

Seek a Good Fit, Not Just a Warm Body

Finding New Club Members

by Douglas Gerlach and Angele McQuade

Editor's note: As part of this month's focus on investment clubs and their top holdings, we're pleased to present the first in a two-part series on two of the biggest challenges facing clubs in their efforts to build portfolios and educate members: attracting new members and dealing with problem members. Part 1 discusses recruiting new members to improve your club's long-term health. Part 2, "When Bad Members Happen to Good Clubs," will be featured next month. Our thanks to Douglas Gerlach and Angele McQuade for tackling this assignment.

Many investment clubs are so eager to admit new members that they neglect to use any kind of screening process. A warm body at the meeting table, monthly contribution in hand, seems good enough to some clubs having a hard time finding members to fill their club vacancies. Months later, though, the same clubs may find themselves wondering what went wrong when the new members quit outright, stop contributing or start creating problems during club meetings.

If your club is searching for new members, there's no need to settle for just any recruit. After talking to dozens of club members, we've learned strategies that any club can employ to screen out potential problem members before they ever make it through your club's initiation process. NAIC-member clubs were generous in sharing their experiences in the hopes of helping other clubs institute more effective ways to bring in new members.

Make Expectations Clear

Rather than settling for just anyone to fill up your membership quota, your club should strive to admit only candidates who will add to your club's strength and stability. The best way to admit well-qualified members is to ensure that people interested in joining have a clear understanding of your club's policies and ambitions. If they don't, both the club and new members run the risk of failing to live up to those responsibilities.

Kevin Gillogly, presiding partner of the Happy Destiny Investment Club of Silver Spring, Md., has given prospective members a set of handouts during their visit to a club meeting. "These handouts seemed to help focus the



The Stockettes Investment Club. Seated from left: Kim Wing, Serena Wyckoff, Etana Finkler and Carol Solomon. Standing from left: Rose Monsell, Grace Borell, Dawn Young and Letitia Gomez.

work of the charter members of the club, but the four who took those handouts never came back," Gillogly says.

While some might consider this lack of interest a failure, Gillogly instead sees it as a success. "The handouts helped prevent casual members from joining," he says.

There's no reason to spend valuable club time recruiting new members only to see them become disillusioned with your club because they didn't understand what they were getting into. This goes beyond merely telling the new member the time and day of your monthly meeting and amount of the minimum monthly investment.

Prospective members should have a chance to review a club's bylaws and partnership agreement before joining and be able to ask questions about unclear legalese in those documents. The prospective member also should be clear on the club's requirements for minimum attendance and participation at meetings. Many clubs don't allow members to miss more than a certain number of meetings in a year without levying a penalty. Clubs also might require each member to introduce a certain number of new stocks to the club each year and to serve as an analyst to follow up on stocks that the club owns. Candidates must understand those requirements before they join.

A mismatch in investment philosophies is another common problem when clubs admit new members. A new

partner who doesn't understand the club's investment strategy might constantly try to persuade the group to buy securities that are inappropriate, such as penny stocks or high-flying technology stocks.

A new member also might have a short-term view of investing that doesn't fit with the club's belief in long-term investments. If the new member's investment philosophy doesn't match the club's, you might spend a lot of time and energy on ideas that don't pan out. By explaining your club's investment philosophy in your prospective member packet and asking about the candidate's philosophy on the club application, you'll screen out inappropriate members before they ever come up for a vote.

Consider an Intern Program

Some clubs appoint a membership officer who creates the prospective member packet (see sidebar, p. 32) and works with new and potential members to explain how the club operates. As important as it is for clubs to ensure that new members are a good fit, the new member also must feel comfortable in the club.

Many clubs have an initiation period during which candidates attend meetings and participate as if they were full-fledged members, culminating in a presentation to the entire club on an investing topic. The idea isn't to test their investment knowledge; remember, clubs are a great learning experience, and even new investors can be productive club members. The purpose is to test their willingness to participate and contribute to the overall club effort. A club member often serves as a mentor during this period. By using the buddy system, recruits can ask questions privately and get up to speed in the club during their first months of trial membership.

The advantage of this probationary period is that it's self-selecting. Anybody who isn't willing to follow through with the initiation process

probably wouldn't have been a good member anyway. Meanwhile, your club probably would unanimously welcome candidates who excel at the initiation requirements.

