

How To Deal With a Bad Apple

When the Wrong Member Joins Your Club

by Douglas Gerlach and Angele McQuade

Editor's note: We're pleased to present the second 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. In the April issue, Douglas Gerlach and Angele McQuade discussed recruiting new members to improve your club's strength and stability. This month the authors focus on how clubs can deal with problem members. Except for Lynn Ostrem, the names in this article are pseudonyms to preserve confidentiality.

Members of Joan's investment club thought they'd done everything right when they admitted Carol. She had attended more than the required three meetings before formally requesting to become a member. Club members voted her in because they thought she would fit in well.

Two meetings later, the club realized it had made a potentially disastrous mistake. Carol attacked those who didn't agree with her investment philosophy and alienated veteran club members. Meetings became so hostile and unproductive that most members threatened to resign rather than continue with Carol as a member.

"We were all completely blindsided by this latest member," Joan says. "It was like she did a complete 180 after joining." The club was faced with a sticky situation: get rid of Carol or face certain dissolution after the majority of the members resigned.

Steve's club couldn't escape a miserable end after admitting a similarly destructive member. "Jim was a very intelligent, active person," Steve says, "and I thought he would bring fresh air to a club that seemed to be getting stale. He was voted in, but after a few months it was obvious that he was intimidating the older members. He was very vocal about his opinion being the right one, he refused to do SSGs (NAIC Stock Selection Guides). ... It was awful."

Steve's club lost half its members because of conflict with Jim and eventually disbanded. "It became clear that this club had been destroyed by one person," Steve says, "and no matter what we tried to do, it didn't work. The rest of us just lost our will to fight. That is what the meetings had become."

Joan and Steve are hardly alone. Club after club brings in new members only to run into similar personality conflicts. Sometimes the problem member is an original club member who took control at the beginning and has never been challenged.



There are three steps an investment club can take to prevent and control membership problems. The first is to detail member expectations in the club's policies to prevent problem behavior before it starts. The second is to make sure potential members understand and are willing to follow the club's policies. The third is to hold all members accountable for their behavior and to be willing to follow through if they create discord by not adhering to club policies — even if this means kicking the offending member out of the club.

As simple as these steps may sound, they can be difficult to take. Conflict resolution is usually clouded by personal issues, friendship, working relationships among club members, and many clubs' preference to avoid confrontation at all costs. We've heard many stories of clubs that worked well for years only to unexpectedly face destructive behavior from both new and old members. If your club is having such problems, there are only two choices: put up with the offenders at the risk of losing your entire club membership or stand up to them no matter whose feelings get hurt.

Sending a Message

After identifying the problem member, your club's next step is to specify the conduct that's causing all the fuss. Then see whether your club policies or operating procedures address these types of behaviors.

If your meetings are being side-tracked by one member who insists on frequently trading club stocks while the club has clearly stated that its investment philosophy is to buy and hold, the club president needs to remind everyone of that strategy. If members can't let go of conflicting investment ideas, or any other opposing viewpoints that interfere with the club's smooth operation, it's probably in everyone's best interest for the dissenting member to resign.

Sometimes problem members don't even realize they're creating a problem. This was the case when Phil and his club had to deal with two problem members. To complicate matters further, they were a married couple. "They were always critical of decisions made by the club," Phil says. "They talked with such authority but never did their research. I had members telling me they were thinking of quitting; they just didn't enjoy coming to the club because of this couple."

Phil, the club's president, knew he needed to do something before the more productive members of his club started resigning. "The choice to have them leave was unanimous, but it wasn't an easy decision," he says. "We initially told them by e-mail. They were hurt and certainly stunned, as they had no idea that they were a problem."

Phil preferred to write to the couple rather than discuss the matter with them at a meeting. "I was as straightforward as I could be, but by using e-mail I had the time to think about my responses rather than react (immediately) to the things they said."

