

# AN INTRODUCTION TO INVESTMENT CLUBS



# FOREWORD

---



Shaun van den Berg  
Head of Client Education

Thank you for your interest in this document on investment clubs.

**PSG Wealth's aim here is to educate people about the benefits of being involved in investment clubs.**

However, we want to stress that this document serves as a guideline only. Each investment club must put its own rules in place, to which each member will be bound. Although this is the latest version of this document, please note that references to market returns and the chart of the JSE All Share Index will become outdated over time. They serve to illustrate a point, and should not be taken as financial advice.

# CONTENTS

---

<b>An introduction to investment clubs</b>	<b>05</b>	The capital account	26
Executive summary	05	The asset register	27
Why be part of an investment club?	06	Valuation of a partnership	27
Why invest in the share market?	06	Education programme	28
The unsung heroes	07	Finally	28
The investment club advantage	07	Summary	28
A place for experienced investors	08		
Joining an existing club	08	<b>Philosophy of the investment club</b>	<b>29</b>
Why investment clubs can fail	09	Executive summary	29
Summary	09	Main objective of the investment club	30
		The importance of a mission statement	30
<b>Starting a new investment club</b>	<b>10</b>	Choosing a strategy	30
Executive summary	10	The investment club strategy	31
Introduction	11	Trading styles	31
Invitation to join an investment club	11	The investment strategy	32
The introductory meeting	11	Reality checks	32
Begin with the right people	12	Create a watchlist	33
Establish your club size	12	Prospecting using fundamental analysis	33
Set your contribution amounts	13	Prospecting using technical analysis	34
Membership responsibilities	14	The Share Selection Checklist	34
Choose officers	14	Objectives of a Share Selection Checklist	35
Choosing the legal structure for your investment club	15	Share selection shortlist	35
General partnership	16	Share selection using fundamental analysis	35
Register as a company	17	Share selection using technical analysis	36
Passive Income Company	18	Summary	36
Dividend Withholding Tax (DWT) in a company	18		
Setting up a company	18	<b>Appendices</b>	<b>38</b>
Voluntary association	19	Appendix 1 - Sample invitation letter	39
Summary	20	Appendix 2 - New members form	40
		Appendix 3 - Declaration by joining member	41
<b>Running a successful investment club</b>	<b>21</b>	Appendix 4 - Oath of new officer	42
Executive summary	21	Appendix 5 - Example resolution letter	43
Your first official meeting	22	Appendix 6 - Partnership agreement	44
Regular meeting date, time and location	22	Appendix 7 - Investment club rules	48
Meeting agendas	23	Appendix 8 - Constitution for a voluntary association	51
Between the first and second meetings	23	Appendix 9 - Share selection shortlist	57
Your second investment club meeting	23	Appendix 10 - Sample mission statement	59
Safeguarding club assets	24		
Open a trading account	24		
Documents needed	24		
Investment club constitution and rules	25		
Book of accounts	25		
The cash account	25		

# AN INTRODUCTION TO INVESTMENT CLUBS



## IMPORTANT POINTS

- The aim of this document is to educate people about the benefits of being involved in an investment club.
- This document also serves only as a guideline to starting and running an investment club.
- References to market returns and the chart of the JSE all share index will become outdated over time.

01



## INVESTMENT CLUBS

### Why be part of an investment club?

Investment clubs help new investors to collectively learn how to invest while making low risk investment decisions and returns.

The clubs are also a good way for experienced investors to save time by making investment decisions with their peers.

### The investment club advantage

You can start a club if you are new to investing, have limited time to learn, enjoy sharing ideas and the concept of investing.

### Why do investment clubs fail?

Limited research, applying the same investment philosophy, low attendance and inadequate accounting policies.

03



## RUNNING A SUCCESSFUL INVESTMENT CLUB

**Once the inaugural meeting has been held, the club can move on to the following operational procedures.**

1. Establish regular meeting dates, time and location. Each meeting must have an agenda.
2. Safeguard club assets so that members are not tempted to steal. Open a bank account for the club and also open an online trading account on the PSG Wealth Platform at <http://www.psg.co.za/wealth>.
3. The club also needs to have a constitution and rules in place (See Appendix 7 - page 48).
4. The club treasurer must keep a book of accounts and make it available for all members to see. An asset register must also be used to record the assets of the club.

02



## STARTING A NEW INVESTMENT CLUB

1. Invite members (See Appendix 1 - page 39 for a sample invitation)
2. Host an introductory meeting
3. Recruit members (See Appendix 2 - page 40 and 3 - page 41 for the documents that need to be completed by members)
4. Establish the club size (aim for 10 to 15 people)
5. Set contribution amounts (the joining fee and monthly contributions)
6. Allocate member responsibilities (researchers, traders, accounts handling, administrators)
7. Choose officers (a president, treasurer, auditor, secretary, trader, educator and an investment committee. See Appendix 4 - page 42 for the oath of a new officer)
8. Choose the legal structure for your investment club (a partnership, company or voluntary association). Consider the advantages and disadvantages of each legal entity
9. Register (See Appendix 5 - page 43, Appendix 6 - page 44 and Appendix 7 - page 48 and Appendix 8 - page 51 for the relevant document requirements and legal entity agreements).

04



## PHILOSOPHY OF THE INVESTMENT CLUB

1. Members must decide on the purpose of the club and draft a mission statement that they all agree on. (See Appendix 10 - page 59 for a sample mission statement).
2. The members must also choose an investment strategy and choose trading styles that will meet their investment style objective.  
  
(See <https://www.psg.co.za/support/tutorials>) for making informed investment decisions.
3. The club must then create a watchlist and share selection list by prospecting using fundamental analysis or technical analysis. (See Appendix 9 - page 57 for the Share Selection Checklist)

# 01

---

## An introduction to investment clubs

### EXECUTIVE SUMMARY

**After reading this section, you should have a better understanding of what investment clubs are.**

We want to highlight the many advantages of starting an investment club, or of being a member of an investment club.



## Why be part of an investment club?

If you want to invest in shares, there are many reasons that you might want to do so as part of an investment club.

### THE MAIN REASONS ARE:

- **Social** - An investment club makes investing sociable. Meetings take place at members' homes, in restaurants or at pubs, where you discuss investment ideas. This is far more fun than agonising over decisions all by yourself!
- **Education** - Few people have had any formal education in picking shares and managing a share portfolio. In an investment club you pool your knowledge, brainstorm ideas and get everyone's input when you make a decision. This is one of the best ways to improve your investing expertise.
- **Diversification** - A key principle of investing is not to hold all of your eggs in one basket. To be properly diversified (so that your investment risk is spread), you must generally hold between 8 and 15 shares. But if you have limited funds, this can spread you a bit thinly. In an investment club, however, your money is pooled with others. This means that the investment club can invest meaningful amounts in a properly diversified portfolio.

