

Investor

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A little flutter between friends

Investment clubs are a fairly safe way of dabbling in the stock market



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PERSONAL FINANCE

SITTING in Bank of Ireland in Cork last year, watching those share prices rise and rise, the lure of the markets finally became irresistible for Stephen Kennedy and a group of his banking colleagues. And so was born the Pork Belly Club, one of 15 investment clubs in Ireland affiliated to ProShare, a UK non-profit body backed by the London Stock Exchange to encourage investment in equities.

Unfortunately readers, this is not a tale of instant success and dazzling wealth. Because the Pork Belly members were putting only £250 each up-front and £20 a month, they felt they would need to be a bit daring to get any kind of worthwhile return.

"We decided to go for technology," Kennedy said. "Then of course the whole technology sector rocketed... except the two shares we had. We bought Vocals at 96p and it went down to 40-something, although it is now back at 86p. And we went for another one called Ionica, which went into administration."

Undeterred, the club - which now numbers 14 and has expanded beyond the bankers to include a gardener, a teacher, two retired friends and a social worker - recently held its first AGM. It is back on track for a good performance this year, Kennedy reckons. "We decided to get back onto safer ground, and now we have Anglo-Irish Bank, CRH, Ryanair and Irish Life in our

portfolio," he said.

Clontarf's patriotic named 1014 Club, which started up with an initial investment of £3,000 from each of the six members and a monthly debit of £100, had a similarly

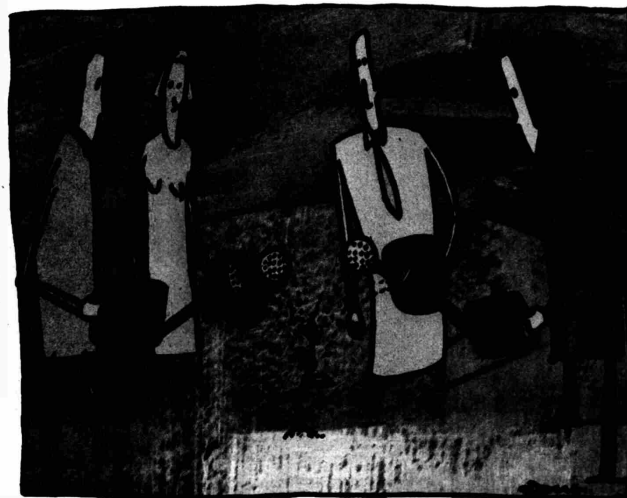
Fery baptism last August when its portfolio included such blue chips as AIB, CRH and Irish Life.

"We had a disastrous start because the crash started three days after our first investment," said the club's Vincent Nordell. "But we are in there for long-term capital growth and the shares we bought are high quality."

A lesson learned by the 6 O'Clock Rock Club in Howth soon after its formation last year was to take a brutally disciplined approach to investment decisions. This determination came after a member's passion for Laura Ashley swayed the others to invest shortly before the company hit just about the rockiest period in its history.

Now, however, 6 O'Clock Rock is focused on promising Irish shares, just about back into profit and still enjoying abusing the member in question, said the club's Eoin de Builéar. "We haven't sold any shares yet."

Weathering this kind of setback is much easier in a group than if you are sitting at home alone, head in hands, regretting that you ever thought about the stock market. That's why investment clubs have



begun to grow in popularity in Ireland. Last month, for example, a February seminar on investment clubs and the stock market organised by 6 O'Clock Rock and sponsored by NCB Stockbrokers attracted 70 people at £100 a head.

It is, after all, a giant step from understanding that interest rates are low and that equities promise a better long-term return to going out to buy your first share. And an investment club can be an easy entry route for a group of people, usually friends, who are new to the game.

"The clubs are a good idea as they give people a flavour of investing and take some of the mystique out of it," said NCB Stockbrokers' Michael Clark.

"People putting their toe in the water are doing it collectively, so if someone puts in £2,000 over a year the investment is pooled and the portfolio is spread. It also gives a discipline, as part of the ethos is that people do their own research, look at the companies and make their investment decisions on a sound basis."

He noted that individual investors phoning up to make their first purchase are often motivated by a tip they have got on a second-line stock, or possibly an

exploration company. "They haven't yet cleared up the difference in their own minds between those stocks and a blue chip."

Another obvious advantage of clubbing together is that the costs of dealing, which can be heavy, are spread between members. Clubs tend to wait until they have put enough money together from monthly contributions to make it worthwhile to invest.

"We had a bit of a flourish at the beginning with everyone's £250, but we worked out that to cover

brokers' costs you need to spend £700 or more," said Pork Belly's Stephen Kennedy.

How much money you will need depends on the broker you are using. NCB's Clarke said clubs would need to have about £2,000-£2,500 to invest. If you are not looking for advice, discount broker Fexco, charges only £12.50 per trade.

Members tend to meet once a month (usually in the pub) to discuss progress and decide whether to buy or sell. The advice given to the novice investor by brokers

and by ProShare is to stick with what you know and can easily find out about - generally blue-chip Irish or UK stocks - and possibly to keep a sum aside for more esoteric flutters.

Clubs can be as much a social forum as anything else. The 6 O'Clock Rock crew, for example, began when the tennis club through which they met began to fade. Eoin de Builéar said, "We used to play tennis on a Saturday and then go for a few drinks and listen to 6 O'Clock Rock on the radio."

