among members, which allows them to learn about many companies and industries without spending many hours of investigation.

Dues will be set at the organizational meeting and probably will be in the range of *(insert dollar amount)* per month.

Both new and experienced investors are welcome. If interested, call *(insert your name and title)* at *(insert your business address and phone number)* before *(insert deadline date)*.

Dear _____:

I am organizing an investment club for the *(insert town)* area. The club would truly be for educational purposes and to establish new friendships. "Getting rich quickly" would not be one of the goals of the club. Others have told me that investment clubs help them learn to invest wisely so they can build their personal investment portfolios.

The club would meet monthly at a time and place determined by club members. Members would contribute dues of approximately \$_____ to \$_____ monthly *(specify a range here)*, that would, after careful study and a majority vote, be invested in promising stocks. Members would be required to research and follow stock investments, both those held by the club and those under consideration for purchase.

The first meeting is scheduled for *(date, time, place)*. We will get a chance to meet one another, establish the best time for future meetings and, I hope, answer any questions you may have. I believe that getting established and beginning collecting dues, setting club goals and gaining the educational background necessary just to get started will take at least two to three months. I do have two key resource people who are very willing to help us get started *(these people were involved in investment clubs of their own)*.

If you think you would like to attend this meeting, please return the enclosed card by *(insert date)* and mark your calendar to attend. Please ask your friends to come along if they are interested. The greater variety of backgrounds we have in memberships, the greater the group's chances of success. Please give me a call if you have questions.

(ENCLOSED CARD)

- Yes, I would like to hear more about joining the investment club. I will be at the first meeting on *(insert date)*.
- Yes, I am interested in joining but cannot attend the first meeting. Please e-mail me at _____, call me at _____ or send me a card to let me know when the next meeting will be.

Your First Meeting

Before your first meeting, request some of the free materials offered by the NAIC (National Association of Investment Clubs, www.better-investing.org). If you are not online, you can write the association at: 711 W. 13 Mile Road, Madison Heights, MI 48071. Make a set of materials for each potential member. You also will need to secure a meeting place. A local school, library or bank may have a meeting room available without charge.

At the meeting, go through the materials you have provided. Have everyone introduce him- or herself

and explain why he or she came to the meeting and is interested in joining an investment club. Emphasize that the club is not a get-rich-quick opportunity. Explain the principles of slow wealth building. Ask for questions. If possible, have an experienced investment club member available to help answer any questions.

When the group is ready to move to organizational procedures, you will find the materials in the NAIC guide very useful and full of details. You will need to decide on a time and place for your meetings. Try and make them all the same time every month.

At this first meeting, you will need to establish the amount that will be deposited each month by every member. Stress that the amount should be considered "risk capital." Even though you will be studying hard and are expecting a good rate of return (as well you should), members should expect losses and not anticipate unreasonable gains. Beginning clubs should have a policy of discouraging withdrawals within the first few years, but let everyone know he or she has access to his or her money if necessity dictates. If new members are added, they do not have to match the previous contributions of current members; they will have pro-rated shares in the club's portfolio.

You will need to discuss the idea of working with a broker. An online club can take advantage of one of the online discount brokers available. You may decide your club needs a full-service broker, at least at first. While brokers usually operate on a commission for services (investments sold), many may waive or reduce the commission with hopes that they gain other investment business from club members.

Future Decisions

As your club begins to form, you also will need to make more decisions. You will need to elect officers, for example. The usual president, vice president, secretary and treasurer should suffice, but one important position is that of an educational coordinator. Someone needs to be responsible each month for planning a brief educational session or assigning a club member to come prepared to teach other members some facet about investing. In some clubs, the vice president also is the educational coordinator.

Identifying Number

Each club must have an employer identification number to use when filing its tax return. Complete form SS-4, Application for Employer Identification Number. The form is available on the IRS Web site at www.irs.ustreas.gov/businesses/small/.

For Education and For Fun

Don't forget some fun to make this educational experience special. A North Dakota investment club could plan a field trip to New York City to visit the stock market, an investment banking firm and other financial sites. A similar trip might be planned for Minneapolis, Kansas City, Denver, Chicago or Omaha.

For More Information

For more information about starting an investment club, contact:

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2000 Schafer St., Suite G
Bismarck, ND 58501-1204
(701) 328-9933

NAIC (National Association of Investors Corp.)
P.O. Box 220
Royal Oak, Mich. 48068
toll-free (877) 275-6242
www.better-investing.org

AAII (American Association of Individual Investors)
625 N. Michigan Ave.
Chicago, Ill. 60611
(800) 428-2244
www.aaii.com

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For more information on this and other topics, see: www.ag.ndsu.edu

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