

Dodging the bear – in unison

Investment clubs have found it harder to make money, but some groups are trying to apply the lessons that left them sadder but wiser

By MIKE GLYNN Special to The Star

"It's not as much fun when we don't make money."

Marilyn Wingate



JILL TOYOSHIBA/The Kansas City Star

Members of 21st Century Investors reviewed a new computer investing model from the National Association of Investors Corp.





MIKE RANSELL/The Kansas City Star

Sean Kelley, an investment club member at Garmin Ltd. in Olathe, used a lunch break to study stocks.

When they met for their holiday potluck dinner last Tuesday, the 17 members of Fortune Finders discussed some welcome developments.

The value of the Northland club's portfolio jumped more than \$2,200 in November, up 5 percent. The bad news? Though the portfolio climbed \$16,000 over the past four years, the returns were disappointing, considering members during that time poured in more than \$20,000 through their monthly dues.

The results are sobering for the 8-year-old, all-woman club, which saw double-digit returns in its initial years.

"We've not lost interest," said treasurer Marilyn Wingate. "But it's not as much fun when we don't make money."

Member Donna Swanson agreed: "It really is hard to keep enthusiasm up when you see the markets and stocks going down."

Join the crowd. Nearly five years of roller coaster Wall Street performance, topped by corporate shenanigans, mutual fund scandals, the war on terror and a sputtering economy, have taken their toll on the nation's once-hot investment club scene.

The National Association of Investors Corp., a Madison Heights, Mich., organization that supports investment clubs and individual investors, reports membership in NAIC-affiliated clubs is down more than 40 percent from a 1998 peak. NAIC leaders say membership historically rises and falls with market cycles.

During the clubs' heyday of the 1990s, "it was easy for them to throw darts at a dartboard and make money," said Stephanie Guerin, a certified financial planner with The Planned Approach in Prairie Village. "Now I think they're a little more humble."

Guerin, who leads financial workshops among local investment clubs, maintains that professional advisers are the best option for long-term investing and retirement planning. Even so, she says, investment clubs remain a good way for people to socialize, learn about Wall Street and make short-term investments.

That's true for the hundreds of clubs in the Kansas City area, members say. The club faithful contend they're learning from the mistakes of the past few years by stepping up discipline and putting more effort into stock analysis. Now that the stock market has come back to life this year, club members are hoping for greater rewards.

Refresher course

At 21st Century Investors, a 10-year-old group that meets monthly at a Prairie Village country club, members occasionally would spot a new company with a clever idea.

They'd skimp on the homework and buy the stock on a hunch, even if it didn't fit the NAIC's stock selection guidelines, or SSG. The guidelines consist of a two-page analysis that helps clubs study company earnings, debt and other vital criteria.

"In the past we got great returns and thought, 'Aren't we so smart and wonderful,' " said Terri Kirley, treasurer of the 18 -member, all-women club. "But one lesson we learned since 2000 is we need to pay attention to the SSG."

That's why members of the club, some of whom are stay-at-home moms tuned in to CNBC all day, gathered earlier this month for a refresher course on using a stock selection guideline computer model. They also visited a library to ensure that new members know how to read Value Line investment research reports.

"Sometimes we buy something on a flier, and that's fun," said member Susan Smith. "But we're less likely to do that now."

Smith points to another benefit of her investment club: She gleans stock tips from the meetings and applies them to her personal portfolio. That's how she bought shares in Cisco Systems, Jack Henry & Associates Inc. and Hologic Inc., all worthwhile purchases for her.

Does the extra analysis mean 21st Century Investors is better at spotting corporate crooks?

"I'm not sure you can tell until it's widely known," Smith said. "You just hope there's nothing hiding."

NAIC chairman Ken Janke admits investment clubs, like professional analysts, can't readily identify unethical accounting practices or poor corporate governance among stocks they're considering.

"If someone is going to be a thief, they will be a thief," he said.

The good news: Less than 2 percent of NAIC-affiliated investment clubs owned Enron Corp. stock during its run-up, a sign that most clubs are smart enough to shy away from investing in companies they don't understand, association leaders say.

Efficient meetings

The Nothing But Net Investment Club is one local group that's thrived despite the tough times.

Formed in January 2000, just as the tech bubble was starting to burst, the club consists of 23 employees of Garmin Ltd., the Olathe developer and manufacturer of global positioning equipment.

For the past two years, the group posted the best returns — 19 percent each year — out of about 500 clubs in an NAIC contest. It hasn't hurt that one of Nothing But Net's eight holdings is Garmin stock, which has more than doubled in the past four years.

Steve Robinson, a Garmin software engineer and Nothing But Net founder and treasurer, says the club also has learned to comb through corporate reports and news articles regarding any stock it's considering. Beyond price-to-earnings ratios and growth prospects, club members are looking for anything fishy — inconsistent "bumps" in sales and earnings, or signs of regulatory or legal problems.

