

Starting An Investment Club

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Considerations for starting an investment club are covered in this publication.

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, an investment club is not the answer. If, on the other hand, members view it as a chance to learn over the years about selecting and making wise investments, the investment club is a great way to accomplish this goal. Investing in the stock market is a long-term proposition and one not to be taken lightly. Forming an investment club means going into business with 10 to 20 other people — people you trust and who will trust you in return.

Investment clubs also might have goals to make new friends and to have fun. At the club level, opportunities for new and lasting friendships abound and can branch out to regional and national levels.

How Does The Club Work?

A group of about 10 to 20 people usually organizes as a legal partnership (for tax purposes) and establishes several ground rules for their group. The 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 club.** Have fun with this — the club name should be something that gives other people an idea of your purpose and perhaps your location. For example, one club chose the name — Saline Women's Investment Group (SWIG). It tells what the club is about and where it is located, yet also has a fun acronym.
3. **Formation of a partnership and drawing up a club agreement.** The partnership agreement outlines the operating practices and serves as the bylaws, addressing

all issues that may confront members from formation through a specified ending date. Bylaws should address how new members can join, how members can withdraw or what happens upon a member's death, meeting attendance requirements, fines for late payment of dues, and a list of prohibited activities. Find examples of club agreements by contacting another local investment club, or from books written by the Beardstown Ladies Investment Club, and the Official Guide to Starting and Running a Profitable Investment Club from the National Association of Investors Corporation (NAIC). Assigning a committee to develop a potential club agreement works well as a starting place. A review of the draft agreement with club members will force many decisions to be made that will help the club function well in the future.

One decision 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, as they are passed on to individual members who must pay the taxes on their share of the investment club's earnings. In a corporation, both the club and the members will be taxed.

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.** It is very important that club members want to learn about investing in stocks over the long term. Clubs that operate with the main goal of educating their members about investing will find profits naturally follow.

Selection Of Members

Start by talking to two or three friends. Have them invite their friends to come to an informational meeting. News releases or personalized letters also can inform the general public about the impending club formation. Once the club is formed, recruiting members could be considered to be making a public offering of securities to others. Thus, it would be illegal to recruit members using news releases, advertisements or recruitment letters after the club is formed.

News Release

Investment Club To Form

An investment club is forming for all those interested in the (*town*) area. If you are interested in learning more about investing, consider attending the organizational meeting scheduled for (*insert time and place*). This is a chance to learn about investing and is not an avenue to “get rich quick.” By investing as part of a group rather than on their own, members share the responsibility of managing their investments with others. Because clubs divide up the work of studying stocks among members, members can learn about many more companies and industries in a single club meeting than from hours of investigation on their own.

The club will set dues at the meeting. Dues are expected to be in the range of (*insert dollar amount*) per month. Membership can last a lifetime and can lead to close friendships. Typical club goals are to invest every month, to reinvest all dividends, to buy growth companies and to diversify.

Don’t rule out joining the club if you are new to investing, or if you are an old hand. Clubs benefit from both types of investors and the groups that combine both inexperienced and experienced investors work best. A club requires members who can function well as a team and who share the same long-term investment philosophy. Of the clubs that form, 40 percent break up within two years because some members have inappropriate expectations, thinking an investment club is a means to get rich quick.

If you’re interested, please call (*insert your name and title*) at (*insert your business address and phone number*) before (*insert deadline date*).

Personal Letter

I am in the process of organizing an investment club for the (*insert town*) area. This club would 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 that they can then build their personal investment portfolios.

The club would meet monthly at a time and place to be determined by club members. Members would contribute dues (*approximately \$_____month*) which would, after careful study and a majority vote, be invested in promising stocks. All 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 meet one another, establish the best time for future meetings, and hopefully answer any questions you may have. I believe it will take at least two to three months to really get established and begin collecting dues, set club goals, and gain the educational background necessary just to get started. I have contacted two key resource people who are very willing to help us get started. They are involved in other investment clubs.

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

The 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 give me a call at _____ or drop me a card to let me know when the next meeting will be.

Figure 1. Sample investment club news release, personal letter and return card.

Inform members that everyone is expected to actively participate in the club and its activities. A club that retains passive members may be considered as issuing securities and thus have legal and tax consequences.

Examples of a news release and personal letter of invitation are in *Figure 1*.

Future Decisions

As the club begins to form, you also will need to make more decisions. You will need to elect officers. 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 to plan a brief educational session or assign 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. Obtain Form SS-4, Application for Employer Identification Number, by calling 1-800-TAX-FORM (1-800-829-3676) or by accessing the Internal Revenue Service Web site at: <http://www.irs.ustreas.gov>.

For Education ... and For Fun

Remember to have some fun to make this educational experience special. A Nebraska 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 Kansas City, Denver, Chicago, or even Omaha. Or the club could tour local stores of companies held in the club's portfolio or those which they are considering adding to the portfolio. Include products from the companies held in the club's portfolio as part of a gift exchange among club members. Group games such investment jeopardy might be played with two benefits: fun and learning more about investing. Keep looking for creative ways to make belonging to an investment club a fun, educational experience.

Resources and References

For more information about starting an investment club, contact:

Nebraska Department of Banking and Finance
1230 'O' Street, Suite 400
Lincoln NE 68508
(877) 471-3445
www.ndbf.org

NAIC (National Association of Investors Corporation)
PO Box 220
Royal Oak, Mich. 48068
(810) 583-6242
<http://www.betterinvesting.org>

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

Beardstown Ladies Investment Club. *The Beardstown Ladies' Common-Sense Investment Guide*. New York: Hyperion, 1994.

Investment Clubs and the Securities and Exchange Commission, June 2005, at <http://www.sec.gov/investor/pubs/invclub.htm>

Johnson, J., Thompson, B. and Polk, W. *Starting An Investment Club*, E-161, Texas Cooperative Extension, 2002.

O'Hara, T.E. and Janke, K.S. *Official Guide from the National Association of Investment Clubs Starting and Running a Profitable Investment Club*. New York: Random House, 1996.

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