

# What Makes an Effective Investment Club?

A Learn and Earn Feature

by Amy Crane, Erie, Pennsylvania  
and Brian Goodhart, Potomac Falls, Virginia



**Maybe you're in a new investment club, full of enthusiastic partners, and you're not sure how to fulfill your hopes of learning about investing in a group setting. Perhaps your club is two to three years old, with lots of ideas from different partners about future directions. Maybe your club is mature in years, but stuck in a rut. Possibly, you're lucky enough to belong to an effective, well-organized club, but you want to know, "How are we really doing?" Well, you've come to the right article! Join us as we review the best experiences and characteristics of investment clubs. As a new century dawns, what is the role of investment clubs? What's important?**

**T**he concept of what makes a good investment club was debated on NAIC's I-Club-List in December. The I-Club-List is an e-mail discussion group that has about 3,000 participants. It is an electronic community run entirely by volunteers with support and encouragement from NAIC. You can participate via e-mail or the Web.

This assessment grew out of an I-Club-List debate on the advantages and disadvantages of participating in an investment club. Some investors felt more comfortable on their own, while others were vocal in the belief that investment clubs make the best learning environment.

On Dec. 16, Amy Crane chimed in from Western Pennsylvania: "If I could find a good club, where everyone pulled their weight and knew how to use the NAIC tools, I would seriously consider joining. It's the other kind of club that I am leery of — one that doesn't add to my knowledge at all and just leaves me feeling frustrated after every meeting."

On Dec. 17, Brian Goodhart responded from northern Virginia: "It would be an interesting exercise to try to identify objective criteria by which we could measure the *goodness* of a club."

Changing the name of the discussion to

"What Makes a Good Club?" Brian included some questions which he believed would draw out key facts about a club's "goodness." Amy responded with her own list that she had already devised.

One thing led to another and these questions and comments were combined with those from many others to put together this feature whose sole purpose is to help answer the question, "What Makes an Effective Investment Club?"

What you see here is designed to be a self-assessment for individual investment clubs. It is not a test! Rather, just like a company's balance sheet, it is a snapshot in time reflecting where your club might be at this particular moment. The questions in the survey are meant not only to measure how effective your club is now, but also to give you ideas on how to make your club more effective in the future.

### The Survey Itself

Neither of us has a degree or a background in statistics or polling, so what you're seeing here is not the work of professional survey designers. Instead, we worked together on the I-Club-List to refine this survey, and, with the help of club members on the I-Club-List, tested it. Each question has an accompanying point value. Once you fin-

ish, you can add up your points and see what your score is in two areas: a club Functionality Score, and a club Risk Score. The Functionality Score places your club in one of the following categories, based on how well it functions overall:

- Dysfunctional •
- Minimally Functional •
- Functional •
- Well Functioning •
- A Model Club •

Partners in clubs younger than three years might feel frustrated if their score falls into the Minimally Functional range. Keep in mind that clubs this young could easily fall into this category, yet be perfectly on track to becoming a Well Functioning or even a Model Club.

The Club Risk Score stems from our concern that a high Functionality Score might mask a particular club's failure to perform certain "show-stopper" activities crucial to an investment club's health. Therefore, we extracted a small number of questions from the assessment to develop a separate Risk Score that focuses on a few crucial areas of club performance:

- Club accounting •
- Club attendance •
- Use of the Stock Selection Guide (SSG) in purchase decisions and portfolio mgt •

All of the Risk Score questions do double duty as building blocks of both the Risk and Functionality Scores. In fact, a club can achieve a maximum of 27 points on these questions and a minimum of - 21. The maximum achievable total points for all questions is 125.

Healthy clubs will most likely rack up a Risk Score close to the high end, while floundering clubs are likely to find themselves mired in negative territory. The assessment instructions reflect this assumption — if your club's Risk Score is positive, you're probably in good shape. If the score is negative, you are most likely drifting away from NAIC principles and practices and could even be in danger of dissolution.

Examine your club's responses to the particular questions that comprise the Risk Score to identify the steps that you can take immediately to get your club back on track.

Whether your club is satisfied with its score or not, you might want to use this tool on a regular basis in the future to assess how your club is progressing. We encourage you to customize it to meet your particular needs.

### Start Assessment

Some of the following questions request an answer of "always," "sometimes," "infrequently," or "never." When answering these questions, keep in mind the following guidelines:

\* Sometimes means more than half of the time, but less than always.