Specific Conduct, Not Generalities

Phil focused on specific conduct in his e-mail, as opposed to vague descriptions of personality differences. "I gave them examples of how disruptive they were and told them we would be willing to give them another chance — but only

one," he says. "When they e-mailed their response, we knew it just wasn't going to work. They felt we weren't being fair (by giving them only) one chance." But Phil's club stood firm, and the couple was forced to resign.

Lynn Ostrem, a veteran club member who's seen firsthand the highs and lows of club membership, also advocates the written approach. "Seeing your naughty ways in black

and white through someone else's eyes is enough to make you sit up and take notice," she says. "When I have a member who is not participating, I write a personal letter (that isn't from the club) and ask them if they are having a problem that I can help with, or if they would like to resign. Sometimes people are looking for permission to leave. If not, they are usually shocked to receive such a letter. By making it personal, the offending member will usually

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COPING WITH A PROBLEM MEMBER

DO:

- Explicitly state member responsibilities before someone joins your club.
- Create and enforce policies that ensure smooth, productive meetings.
- Focus on specific problem behavior.
- Accept that sometimes it's necessary to disband a dysfunctional club.

DON'T:

- Ignore problem behavior, hoping it will go away.
- Gang up in public. Contact offending members privately.
- Hesitate to eject these members if their behavior doesn't improve.

THE RESOLUTION PROCESS

Level 1

- Identify the problem and preferred solution.
- Contact offending members privately.
- Support offending members as they make changes.

Level 2

- Bring the problem to the club if it persists.
- Encourage the member to resign.
- If club policies allow, remove the member from the club.

Level 3

- If policies don't allow kicking out a member, attempt to change the policies.
- If the club won't change the policies and the member is still a problem, withdraw or call for the club to disband.

toe the line because they won't want this brought to the entire club's attention."

A Difficult Last Step

If a personal letter or phone call doesn't work, though, it's time for your club to do something most of us prefer to avoid: confront the member. Members whose behavior violates club policies must change their behavior or leave the club. Your club policies should allow for the removal of any members who skip meetings, consistently make their membership contributions late or not at all, or never finish their stock study responsibilities.

The actual confrontation can be difficult, however.

"The members of my club didn't want to vote Jim out for fear of hurting his feelings," says Steve, "and no one wanted to stand up and express their opinions. They wanted me to handle it all, and it became a situation where the members looked at me as the one who was causing the problems. The other members were afraid of confrontation."

But when clubs aren't willing to hold members responsible for their behavior, the club itself may be the one that suffers. Steve discovered this when his club disbanded.

Chance for a Fresh Start

As hard as the confrontation may be, it will likely be worth the trouble. If the club folds, this can be the perfect opportunity for a fresh start with newly strengthened policies and a firm resolve to face future problems head-on. If many members end up resigning, the remaining group will probably compose a stronger club than the original.

"It's better to have three or four very interested parties than 15, most of whom are looking only after themselves," Ostrem says. "However, if you find you are alone, or no one is willing to do the work,

it's best to leave the club or fold it." There's no shame in resigning from a club you don't feel comfortable being a member of or in closing a club whose members can no longer work together effectively.

Of course, the preferable scenario is that the confrontation works, the problem is resolved and the club gets back to business. Asking the disruptive couple to resign "was probably the best thing that has happened to our club," Phil says. "The members now enjoy our meetings, which take much less time than they used to."

An Ounce of Prevention

"The best way to deal with a problem is to plan for it," Ostrem says. "Even if your club is several years old and running smoothly, making a list of possible controversial issues and how the club would deal with them will do two things. First, it will let members know the behavior or situation is unacceptable, and second, the club will already have a plan to resolve the conflict before it parts the members."

Other preventive measures you can take are screening new members thoroughly, revising club policies from time to time as your club evolves, conducting meetings as the serious business meetings they are, and expecting all club members to follow guidelines or be prepared for the consequences.

Your club experience should be a happy and productive one. It can be when every member not only knows but also lives up to your club's high expectations. ■

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.