

The Clubs Come Back

After a mid-1970s sag, they've caught on again with people who want to learn about the market—and make a little money.

by William M. Reddig

She's vice president of her family's frozen-food business in Escondido, Calif. and active in several community groups. But few pastimes give Marjorie Gilbert, 43, more satisfaction than Ladies Investing for Earnings (LIFE), the club she organized in 1980 with 20 friends. In its first year, the club's pool of seven stocks, bought for \$8,381, grew to more than \$10,000. LIFE could not smell sweeter to Mrs. Gilbert.

Nor to the thousands of other Americans who are bringing back the investment clubs that flourished in the 1960s and then plummeted in popularity after the stock market slump of 1973-74. New clubs are being formed in college classrooms, corporate lounges, condominium living rooms and even church basements. The National Association of Investment Clubs (NAIC), which helps new clubs get started, estimates that there are more than 20,000 of them across the country with well over 300,000 members and roughly \$1 billion in investments.

Each club typically has about 15 members, and for them the monthly meetings are far more than an excuse to escape home and television for an evening. They're an opportunity to learn about investing, dabble in stocks at an affordable price—clubs usually require members to ante up only \$25 a month—and perhaps even earn a little money to offset inflation's bite.

The atmosphere at some meetings is relaxed and informal; at others it's almost as intense as a

session of a billion-dollar mutual fund's portfolio committee. At a recent session, 16 members of the Olathe (Kans.) Growers, an investment club in a suburb of Kansas City, Mo., were finishing homemade ice cream and cake around a picnic table in Mrs. Ione Wicke's backyard when member Dixie Lay dropped a bombshell. She had been assigned to research Boeing, in which the club holds 75 shares, and her bearish finding was that an investment advisory service had recommended selling the stock because earnings and orders for new 747s had dropped. The other women glared at Mrs.

Lay. "Might as well sell Pan Am, and we just bought that too," one said. Mrs. Lay calmed them by adding that, according to her research, Boeing would probably bounce back with a new generation of airliners. However, she cautioned, its stock might drop further before reviving. Slightly soothed, the Growers voted to keep a storm watch on Boeing, and to put another \$200 into the Kemper Money Market Fund.

No one seriously expects to grow rich solely through an investment club. According to the NAIC, the average club's portfolio contains 18 to 30 stocks with a value of less than \$52,000—meaning about \$3,500 a member. Yet, while the sums invested may be small, many clubs have handsome growth rates. For example, the \$2,400 contributed over nine years by each of the six founders of the Tuesday Traders in Foster City, Calif. was recently worth about \$6,600—a total gain of 175%. But even small triumphs can be satisfying to club members. In 1980 the nine-member Wall Street Associates of Camp Hill, Pa. took pride in recording a 7.5% growth rate, one percentage point better than Standard & Poor's index of 400 industrial stocks. The club has maintained the same slim lead over the S&P for 25 years.

Modest gains like those don't please everybody, however. A student-run investment club at the College of Wooster in Ohio had a 37% return in the year that ended last March. Three-quarters of the club's portfolio consists of small to medium-size growth companies. The college started staking the club 27 years ago with



In San Francisco, Parkmerced members gather at the office of their broker Philip Moore (front) to discuss strategy.

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finances collected from students for cutting chapel. By 1969, when chapel became optional, investments totaled \$52,000. Later, they were up to \$110,000 in holdings such as Fluor, Fort Howard Paper and Spectra-Physics.

In San Francisco, soon after 13 friends, most of them teachers, founded the Parkmerced Investment Club in 1966, they became entranced by the unpredictability of market swings, especially in growth industries. "I don't enjoy gambling in Las Vegas, so I do this," explains Mary Zimmerman, a Parkmerced member. Over

one, and they each sign up two or three other friends, and the chain grows."