## Why invest in the share market?

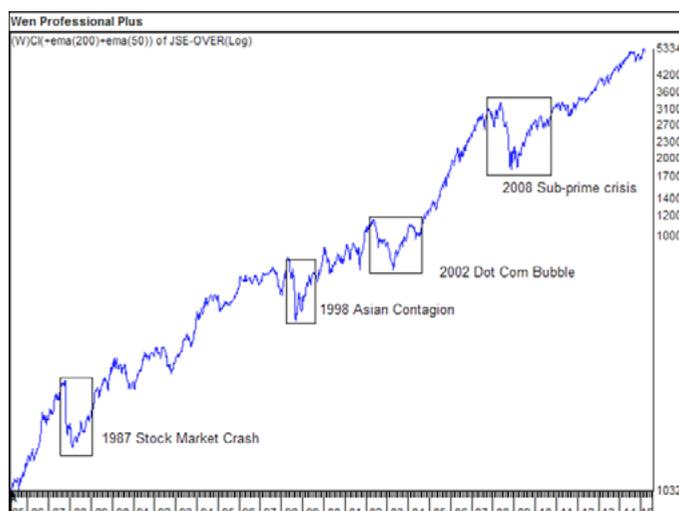
Investing in the share market can be exciting. Prices jump around wildly and can rise or fall sharply overnight. While investing can be a thrill-a-minute ride, is it really the right place for your savings? What if the markets take a dive? You could lose everything! Would you not be better off parking your hard-earned money in a nice safe bank account, or stashing it somewhere secret in your home?

The answer is no! Loud and clear! Are we nutty risk-loving maniacs who advocate investing as a thrilling – or even dangerous – pastime? Absolutely not! We are cautious, sensible money makers who want to retire with a comfortable nest egg and have figured out that investing in the share market is one of the best ways to do that.

### SO WHAT IS ALL THE HYPE ABOUT? LET US TAKE A LOOK AT THE NUMBERS.

Let us assume that you started investing in 1985. During 1987, the average return of investing in shares was -46%. Ouch.

So, if you had invested your life savings at the beginning of the year, things would not have been looking too good for you by the end of that year. However, if you had remained invested for the long term, your average return would now have been over 4500% – and that is including the three massive dips in value that your portfolio would have taken in 1998 (-44%), 2002 (-37%) and, more recently, in 2008 (-46%). This still gives you an average real (above-inflation) return of 150% (based on 9.41% average inflation) over the last 30 years! This translates into annual real returns of 15.94%.





## DO YOU THINK THAT A BANK SAVINGS ACCOUNT CAN BEAT THAT? THINK AGAIN.

While a real return of 15.94% sounds very impressive, it becomes even more impressive when you consider that this is the return on your investment after factoring in inflation. If you had put all of your money in a high interest bank account (e.g. 8%), by the time inflation has come into play (for the sake of argument let us say inflation is set at 10%) you may even be worse off! A return of 15.94% above and beyond inflation is pretty good news.

Consider that only 5% of people ever achieve financial freedom. Investing in shares gives you the opportunity to earn better returns than bank savings, while you have similar access to your money. An investment club can be a good entry point to the share market.

## The unsung heroes

Investment clubs are the unsung heroes of the investment world. An investment club is nothing more than a small group of individuals, generally consisting of between 10 to 15 members and usually comprised of friends, co-workers, church members, neighbours or family members. These people then pool a set amount of money and meet on a regular basis (usually monthly) to invest in a combined investment club portfolio.

This has the advantage of bringing a diverse group of people together, each with his or her own insights, experience and investment knowledge, which might not all have been available to you on your own.

Investment clubs are a great way for new investors to learn more about investing without risking a large amount of money. In effect, you earn while you learn. By investing small amounts regularly, you can build up a substantial portfolio over time, without having to make a big once-off investment. You can also transfer what you have learnt in your investment club meetings to your own personal share portfolio.

## The investment club advantage

Making profits is one of the main motivators for setting up an investment club – and most investment clubs do make a good profit. But there is much more to an investment club than just making money.

### CONSIDER STARTING OR JOINING AN INVESTMENT CLUB IF:

- you are new to investing and are looking for a good way to get your feet wet
- you would feel more comfortable learning about investing with others than on your own
- you have roughly R200 to R500 available each month that you can invest through the investment club
- you have been putting off learning about investing and sense that having a responsibility to the group would give you some much-needed discipline
- you think it would be fun to have a group of people with whom to share company research and discuss investment topics



## AN INVESTMENT CLUB CAN OFFER A NUMBER OF BENEFITS:

- **Profit opportunities** – Surveys show that collective investment decisions based on discussion and democratic choice are more likely to produce sustained profits. By pooling your money with others, you can also own a wider range of shares.
- **Spread the load** – Research into potential investments can be structured and spread between club members. There is safety in numbers. Several people evaluating a share purchase are less likely to make the wrong decision.
- **Informed investments** – The collective brain power and experience of people who each have knowledge and experience of different market sectors will produce opinions and information that will guide you to sensible decisions.
- **Low risk** – Pooling a relatively small amount of money with others every month will be an ideal way to gain hands-on experience of how the share market works.

## A place for experienced investors

Investment clubs are not just good for newcomers to investing.

### YOU CAN ALSO CONSIDER FORMING AN INVESTMENT CLUB IF:

- you are an experienced investor, but do not have the time to study as many companies as you would like
- you are confident in your investment decision-making, but you think it would help to bounce ideas off others and get additional perspectives
- you would welcome the chance to learn from other seasoned investors who have expertise in areas you do not know that much about

## Joining an existing club

Most investment clubs occasionally seek new members, when existing members have to exit the club. This can be a great opportunity to join, as you will not necessarily have to buy over the exiting member's share of the club's portfolio. Many clubs allow new members to simply start contributing the standard monthly amount, and members share in the portfolio according to the total amount they have put in.

However, it can be hard to find the right investment club to join. Members probably already have some friends they could invite. Your best bet is to ask people you know if they are in an investment club, and whether they need or anticipate needing any new members.

Once you find an investment club to join, take the time to learn more about it before signing up.

### CONSIDER QUESTIONS SUCH AS THESE:

- Do you get along with the other members? If they do not seem like your type of people, this might not be the best group for you.
- Do you have goals in common? Perhaps you are risk-averse and want to invest in more stable blue-chip shares, but they are out to find volatile, fast-growing small capitalisation companies.



- Is the regular contribution too steep for you? R500 per month, for example, means R6 000 per year.
- Do you have the same basic investment philosophy? If you are a true long-term investor, you probably would not want to belong to an investment club that relies mainly on technical analysis.

## Why investment clubs can fail

It is rare that an investment club is a bad experience. Most of them are fun and friendly places to learn. Investment clubs that do fail, generally fail within their first year or so of operation. This comes down to the same problems, time and time again.

