

In the past, I have started these meetings with a brief overview of a recommended club meeting agenda and a review of how to do a club treasurers report. Since many of you have been to these presentations in the past and since tonights educational topic is a bit long, I'm going to skip that discussion tonight and move right into an overview of doing a portfolio review. You can find past club Meeting Meeting presentations posted on the website if you'd like to review the club agenda and treasurers report components.

Let's get on to the fun part of your meeting, your investing discussions. As I described last month, I'd like to you to create a picture in your minds. Imagine that your club meeting is a group of people, sitting around a nice conference table in a nice office building in Manhatten. Imagine your group is managing a mutual fund. Imagine how your meeting would be structured and the types of discussions you would have.

We like to demonstrate the portfolio review process using a real club. For tonights review, the Stocks and Bonding Investment group from Utah. This is a fairly new club. They've been investing together since 2009.

**Portfolio Review-Why?**

- Context
- Investing
- Continuous process
- Investment club
- Investment partnership

It's important to start your investing discussion with a portfolio review. Looking at your stocks in the context of overall portfolio return will help focus and guide your investing activities.

Investing is not just about buying stocks. It's about managing a portfolio of investments to try and achieve the highest possible rate of return. We've been taught to go shopping and pick new stocks but that's only part of what you need to understand to make money. Letting go of stocks whose projected return has diminished is as important as buying good stocks in the first place.

Maintaining a club portfolio is a continuous monitoring and improvement process.

Your club is probably a group of friends with a common interest.

But it is also important to think of yourselves as an investment partnership which is managing a portfolio for maximum return. Remember the visual I asked you to create at the beginning of this section? Think of yourselves as a business, managing a mutual fund. Each one of you is an analyst researching companies. As a group, you are putting together all the pieces to develop the best portfolio you can.

**Portfolio Review**

1. Look at how you're doing
2. Look at your projected return
3. Determine possible changes
4. Discuss other stocks
5. Implement changes

These are the steps you should follow to structure your portfolio review

- Look at how you're doing
- Look at how your portfolio is projected to perform
- Determine possible changes
- Study other stocks
- Implement Changes

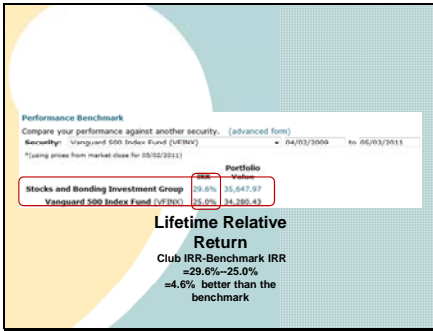
**How are You Doing?**

**Performance Benchmark Report**

Step one is a very important step. For some reason, (perhaps fear), we don't do this often enough. But you need to be able to measure to determine if you are making progress.

The place to go in bivio to see how you're doing is called the Performance Benchmark Report.

You get to it from the reports page.



This report is called a performance benchmark report because it compares your rate of return to another investment . You select the investment you want to compare to and the time period over which you want to make the comparison

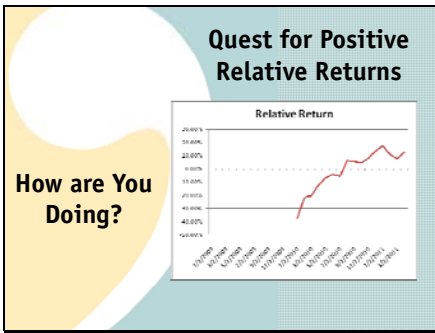
In this case we are comparing the club results to the same investment in the Vanguard Index 500 fund. You can compare to almost anything that has a ticker symbol. We choose the Vanguard Index 500 fund because it is a middle of the road investment, commonly recommended to those who are not actively trying to choose investments.

The report provides you with a value for IRR or Annualized Internal rate of return. One way I think of this value is to think of it as a CD rate. Each time money was invested in your club during the time period the report covers, you achieved the same return that you would have if you had invested it into a CD paying the IRR interest rate.

What's interesting is to track "relative Return"

this is the difference between the return you achieved by your club investment management efforts and the return you would have received if you had done a lot less work and just purchased shares of your benchmark investment.

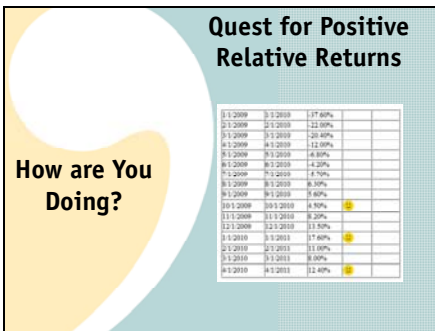
The longer the time frame you are using to evaluate Relative return, the harder it is to come up with a positive value. This club hasn't been investing long but so far it appears as though they are doing something right.



It's interesting to keep an eye on the trend in your club's relative return.

Here's a graph for the same club for successive 12 month periods since the beginning of 2008. At bivio, we are encouraging clubs to join our Quest for Positive Relative Returns. If you'd like to participate, we'll make a graph like this for your club and add a link to your club pages to see it. Just email us at support@bivio.com to let us know you'd like one.

Since this is a relatively new club, it is interesting to look at the trend in their relative return. It looks as though they've been learning to do something right. It's important to look at the trend and think about what investing decisions you were making during the time period you are looking at and what was going on in general in the stock market. This club started their investing during the recent upturn in the markets. Apparently they have made good stock selections for that type of market. Many longer term clubs seem to have been having more trouble beating the market lately. Perhaps their selections are more conservative than this club's. That helped them when the markets went way down. It might be interesting for this club to think about what might happen if market conditions change.



