



The Dough Girls Investment Club meets with broker George Nicholson at a mansion in Rochester, Michigan.

Investment Clubs: Earn While You Learn

Some of these do-it-yourself mutual funds get results as good as the professionals'. We explore what makes one club an ace and another a deuce.

by Ralph Tyler

Like the barn raisings of the rural past or the money-raising block parties of the suburban present, investment clubs follow the American tradition of making light work of a job by doing it sociably. Investment clubs are groups of people who make regular contributions to a fund and decide among themselves which securities to buy with their pooled money. Club members refuse to stand in awe of investing as a mystery restricted to an inner circle of pinstriped experts. According to a 1972 survey, in fact, women's clubs tend to do better than men's. A 22-year-old club of ten women secretaries at Wayne State University in Detroit is going strong, earning the equivalent of 11.3% compounded annually. Three men's groups founded at the same time by members of the accounting, economics and engineering faculties did poorly and have long since disbanded.

Typically, only one or two members of a club have any investing experience before their club is launched. The hope is that patience combined with a willingness to learn will get results that are as good as the professionals'. For some clubs it has actually worked out that way. What prevents investment clubs from wholly exemplifying another American theme—the success story—is the current malaise of the market.

When even professionals differ wildly about how to invest, it takes more confidence than most people can muster to set up a club and take the plunge. From a peak of 14,101 member clubs in October 1970, the National Association of Investment Clubs (NAIC) reported a roster of 9,125 in mid-May of this year. According to Tom O'Hara, board chairman of the NAIC, the steep drop has not been caused by an increase in the number of clubs closing down—that has stayed fairly steady over the years at about 18% of the NAIC membership a year—but by the failure of new clubs to form. The NAIC clubs represent only about 20% to 25% of the total number of investment clubs in America. Many well-organized and efficiently run clubs do not belong to the

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national organization; one example is the Wildcat Investment Club of Evanston, Illinois, whose story is told on the facing page. Surveys indicate that there are about 36,000 in the U.S. outside the national organization; their numbers have been declining too. At an average of 15 members per club, about 675,000 Americans now belong.

"If we're not in a bottoming-out period now we've got to be close to it," O'Hara says. "You'll gradually see fear out of the market. It's a wonderful moment for our clubs because they have the opportunity to buy good quality companies with good income at low prices." But in any case the NAIC recommends that clubs invest regularly whether the market is bullish or bearish. Buying stocks regularly achieves the benefits of dollar averaging—that is, purchasing a set dollar amount of a security at set intervals so that over a period of time more shares will be bought when the price is low and fewer when it is high.

An investment club, like a true mutual fund, allows an investor with modest resources to participate in a diversified portfolio. In the process, it also allows him to learn about investing, which—next to making money—is the chief aim of most investment clubs. There are other reasons for joining. A professional person occasionally becomes a member of a club because it offers promising contacts for his business, whether it's tree surgery or psychiatry. A club of both men and women may attract the lovelorn seeking well-heeled mates. For people too undisciplined to save regularly, the club dues ensure that something is put aside every month for the future.

Secrets at the Capitol

Investment club members come from every walk of life except the ones that don't provide any financial surplus—even \$10 or \$20 a month—to put at risk in the market. There are investment clubs of bridge players, religious clubs that use their earnings for tithing, clubs that invest only in Israeli securities and travel clubs that cash in earnings every few years and use them for a trip abroad together. Lawrence Welk's band invested in concert; there has also been a club of deaf mutes. There are clubs that meet within earshot of pounding machinery on a factory floor and clubs like the Dough Girls, pictured on page 59, who gather on special occasions in the elegant ambiance of a mansion built by the widow of a founder of the Dodge car company; the building is open to the public for meetings. Members of the Congressional Press Gallery in Washington, D.C., have formed the Capitol Press Investment Club; it has a policy of granting no interviews about its portfolio.

To get an idea how an investment club operates, I sat in on the April 17 meeting of the all-female Manhasset Bay Power Squadron Investment Club in the upper-middle-class New York suburb of Manhasset, Long Island. I picked the club as a good example of a friendly, hard-working group; it has continued for eight years, about 2½ years longer than the life of the average club. The women met at 9 p.m. on a Wednesday in the comfortable living room of one of the members. Six of the eleven women work. One is a Nassau County court office assistant, another is a part-time medical assistant to a surgeon, a third helps her husband in their acoustical materials business and the other three do a variety of office jobs.