### IF YOUR NEW INVESTMENT CLUB CAN AVOID THESE PERILS, THEN YOUR CHANCES OF SUCCESS ARE MUCH BETTER:

- **Same investment philosophy** – Make sure that all members of your investment club have the same investment philosophy. If some members are interested in ‘playing the market’ rather than applying a more studied, long-term approach, the conflict can tear the investment club apart. The recommended course of action is for your investment club to set your investment philosophy at the start, and to be disciplined enough to carry out your strategy consistently.
- **Sufficient research** – You must only buy shares after doing sufficient research. We recommend that you use a Share Selection Checklist (SSC) as the main tool for choosing shares. This checklist must be presented for each share that is considered for investment. Preferably, each investment club member should have a copy of the checklist to reference during the discussion.
- **Attendance and participation** - All investment club members must carry their weight, and respect the club as a business. Your club should set minimum attendance and investment requirements for members. Failing to show up for meetings or not paying on time must be considered a major problem. In many cases, investment clubs are too eager to accept a new member into the club. We suggest that a prospective member should first attend a few monthly meetings as a visitor before being invited to join.
- **Accounting issues** – Finally, you must commit to flawless record-keeping and sustainable accounting policies. Even though investment clubs believe that they are keeping things simple by trying to use the ‘every member has an equal share system’, this becomes problematic when a member needs to make a partial withdrawal for an emergency. It also can be very difficult to find new members, since the amount that must be invested to have an equal share keeps increasing. At PSG Wealth, we recommend using unit values.

## Summary

Investment clubs are great vehicles for the Average Joe to get involved in the share market. Although there are some challenges, what may seem like a daunting task at the outset is broken down into more manageable chunks.

# 02

---

## Starting a new investment club

### EXECUTIVE SUMMARY

**After reading this section, you should have a better understanding of how to start an investment club.**

You will have background information to help you launch the investment club, and information to help you take the club forward.



## Introduction

There are many steps to getting an investment club up and running. Luckily, most of them are quite simple. We have set out a list of steps below. While this list is fairly thorough, it is not set in stone and you might need to take some additional steps. It is a good idea to get input from all members on each of these steps.

## Invitation to join an investment club

### THE INVITATION TO ATTEND AN INTRODUCTORY MEETING MUST CONTAIN:

- the draft partnership agreement and investment club rules
- membership requirements
- joining fees and monthly contributions
- the draft investment strategy

Choose a date for the introductory meeting. You will also need to find a meeting place. A local school or library might have a meeting room available without charge. (See **Appendix 1 - Page 38: Sample invitation letter**)

## The introductory meeting

At the introductory meeting, the founder members of the investment club get together and make some important decisions.

### YOU SHOULD DISCUSS AND AGREE:

- if you have enough in common to work together
- if everyone is still seriously interested in forming an investment club
- the name of the investment club
- the joining fee and monthly subscription
- how the club will be organised and run
- who will serve as the club's President, Treasurer, Secretary, Trader and Educator
- the club's constitution and rules
- appointing the PSG Wealth trading platform as your online stockbroker and nominee to hold the investment clubs shares
- appointing bankers
- your investment strategy

If there are concerns or any changes to your original plans, the next meeting will be the second informational meeting to finalise the agreements and entry requirements. If no one objects to the original plans or requirements, the next meeting will be the first official meeting.



## Begin with the right people

### YOU HAVE TWO CHOICES WHEN IT COMES TO RECRUITING NEW MEMBERS:

1. Keep it personal – You can bring in people who already know each other and who have some shared experiences. This can minimise the risk of a personality clash.
2. Cast a wide net – Find members outside your immediate social circle, so that you do not mix friends with money. This minimises the risk of harming a friendship if things go wrong.

Attracting outside members can be done in a number of ways. For example, you can advertise in local newspapers or post a message on our Facebook page: <https://www.facebook.com/PSG.Wealth.platform>. From a legal point of view, advertising for members does not mean that the investment club is offering an investment service. This is an important point, as you do not want the regulators to mistake you for an unauthorised unit trust! It is helpful to prepare formal membership criteria to send to applying members.

### THIS DOCUMENT SHOULD COVER:

- how much a member must be willing to invest per month
- where a member lives
- what past investing experience a member has
- how long a member expects to invest for

The most important thing in starting an investment club is to start with the right people. You want people who are genuinely interested in investing and learning about the share market. You also want people that are easy to get along with, and with whom you can have a relationship for at least several years. The vital thing is that there is a 'meeting of minds' among members.

New members who want to join the club must be nominated by an existing member. The new member must complete the New Members Form (See **Appendix 2 - page 39**) and the Declaration by Joining Member (See **Appendix 3 - page 40**). If there is no objection, the new member joins by accepting the club's agreement or constitution, accepting its rules and paying the specified joining fee.

## Establish your club size

There is no minimum club size, but investment clubs cannot have more than 20 members. Three or four people is sufficient, but most investment clubs work better with eight or ten, since that will build the investment fund up more quickly.

Aim to form an investment club with roughly 10 to 15 members. You want to have enough people for there to be a decent amount of money to invest collectively. You also want enough able bodies to share the workload.



## Set your contribution amounts

At the first meeting, decide on the amount that each member needs to contribute each month. It may be useful to tell members that they should view their contributions as 'forever savings' with at least a three year time horizon. It is also important to stress that this should be considered 'risk capital'. You may have some losses and should not expect unreasonable gains.

- **Initial joining fee** – Some investment clubs start out with an initial investment or joining fee (e.g. R500) to boost the initial start-up capital.
- **Monthly contributions** – We recommend starting with small, equal amounts. You do not have to set contributions as high as possible. Remember that this is a learning activity, and you can always increase the amount at a later date.

To get an immediate feel for the mechanics of an investment club, consider the following example: ABC Investment Club is an investment club with 10 members. They agree to each put in R500 at the launch, and to chip in a further R200 per month after that.

A recommended accounting method for an investment club is the unit valuation system (UVS). This means that each member's share in the investment club is expressed as a unit, with a monetary value attached to each unit.

- **At launch** – The units of the investment club start with a valuation of R1.00, so members receive 500 units for their R500 investment. After receiving everyone's money, the investment club has R5 000 to invest (10 x R500). As long as it stays in the investment club's bank account, un-invested, each member's 500 units are worth R500.
- **Day 14** – The investment club invests all its cash in five different shares. By luck or skill, the value of the shares rises within a week to R7 500 (we are being generous to the ABC Investment Club). There are still 5 000 units in issue, so each unit is now worth R1.50 ( $R7\ 500 \text{ value} / 5\ 000 \text{ units} = R1.50 \text{ asset value per unit}$ ). Each member has 500 of them, worth R750 (i.e.  $500 \times R1.50$ ).
- **Day 31** – On the last day of the first month, the assets of the club are still R7 500 and the asset value per unit is still R1.50. On the first day of the second month, the members each put R200 into the investment club's account by debit order ( $10 \times R200 = R2000$ ).