Noble US experience

DENIS NOBLE, a retired civil servant in Newtownabbey, Antrim, was inspired to have a stab at the stock market after attending a 'Wealth Mastery' course in the US organised by Tony Robbins, who runs 'Unleashing the Power Within' seminars. Speakers at the 1995 seminar included Sir John Templeton, Chuck Mellon and 16-year old Matt Seto, who was regularly beating fund managers.

"When you break it down, their strategies were very simple, not rocket science," Noble said. "One of the things that recently interested me was the Beardstown ladies, who were aged between 50 and 85, largely self-taught, and did very well."

Noble teamed up at another seminar two years later with Babu Shah, an e-mail consultant in the UK, to develop The Investment Club Network (formerly The Guru Investment Club), which is focused on investing in the US stock market. TICN now has 15 member clubs, including three in Ireland. After a February training week-end in Athlone, another five Irish clubs are in the process of forming, he said.

TICN, which invests over the internet through Charles Schwab, uses the ProShare manual as a

guide to setting up an investment club. But it is taking a more ambitious tack than that recommended by ProShare, with clubs operating a central 'buy and hold' strategy on stocks, and also getting into shorter-term strategies such as 'momentum trading' in smaller groups.

Momentum trading involves much more frequent action as it is based on the pattern of movement of the stock market over hours or days. "Shares regularly go up and down between two lines, and if you watch you can work out the lines they are working between and when to come in and buy low and sell high," Noble said.

Shah emphasised that the investment clubs should not be seen as your main investment. "We say this is a place to learn, so only invest around £50 a month each. Joining a club limits the cost of your investing and is really a way to get you going."

Shah and Noble and two other partners have turned the concept of investment clubs into a business. Member clubs pay £600 a year for support services including a helpline and two free training days a year.

For further information, Denis Noble is contactable at 0801-252-866970.

How do I start a club?

'NEVER mix business and pleasure' is a phrase that was coined for a reason. Where money is involved, it is important to keep things structured and to set your investment club up correctly.

A useful guide to establishing your club is available from the UK's ProShare, a non-profit organisation to encourage equity investment. ProShare runs a support service for investment clubs and recently awarded the Most Successful Investment Club of 1998 to the Saxon Investment Club, a Nottingham club that made a profit of 74% in just over 12 months.

There is no equivalent organisation here, although the Irish Stock Exchange will later this year be putting together a package of information for those interested in setting up an investment club, said chief executive Tom Healy.

The number of UK investment clubs registered with ProShare has increased from only 300 in January 1996 to 3,300 now, 13% of them all-women. And although ProShare's guide is geared towards the UK, it is a good basis for an Irish club. So, some tips to help your club function smoothly.

How much do I need to know about the stock market?

Very little. The idea of investment clubs is that they ease people into investing and get them used to looking at companies' performance records. Often, club members can have varying levels of experience and interest. At the 1014 Club, for example, one member already had his own portfolio, two more are very interested and the other three are more carefree, said Vincent Nordell. "Four people must be favour of a decision," he said.

How many members can be in a club? To ensure you have enough money to invest at least every few months, a club will need at least five members. For ease of decision-making, the maximum number of members should be 20.

How much should we invest? You won't get far unless you are prepared to put in a reasonable amount of money. ProShare suggests perhaps £500 upfront and a monthly contribution of £30-£50. As a rule, it should be money that members will not need for at least five years.

ProShare recommends that even if subscriptions vary, decisions should be made on a 'one member, one vote' principle.

How should we organise the club? Investment clubs are essentially run as DIY unit trusts. It is a good idea to appoint a chairperson, secretary and treasurer to keep meetings running smoothly, and to draw up a constitution. Most clubs meet monthly to assess progress.

What happens if someone leaves? ProShare suggests anyone who wants to leave should be required to give three month's notice to give the other members a chance to accumulate funds to buy out his or her share. A piece of software is available to track the member's value.

How does a club register investments? Shares can be registered either through nominated trustees or through a nominee company. Holding the shares in a nominee account will involve much less work, as all the administration will be done by your stockbroker, but NCB's Michael Clarke feels this defeats the purpose. "If you put the shares in individuals' names, then good tax advantages will be lost, things if corporate action has to be taken, say for example with the recent Irish Life/Irish Permanent merger."

How does the tax work? Unlike in the UK, where there are specific forms for investment club returns to the Inland Revenue, there are no special provisions here. It is what is called a 'look through' situation, so whether the shares are in a nominee account or registered in the names of a couple of club members, members make their tax returns individually, setting any gains against their own personal allowances. Every club member is deemed to be a co-owner, so capital gains or dividend income are split equally. **Will one of my friends run off with my money?**

It hasn't happened yet, but that, of course, guarantees nothing. ProShare suggests that, provided the club strictly follows the rules in the manual and conforms to its agreement with its stockbroker, then good safeguards will be in place.

• The ProShare Investment Club manual costs *stg*25 plus *ppp*. Credit card orders can be made on 44-171-3945200.

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any Bank of Ireland branch, you can show you care. Your support is vital to our work. Please, your support is directly responsible for providing specialist nursing care free of charge. Show you care. Wear a daffodil!



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