The women's husbands are all members of a group of motorboat enthusiasts from which the club took its name. Each year the women take their husbands out to dinner, but according to the club's bylaws, "husbands and other re-

lations" may not attend more than one meeting annually. The club's goal is to help members learn how to handle investments themselves. The women say their husbands favor this, since mortality tables indicate that wives are likely to inherit family holdings.

The club started with 15 members, reduced now to eleven. The investments are made from \$10-a-month dues, although many clubs that once had \$10 dues have been raising the ante to \$20 or \$25 in these inflationary days. Those members who have been in the club since its inception had contributed a total of \$960 each in dues; one member who joined later is paying double dues so that she can catch up. The club's portfolio was worth \$8,963.36 the night of the meeting, down about \$3,000 from a year earlier and about a third of the NAIC average. Part of the decline resulted from payouts made during the year because of the death of one member and the departure of another.

After the reading of a clipping from the New York Times and an item from a brokerage newsletter, discussion focused on the end of the gasoline shortage and its impact on the club's 45 shares of American Motors. The group voted to instruct its broker to sell the American Motors stock if its market price rose to 11. It had been purchased at an average cost of 9¾ on two different occasions during the past twelve months. The price had peaked at 13¾ on Jan. 29; it was 8½ on the night of the meeting. (In early June it was 6¾.) The woman responsible for keeping watch on the club's 60 shares of American Airlines said there were indications the company might get out of the red although the stock was highly speculative. At her recommendation, the club voted to buy \$360 worth of the stock for the sake of dollar averaging. The meeting adjourned at 10:15 p.m. for cake and coffee.

A shared belief in the long term

The optimum size of an investment club, according to the NAIC, is from ten to 20 members. O'Hara says the larger clubs, some with memberships as high as 100, usually succeed only if there are a few strong leaders directing investments, and that nullifies much of the learning process for the others in the club. Nearly half of all investment clubs go out of business within their first year, usually because a schism develops between those who want spectacular short-term gains and those whose goal is investing for the long haul. One of the reasons for the staying power of the Manhasset club is that its members share a belief in long-term accumulation. The Long Island group also exhibits other characteristics that a New York Stock Exchange survey found were typical of successful clubs: social compatibility, mutual interests, comparable economic status and participation of all members in the work of the club.

Besides the shares discussed at the meeting, the Manhasset club's portfolio also included one American Airlines debenture, ten Magnavox shares, 34 3M, 100 National Can, 24 Walter Kidde (electronics and security systems), 38 Bristol-Myers, 25 Bourns Inc. (electronic components, aerial reconnaissance systems and optical equipment), 13 Xerox and 15 Engelhard Minerals & Chemicals. The women agree the group has been educational. "We learned not to be gullible," said one member. "We just don't buy stocks on hearsay." The women never buy a new stock without first analyzing its prospects with the aid of an NAIC stock selection guide devised by George A. Nicholson, a founder of the investment club movement and research partner of Smith, Hague & Co., a Detroit brokerage house. Among

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other items that can be obtained through the NAIC (1515 East Eleven Mile Road, Royal Oak, Mich. 48067) at various prices are stock comparison guides, portfolio management guides, a twelve-lesson stock study course, a 56-page investment club manual, a 25-page accounting manual and the organization's monthly magazine *Better Investing*. The association charges \$12 a year dues to each club. The dues provide a \$25,000 fidelity bond that covers any losses the club suffers because of theft by any of its members—although not by its broker. In practice, thefts have ranged up to \$68,000; coverage above the \$25,000 limit can be obtained at additional cost.

Clubs are advised by the NAIC to invest in companies that are growing faster than their industries and, more specifically, companies whose sales appear to be increasing at least 10% compounded annually. A further refinement recommended by the NAIC is to have a quarter of a portfolio in small growth companies, a quarter in large growth companies and the rest in between. The Manhasset club tries to do that, and also abides by the NAIC recommendation to reinvest dividends and capital gains and to diversify holdings.