### HERE IS THE CLEVER BIT:

They now get their units for R1.50, not R1.00. That is because the allocation is based on the net asset value of the fund at the end of the previous month, which in this case was R1.50. ( $R200 / R1.50 = 133 \text{ units}$ ). Therefore, the R2 000 will now buy 1 333 new units at R1.50 each). Each member will now get an extra 133 units ( $R200 / R1.50$ ). There are now 6 333 units (5 000 units + 1 333 units) in the investment club, and each member owns 633.30 units. The assets of the investment club are its shares worth R7 500 and its un-invested cash of R2 000. The investment club decides not to invest the cash for the moment.

- **Day 62** – During the second month, the value of the investment club's shares drops, and by day 62 (the last day of the second month) they are worth only R7 000. The investment club still has R2 000 cash, so total assets are R9 000. With 6 333 units in issue, the unit asset value is R1.42 ( $R9\ 000 \text{ value} / 6\ 333 \text{ units}$ ).
- **On Day 63 (the first day of the third month)** – The 10 members each put in their R200. In return, they are allocated 141 new units ( $R200 \text{ divided by } R1.42$ ). On the same day, a new member joins the investment club. He pays the joining subscription of R500 + R200 for the current month, and receives 493 units ( $R700 \text{ divided by } R1.42$ ).

The 10 founder members now have 774 units each ( $500 + 133 + 141$ ). The 11th member has 493 units. In total, the investment club has 8 233 units in issue ( $5000 + 1\ 333 + 1410 + 493$ ). Its assets are R7 000 in shares and R4 700 in cash (R11 700 total). The unit asset value is therefore R1.42 ( $R11\ 700 \text{ divided by } 8\ 233 \text{ units}$ ). And so it goes on. The units in the investment club are valued at the end of every month based on the investment club's assets. The unit price



determines allocations in the following month. The advantage of the unit valuation system (UVS) is that new members can join without having to catch up on previous contributions. Existing members can also leave easily if they need to. It is simple, fair and flexible.

Beginning investment clubs should make it a policy to discourage withdrawals within the first three years, but let everyone know they have access to their money if they need it. If new members are added, they do not have to match the previous contributions of current members. They will simply have a pro-rata share in the investment club's portfolio.

## Membership responsibilities

All club members must actively participate in running the investment club and you should distribute duties between you. An investment club that has passive members might be considered as issuing shares, and thus have legal and tax consequences.

### EACH MEMBER ASSUMES A PARTICULAR ROLE. THIS CAN INCLUDE:

- researching shares and presenting the data to the rest of the group
- opening a trading account
- executing trades, either through a broker or online via the electronic trading platform
- making ongoing buy and sell decisions
- tracking and reporting overall portfolio performance
- accurate management and reporting of taxes for each member
- maintaining buy and sell confirmation paperwork and other administrative tasks

A good start is to make a list of members' interests and expertise. Then you can maximise their strengths to run the club efficiently and assign areas of research better. For example, if you are in the chemical business, you might volunteer to look into companies in that industry. Even if someone's only hobby is hitting the shopping centres every weekend, they will be familiar with many retailers such as Truworths, Foschini, Mr Price, etc.

## Choose officers

When you choose your officers, think about the responsibilities each role involves and who you think can best fulfil these. (See **Appendix 4 - page 41: Oath of New Officers**)

### TYPICAL INVESTMENT CLUBS HAVE:

- **A Club President**, who sets meetings, decides the agenda of meetings with the Club Secretary, presides over them, plans activities and makes sure that notices are sent out at the right time. The most important role he or she has is to control the meetings so that it stays focused and you do not waste unnecessary time in reaching decisions. The Club President or Chairperson should also make sure that the club is operating constitutionally and within its rules.
- **A Club Vice President**, who fills in when needed and might also run the education program.
- **A Club Treasurer**, who will be responsible for keeping a record of the investment club's dealings in shares, including the investment club's holdings as well as each member's share. The Club Treasurer probably has



the most work to do in administering the investment club. He or she is responsible for recording all the transactions of the club and sending out statements to members. Usually the Club Treasurer keeps the investment club accounting records in an Excel spreadsheet, keeps the permanent banking and brokerage records and also keeps a record of the monthly club valuation, member statements and annual taxes. (This needs to be a careful, detail-oriented and responsible person).

- **A Club Auditor**, who once a year takes the previous year's transactions from the Club Treasurer and checks the accuracy of the records.
- **A Club Secretary**, whose role is often combined with that of the Club Treasurer. The Club Secretary is responsible for sending out agendas and minutes for meetings. He or she is also responsible for safekeeping the original partnership agreement and signature page, a concise record of the minutes of every meeting, and any correspondence i.e. resignation letters and letters requesting information from prospective new members. The Club Secretary also reminds members of meetings, and possibly emails minutes to members who miss a meeting.
- **A Club Trader** (who can also be the Club President), who deals with the stock brokerage (i.e. the PSG Wealth trading platform) and buys and sells shares.
- **A Club Educator** (this can also be the Club's Vice President), who gives a short 10-15 minute investment-related education snippet at each investment club meeting. He or she would then facilitate a short question and answer session and ideally implement it as part of the investment club's strategy.

All club members must track at least one company each. Tracking involves getting the company's news releases (i.e. SENS announcements), summarising these in your own words and presenting a quick ten-minute presentation to other members. Each member must also track and report on one new company (not already held) on the Investment Club Share Selection Checklist once per year.

It will take a majority vote of the membership to buy or sell a share. If you are not present at the vote, you can vote via a proxy email addressed to all members. Any member who wants to buy or sell shares between meetings can get the agreement of two-thirds of the membership and can then contact the Club Treasurer for approval of the transaction. However, a reasonable attempt must be made to contact all members for approval via phone and email (allowing for two days to respond to the email).

**The investment strategy committee** – Some investment clubs, particularly those that only meet once a quarter, appoint an investment strategy committee. Its role is to take investment decisions between meetings. If the members of the committee believe that the investment club should sell a share, for example, they have the authority to do that without waiting for an investment club meeting.

Investment club rules normally insist on re-election every year, but usually do not prevent anyone from holding a position in successive years.

## Choosing the legal structure for your investment club

Agree on how you will be organised legally and operationally. This might sound scary, but remember that your initial R200 to R500 monthly contributions will be growing into a significant pile of wealth in the future.

### YOU HAVE THREE OPTIONS:

- a general partnership (this is how most investment clubs have traditionally been structured)
- a company (a smaller number of clubs go this route)
- a voluntary association (our recommended route)



## General partnership

In a general partnership, each partner shares management responsibility and remains personally and legally liable for the company's debts. Forming a general partnership is easy. All your investment club needs to do is to get everyone in your club to sign a copy of your approved Partnership Agreement and the Investment Club Rules.

It is recommended that you assign a committee to develop the Partnership Agreement and the Investment Club Rules. You can use our templates as a start, but make sure that you customise them to your own investment club. The Partnership Agreement must be signed by all members and can only be changed if all members agree to the change. For our Partnership Agreement, see [Appendix 6 - page 43](#). For our Investment Club Rules, see [Appendix 7 - page 47](#). Please consult your attorney or accountant if you are unsure of how to draw up a general partnership agreement.