The NAIC (1515 E. Eleven Mile Rd., Royal Oak, Mich. 48067) can be of real help. For modest annual dues of \$25 a club plus \$4.50 a member, the association will send you a handbook with advice on organizing a club, a model partnership agreement—most clubs are organized as partnerships for tax reasons—and a primer on the fundamentals of stock analysis. The NAIC recommends that all clubs, especially new ones, follow these conservative principles:

\$100 million and the rest spread among promising firms of all kinds and sizes. The 13 current selections: Allied and Dow in chemicals, the General Cinema theater chain, Engelhard in precious metals, Gelco in motor vehicle fleet management, Louisiana Pacific in forest products, Oneok in natural gas distribution, Paccar in heavy-duty vehicles, Phibro (the company taking over Salomon Bros.) in commodities, Precision Castparts in complex castings, Shoney's restaurants, Westinghouse, and Zurn in pollution controls, fuel conversion systems and golf equipment.

Most club members subscribe to the NAIC's monthly magazine, *Better Investing*, which runs articles on portfolio analysis and stocks that might be worth considering. In addition, the organization provides worksheets that help members analyze stocks on their own. In successful clubs, members usually do their own research rather than rely on brokers or investment analysts. The members spend long hours poring over annual reports and such resources as Standard & Poor's Corporation Records and the Value Line Investment Survey, both of which are often available in public libraries. Some clubs even send members to interview the chief executives of local firms that look like promising investments.

Using the NAIC's worksheets, you can plot a company's record on sales, earnings, share prices and earnings per share for the past 10 years. You then can graph the data on the worksheet for quick visual analysis and project trends for five years. Wall Street Associates of Camp Hill, Pa., the club that has outperformed the S&P industrials for 25 years, has stuck closely to the NAIC's principles. "We find it especially useful to project buy, hold and sell zones for each stock," says E. Briner Ashway, treasurer of the Associates. This makes it easier for a member who has researched a stock to advise the club that a glamorous company has passed its days of growth and the time has come to sell it—the most difficult decision for any investor.

Only a few clubs determine by majority rule whether to buy or sell a stock. Most use a weighted voting system so that long-term members with the most



Stock picking is a picnic for the Olathe Growers, meeting in the Kansas backyard of club member Ione Wicke.

the years, the club's investment pool has grown from \$1,000 to \$78,000. Its portfolio recently included Gulf Energy, E.F. Hutton, M/A-Com, Moog, National Medical Enterprises, Pacer Technology & Research and Texas Oil & Gas.

If you're interested in investment clubs, you're probably better off starting a new one than trying to join an existing club. Most don't want new members, and a few will even charge you a stiff entrance fee—so that your investment will equal those of present members. Founding a club is easy. Explains NAIC chairman Thomas E. O'Hara: "Most begin simply, with two friends deciding to start

▶ Invest regularly, preferably monthly, no matter where you think the market is heading, because a club that tries to predict broad stock trends is often wrong.

▶ Reinvest all earnings so that your club's portfolio can grow faster through compounding.

▶ Invest in growth companies, which the association defines as firms with both earnings and dividends outperforming their industry average.

Clubs should aim for 15% annual portfolio growth, the NAIC suggests. To start you toward that goal, the association will send you a model portfolio, which is updated quarterly by its stock-selection committee—seven professional investment advisers from the NAIC's home area of Detroit. One-fourth of the NAIC's current portfolio is in large industrial firms, one-fourth in industrial companies with annual sales of under

Reporter associate: Denise M. Topolnicki

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money at stake have the biggest say. For trading, clubs usually shop around for a copacetic broker—and stick with him. Brokers seldom solicit this business because club trades are frequently small and thus pay meager commissions. New clubs with only a few dollars to invest may find brokerage costs running more than 10% of their trades. As a result, some clubs use discount brokers, who charge considerably less but give you no advice on where to put your money.

Clubs should adopt strict rules of accountability. If your membership includes a tax lawyer or accountant, let that person handle the club's tax affairs. Otherwise, the club can consult an outside professional. Because most clubs are partnerships, taxes on capital gains are paid by individual members. But a club must get a tax identification number from the Internal Revenue Service and report all trades and dividend income.