In addition to the graph,

we're having some fun by rewarding you bivio "friends" when ever you meet certain benchmark goals. You have the potential to earn a green friend for every 4 yellow friends. Green friends earn you bivio bucks toward your subscription renewal. If you'd like to participate, just email support@bivio.com

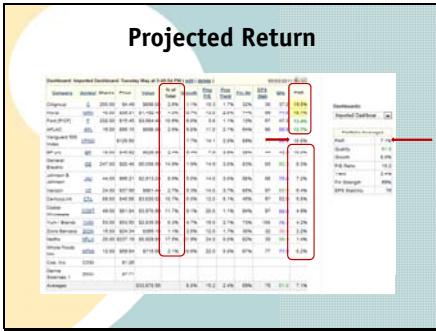
### Projected Return

Investment Summary for 05/01/2011

Asset	Market Value	Market Rate	Market Price	Market Value	Percent of Portfolio	Return
AT&T (NYSE)	18,000	05/01/2011	50.0000	\$900.00	2.0%	Investment
BHP (NYSE)	18,000	05/01/2011	50.5000	\$909.00	2.0%	Investment
CDK (NYSE)	100,000	05/01/2011	1.2000	\$120.00	0.4%	Investment
Champion (NYSE)	80,000	05/01/2011	40.0000	\$3,200.00	10.0%	Investment
CSG (NYSE)	200,000	05/01/2011	4.0000	\$800.00	2.0%	Investment
Crucial (NASDAQ)	40,000	05/01/2011	80.0000	\$3,200.00	10.0%	Investment
Dorco (NASDAQ)	100,000	05/01/2011	8.3100	\$831.00	2.4%	Investment
Digital Media Company (NASDAQ)	200,000	05/01/2011	40.0000	\$8,000.00	20.0%	Investment
General Electric Company (NYSE)	247,000	05/01/2011	30.0000	\$7,410.00	14.5%	Investment
Johnson & Johnson (NYSE)	94,000	05/01/2011	60.2100	\$5,617.80	10.2%	Investment
Merck & Co (NYSE)	40,000	05/01/2011	30.3100	\$1,212.40	4.2%	Investment
MYRI (NASDAQ)	25,000	05/01/2011	337.0000	\$8,425.00	17.0%	Investment
Western Union (NYSE)	24,000	05/01/2011	37.5000	\$900.00	2.0%	Investment
White Food Market (NYSE)	12,000	05/01/2011	33.0000	\$396.00	2.0%	Investment
Yum Brands (NYSE)	52,000	05/01/2011	23.0000	\$1,196.00	4.2%	Investment
Zions Banc Corp (NYSE)	18,000	05/01/2011	24.3000	\$437.40	1.0%	Investment

Once you know how your club has done so far, you'll go on to step 2 of the portfolio review process. How is your portfolio projected to do in the future. One of the ways you can do that is by You can do that by looking at a list of your club holdings in a ManifestInvesting dashboard.

You can access this using the Manifest button on the Accounting>Investments page.



During this step, it's interesting to compare the projected return of your portfolio to the projected return of the benchmark. This is a ManifestInvesting dashboard. ManifestInvesting compiles analysts projections about company fundamentals to come up with a projected return for each of the stocks you own. When combined and weighted by the amounts you own of each,

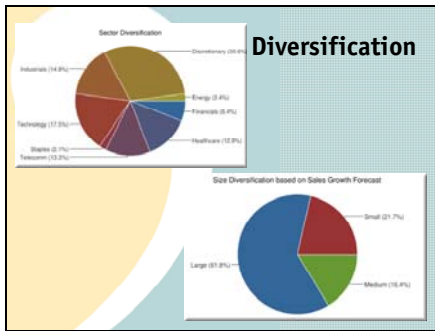
A Projected Annual Return or PAR is calculated for your entire portfolio.

To beat the benchmark, you want your portfolio projected return to be greater than the projected return for the benchmark.

If you want to look for candidates to sell, you might look at those with lower projected returns. If you want to look for those to buy, look at the holdings you already have with the highest projected returns. If you need to increase your percentage in any of them, it might make more sense to buy some more of a company you are already familiar with than to add an entirely new company to your portfolio.

It looks like quite a few of this club's stocks are projected to grow long term, less than the benchmark. This may be because they've already done pretty well which may be the reason for some of the club's recent success. When looking at these projections, it's important to understand that they are an attempt at 5 year projections. Coming up with a good number may be easier to do with a company like Johnson and Johnson that has been around quite a while than it is for a company like Netflix which is paving a new path in a new business.

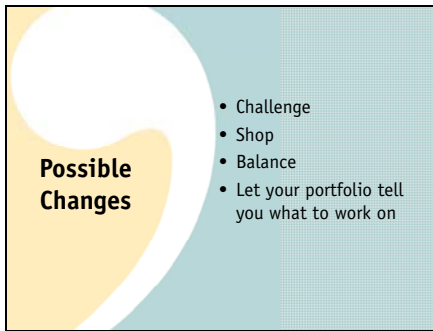
Don't forget the rule of 5 when you own stocks. Out of every 5 stocks you own, one will probably do better than you expect, one will probably do worse and the remaining 3 will probably perform as you expected. It's important to keep the size of each holding large enough that it will have an impact if it works out but not so large that it will decimate your portfolio if it doesn't. It's also important that you not have more stocks than you can do a good job following.



Of course, when managing a portfolio, it also helps to keep an eye on your diversification. In the new version of Manifest Investing which just came out, you can now find a diversification chart automatically generated for your club portfolio.

It's good to keep somewhat diversified by sector since at different times, different sectors will be "in favor". Sector diversification often happens naturally if you are picking stocks based on projected return. As sectors rotate out of favor for whatever economic reason, the projected returns of many of the companies in them increase. It's often a good time to buy so that you can take advantage of the increase in prices as the economy changes and the sector rotates back into favor.

Finally, it's good to have a balance of steady growing, reliable, "core" stocks that will provide stability and consistency to your portfolio along with companies that are growing much faster and may have higher potential for return but whose business activities are probably a bit more volatile. The faster growing stocks might require a bit more sophisticated monitoring and attention each quarter to make sure you can still count on them to provide a benefit, but they do have a place and will help to "juice" up your return when it gets harder to beat the broader market.



Once you've determined where your portfolio stands, you will have a better idea of your problem areas which will give you some direction to decide what stocks to study.

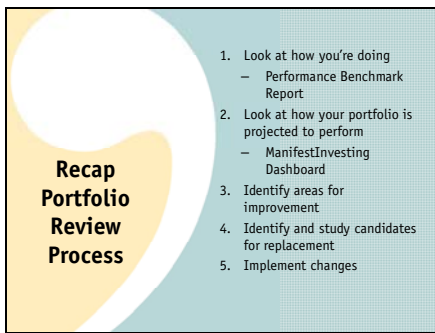
Do you need to increase the growth projections for your portfolio by replacing lower growth potential stocks with higher quality alternatives? What stocks might be dragging your projected return down? Possible sell candidates!

What higher potential return stocks might you add to your portfolio? These are your stock study candidates. Don't be afraid to add to holdings you already own. You are familiar with following those companies already so adding additional shares doesn't create an additional stock watcher burden.