Robinson points to the club's one investment that bombed — now-bankrupt Actrade Financial — as an example of a firm in which the club didn't do its homework or understand the business.

"We've definitely learned a lot with the bear market we've been through," he said.

Unlike most investment clubs that have a social element, Nothing But Net is all business. Members gather once a month over lunch in a Garmin conference room. Several days before meeting, each member assigned to a stock updates information about it and routes the updates to the group.

That way, Robinson says, members can read the data before the meeting and focus entirely on recommendations by their club's stock selection committee.

"We want to be as efficient as possible," he said. "We're used to working together, and that carries over into the club."

But what about the occasional club dinner? He shrugs. "We see each other every day at work."

Emotional selling

They may be more disciplined at buying, but several clubs admit they still struggle at the other side of the investing equation —

selling. They just hate parting with a stock after enjoying its rise.

The Northland Women's Investment Club found that out the hard way with WorldCom Inc., whose stock shot to stardom before collapsing two years ago.

"We rode it all the way down," said member Judy Stokes, who considers the experience an important lesson. "It's not as hard to sell as it used to be."

Fortune Finders ran into similar troubles deciding what to do with Cisco Systems. The club bought the technology stock several times at more than \$50 but held on to the shares as they tumbled toward \$10 — and then sold.

Gwen Edwards found herself butting heads with other club members during the stock's fall. Edwards, convinced that Cisco remained a promising leader in a solid industry, wanted to use dollar cost averaging, a technique in which clubs invest a fixed amount in a stock, regardless of what direction it's moving.

Her arguments lost out to members who wanted to sell "in a panic," despite the big loss.

"Let's buy low and sell high," said Edwards. "We've had trouble learning that lesson."

Kirley, at 21st Century Investors, says the club recently made the tough decision to sell its shares of Garmin, despite the stock's upward tear. While the club leans toward Kansas City area stocks — they represent about 30 percent of its portfolio — the club's analysis of Garmin suggested now is a good time to move on.

"We don't want emotions to get in the way of selling," Kirley said. One thing the club is learning: "Let's not be greedy; let's get out with a nice gain."

Wealth Builders Investment Club of Greater Kansas City has been in a selling mode too, mainly because it lost its two largest members — one relocated to South Carolina, another needs to use her \$25 monthly dues for other things, like groceries.

Their departure has forced the 8-year-old club to shed about 45 percent of its holdings, said president Roxane Johnson. With just five members now, down from 16 at one time, the club considered disbanding. Instead, the club is "downsizing tremendously," Johnson said.

The club is holding four stocks and looking for two or three new members.

"Maybe we're Pollyanna, but we're optimistic," Johnson said. "We see a turnaround coming."

And if not? Members in investment clubs far and wide figure they're still getting a vital education in finance, as well as enjoying some camaraderie. The potluck dinners aren't bad, either.

Investment club basics

- **The history.** *Investment clubs have been around for decades, launched in 1941 by a group of novice investors in Detroit. But it wasn't until the past decade that clubs soared to prominence, along with the torrid 1990s rise in the stock market. That's when the number of clubs affiliated with the National Association of Investors Corp. jumped more than fourfold in just seven years, from about 8,000 in 1991 to 37,000 in 1998. It's since settled back to about 21,000 clubs. Membership in the NAIC peaked at more than 450,000 in 1998, most of them in clubs. It's about half that now.*
- **Area chapters.** *Approximately 650 clubs are in the NAIC's Kansas City chapter, down from approximately 1,000 in the late '90s, says Judy Stokes, chapter chairwoman. The chapter encompasses all of Kansas and western Missouri, with about 80 percent of the chapter's clubs in the Kansas City area.*
- **The bonding.** *People who join investment clubs typically have something in common with other members — they're friends or co-workers or they belong to the same church, for instance. Each club usually has 10 to 30 members who pay dues of at least \$20 a month. Pooling their cash, they usually meet once a month to discuss stocks and where to invest the club's money.*
- **How to start a club.** *If you're thinking about starting an investment club, whether it's affiliated with the NAIC or not, you'll face a range of issues. Should it be a general partnership or a limited liability corporation? Where do you get the federal tax ID number and proper Internal Revenue Service forms? Will you make transactions through an online broker? These questions and others are addressed in the NAIC's Better Investing magazine, which can be viewed online at www.better-investing.org/articles/web/5184. Or call the NAIC at (877) 275-6242.*

NAIC stats

- *The average investment club is 4 years old, has 11 members and has a portfolio of \$86,700. Its members contribute \$84 a month in dues.*
- *The median age of NAIC members is 55.8, with a household income of \$114,100.*
- *More than 72 percent of NAIC members hold an undergraduate or advanced degree.*
- *From Nov. 10 to Dec. 10, some of the stocks attracting the most buying interest among NAIC investment clubs were Pfizer, Bed Bath & Beyond, Sirius Satellite Radio, Fiserv Inc. and Sysco Corp.*

Source: *National Association of Investors Corp.*

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