Calculating the portions

As the value of a club's assets fluctuates, so does the worth of each member's share in them. The club treasurer has an important job: besides recording the club's transactions, he figures out the value of the club's assets at closing prices just before the monthly meeting and then calculates the value of each member's portion. This last is usually done by establishing "valuation units," which represent shares in the club (not to be confused with the shares the club itself owns in various companies). A valuation unit works something like this: a club with twelve members and dues of \$10 a month will have twelve valuation units each worth \$10 at its first meeting, before any of its pooled money has been invested. If it makes unwise investments, that total of \$120 may be reduced, say, to a market value of \$100 by the next meeting. Each valuation unit is then worth \$100 divided by twelve, or \$8.33. At the second meeting, each new \$10 in dues will thus buy 1.2 shares. Had the club done well, however, the shares would be worth more than \$10.

The system makes it easy for each member to keep track of his exact holding month by month. Valuation units

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simplify matters if he decides to withdraw his money for his children's college education or some other major expense, or if he moves away. Also, many clubs allow members to pay in varying amounts of money, usually in multiples of the club's basic dues for easier bookkeeping.

Some clubs allow the treasurer to poll the other club members by telephone if the need to buy or sell a stock appears to be too pressing to await the next business meeting. Once a year the treasurer prepares statements showing gains or losses of the club as a whole. He also works out each member's gains and losses for tax purposes. Ninety-nine out of 100 clubs are organized as partnerships. Although the club files an informational return, it does not pay income tax. Each member pays income tax on his realized profits and dividends, whether they are reinvested or not.

Recognizing the time-consuming work required of the treasurer, some clubs pay the person who does the task. Others lighten the load by rotating the job each year or by dividing the treasurer's chores between two people, one who determines the individual shares and another who records the club's transactions and handles relations with its broker.

\$3 for every \$1

Usually only one member of a club keeps contact with the broker so that the broker's time will not be taken up needlessly with requests for information. Clubs can expect some useful stock suggestions from their brokers, but such advice should be examined as carefully as any other. The broker shouldn't be asked to attend more than one or two club meetings a year, because an ever-present broker can hamper members' own efforts to learn investing. It may take several years before a club's purchases are large enough to earn any money at all for the broker. The chief reason a broker works with a club in its nonage is to obtain some of the personal business that almost always results. An NAIC study found that club members invest an estimated \$3 in the stock market for every \$1 they invest through club dues.

Murray Hamburg, chairman of the NAIC's Greater New York Council, to which the Manhasset club belongs, is such an enthusiast for investment clubs that he is a member of two of them: the Long Green Associates, in New York City, and the New Jersey Council

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Investment Club, in Union, New Jersey. Says Hamburg, a technical writer for Miles-Samuelson Inc., a New York publishing firm: "Before joining my first investment club, you could put what I knew about the stock market in a peanut shell and it would rattle. Now I have my own portfolio and for the past 5½ years since I started investing on my own, using NAIC principles, it has appreciated 390%." He adds: "Of course a club looks at its portfolio once a month, while I can watch mine every day and so I can go for a little higher risk."

There are two ways to become an investment club member: join an existing club or help form a new one. From time to time clubs seek to replace withdrawing members, and a person who knows about the club usually can get his name on a waiting list. If he is a novice investor, however, he may find it hard to catch up with the knowledge the others have mastered, and may feel as lost as a beginner in French thrown in with a second-year class. Information on starting an investment club can be obtained from some brokerage houses or from the NAIC.

Every day a grade

Ideally, the club should include people with various occupations so that the knowledge they contribute will be many sided. It would help to have a lawyer in the club; it will be necessary to find out how to comply with the federal, state and sometimes local laws covering investment clubs. At least initially, when people are largely unfamiliar with investing, dues should be small enough so that mistakes won't be costly. Bylaws should be drawn up to deal with such problems as withdrawals, for which most clubs charge a penalty to cover costs, and voting, which in some clubs is weighted by number of shares owned and in others is strictly one member, one vote.

Some may question whether the effort is worthwhile. There are, after all, other ways to invest modestly on a monthly basis. The New York Stock Exchange, for example, has sponsored a monthly investment plan since 1953 for the shares it trades. Some mutual funds too accept periodic contributions. None of these alternatives, however, offers the self-education of an investment club. A club member has the chance to bounce his ideas off others as concerned as he is to succeed in the market, and the stock market grades the club's performance every day.

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