Keep an eye on trying to stay nicely diversified by holding percentage, industry and growth rate  
Are you over/underweighted in any stocks, sectors or growth potential categories? Don't stress about this too much but keep an eye on how things stand. This thought process might also lead you to possible sell candidates or help guide your search efforts for new stocks.

In general, look for companies that will fill in holes in your portfolio. Let your portfolio tell you what you need to focus on. Don't look for companies first and then just stuff them into the mix.



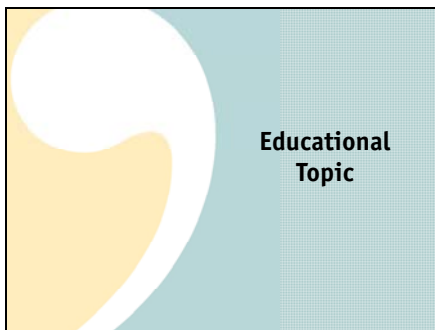


In summary, that is the portfolio review process.

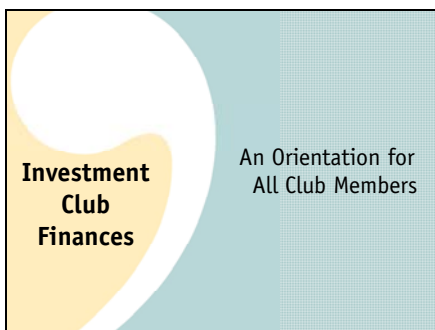
- Look at how you're doing  
Performance Benchmark Report
- Look at how your portfolio is projected to perform  
ManifestInvesting Dashboard
- Identify areas for improvement
- Identify and study candidates for replacement
- Implement changes

Keep the visual of you all around the big conference table in the room surrounded by windows in the fancy high rise office building. You want to manage your fund (aka your club portfolio) to achieve maximum return for your investors (aka The members of your club)

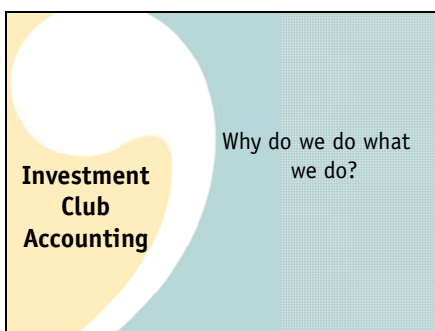
Structure your thought process and your stock selection process around a portfolio review and you should find that your portfolio will tell you when to buy and sell and what to buy and sell.



Your club meeting will structure your discussion around a portfolio review. In addition, you might like to have an educational topic that you discuss together. There's a lot to learn to become a more successful investor. Each month, we like to provide you with a topic that you might find interesting to learn about with your club.



For tonight's topic, we're going to be discussing your club finances. It is very easy to do your club accounting using bivio but you need to have a basic idea of the parameters under which it needs to be done. Because you are accounting for a group, things work a little differently than you might expect. Everyone in your club should at least understand the basics so that you won't by accident, take an action which will make your treasurers life very complicated.



To start our orientation, it helps to understand what your investment club accounting is designed to accomplish.



**We need to**

- Performance
- Taxes
- Ownership

First of all, since you are an investment club,

you'll want to track how you're doing.

Then, since you'll be making money, you'll need to file taxes to comply with tax laws

Finally, you'll want to track your ownership in your club



To do all that, all you need to do is enter some simple information into bivio. But it is important to realize that behind the scenes there is some sophisticated accounting going on. It helps to get a little bit oriented to what that is, so that you keep things on your side of the screen simple.

**Partnership**

Pass through

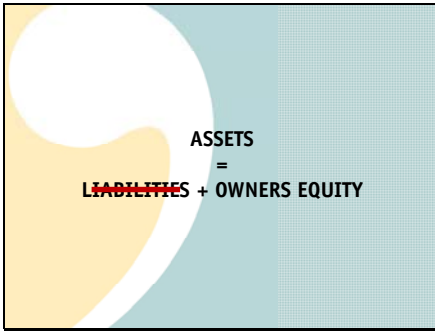
Investment clubs that use bivio are operating as a type of business entity called a partnership or a type of entity taxed like a partnership called an LLC. There are specific rules partnerships must follow when it comes to accounting and tax reporting.

The partnership business entity is attractive for a variety of reasons. One of the main ones is that it is a pass through entity. While you do file a partnership tax return, there are no taxes paid directly by your partnership. All the income flows through to you and you pay the taxes on it on your own personal tax forms. This is in contrast to a corporation where a company pays taxes at a corporate level and then income distributed to owners as dividends is taxed a second time.

**Prepare Taxes**

As a partnership, your club needs to file an informational tax return on IRS form 1065. It reports the amount of income your club had and the amounts that have been allocated to each member to pay taxes on.

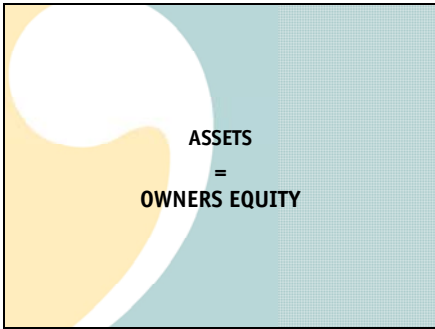
Part of that return are forms called a K-1's. One for each member. He or she will transfer the information from this form to his personal tax forms.



So what do you need to know about your club accounting as an investment club member?

All accounting is based on a very simple equation. We call this the accounting equation. It states that the sum of your assets (what you own), is equal to the sum of your liabilities (what you owe) plus your owners equity. (what you can take away at the end of the day)

An investment club is a simple business that does not have any liabilities.

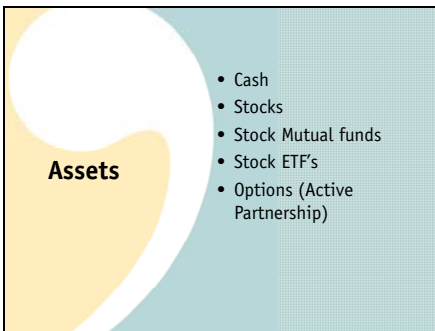


So the accounting equation becomes even simpler. Your club accounting tracks what you own,

your assets

And what each persons ownership share is

Your owners equity



In a club, you'll have these types of assets.

First of all, you'll probably have some cash. Cash is a club asset. This includes investments accountants consider "equivalent to cash" such as money market funds.