### ADVANTAGES OF A GENERAL PARTNERSHIP

- **Tax benefits.** Your club will not pay income tax. Instead, all members will be taxed on their profits at their personal tax rate.
- **Relative simplicity.** Creating a general partnership is cheaper and requires less paperwork than forming a company.

### DISADVANTAGES OF A GENERAL PARTNERSHIP

- **Legal obligations.** All partners are legally joined at the hip. Each member has personal liability for all the investment club's obligations and debts. Even if a partner or member is acting on their own, all partners or members are responsible for the outcome of those decisions. This means that if the partnership gets sued or hauled into bankruptcy court, all fines or losses are shared equally between members.
- **Continuity.** A general partnership ceases to exist every time a partner enters or exits the partnership. Each time this happens, a new partnership agreement has to be entered into.

### DOCUMENTS NEEDED FOR FINANCIAL INTELLIGENCE CENTRE ACT (FICA) VERIFICATION:

- Copy of partnership agreement
- Proof of address (less than three months old)
- Resolution signed by all members nominating authorised signatory / representative
- Copy of SARS document confirming Income tax / VAT registration number for the partnership
- Copy of bank statement confirming banking details of partnership account (less than three months old)
- For the authorised signatory / representative and each partner, we require the following:
  - Copy of ID
  - Proof of address (less than three months old)
  - Copy of SARS document confirming income tax number



## Register as a company

You can also register a company with the purpose of trading in shares. In a partnership, each partner is taxed on trading profits individually, according to the partner's individual tax rate. A company is taxed at a flat tax rate of 28%. This makes it a good structure in a club where individual members are at the top of the earnings scale (i.e. in the 30% - 41% tax brackets).

A company can also deduct some business expenses (such as the cost of internet access, a trading newsletter subscription and trading software) to lower the amount of taxes it pays. If a member falls in a tax bracket of lower than 28% and has the time available, he or she can be employed by the company as company secretary, and can be paid a salary for completing administrative work. The income this member receives will be taxed at a lower rate than the company's rate. This salary, and the company secretary's work expenses, can also be deducted from tax.

### THE TABLE BELOW GIVES AN EXAMPLE OF A COMPANY'S POTENTIAL TAX SAVING

Telephone bill	R2 400
Newsletter subscription	R1 200
Data download for charting software	R2 028
Annual brokerage account admin fee	R480
Salary to admin person	R6 000
<b>Total deductions</b>	<b>R12 108</b>
<b>Total tax savings @28% company tax rate</b>	<b>R3 390.24</b>

### ADVANTAGES OF A COMPANY STRUCTURE

- **Limited liability.** You can only lose the amount you have invested in the company or investment club. You are not liable for the company's debts.
- **Lower Capital Gains Tax (CGT).** A company has an inclusion rate of 66.6%, while the company's marginal tax rate is 28%. The effective rate for CGT for the investment club would be 18.65% (66.6% x 28%). This is less than the CGT rate for individuals in higher tax brackets.
- **Dividend Withholding Tax (DWT) benefits.** A company is exempt from DWT. Dividends are included in income and taxed accordingly. However, if the company pays out the dividend to shareholders, they have to pay 20% DWT.

### DISADVANTAGES OF A COMPANY STRUCTURE

- **Expensive.** There is a high cost involved with forming a company.
- **Complicated.** A company is complicated to set up and maintain, and difficult to dissolve.
- **Stricter.** There are more stringent rules for operations than in a partnership.
- **Less control.** You do not have as much control as you would have with a partnership



## Passive Income Company

**IT IS IMPORTANT TO REMEMBER THAT SARS DEFINES A COMPANY AS A 'PASSIVE INCOME COMPANY' IF IT:**

1. generates more than 80% of its income from passive investments like shares (dividend income), bonds (interest income) and other financial instruments
2. has less than six shareholders

A Passive Income Company will be taxed at 40% instead of the normal company tax rate of 28%. You need to avoid this if you are looking to take advantage of the tax savings a company can offer.

**TO DO THIS, YOU MUST MAKE SURE THAT:**

- your company generates active income from trading (buying and selling shares in less than a year)
- income from dividends and interest amounts to less than 80% of the company's income

**Remember as well that SARS can define the company as a Passive Income Company in one year, but not in another year. It all depends on whether it meets the criteria.**

## Dividend Withholding Tax (DWT) in a company

All dividends that a company receives are exempt from DWT and will be taxed as ordinary income (at 28%) if the investment club holds them for a year. If the dividends are distributed within a year, the members will pay 20% DWT on them.

## Setting up a company

It is easy to register a company through a facility like the Shelf Company Warehouse ([www.shelfcompanywarehouse.co.za](http://www.shelfcompanywarehouse.co.za)). You register online for about R825, and the registration process takes only a few days. All you need is proof of residence and the ID of the designated investment club member, and they will help you with the rest.

Once the company is registered, your club must set up a company bank account and open a trading account in the company's name.

You need to keep your company's annual financial statements and have these reviewed by an auditor. You must also submit a tax return to SARS and the Companies and Intellectual Property Commission (CIPC) every year.

**DOCUMENTS NEEDED FOR A COMPANY:**

- completed Client Particulars Schedule
- signed mandate for share trading account

These two documents are included in the registration steps when applying for a PSG Wealth local share trading account online.



## DOCUMENTS NEEDED FOR FINANCIAL INTELLIGENCE CENTRE ACT (FICA) VERIFICATION:

- Company registration documents
- CM1- Certificate of Incorporation
- CM2- Memorandum of Association
- CM22- Notice of Registered Office
- If applicable, CM9 or Certificate of Recognition (CoR) (CoR 18.1 and 18.3 for conversion from CC and CoR 15.1 for name changes)
- Latest CM29 - Contents of Registrar of Directors, Auditors and Officers Business name if different from registered name
- Proof of address (less than three months old)
- Copy of SARS document confirming Income tax / VAT registration number for company
- Resolution on company letterhead signed by all directors nominating authorised signatory / representative
- Copy of bank statement confirming company banking details (less than three months old)
- For the authorised signatory / representative and / or CEO, each director and each person or corporation with shareholding of 25% or more in the company, we require the following:
  - Copy of ID
  - Proof of address (less than three months old)
  - Copy of SARS document confirming income tax number

## Voluntary association

A voluntary association (See **Appendix 8 - page 50**) is a group of individuals who come together to share a mutual interest, but without their group forming a legal entity e.g. a tennis or football club. As the club is not a legal entity, any contract it enters into must be done by a member on behalf of the club.

Forming a voluntary association requires only that three or more people agreeing to achieve a common goal. It is recommended that investment club members adopt a formal written document called the Investment Club Constitution and Rules. Voluntary associations are not regulated by statute.

