



COOPRINCIPAL

INVESTMENT CLUB

What is an Investment club?

An investment club is a community of investors who pool resources, , share knowledge and actively acquire assets for their mutual goal.

- **Risk is spread throughout the group.**
- **Members are better informed.**
- **Emotional investing is minimized.**
- **Investing discipline is maintained.**

So, how do you start an investment club? Here are the basic steps:

- 1. Select your members.** Try to invite individuals who would be willing to dedicate their time and their money to an investment-focused group and meet their commitments faithfully month-to-month. Otherwise, your investment club will simply become a social club (preferably, you could have both).
- 2. Hold a preliminary, informational meeting for potential members.** Once you have about 5 interested members, hold a preliminary meeting. You will want to discuss the following:
 - 1. Size and geographic scope of investment club:** 5 – 20 members, local, regional
 - 2. Investment focus:** local foods, cooperatives, equity vs. debt, etc.
 - 3. Other operating agreements:** (see bullet 5)
 - 4. Decide compatibility:** are people still interested?
- 3. Draft and sign a partnership agreement.** For business as well as federal taxation purposes, you will need to draft a operating partnership agreement and have all club members sign and date it. The partnership agreement should contain the club's formation date, fiscal year and profit/loss sharing structure. Member initiation and termination rules should also be included here. There are sample operating agreements readily available online, or from Cooperative Principal.
- 4. Draft your club's constitution and rules.** Your investment club's constitution and rules (bylaws) need to be carefully considered and stated in order to protect it from being audited by the IRS or even sued by a disgruntled member. Following items should be documented:
 - Number of allowed members, including new member initiation procedures and requirements of membership.
 - Number of officers, election rules and service terms.
 - Required monthly contributions from all members.

- Valuation of contributions and how profits/losses are shared
 - Time, and regularity of club meetings
 - Financial best practices (internal controls, bank account access, etc.)
 - Member voting powers and expectations as well as what voting percentage constitutes passage of a motion.
 - Grounds for member expulsion.
 - Monetary procedures following member expulsion, resignation or death.
 - Tax reporting and procedures.
- 7. Elect club officers.** Decide who will fulfill the roles of president, vice president, treasurer, secretary and designated investor/broker. Typically, the roles are as follows:
1. President or vice-president calls the club to order and makes announcements.
 2. The treasurer is in charge of collecting member contributions, making investments and filing forms with the IRS.
 3. The secretary records meeting minutes and attendees and later distributes
- 8. The EIN.** Once you have named your investment club and its officers, you will need to obtain an employer identification number (EIN), which will be used when you file the club's tax return.
- 9. File with the Secretary of State.** Once you have an EIN, you will also need to file your club with the secretary of state.
- 10. Club account(s).** You must open a bank account in the investment club's name and use them solely for the purposes of club business. This will allow your club to be recognized as a business entity on bank and other accounts.
- 11. Filing tax returns as a club.** Filing club taxes is usually the duty of the club's treasurer. To begin with, the investment club, is not required to pay federal or state taxes (if formed as an LLC or partnership). Instead, all club partners are expected to report their investment profits (or losses) on their personal tax returns (using a k-form distributed by the Treasurer). The Treasurer will file a 1065, submit K-forms to all club members, and file with the state (if applicable).
- 12. Club partner expectations.** Once all the legal and tax obligations are settled, your investment club's success will depend on each partner fulfilling his or her obligations to the club. In most cases, those obligations are as follows:
1. Attend all club meetings.
 2. Pay club dues.
 3. Research current and pending club investments (this analysis can also be performed by outside parties, as long as there is no formal recommendation).
- 13. HAVE FUN!!!!** This point can't be repeated enough. The meetings should be fun, that's how you sustain interest and grow your investments!