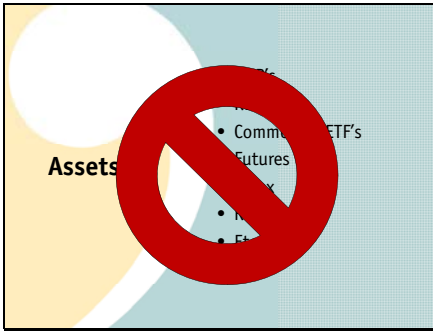
Publicly traded stocks

Stock mutual funds

Stock ETF's

If you subscribe to our Active Partnership service, you might also have bought or sold some options.

The choices on this list give you a lot of investments you can choose from to build a club portfolio.



It is important to understand that while there are lots of things in the world you can invest in, you can't use bivio to account for all of them. You could run a complicated partnership, invest in lots of different things and pay a CPA thousands of dollars a year to prepare your tax returns. Thanks to the generosity of the people who make our tax laws, different types of investments can have specialized tax reporting rules you need to comply with. Sometimes clubs inadvertently get into complicated investments because they are traded in public markets, discussed regularly in investing publications, on TV and on the internet and you can purchase them from your broker like stocks. However, it is important that you know what you are buying. For example, we do not provide you with the accounting or tax reporting you'd need for investments in:

Master Limited Partnerships- These are often pipeline and energy companies. Popular ones are Kinder Morgan, Enbridge Energy Partners and Linn Energy.

REIT's-These are real estate investment trusts. A popular one we often see is Annaly NLY

Commodity ETF's – Just because something is called an ETF doesn't mean they it is something we can account for. It will depend on what type of investment makes up the ETF. For example, Commodity ETF's have become popular recently for people who want to own precious metals such as Gold or Silver. These ETF's actually own the underlying commodity, they do not own stocks. Two popular ones right now are GLD and SLV. The accounting and tax reporting for ownership of precious metals is different than that required for ownership of stocks. Bivio does not provide you with the tools you need to account for and report taxes correctly for these investments.

We also get asked every now and then if we can account for things like Futures-

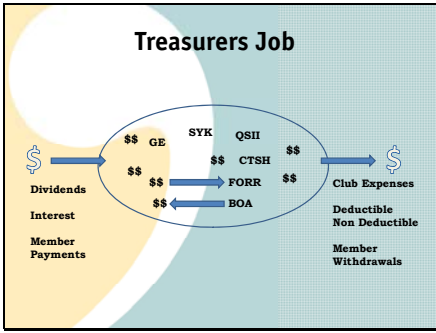
Forex-Foreign exchange currency trading

Real estate-You can have an investment club that invests in real estate. But you can't use bivio to do your accounting and tax prep for you.

The list could go on and on but I hope you get my point.

There are just some investments that you will not be able to own if you'd like to be able to use bivio to do your club accounting.





We have made it very simple for your club treasurer to keep your records. All they need to do is make sure that all the transactions from your brokerage are entered in bivio. If you use AccountSync, this will happen automatically.

These transactions will include income such as

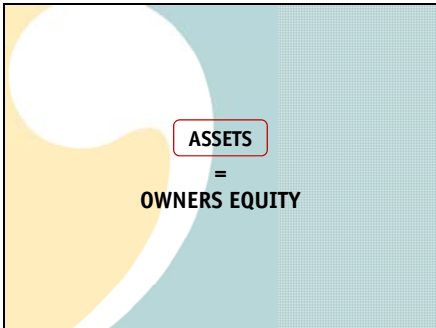
dividends and

interest coming into your club from your investments.

Cash will also come in as you make your regular contributions.

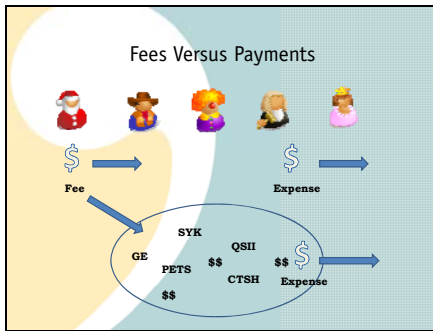
As part of your investing activities, cash will be used to buy stock. Cash will be received from selling stock.

Every so often, you will pay for an expense related to having your club and managing your portfolio or a member will want to withdraw some of his assets.



There is no distinction between money your members contribute for investing and money contributed for expenses. Deductible and Non Deductible expenses are paid out of your club assets as are member withdrawals.

All changes in clubs assets determine your club investment return.



Sometimes clubs want to keep expense money “Separate” from investing money. It is fine to keep some of your cash uninvested if you know you have an expense coming up that you want to use it to pay. Any cash you have available can be used for either investing or paying expenses. You do not record member contributions differently if they will be used to pay club expenses rather than invest. There used to be a method in club accounting where member deposits could be recorded as something called “Fees” Fees were contributions by members that did not purchase units. This has been restricted to being used only when a penalty against a member is being assessed. There are two reasons for this.

First, there was a common misunderstanding that “fees” and whatever expenses they were used to pay were somehow kept separate from the investing pool.

This is not the case. Any deposits recorded in your club accounting become part of your club assets.

Any expenses recorded affect your portfolio return.



Asking them to record member payments differently if they will be budgeted to use for expenses-cont.

	25%	20%	25%	20%	10%
Deposit- 5 Member Fees @ \$40=\$200	50	40	50	40	20
Tax Allocation- Deductible Club Expense \$200	50	40	50	40	20

The second problem with Fees is that they affect member ownership differently than people think. A member deposit recorded as a “Fee” goes into the general club assets and increases the value of each members share of the club based on their ownership percentage.

Suppose you have 5 members in your club with these ownership percentages

and you have an upcoming expense for \$200. You ask each person to contribute \$40 toward that expense and you record it as a fee.

This is actually the way the money will be divided up between the members.

While each person has contributed the same “Fee”, they do not experience the same change in value of their share of the club.

Nor are they are they allocated the same amount of the deduction for the Expense. Santa has contributed \$40 but will be able to take a \$50 deduction for the expense. Queen has also contributed \$40 but she will only be able to take a \$20 deduction for the expense.

If you had recorded these contributions as payments, this problem would not exist. Each person would receive the full credit for the amount they’d contributed to their account. There is no reason to deposit money differently just because it is being used to pay expenses. Record all member contributions as payments so that each member’s club ownership is correctly adjusted.

