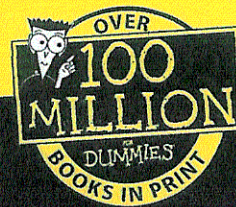


Build wealth with an investment club  
— even in a bear market!



# Investment Clubs

# FOR DUMMIES<sup>®</sup>



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**A Reference for the Rest of Us!**



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Be sure that you don't guarantee any rate of return that your club portfolio will generate in the future. If your club has been in operation for a few years, you may want to quote your past performance, but always include a reminder (disclaimer) that no investment is guaranteed. If those reading your new member packet are new to investing, reminding them that their investment may go down as well as up is particularly important.

## Choosing Your Club's Type

If you stop and ponder how investment clubs are structured (and we're sure you do this often), we're willing to bet that you'd never even consider an alternative to the traditional *shared account* setup. Although this is by far the most popular type of investment club, an alternative way to organize may better serve your needs. Looking at both types will help you see which one works best for your club.

### *Pooled assets club*

Although it may sound unfamiliar or complicated, a *pooled-assets* investment club is nothing more than what you probably already think an investment club is. Specifically, pooled assets means that all the club members make contributions toward a common account, where their money is *pooled* before investing.

All members retain ownership of their own money, but it's held in the same brokerage account as everyone else's. The club treasurer, using club accounting software, keeps track of who owns what percentage of the club's portfolio and tracks individual members' investment returns as well as the return for the club as a whole. When a member decides to leave the club, the treasurer performs a withdrawal and pays out the amount of that member's ownership in either cash or stocks.

#### *Advantages of pooling your assets*

So, you may ask, "Why would I want to combine my money with everyone else's?" One of the biggest reasons is accountability. We're not talking about accounting, but rather the kind of accountability where you feel a commitment to the bigger group and you take your club responsibilities seriously out of loyalty to your fellow members. You've all put your money to work together, and the feelings of trust and a shared mission that come from this joint effort sparks a loyalty for your club that otherwise can be hard to find. If you're not contributing your money to the club each month, imagining that your sense of commitment might not be as strong is no stretch. There's something to be said for feeling obligated to others!

Despite pooling of money you retain ownership despite being mixed in the same brokerage account as others.

Another huge advantage of the pooled-assets model is a reduction of expenses associated with your club's investing. If you personally want to invest \$50 a month in a stock that you've studied, the brokerage commission costs are quite prohibitive. Even if you trade online at reduced rates, a \$15 commission takes quite a big chunk out of your available investment money. However, if you're in a pooled-asset club, with 14 other members also contributing \$50, that same \$15 commission represents a much smaller percentage of your \$750 pooled investment. Similarly, expenses for club accounting software or educational materials are spread across the entire membership.

Reduced expense is no small matter for investors who can set aside only a minimal amount in savings each month. Small investors can accomplish much more while paying proportionally much less as a group than as a single small investor. That is one reason why investment clubs are such a popular way of getting your feet wet in the stock market.

### *Drawbacks of pooling your assets*

We won't hide from the truth that a pooled-asset investment club also can be a huge pain, especially for the club treasurer. Shared investment accounts lead to more complicated accounting practices than you need for your own personal accounts. The club treasurer must be diligent about recordkeeping and preparing valuation statements for the club every month and tax forms annually. Luckily, club accounting software considerably lightens the treasurer's workload, but pooling assets nevertheless creates an additional layer of complexity.

The other main problem stems from dealing with monthly member contributions. Each member is required to make regular financial contributions, but you can always count on unorganized or uncooperative members turning theirs in late or not at all. That creates work and stress for the rest of the club because reminders, late fees, and sometimes forcible removal of the delinquent member all need to be dealt with promptly.

## *Self-directed investment (SDI) club*

What if your club finds that it's made up of members who frequently move away (if you live in a college town, for example), or forming as an online club with people who currently are strangers? What if your new club members are extremely independent and prefer investing on their own? What if no one is willing to take on the role of treasurer? Is there any way to manage a club when it's facing the potential for troublesome accounting issues? Would we ask all these nosy questions if we didn't have an incredibly good option for you? Of course not because that's exactly what a less common model for structuring an investment club has to offer.