\* Infrequently means less than half of the time, but more than never.

### General Information

1. Number of partners:
2. Year club started:
3. State or county in which club meets:
4. Amount of time required to drive to nearest NAIC chapter or satellite:

### Club Recordkeeping and Administration

1. Do you use a unit-based accounting system?  
Yes: 3  
No: - 3
2. Do partners receive IRS Form K-1 by March 15?  
A. Always 3  
B. Sometimes 1  
C. Infrequently 0  
D. Never - 3
3. Does the club verify that the club's tax return was filed on time?  
A. Always 2  
B. Sometimes 1  
C. Infrequently 0  
D. Never - 1
4. Is an audit of the financial records an annual event?  
A. Always 2  
B. Sometimes 1  
C. Infrequently 0  
D. Never - 2
5. Do partners get a Valuation Statement at each meeting?  
A. Always 3  
B. Sometimes 1  
C. Infrequently 0  
D. Never - 3
6. Do partners get a Member Status Report at each meeting?  
A. Always 3  
B. Sometimes 1  
C. Infrequently 0  
D. Never - 3
7. Does anyone besides the Treasurer have copies (whether of computer disks or manual records) of your club's financial records?  
Yes: 1  
No: - 1
8. Does at least one partner other than the one who prepares the club's monthly financial reports review the brokerage statement?  
A. Always 2  
B. Sometimes 1  
C. Infrequently 0  
D. Never - 2

### Club Operations

1. How many of your partners are NAIC members?  
Number:           Percentage of Total:  
  
Score based on Percentage of Total:  
90% or higher:       3  
80% to 89%:         2  
60% to 79%:         1  
40% to 59%:         0  
less than 40%:       - 1
2. How many of your partners are members of the NAIC Computer Group?  
Number:           Percentage of Total:  
  
Score based on Percentage of Total:  
50% or higher:       2  
25% to 49%:         1  
Less than 25%:       0
3. On average, how many partners attend club meetings?  
Number:           Percentage of Total:  
  
Score based on Percentage of Total:  
90% or higher:       3  
80% to 89%:         2  
60% to 79%:         1  
40% to 59%:         0  
less than 40%:       - 1
4. What is the frequency of club meetings? (choose one closest to your club's frequency)  
A. Monthly or more: 1  
B. Bimonthly: 0  
C. Quarterly: - 1  
D. Less Frequently: - 2
5. Does the club have a written record of its purchases?  
Yes: 1  
No: 0
6. Does the club have a written record of its reasons for each purchase?  
Yes: 1  
No: 0
7. Does the club have a written record of its sales?  
Yes: 1  
No: 0

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8. Does the club have a written record of its reasons for each sale?

Yes: 1  
No: 0

9. Does your club have annual election of officers?

Yes: 1  
No: 0

10. Is the office of Club Treasurer rotated among partners after no more than two consecutive terms of office?

A. Always: 2  
B. Sometimes: 1  
C. Infrequently: 0  
D. Never: -1

11. Are officers' positions other than that of Club Treasurer rotated among partners after no more than two consecutive terms of office?

A. Always: 2  
B. Sometimes: 1  
C. Infrequently: 0  
D. Never: -1

12. Is any partner responsible for presiding over the club meeting?

Yes: 1  
No: -1

13. Do club meetings follow an agenda?

Yes: 4  
No: -2

14. When is the agenda distributed to the partners?

A. Before the meeting: 2  
B. At the meeting: 1  
C. Pre-established: 2  
D. N/A (no agenda): 0

15. Is the agenda followed and usually completed by the end of the meeting?

Yes: 1  
No: 0

16. Does your club have language in your partnership agreement, bylaws or other written policies or procedures to cover the following situations:

A. Delinquent partners

Yes: 1  
No: 0

B. Payoff of departing members

Yes: 1  
No: -1

C. Requirements for new partners

Yes: 1  
No: 0

D. Partners who miss meetings

Yes: 1  
No: -1



Mickey and Minnie may have formed their own version of a club long ago, but that probably didn't stop NIA director Mary Lyn Goerke from sharing the NAIC experience with them at NAIC's annual meeting in 1996.