**Transactions**

11/15/2018	Withdrawal	Deposit Member Payment (from John)	50.00	5,128.97	0.00
11/15/2018	Withdrawal	SALES TAX DEDUCTIBLE	1.00	5,128.97	0.00
11/15/2018	Withdrawal	Deposit Payment from Queen	40.00	5,168.97	0.00
11/15/2018	Withdrawal	SALES TAX DEDUCTIBLE	1.00	5,168.97	0.00
11/15/2018	Withdrawal	Deposit Payment from Santa	40.00	5,208.97	0.00
11/15/2018	Withdrawal	SALES TAX DEDUCTIBLE	1.00	5,208.97	0.00
11/15/2018	Withdrawal	Deposit Payment from King	40.00	5,248.97	0.00
11/15/2018	Withdrawal	SALES TAX DEDUCTIBLE	1.00	5,248.97	0.00
11/15/2018	Withdrawal	Deposit Payment from Queen	40.00	5,288.97	0.00
11/15/2018	Withdrawal	SALES TAX DEDUCTIBLE	1.00	5,288.97	0.00
11/15/2018	Withdrawal	Deposit Payment from Santa	40.00	5,328.97	0.00
11/15/2018	Withdrawal	SALES TAX DEDUCTIBLE	1.00	5,328.97	0.00

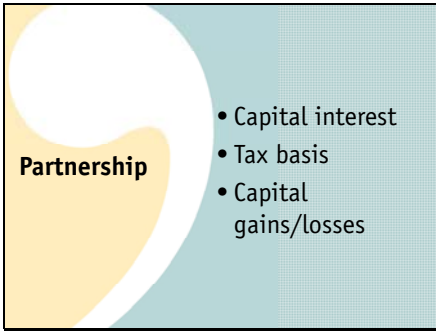
All your club’s transactions pertaining to your club assets need to be recorded in the account they occur in either automatically by AccountSync or manually by your treasurer. It is very important that they be recorded on the correct dates and that your records be kept up to date. It is also important that you track all of your club’s financial accounts in bivio and that you record all of the transactions that happen in those accounts.

**ASSETS  
=  
OWNERS EQUITY**

So that's what's important to know in terms of the Assets side of your record keeping.

There are also important things to understand about how your club ownership is tracked.





As a member of a partnership,

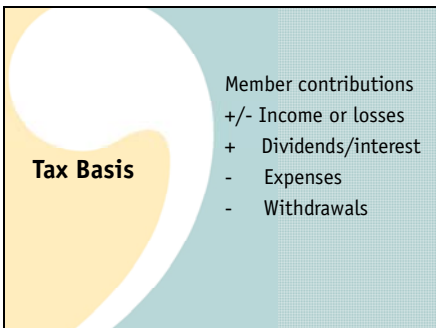
you have a capital interest in a business. There are similarities between this and the ownership interest you have in a corporation when you own stock. There are special tax rules that apply when funds are put into your club and when funds are taken out.

Just like when you own stock, you have a basis in your investment in your club

and you might have capital gains or losses when you withdraw funds from your club.

One thing club members often don't know is that the capital gains tax on withdrawals from your club is in addition to the taxes you will pay each year when you are given your K-1's. But don't worry, you won't get taxed twice. One of the things bivio does for you is to track all the information about your financial history with the club so that when you eventually withdraw money, you will have the information you need to pay the appropriate taxes.

There are actually some nice tax rules relating to withdrawals taken from partnerships that you can use to your benefit to help you manage your taxes. We'll discuss those later.



Your tax basis is determined by

the amount you've contributed over the years,

plus or minus your share of any income or losses your club has recognized by selling investments,

plus your share of any dividends and interest you've received,

Minus your share of any expenses and

minus any money you've withdrawn from the club.

These are the things that have been reported to you each year on a K-1 and you've been taxed on your personal taxes.

Member Status

Report Date: 04/15/2012 Show Payments Since: 04/15/2011 Generate

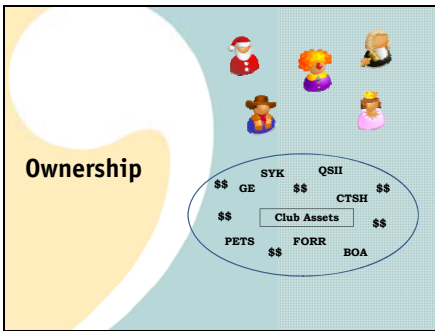
\*Using prices from market close for 04/12/2011

Name	Paid Since 04/15/2011	Total Paid	Tax Basis 04/15/2011	Units Since 04/15/2011	Units	Market Value	Percent
Eight, Member	75.13	760.56	780.53	1,571.362	68.048802	945.65	15.7%
Eleven, Member	25.00	526.00	546.01	1,367.762	69.575842	688.94	11.4%
Five, Member	0.00	476.96	496.22	0.000000	46.005660	451.76	7.6%
Four, Member	0.00	368.91	369.82	0.000000	35.211373	489.33	8.1%
Frederickson, Lyle	25.03	390.63	611.23	1,869.654	58.923460	778.40	12.9%
Sevens, Member	24.10	601.30	625.77	1,674.138	56.696074	787.91	13.1%
Six, Member	25.05	531.00	570.78	1,861.138	51.863382	720.73	12.0%
Ten, Member	25.02	550.40	570.21	1,367.761	51.833028	720.30	12.0%
Two, Member	25.11	206.77	205.90	1,899.988	58.734453	232.28	3.9%
	225.32	4,408.15	4,773.25	18,782.091	632.859578	6,415.31	100.0%

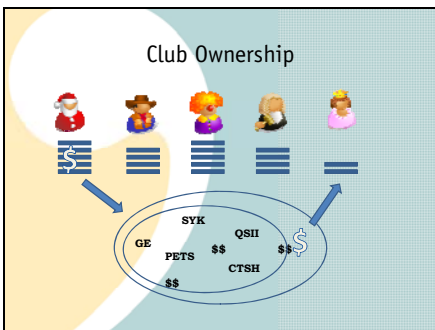
You can find out what your

tax basis is at any time, on the member status report. If you withdrew all your money from the club on the date of the report you would have a capital gain or loss equal to the difference between this column and the

Current market value of your share of the club shown in this column.



To determine how to report your share of taxes and keep your tax basis accurate, we need to allocate income and expenses to each member. To do this, we need to keep track of your ownership percentage. Club members do not own a specific percentage of each of the individual assets of the club, they own a percentage of the total assets.