The Stockettes' Initiation

Etana Finkler and her fellow members in The Stockettes Investment Club of Takoma Park, Md., don't take any chances when it comes to new members being clear on club require-

ments and member responsibilities. Prospective members must complete a four-month internship before they're eligible for full membership.

The Stockettes' internship process is a model for any club hoping to streamline and strengthen the new member procedure. At the first meeting she attends, a prospective member receives an information packet that includes an application



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CLUB DYNAMICS

Items to include in your club's prospective member packet:

- Application form.
- Club history.
- Description of club objectives and investment philosophy.
- Copy of the club partnership agreement and bylaws.
- List of member expectations and responsibilities.
- List of current club holdings or copy of club portfolio.
- Education program requirements.
- Stock presentation requirements.
- Sample completed Stock Selection Guide.
- Software purchase requirements.
- Initial and monthly contribution amounts.
- Schedule of upcoming meeting dates and locations.
- Contact information for club membership officer.
- Requirements of any club intern or mentor program.

Questions to include on your new member application:

- What is your investing experience?
- Have you ever been a member of an investment club?
- What special skills would you bring to our club?
- Do you have enough free time to fulfill the responsibilities of club membership?
- Can you consistently make our club's minimum monthly financial contribution?
- Are you willing to serve as a club officer at some point?
- Do you have access to a computer and the Internet?
- Are you willing to consistently perform the membership responsibilities outlined in this packet?
- Are you able to attend educational classes outside of regular monthly meetings?

form, a copy of the club's partnership agreement, a sample meeting agenda, a sample Stock Selection Guide and a sample page from Value Line. If she's still interested after reading through the entire packet, the candidate completes the application and begins attending meetings as an intern.

The Stockettes require interns to attend three consecutive club meetings as a silent observer. Members will answer questions at the end of the meeting.

At the first meeting she attends, an intern is assigned a current club member as her mentor. The mentor guides the intern through the membership process and teaches her the basics of the SSG. Interns are expected to keep in close contact with their mentors as a sign of interest in the club. Interns are also expected to read *Better Investing* monthly and become familiar with NAIC's investment tools and concepts.

At the fourth business meeting, after three months of private study with their mentors or attendance at an NAIC SSG class, interns present a completed SSG to the entire club. The Stockettes vote on their membership after that meeting. If admitted, interns become full members at the fifth meeting.

Although interns don't contribute financially to the club until voted in as members, they're expected to save \$25 during each month of the internship process to prepare for the initial \$125 membership contribution at their fifth meeting.

The Stockettes make sure interns know and are willing to perform the club's requirements. These include regular attendance at monthly club meetings and two to four hours of stock study between meetings.

Even after an intern has become a full member, she's expected to continue studying on her own and is encouraged to complete 5-12 more

SSGs during her first year of membership. Her mentor is always available for coaching during this time.

The Mentor's Commitment

It's not only the intern who commits to this rigorous set of requirements: The mentor also makes a strong commitment to the process. When agreeing to shepherd prospective members through the internship, mentors promise to review the contents of the information packet with their intern, provide an orientation to using Value Line to complete an SSG, and help the intern learn about the SSG by using either NAIC materials or the online SSG tutorial at www.douglasgerlach.com/ssg.

Mentors agree to return telephone calls and e-mail from interns promptly and to provide the club's senior partner with periodic updates on the intern's progress. This commitment to potential members is a classic sign of a club willing to do the work required to keep their operations running smoothly.

The combination of a detailed prospective member packet, a probationary period for new members and an organized mentor program is key to bringing in enthusiastic new members. Your club should take time during a meeting to decide whether you want to appoint a membership officer and to start planning for how you'll deal with the next interested person who knocks at the door.

With your new screening process in place, you'll recognize exactly what type of member to choose and even more importantly, the type that should never make it past the application process. ■

Douglas Gerlach and Angele McQuade are co-authors of the newly published Investment Clubs for Dummies (Hungry Minds, 2001). Douglas is secretary of the NAIC Computer Group Advisory Board of Directors. Angele is a Better Investing columnist and part of NAIC's Online Investor's School team.