17. How often are the procedures for delinquent partners followed:

A. Always: 2  
B. Sometimes: 1  
C. Infrequently: 0  
D. Never: -1

18. How often are the procedures for partners who miss meetings followed:

A. Always: 2  
B. Sometimes: 1  
C. Infrequently: 0  
D. Never: -1

19. Does your club have a written mission statement?

Yes: 1  
No: 0

20. Does your club have a plan for attracting new partners?

Yes: 1  
Club at Maximum Size: 1  
Need More Members, No Plan: 0

### Club Investing Techniques

1. How many of your partners know how to complete a Stock Selection Guide?

Number: Percentage of Total:

Score based on Percentage of Total:

90% or higher: 6  
80% to 89%: 4  
70% to 79%: 2  
60% to 69%: 1  
50% to 59%: 0  
40% to 49%: -1  
Less than 40%: -2

2. How many partners do an SSG presentation at least once a year?

Number: Percentage of Total:

Score based on Percentage of Total:

75% or more: 2  
50% to 74%: 1  
25% to 49%: 0  
Less than 24%: -2

3. How frequently does your club use the SSG to evaluate a stock prior to a purchase decision?

A. Always: 4  
B. Sometimes: 2  
C. Infrequently: 0  
D. Never: -1

4. Does your club use the Stock Comparison Guide in purchase decisions?

A. Always: 2  
B. Sometimes: 1  
C. Infrequently: 0  
D. Never: -1

5. Does your club analyze PERT Worksheet "A" before purchasing a stock?

A. Always: 2  
B. Sometimes: 1  
C. Infrequently: 0  
D. Never: -1

6. Does your club use PERT Worksheet "A" as a portfolio management tool (i.e., after purchase of a stock)?

A. Always: 2  
B. Sometimes: 1  
C. Infrequently: 0  
D. Never: -1

7. Does your club use the Portfolio Management Guide (PMG) report?

- A. Always: 2
- B. Sometimes: 1
- C. Infrequently: 0
- D. Never: -1

8. When analyzing a stock for possible purchase, does your club make an attempt to identify and/or calculate certain averages, such as historical growth rates, Pre-Tax Profit Margin and Return on Equity, for the industry in which the company competes?

- A. Always: 2
- B. Sometimes: 1
- C. Infrequently: 0
- D. Never: -1

9. Does your club use the Challenge Tree or some other systematic approach for challenging existing holdings?

- A. Always: 2
- B. Sometimes: 1
- C. Infrequently: 0
- D. Never: -1

10. How many of your partners have computers?

Number: Percentage of Total:

Score based on Percentage of Total:

- 75% or higher: 2
- 50% to 74%: 1
- Less than 50%: 0

11. How many of your partners have access to the Internet?

Number: Percentage of Total:

Score based on Percentage of Total:

- 75% or higher: 2
- 50% to 74%: 1
- Less than 50%: 0

12. How many of your partners own SSG software?

Number: Percentage of Total:

Score based on Percentage of Total:

- 75% or higher: 2
- 50% to 74%: 1
- Less than 50%: 0



*Our stock selection and portfolio management tools form a solid foundation, and common ground, that enhances communication and understanding. Computer Group director Steve Martin is shown here demonstrating the use of our computer-aided tools.*

13. Is the Portfolio Evaluation and Review Technique (PERT) Report prepared for meetings?

- A. Always: 2
- B. Sometimes: 1
- C. Infrequently: 0
- D. Never: -1

14. Is the Portfolio Trend Report prepared for meetings?

- A. Always: 2
- B. Sometimes: 1
- C. Infrequently: 0
- D. Never: -1

15. Does your club prepare a report that groups its portfolio by size?

- A. Always: 2
- B. Sometimes: 1
- C. Infrequently: 0
- D. Never: -1

16. Does your club monitor the diversification of its portfolio by size?

- A. Always: 2
- B. Sometimes: 1
- C. Infrequently: 0
- D. Never: -1

17. Does the club prepare a report that groups its portfolio by industry?

- A. Always: 2
- B. Sometimes: 1
- C. Infrequently: 0
- D. Never: -1

18. Does the club monitor the diversification of its portfolio by industry?

- A. Always: 2
- B. Sometimes: 1
- C. Infrequently: 0
- D. Never: -1

## Club Education

1. Is one of your partners responsible for club education?

- Yes: 2
- No: -2

2. How often does your club have educational presentations?

- A. Always: 3
- B. Sometimes: 2
- C. Infrequently: 0
- D. Never: -2

3. Does your club prepare an education plan?

- A. 12 or more months in advance 4
- B. 6 to 11 months in advance 3
- C. 2 to 5 month in advance 2
- D. 1 month in advance 1
- E. We decide at the meeting 0
- F. No education plan -1

4. Has your club used (or reviewed or after first use) any NAIC self-study materials such as the SSG Study Guide, the SSG Video, the "How to Run an Effective Investment Club" video, etc.?