We account for your ownership using shares or units. Owning units is just like owning shares in a mutual fund. Each time you contribute money to your club you purchase units,

if you'd like to take some money out, you redeem units. Each day, the value of a unit is determined by dividing the total asset value of your club by the number of units outstanding. You can find the daily value of a unit on the valuation report I showed you earlier.

The reason we track ownership using units is that bivio is designed to track unequal ownership. This gives you the greatest flexibility to have an investment club even if everyone has not or cannot contribute the same amount at the same time.

Each members percent of ownership is based on the number of units they own. The total value of their share on any day can be determined by multiplying the number of units they own by that days unit value.

Accounting > Members

bivio

Accounting Administration Communications  
Accounts Investments Members Reports Tools

Member Summary for 04/07/2010

Name	Units	Market Value	Percent	Actions
Tranahill	44,082,276	750.32	1.8%	Account, No. Transactions
Waltz, Walter	145,844,874	6,766,777	16.0%	Account, No. Transactions
Lee	346,562,992	6,574.47	12.0%	Account, No. Transactions
Logan	282,460,081	8,899.11	19.0%	Account, No. Transactions
Quinn	255,028,823	6,512.76	12.0%	Account, No. Transactions
Hester	391,492,218	10,290.25	20.0%	Account, No. Transactions
Henry	771,438,139	11,648.68	25.0%	Account, No. Transactions
<b>Total</b>	<b>2,829,212,618</b>	<b>48,942.96</b>	<b>100.0%</b>	

Div. eff. = 5/17/2010

To properly account for this, member contributions and withdrawals are recorded a little differently than any other type of deposit or expense. They are recorded as

### Payments and

Withdrawals using forms you can access from the members screen. After you fill them in, we do the accounting to add or subtract the appropriate number of units to your account and to adjust your tax basis correctly.

Enter Member Payments

This is the form to enter payments for your members. A payment purchases units in your club. This is how members increase their share of the club's assets.

Transaction Date: The date the payments were deposited into the account.

Transaction Date: 05/05/2011

Member Valuation Date: Clubs typically choose one day per month as their Valuation Date, the date to convert member payments into club units, the date used over the fund's approach, because it is what many clubs are familiar with. Since bivio values your portfolio on a date basis, your club should choose to convert payments on the date they are deposited. Your partnership agreement or bylaws should state which valuation method you use and if you choose monthly valuations, an advice business day the valuation occurs.

Member Valuation Date: 05/05/2011

Account: The account into which the payments were deposited.

Account: Fidelity Investing

Remark: An optional short message to be added to transactions. If you enter a default Remark, it applies to all transactions which do not have a Member Specific Remark. Some

One of the pieces of information you will provide on both the member payment and withdrawal form is a

“valuation date”. The value of a unit on that date will determine how many units a member receives or redeems. To keep your record keeping the simplest, we recommend that you use the date of the deposit as the valuation date. That way, things work just like they would in a mutual fund. Members buy club shares at their value on the date of their contribution.

Allocating Income and Expenses

5/1					
	25%	20%	25%	20%	10%
5/15- Dividend Received-\$100	25	20	25	20	10
5/18- Deductible Club Expense \$100	25	20	25	20	10
5/20					
	30%	20%	20%	15%	15%
5/26- Dividend Received-\$100	30	20	20	15	15

When your investments earn income it is divided up by the number of units and you are allocated your portion based on the number of units you own on the date the income is received. Ownership percentages may change every time a member contribution is recorded. This makes the dates of entries in your club accounting more important than dates in the record keeping for other organizations that you may have done. We call this time based allocation.

Here's an example of how income and expenses might be allocated to members over the course of a month.

**Individual Expenses**

- Subscriptions
- Stock Analysis Tools
- Educational materials for personal library
- Shrimp cocktails and martinis

Investment club accounting is designed to account for expenses that apply to all the members of the club and that can be shared either in proportion to each members ownership percentage or in an equal dollar amount by each member. It is not designed to account for expenses that do not apply to the entire club. We call these Individual expenses. Here are some examples of them:

**Subscriptions**-If everyone doesn't participate in the subscription the same way. A common example of this is the personal portion of a Better Investing membership or an individual Manifest Investing membership where some club members want it and others don't

**Stock Analysis Software tools**-Again, unless your club feels this is a club expense that your club should use club funds to purchase for each member, this is an individual expense. If individuals want individual copies, they should purchase it for themselves directly. You should not purchase it from club accounts.

**Educational Materials for One members personal library**

**Individual share of club dinner**-unless you are dividing up a dinner tab based on member percentage ownership or equally between everyone, don't pay it with a club check or from a club account. There is no easy way to try and allocate the costs in any other way to individual members.

**Individual Expenses**

**NO BENEFIT**

Don't worry, there is

no benefit to paying these types of expenses from your club accounts. If you do so, you will only make your treasurers job harder for no reason. To keep things simple, have individuals pay expenses directly that only apply to them.

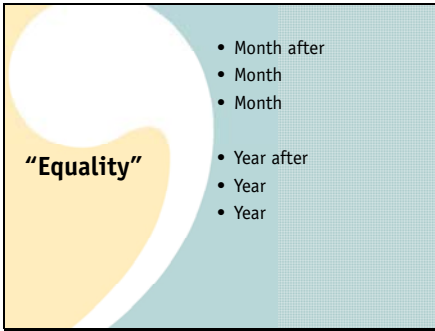
**Allocating Income and Expenses**

Member Tax Allocations from 01/01/2009 to 12/31/2009

Member	Ownership	Investment Earnings	Dividends	Interest	Income Capital Gain	Losses	Other Capital Gain	Net Income
Unsettled	0.00	2.62	0.00	0.00	(2,612)	0.00	0.00	0.00
MEMBER TOTAL	0.12	26.06	0.00	0.00	(26,212)	(26,000)	(26,000)	(26,000)
Dan	0.07	17.81	0.00	0.00	(17,475)	(17,500)	(17,500)	(17,500)
Dianna	0.04	10.56	0.00	0.00	(10,462)	(10,500)	(10,500)	(10,500)
George	0.00	41.27	0.00	0.00	(41,272)	(41,000)	(41,000)	(41,000)
Heidi	0.01	76.00	0.00	0.00	(76,000)	(76,000)	(76,000)	(76,000)
Wanda	0.18	114.00	0.00	0.00	(114,333)	(114,333)	(114,333)	(114,333)
<b>Total</b>	<b>0.42</b>	<b>411.55</b>	<b>0.00</b>	<b>0.00</b>	<b>(411,452)</b>	<b>(411,452)</b>	<b>(411,452)</b>	<b>(411,452)</b>

At the end of the year, each members income and expense allocations are tallied up and used to prepare the K-1 tax forms they will receive. As described earlier, K-1's tell you the taxable amounts you need to report and pay taxes on on your personal taxes. Your tax basis in the club is also adjusted by these amounts.