## ADVANTAGES OF A VOLUNTARY ASSOCIATION

- **Simplicity.** There are low or no set-up costs and it is the least bureaucratic structure. It is also relatively cheap.
- **Easy administration.** There are no formal registration requirements or the need to notify any public register of the people serving on the management committee.
- **No statutory procedures.** There is no set process to be followed for members' meetings, etc.
- **Tax benefits.** Your club will not pay income tax. Instead, all members will be taxed on their profits at their personal tax rate.



## DISADVANTAGES OF A VOLUNTARY ASSOCIATION

- **No separate legal personality.** The ownership of club assets lies with the individuals acting on its behalf.
- **Contract requirements.** Formal contracts have to be drawn up for office bearers. This can cause technical difficulties when office bearers change.
- **Personal liability.** The management committee could be personally liable for debts if the club is unable to meet its debts and liabilities.

## DOCUMENTS NEEDED FOR FINANCIAL INTELLIGENCE CENTRE ACT (FICA) VERIFICATION:

- Copy of document confirming list of all active member
- Resolution signed by all members nominating authorised signatory / representative (a note to be made of bank details and possible tax implications for the nominated person)
- Proof of address (less than three months old)
- Copy of SARS document confirming Income tax / VAT registration number for the entity
- Copy of bank statement confirming banking details of partnership account (less than three months old)
- For the authorised signatory / representative and each member or partner, we require the following:
- Copy of ID
- Proof of address (less than three months old)
- Copy of SARS document confirming income tax number

## Summary

You should now have more meat on the bones of your investment club skeleton. Remember, at this early stage, we are still finding possible members and discussing monthly contributions and responsibilities. In the next section, we formally start running the investment club.

# 03

---

## Running a successful investment club

### EXECUTIVE SUMMARY

After reading this section, you should have a better understanding of how monthly investment club meetings are structured.



## Your first official meeting

The inaugural meeting of an investment club is always an exciting first step. It is also the meeting where a number of key decisions must be made. At the first official meeting, call the meeting to order and go over the material you have sent to club members. Ask everyone to introduce themselves and explain why they came to the meeting and are interested in joining an investment club. Emphasise that this is not a get-rich-quick scheme and explain the principles of slow wealth building. If possible, have an experienced investment club member available to help answer any questions that might come up. When the group is ready to move on to operational procedures, you will find the materials in this document very useful.

## Regular meeting date, time and location

You will need to decide on a regular frequency, time, place, length and format for your meetings.

### **FREQUENCY**

A lot of investment clubs meet monthly to discuss their portfolio, make buying and selling decisions and consider changes to their strategy. Investment clubs that meet less frequently (e.g. quarterly) must give one person or a sub-committee the power to make investment decisions between meetings.

### **TIME**

Try and hold your meetings at the same time every month. Make sure the time suits everyone so that people are usually able to attend.

### **PLACE**

Investment clubs hold their meetings in a variety of places, including at members' homes or workplaces, a local library, coffeehouse or pub. Pick a place that suits everyone. For example, will all members (and their spouses) be happy to have the entire investment club at their house?

### **LENGTH AND FORMAT**

Outline the items of business you plan to cover at each meeting and allocate an amount of time for each. This can include presenting potential share purchases, discussing existing investments and inviting guest speakers such as research analysts or tax specialists.

Most meetings last between one and two hours, but can also include time to socialise after the meeting. Agree on whether you will serve snacks and refreshments after the meeting.

Some investment clubs also hold periodic get-togethers in addition to regular investment club meetings. Combining the serious investment and informal social aspects make for a great way to increase your wealth in terms of both financial performance and new friendships.



## Meeting agendas

### A TYPICAL MEETING AGENDA WILL INCLUDE:

- minutes of the previous meeting and matters arising
- changes in the portfolio since the last meeting
- the Club Treasurer's report
- reports from people who were given tasks at the last meeting
- discussions and decisions on investments
- any other business
- date, time and location of the next meeting

## Between the first and second meetings

Split up responsibilities and review everyone's assignments.

### EACH MEMBER OF THE ORGANISING COMMITTEE SHOULD DO THEIR RESEARCH AND BE PREPARED TO EXPLAIN IT AT THE NEXT MEETING.

- The Club Treasurer must open a bank account and a trading account on PSG Wealth's trading platform.
- The Club Treasurer must set up the club's accounting system in Excel.
- The Club Vice President/Education Committee must prepare to lead the first education programme.
- The Club Secretary must order the Wen Professional Plus technical analysis software from PSG Wealth (<https://www.psg.co.za/wealth/stockbroking/trading-software>)

Everyone must think of names for the club to discuss the next time you meet.

## Your second investment club meeting

### AT YOUR SECOND MEETING:

- Choose the name of your club.
- Write a Mission Statement.
- Develop the Investment Club Constitution and Rules, or modify an existing template.
- Develop a set of operating procedures, or modify an existing template.
- Develop a trading or investment strategy, or modify an existing strategy template.

It might not be possible to complete all of this in one meeting, so you might have to schedule more.



## Safeguarding club assets

While this certainly does not happen often, you need to keep the club's money safe from club members who might be tempted to steal it.

- **Open a bank account for deposits** – Assign someone (usually the Club Treasurer) to open a current account with a leading bank. It is best to have a two-signature account (so that two people have to sign off transfers out of the account), with SMS and email alerts when money is deposited or withdrawn. It also makes things easier to add the investment club's trading account as a beneficiary.
- **Open an online trading account on PSG Wealth trading platform**– Discuss if you want to work with a full-service stockbroker (who can give your club advice at a fee) or an online stockbroker (who will simply handle your trades). For better record keeping, register all shares in a 'street name' or 'Nominee account'. This involves your broker setting up a trading account in the investment club's name. The purchase or sale of investment club shares will then be registered in the brokerage firm's name (street name) but will be recorded in the investment club's account. Only the Club President and the Club Treasurer (Trader) must have authorisation to buy and sell shares

## Open a trading account

- Go to <http://www.psg.co.za/Wealth>
- Under quick links click on register to trade and invest online.
- As a new user, you will need to choose a username and password. As an existing user, you will need to verify your username and password.
- Confirm your chosen investment product (e.g. Equities)
- Enter your personal details.
- Enter your banking details.
- Accept the Terms and Conditions.

## Documents needed

**PSG WEALTH WILL NEED THE FOLLOWING INFORMATION FROM THE MAIN MEMBER (CLUB PRESIDENT/ TRADER):**

- particular schedule
- consolidated mandate
- copy of ID of individual (i.e. main member)
- proof of income tax number (SARS document)
- utility bill that proves residential address (e.g. water and lights account)



**THE MAIN MEMBER MUST COMPLETE A MANDATE TO OPEN A TRADING ACCOUNT. A RESOLUTION (SEE APPENDIX 5 - PAGE 42 FOR AN EXAMPLE) MUST ACCOMPANY THIS MANDATE AND MUST STATE:**

- the main member's name and ID number
- the main member's bank account details
- a list of investment club members, with their ID numbers and original signatures
- copies of each members' ID

Each club member can also open a free trial account and link their profile to the investment club account. From here they will be able to view the investment club account, but won't be able to perform any transactions on the trading account. To link the accounts, the Club Secretary must email the list of usernames to be linked to PSG Wealth's online trading compliance department to [clientservice@psg.co.za](mailto:clientservice@psg.co.za).