Squabbles over strategy

A club's rules should cover the probability of a member's deciding to withdraw his share of the investment pool. Clubs usually charge those who quit at least the broker's fee for cashing in their chips. Fraud is rare, but the possibility can't be ignored, even if members are old friends. For example, members can require that all club checks bear two signatures. The NAIC's O'Hara suggests that the club treasurer show everyone the current transaction record at each meeting so that all trades can be verified. This is not foolproof, however. The treasurer of a Wisconsin club pocketed the monthly deposits made by fellow members and tricked them by forging stolen transaction sheets. The fraud was discovered only because she became ill and missed a meeting. To guard against such thefts, members can have their broker send two transaction sheets—one to the treasurer and the other to another member as a double check.

Despite the best of intentions, one club in three doesn't survive after the first year, often because members lose interest or squabble over investment strategy. Some clubs dissolve and then quickly reorganize—without the dissenters as members. Nine years after its founding in 1969, the Olathe Growers let dissat-

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isfied members quit and signed up replacements. Since then, the 20 members have had few serious disputes. O'Hara believes that the chief reason some clubs fail is that they allow "a trading attitude to sweep away the more reliable accumulation attitude"—that is, when the market moves sideways and down, as it did this summer, impatient members urge the club to follow an in-and-out strategy rather than holding on to sound investments for long-term growth.

But overly cautious groups can go to the opposite extreme, sitting too long with stagnating stocks. This summer, a club called the Moneymakers in West Chester, Ohio sought advice from NAIC consultant Ralph L. Seger Jr. on some dogs in its portfolio. In one year, \$100,000 worth of stocks, bonds and a money-market fund had appreciated only 5.7%. Seger concluded that the club was pursuing contradictory goals—long-term growth, safety and income. He recommended the sale of stocks he felt were going nowhere, such as Prime Computer, Allied Maintenance, Angelica Corp., Hi-

Shear Industries and International Flavors & Fragrances, a go-go company of a few years ago. As replacements, he recommended stocks with lower price/earnings ratios, including Mobil and Sea Containers. Last month Moneymakers was still pondering Seger's advice.

With procrastination comes boredom; clubs often fold because members lose interest. To counter that, some groups stage contests in which members buy and sell on paper, competing with one another and with the club's actual portfolio. But the best tonic sometimes is encouraging members to invest on their own. The NAIC has found that the average club member who invests privately puts three times more into his own portfolio than into his club's investment pool.

For a few club members, the result has been rewarding indeed. Elizabeth Martz of Royal Oak, treasurer of the Investment Club of Michigan, says she's built up a personal stock portfolio of \$250,000. "A club is a place where you can have fun, learn about the market," she says, "and make money." S

BOTTOM LINES

Credit cards for nearly anybody

A funny thing has happened on the way to the checkless, cashless society. While banks are cultivating a national dependency on credit cards as a substitute for checks and cash, they are also rejecting millions of applicants for the handy pieces of plastic. This year alone, an estimated 15 million Americans who ask for Visa or MasterCard privileges will be turned down. They are seldom deadbeats. Under the increasingly rigorous screening standards of tight-money times, they may be guilty only of not having lived long enough or worked long enough at their present place, or of not having borrowed before.

With just such pariahs in mind, an enterprising firm called Timesaver Inc. in Rockville, Md. has blazed a successful trail through the eligibility thicket. If you

are willing to deposit enough money in a 5½% savings account to cover the credit limit on a card, Timesaver says it can probably get you a Visa or MasterCard membership. Under a program called BankAction, you put the money—anywhere from \$300 to \$2,000, depending on how much credit you want—in the United Savings & Loan Association in Vienna, Va. and leave it there as collateral. The bank issues you a card for a \$25-a-year fee plus the usual 18% finance charges on balances unpaid after 27 days.

A few other financial institutions offer credit cards under similar terms. But only Timesaver promotes such a plan nationally. It approved 98% of the more than 40,000 applicants in the first four months, according to H. David Meyers, chairman of Timesaver and inventor of the plan. Applications are available from Timesaver Inc., 12276 Wilkins Ave., Rockville, Md. 20852.