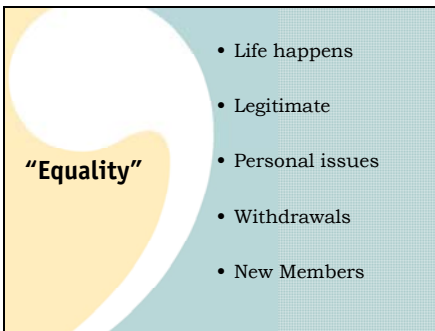
The amount each member is allocated is shown on the Member Tax allocations report



In a club, everyone is equal in the sense that income and expenses are allocated to you based on the number of shares you own. Just as with a mutual fund, the number of shares you own will depend on the amount of money you contribute and the price of a share on the date you make your contribution. If I own more shares than you do, I will receive a greater total amount of income. This makes sense. It is inevitable that different club members will own different numbers of units. An investment partnership is a long term undertaking. The only way everyone would own exactly the same number of shares is if everyone's contributions were recorded for exactly the same amounts on exactly the same days,

Month, after month, after month (click, click, click)

Year after year after year (click, click, click)



But,

Life Happens

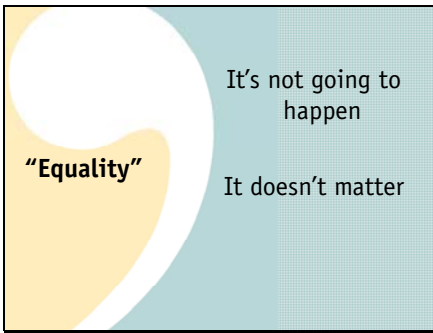
People miss payments for legitimate reasons

People will have times where they can't contribute as much as they used to

People might need some of the money they have invested in your club

People may want to join your club

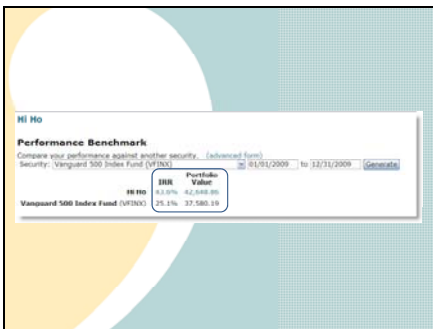
It doesn't make sense to make members leave your club or not allow new members to join if they will actively participate but are unable to have quite the same monetary stake as other members.



We can tell you after years of participating in and working with investment clubs,

That equal ownership is just not going to happen.

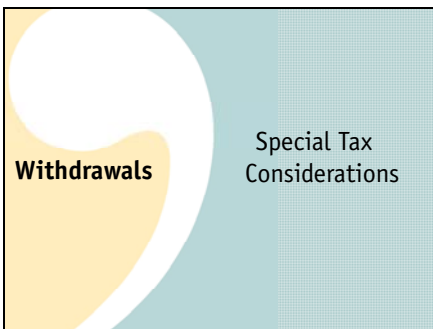
But the good news is that it doesn't matter. Your club accounting is designed to account for everyone's percentage of ownership accurately. If your treasurer is reconciling the books correctly each month, you can be sure your ownership is being tracked properly and you are being allocated the same amount of income and expenses in proportion to your ownership share as everyone else.



Focus on learning and working together to optimize your portfolio performance.

If your portfolio grows well, all members will benefit, even if they don't benefit by exactly the same total amounts. You will benefit equally based on the number of units you own and the dates that you made contributions to the club. You are a group working together to learn to manage a mutual fund. The fund doesn't care who owns what.

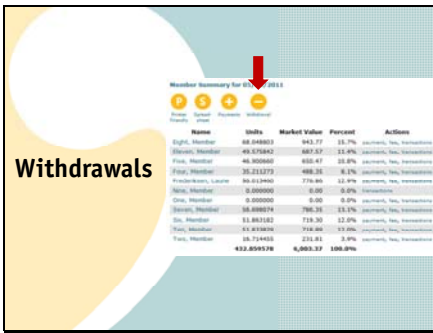
What matters is that each member is committed to participating in the group both monetarily and by providing research and education, not that each person owns exactly the same share of the club.



There are some interesting tax benefits to being a member of a partnership. They relate to taking money out of your club. Of course, withdrawals that are made too often make it difficult to manage an investment portfolio. Ask any fund manager whose mutual fund suddenly goes out of favor.

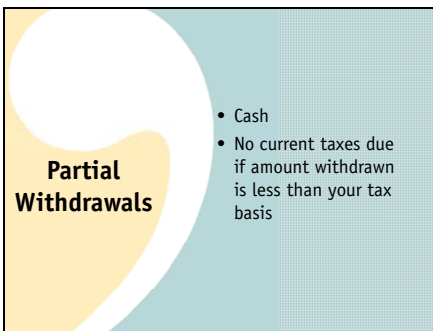
But, there are cases where you or another club member might need to make a withdrawal so it is interesting to understand how they work.





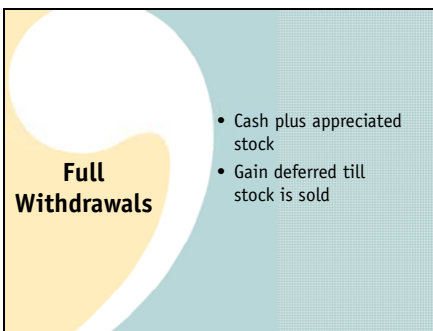
First, you need to understand that there is more you need to do when someone withdraws than just look at what their account is worth and write them a check. This is a business you are withdrawing money from and there is a lot of accounting we need to do to update your records correctly and prepare your taxes correctly. You don't have to do the accounting yourself but you do have to know you need to determine the withdrawal amount and enter the withdrawal entry using a special withdrawal form.

You'll find it by selecting the withdraw button on the Accounting>Members page. We'll take the information you enter and adjust your club records correctly. We'll be discussing entering withdrawals in more depth in our treasurers training session later this month. Make sure you don't give a club member a check or tell a club member what they will receive without an understanding of how to fill in this form.