## Investment club constitution and rules

Your club must have a constitution and rules (see **Appendix 7 - page 47**). This covers all aspects of running the investment club and protects the interests of club members. It is up to you to decide what goes in these two documents, but it is safest to adopt tried and tested templates used by other investment clubs. Also remember that your rules might change from time to time. However, many investment clubs require that 75% of members must agree to a change in rules.

## Book of accounts

The Club Treasurer must keep a book of accounts. It must be available to all members for inspection at all times.

**KEY REPORTS IN THE BOOK OF ACCOUNTS ARE:**

- the cash account: movements in and out of the club's bank account, and the current account balance
- the capital account: a statement of the units owned by members and the prices at which they were bought or sold
- the assets register: a statement of the cash and shares that the investment club owns (up to the date of the current meeting, if possible)

All updated accounts must be sent to club members every month. The asset register can be useful in a discussion on future investment decisions, because it shows the current make-up of the investment club's portfolio.

## The cash account

**TWO PRINCIPLES UNDERLIE THE CASH ACCOUNT:**

1. Every transaction that the investment club makes is recorded.
2. There are two halves, receipts and payments, and they must always tie back to the bank statement (reconciled monthly).



## TRANSACTIONS TO BE RECORDED INCLUDE:

### Inflows

- monthly subscriptions from members
- dividends from investments (if dividends are withdrawn)
- interest on cash deposits
- cash from shares sold (if cash is withdrawn)

### Outflows

- share purchases
- withdrawals
- bank charges

Cash accounts can be kept manually, but it is a lot easier to use a spreadsheet. The investment club can also buy special software. Whichever method is used, the cash account must show the complete trail of transactions with enough clarity to satisfy the investment club's auditor at the time of the audit.

Although the cash account is updated monthly, the Club Treasurer does not have to run it from the last day of one month to the last day of the next month. (You can choose to run these from the 28th of every month, for example).

## The capital account

### THE CAPITAL ACCOUNT IS ALSO PREPARED MONTHLY BY THE CLUB TREASURER. IT SHOWS:

- the number of units each member had at the end of the previous month
- the value of units in the current month
- the number of units bought and sold by each member during the month
- the number of units each member had at the end of the month

The capital account is distributed to all members, so that everyone knows what everyone else has bought and sold, and the total number of units they own.

### REMEMBER THAT THE ABIDING PRINCIPLE OF THE CAPITAL ACCOUNT IS THE 'UNIT VALUATION SYSTEM'. UNDER THIS SYSTEM:

- When the investment club is launched, units are valued at R1.00, so members get one unit for every R1.00 they invest.
- The value of units is recalculated every month, to reflect the receipt of dividends and income, and changes in the value of the shares owned by the investment club. The Club Treasurer calculates the unit value by taking the assets of the investment club and dividing them by the number of units already issued.
- Purchases and sales during a month are valued according to the valuation at the end of the previous month.



## HOWEVER, THERE ARE A COUPLE OF REFINEMENTS TO THIS SYSTEM. THE FIRST IS INVESTMENT CLUB BROKERAGE.

- Many investment clubs charge a brokerage fee when members buy units, to pay for stockbroker fees.
- Other clubs charge a brokerage fee only when members withdraw money by selling units.

If your club charges brokerage when members buy and sell units, there will be two unit values each month: One is the price for buying and the other is the price for selling, which will be lower than the first price by the amount of the brokerage fee. The advantage of charging brokerage on selling only is that it covers the cost of selling shares if the Club Treasurer has to pay a member making a withdrawal.

## THE OTHER REFINEMENT IS THE TREATMENT OF SURPLUS CASH.

- Each month members will contribute a fixed amount. This divided by the sales price of a unit gives the number of units each member buys.
- The odd amount left after this purchase is called surplus cash, and the Club Treasurer must keep a note of this and add it to the contributions for the following month.

## The asset register

The asset register records the assets of the investment club, including cash in the bank account and shares. The cash should match the investment club's bank statement, and the shares should match the portfolio holdings available on the PSG Wealth trading platform.

### NOTE THE FOLLOWING:

- **Risk analysis** – Many Club Treasurers divide the ledger into low-, medium- and high-risk sections, and then list the investment club's shares in the relevant section. This helps members to monitor the overall risk profile of the club's portfolio, and compare it month by month.
- **Sector analysis** – It is useful to show the different industry sectors that the portfolio contains. Again, this helps members to get a quick understanding of the composition of the portfolio.
- **Valuations of shares** – Most investment clubs use the mid-price of the share on the last day of the month to calculate its selling value.
- **Surplus cash** – Surplus cash belongs to members and not to the investment club, so it appears as a liability on the register.
- **Unit valuation** – The asset register allows the Club Treasurer to calculate a unit valuation. The net assets divided by the number of units in issue gives you the value of each unit.

## Valuation of a partnership

The current value of the share portfolio less the current value of debts and liabilities gives you the value of the partnership. This will be determined by the Club Treasurer after the close of the market on an agreed day before the meeting. The Club Treasurer will send this value out to members before the meeting. It will be the first point of discussion at the meeting, so the Club Treasurer's report can be passed.

When a member leaves the investment club, the club will pay the member the value of their share of the club's investments. This represents a disposal for capital gains tax (CGT) purposes.



**TO CALCULATE THE CHARGEABLE GAIN, THE MEMBER MUST TAKE THE AMOUNT THEY RECEIVE AND DEDUCT:**

1. the amounts the member has paid into the investment club
2. the income (net of tax or tax credit) the member has received, adjusted for any losses allocated and any amounts paid out to them before

## Education programme

Ongoing education about investing in shares is very valuable. Some investment clubs have a separate education officer or coordinator, which is usually the Club Vice President. The Education Officer is responsible for planning (with the input of the group) an educational programme. This can include presentations, field trips, guest speakers and assigned reading or case studies.

A good way to start might be to go around the room and ask members to say or write down what big questions they have about investing that they would like answers to. You can also look at PSG's tutorials, webinars and seminars. Please go to the 'Events' section on PSG's website (<http://www.psg.co.za/Events>) for more information.

## Finally

Agree to have fun and keep your meetings friendly and co-operative. Remember, the main objectives of investment club meetings should be to educate and learn, to make profits and to have fun!

## Summary

There may seem to be a lot of paper work involved, but down the line it is for better record keeping. This will keep you better informed about the financial position of the investment club, will give an accurate picture of your investment club and its operations and will help you to verify all income and expenses for tax purposes.

# 04

---

## Philosophy of the investment club

### EXECUTIVE SUMMARY

**After reading this section, you will have a better understanding of the share selection process.**

More importantly, you will understand the advantage that the investment club has when it comes to making a collective investment decision.



