

Moneywatch...

Investment Clubs: An Alternative to Reaganomics

By James Lawson

William Strother, a Princeton University professor, is bullish on the stock market...and well he should be.

Thirty years ago, the middle-aged black professor parlayed a \$400 investment into a \$5,000 return—enough to cover four years of college tuition, books and other school expenses.

Edward Shensky, a young Philadelphia businessman, isn't a high roller by nature. But he and some of his close friends now have thousands of dollars riding on the casino industry.

Cynthia Charles, a Pennsylvania homemaker, started investing as a hobby 21 years ago. Her avocation has paid off handsomely. It has become a venture so profitable she now can afford to travel abroad a couple of times a year.

These people aren't big-time Wall Street magnates. They didn't start their investment careers with a big bankroll, nor did they begin investing their hard-earned savings with the aid of a crystal ball.

They, like thousands of others, are part of a growing legion of small investors who have begun putting their faith and savings into the stock market as members of investment clubs.

Lured by relatively low interest rates paid on traditional bank savings accounts, undervalued stock, deep-discounted bonds and high-yielding money market mutual funds, these small investors, members of church groups, social clubs and neighborhood friends, have begun joining or forming their own investment clubs, seeking a hedge against inflation or gaining needed investment experience preparing themselves for the day when they can afford to make larger investments on their own.

Nationally more than 30,200 investment clubs with a total membership of more than 475,000 exist. And of that amount, says Kenneth Janke, president of the National Association of Investment Clubs (NAIC), 5,200 are NAIC members entitled to free subscriptions to "Better Investing," a monthly how-to magazine and \$25,000 bond insurance for officers who are assigned the duty of handling the

club's money.

Investment club membership currently is growing at a rate of about 1,000 members per month.

"The problems with Social Security, inflation and the general nature of the economy have many people thinking they have to do something about developing their own retirement savings," says Mr. Janke, explaining the rapid growth of investment clubs.

While many investment club members are persons thinking about their retirement futures, most club members are not near retirement age, nor do they earn high salaries.

They're young and many of them are employees who still have not reached the apex of their professional careers.

"The average investment club member," explains Mr. Janke, "earns a yearly salary of about \$15,000 and ranges in age from 30 to 60 years."

And that kind of mixture, Mr. Janke and other investment club officials contend, make for diversified clubs which often invest in a combination of the very conservative blue chip securities (stocks of more established New York Stock Exchange and American Stock Exchange companies), and more risky growth industry stocks such as those of high technology firms or lesser known over-the-counter companies.

Mr. Shensky's club, formed primarily to invest in the casino industry, is a cavalier investment club with 15 members who initially invested \$1,000 each to purchase equities recommended by stock market guru Joseph Granville.

The Shensky Club doesn't go through the formality of studying the various stock issues before making purchases, "We follow Granville to the letter," explains Mr. Shensky. "We just invest in whatever he recommends. We don't assume we know about the market. Our philosophy is to have a good time and make money."

The Shensky Club, consisting of members with a single purpose and interest, doesn't exhibit typical investment strategy. Most clubs do in-depth study before making their stock purchases. Each club member is assigned a stock, an industry or a group of stocks to study.

They write for information, get copies of annual reports, 10K reports, quarterly reports and other materials they can get their hands on about the company or companies whose stock

they anticipate purchasing.

Mr. Strother, national director and president of the Delaware Valley Council of the NAIC, has founded two investment clubs since his initiation into the stock market 30 years ago. Using prudent investment choices based upon careful study, his newest club, the Ewing Investment Club, a 12-year-old club consisting of a mixture of young and middle-aged persons, presently invest in a variety of blue chips and growth industry high technology stocks generating a portfolio worth more than \$45,000.

"The emphasis is on education," explains Ms. Charles. "We want people to learn how to invest. We try to discourage clubs from relying too heavily upon stockbrokers. We want them to be more self-reliant."

Heavy reliance upon stockbrokers isn't likely to happen, especially if the investment club is small, says an account executive with the Cherry Hill, N.J. office of E.F. Hutton Inc., "because it's too much work to sell stock to a group for the same commission he'd get from a single investor. It's also hard to get groups to make a move quickly. They have to meet before they can buy or sell issues."

Some stockbrokers, however, will handle investment clubs, especially those hoping to lure some of the clubs members into opening individual accounts.

The average club portfolio, usually made up of a combination of blue chip (stocks of large, more established companies) securities as well as more risky growth stocks (stocks from less established high technology or over-the-counter stocks), usually is worth about \$28,000. The average individual member investment is about \$28 per month, says Mr. Janke.

While most new investment clubs usually build their portfolios slowly, making conservative investment decisions, some older, more experienced investment clubs like Mr. Janke's 40-year-old Detroit-based club, far outperform the yields obtained by some professional portfolios. Mr. Janke's club's portfolio contains blue-chips which have helped it generate a net value of more than \$700,000.

For more information about starting an investment club, write the National Association of Investment Clubs at 1515 East Eleven Mile Rd., Royal Oak, Michigan 48067.

James Lawson writes for *Crain Communication's Business Insurance Magazine*. ■