- A. More than once last year 3
- B. Once within the last year 2
- C. Within the past 2-3 years 1
- D. More than 3 years ago 0
- E. Never -1

5. Do your partners mentor new members to bring them up to date?

- A. Always: 2
- B. Sometimes: 1
- C. Infrequently: 0
- D. Never: -1

6. Do your members engage in club-assigned study assignments or independent study of investment topics that are discussed in subsequent meetings?

- A. Always: 2
- B. Sometimes: 1
- C. Infrequently: 0
- D. Never: -1

7. Within the past three years, how many of your partners have attended a class taught by the local NAIC chapter or satellite; a class taught by one or more partners from another investment club; or a class taught by a partner from

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your own club held at a time other than the regular club meeting?

Number:            Percentage of Total:

Score based on Percentage or Total:  
 50% or higher:        2  
 25% to 49%:            1  
 Less than 25%:        0

8. How many partners have attended an investors fair or a business-oriented gathering of multiple investment clubs within the past three years?

Number:            Percentage of Total:

Score based on Percentage of Total:  
 25% or higher:        2  
 10% to 24%            1  
 Less than 10%:        0

9. How many partners have attended a national or international NAIC event or an InvestFest within the past three years?

Number:            Percentage of Total:

Score based on Percentage or Total:  
 25% or higher:        2  
 10% to 24%            1  
 Less than 10%:        0

10. How many partners subscribe to the I-Club-List or participate in the NAIC Compuserve Forum?

Number:            Percentage of Total:

Score based on Percentage or Total:  
 25% or higher:        2  
 10% to 24%            1  
 Less than 10%:        0

11. How many partners do any volunteer work for the local NAIC Chapter?

Number:            Percentage of Total:

Score based on Percentage or Total:  
 25% or higher:        2  
 10% to 24%            1  
 Less than 10%:        0

12. How many partners volunteer in other ways, such as helping other clubs in person or on NAIC Online?

Number:            Percentage of Total:



*“If we can do this, you can do it too.” The message of the Beardstown Ladies (shown here accepting their award for distinguished service to investment education) is that investment clubs also grow by reaching out to others. The club assessment awards points for service to regional chapters or participation in NAIC Online activities. “When one teaches, two learn.”*

Score based on Percentage of Total:  
 25% or higher:        2  
 10% to 24%            1  
 Less than 10%:        0

If this number is greater than zero, your club is probably in good shape with respect to adherence to NAIC’s investment philosophy and practices. Your club is also most likely fairly stable and does a good job with club accounting and tax reporting. Whatever your score, we hope this exercise is helpful to you and your club’s future efforts. **BI**

**Summarizing Results**

Add up your scores for every question. The range of possible scores is – 56 to + 125. Use your total score to assign your club one of the following five Functionality Scores:

Total Score	Functionality Level
110 to 125	A Model Club
95 to 109	Highly Functional
54 to 94	Functional
8 to 53	Minimally Functional (or a young club)
below 8	Dysfunctional

**Club Risk Score**

Calculate a separate total for your answers to the following questions:

All 8 questions in the Club Recordkeeping and Administration Section.

Questions #1 and #3 in the Club Operations Section.

Question #3 in the Club Investing Techniques Section.

The total is your club Risk Score. (The possible range of club risk scores is – 21 to +29.)

**What Clubs Are All About**

*In some ways, I think we all run the risk of losing sight of what the NAIC experience is really all about. Yes, recordkeeping and compliance are important issues. Club partners are well-advised to be attentive to them. I have long felt that the financial partner or treasurer actually learns the most because of the exposure to the dividend process and financial information provided by our chosen companies. I know that I have.*

*Amy Crane and Brian Goodhart have done a wonderful job of capturing a panoramic view of the various learning opportunities that investment clubs deliver. Not all will agree with every single criteria, or its weighting, but I think we can all agree that the emphasis is on taking the mystery out of investing — making the whole challenge a little less frightening as we work together.*

*Investment clubs are educational opportunities. Use our February “Invite-A-Friend” tradition to reach out to those around you and share the learning experience.*

**Kenneth S. Janke, Sr.  
 President & CEO, NAIC**