If you need to withdraw some, but not all of your funds from your club, you can do so with no tax consequences as long as you take cash

and withdraw less than your tax basis. We call this a partial withdrawal.

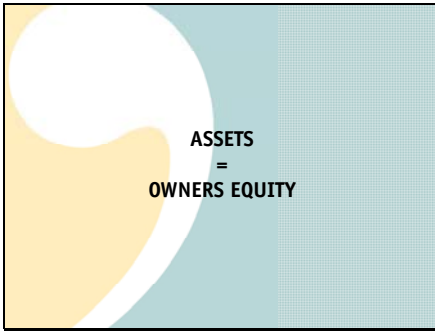


If you are paid for a complete withdrawal using cash plus appreciated stock,

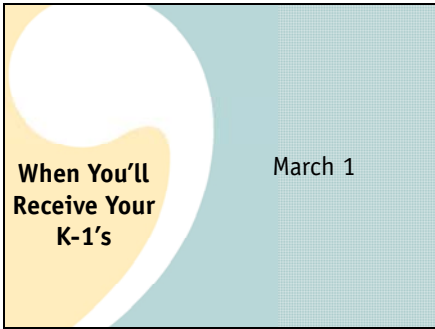
any gain you might need to report on the amount you receive will be deferred until you sell the stock. The basis in the stock you receive will be your tax basis in the club minus the amount of any cash you receive with the stock.

A gain that is taxed in the future is usually better than a gain that is taxed today so this presents some interesting opportunities for you to defer gains on your investments, perhaps to a point in time when you have some capital losses to use to offset them. If you never sold the stock, and it continued to show a gain when you died, your gain would never be taxed. The basis would step up to fair market value for the people that inherited it.



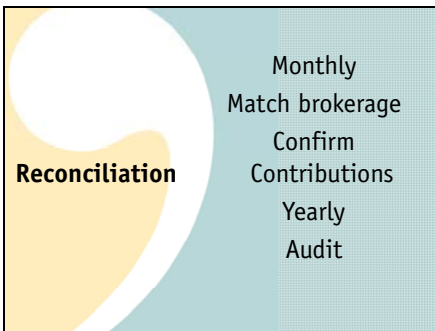


So those are some basics all the members of your club should understand about your club accounting. There are just a couple of other things to know about your finances.



Don't expect to file your personal income taxes as early as you might have before you were in an investment club. You will need the income and expenses from your club K-1's to report on your personal taxes. But, before your treasurer can prepare them, they will have to verify your club records against the 1099 forms from your financial institutions.

Financial institutions have until February 15 to send them to your treasurer. You'll probably find that a reasonable date to expect the filled in forms from your treasurer is March 1.



As we've discussed, dates of your transactions are very important in your club accounts. It is important that you know that your club records are being kept accurately.

As part of your monthly treasurers report, your treasurer should verify (and be able to demonstrate)

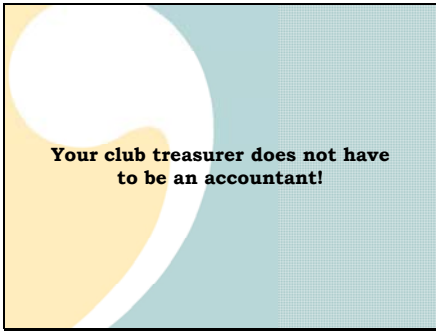
that your club records match the records from your brokerage.

They should also provide you with a report you can use to confirm your member contributions have been recorded accurately.

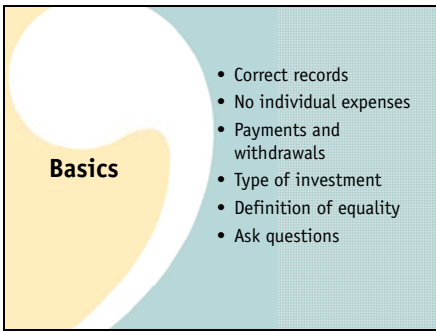
In addition, you should plan to do a yearly

club audit where members other than the treasurer confirm your records.

Mistakes that affect taxes are usually easy to fix before taxes are filed. But things can become very difficult after that. It is in everyones best interest that members other than the treasurer are keeping an eye on the accuracy of your club records.



In summary, if all the members of your club have a basic understanding of your club finances your club treasurer does not have to be an accountant. In fact, your club accounting should be very simple and anyone should be able to do it. As we've been discussing, it is a little different than what people may expect or be used to. The only time it becomes difficult is when club members who don't have a basic understanding of things try and get their treasurers to do things that create problems. If you don't understand something your treasurer is doing or tells you they can't do, don't put your treasurer on the spot to be able to explain all the reasoning behind it. Any club member should feel free to email us at [support@bivio.com](mailto:support@bivio.com) with any questions. We're glad to help clarify things for not only your treasurer but for any other member of your club.



Just to summarize the basics

Verify your records- this can't be stressed enough. Ask questions if you see something like a negative balance on a bank account. The current state of your finances is dependent on the dates of all the historical transactions. Make sure your records mirror what is happening in your financial accounts.

Only use your club financial accounts for investment related transactions that apply to all club members

Record all member Contributions as payments and payouts as Withdrawals using the correct forms

If you are unsure whether an investment is something that can be accounted for by bivio, ask us about it before you purchase it.

Define equality as meaning that everyone is allocated the same amount of income and expense per unit of the club that they own. But let go of the need for everyone to own the same percentage of the club.

Ask us at [support@bivio.com](mailto:support@bivio.com) if you have questions. We're glad to explain things to any member of a club. Expect your treasurer to know how to use the program but don't expect them to know all the underlying accounting.



For those of you who are or will actually be club treasurers, we're going to be doing treasurer training in two parts.

On May 15, we'll be discussing Monthly treasurer tasks. We will show you how to handle and record member payments, record stock purchases and sales, record income, reconcile your records and give your monthly treasurer's report. We'll also show you how you can set up bivio AccountSync to do many of these things for you automatically each month!

On May 22, we'll show you how to do some of the treasurer tasks you'll do less frequently such as how to enter a withdrawal, how to enter club expenses, how to reimburse a member who pays an expense, what to do if a member pays in advance, your annual club audit and what you will need to know about preparing your club's taxes.

Both of these sessions are online and free. You can register to join us at [www.bivio.com/club\\_cafe](http://www.bivio.com/club_cafe).