## Main objective of the investment club

When you set up an investment club, one of the most important things for members to decide is the club's purpose. Remember that it is not a way to get rich quickly, but rather a chance to learn about choosing and making wise investments over the years. To make the venture successful, you must commit to at least three or more years in the club.

While investment clubs are certainly interested in making a profit, we sincerely recommend that you focus on education first and foremost. If you are too concerned about making big profits, especially when you are first starting out, your share selection is likely to suffer. Investment clubs that follow this advice and maximise the educational aspects of their meetings usually find that profits follow.

Some other goals investment clubs might have are to make new friends and to have fun. There are great opportunities for new and lasting friendships in your investment club, and this can branch out to activities at regional and national levels.

## The importance of a mission statement

When you get your initial investment club members together, it is important to have the same financial goals for the club. Successful investment clubs buy and hold shares for the long term. Your mission statement must therefore clearly state that club members must perform a share selection checklist and gain approval from a majority of members before transacting. This will prevent someone from acting too quickly based on a 'hot tip'. You must also make sure that all club members agree on the investment club's investing principles. Put these down on paper and vote them in as a club.

## Choosing a strategy

It is crucial to your success that you develop and implement an investment strategy aimed at achieving your investment goals. Too many investors buy a share based on the recommendation of other people without any consideration for how it fits into their overall strategy.

### **WE ENCOURAGE INVESTMENT CLUB MEMBERS TO ADOPT AN INVESTMENT PHILOSOPHY THAT INCLUDES THE FOLLOWING POINTS:**

- Invest a set amount regularly (usually once a month), regardless of market conditions. This helps you obtain lower average costs (and cost averaging).
- Reinvest dividends and capital gains immediately. Your money grows faster when earnings are reinvested, due to the power of compounding.
- Buy growth shares i.e. companies whose turnover is increasing faster than the industry in general. These shares offer good prospects for continued growth, and higher dividends and share prices.
- Invest in different industries and different-sized companies. Proper diversification helps reduce risk and increase opportunity for gains.



## INVESTMENT CLUB MEMBERS ALSO NEED TO AGREE ON WHAT TYPE OF STRATEGY THEY WILL USE WHEN BUYING OR SELLING A SHARE.

We would suggest that all club members first consider studying the free online tutorials (<https://www.psg.co.za/support/tutorials>) available on the PSG website. The course theory covers everything that a novice investor would need to make an informed investment decision based on fundamental and technical analysis, as well as prudent risk management strategies.

If you want more knowledge, you can also read books about successful investors such as Peter Lynch and Warren Buffet on their approach to investing. You can ask each of your fellow members to read a book and share the different strategies until you come up with one that works for your investment club.

Also remember that your investment club's philosophy and strategy can change over time. Just as an individual's investment philosophies and strategies vary according to age, financial status, financial commitments, investment goals and risk appetite, the philosophies and strategies of every investment club will also differ depending on its membership. Similarly, just as individuals adjust their share portfolios as they move through their life cycles, investment clubs also adjust their share selection process over time as members age, people retire from the investment club and new blood joins the ranks.

## The investment club strategy

We suggest that the investment club choose a strategy and try it out for at least the first year, after which you can tweak it as you learn more. Check it out and see if it works as well for your group.

Remember that there are investors and traders. Traders are in this for the short term, and for quick profits. Investors use their share portfolios to build their retirement funds, and are therefore in this for the long term. Investment club members must all decide if your club will have a 'trading portfolio', an 'investment portfolio' or a combination of both.

It is a good idea to focus on building up capital for at least the first three years for your 'trading portfolio'. You can then decide to make some money available for trading. However, make sure that you allocate the majority of your funds to a 'buy and hold' or 'investment' strategy, and less to a 'trading' strategy in a separate trading account.

## Trading styles

Trading strategies can be classified as either 'jobbing' or 'swing-trading'. Remember that with all trading, profits are considered as taxable income.

- **Jobbing or day trading** is a strategy enjoyed by bold speculators who seek a high degree of excitement from their stock exchange dealings. Jobbing involves jumping in and out of shares, often taking advantage of very small price movements. With jobbing, you could buy in at 09h00 and sell out by 12h00! It is, however, generally a very expensive way of operating for two important reasons. Firstly, tax authorities will have no hesitation in classifying you as a share dealer. Secondly, because you will be trading very actively, you will be paying substantial broker's fees. Jobbing also requires that you also keep your ear constantly to the ground and have an in-depth knowledge of the market. This can be very time consuming.
- **Swing trading** is a more leisurely approach to jobbing. Here, you climb in at the bottom of the cycle and jump out at the top of the cycle, switching your entire equity investment to the money market, and awaiting the next opportunity to climb in at the bottom. With swing trading, you may do two to three trades per year. In this strategy, your timing must be spot on. In theory it sounds great, but in practice only the fortunate few get their timing absolutely right.



## The investment strategy

Investment strategies aim to achieve steady growth in capital and dividend income over time. This is done by owning a well-balanced and well-selected portfolio of shares that are considered to be reasonably secure. This is generally classified as a 'buy and hold' strategy. A share portfolio is constructed and adjustments are only made when absolutely necessary. This is a very sound strategy for any investment club, provided that thorough research has been done and a well-diversified share portfolio has been put in place.

### WITHIN THIS INVESTOR GROUP, THERE ARE FOUR INVESTMENT STYLES:

- **Growth investor:** This investor uses fundamental analysis to determine if a company is a worthy investment. This includes looking at growing sales and earnings, solid profit margins and future business prospects.
- **Value investor:** This investor also uses fundamental analysis, but concentrates on different numbers. Value seekers are mainly looking for companies that have very low valuations (e.g. PEG ratio or P/NAV ratio) or have stumbled. Very cheap shares are sought with signs that they might recover.
- **Growth At A Reasonable Price (GARP):** GARP investors look for companies that are showing consistent earnings growth above broad market levels (a tenet of growth investing), while excluding companies that have very high valuations (value investing). The overarching goal is to avoid the extremes of either growth or value investing. This typically leads GARP investors to growth-oriented stocks with relatively low price-earnings (P:E) multiples in normal market conditions.
- **Investing for dividends:** This is the most straightforward share selection strategy. The aim is to pick investments that provide a steady and substantial income stream (mainly from dividends), from a combination of ordinary or preference shares. Usually, it would be the older, more established blue chip or large capitalisation companies that provide a very predictable earnings stream.

The most successful investment clubs prefer to use fundamental analysis to find very high-quality companies, which have growing turnover and earnings and have a future so bright that they can buy them today and not sell them for a number of years. A safe approach would be for investment clubs to implement a combination of the four investment styles. Then they hold on through thick and thin, as long as the fundamentals remain strong. This is called a 'buy and hold' growth strategy. In the medium to long term, a buy and hold strategy will almost always outpace inflation by a considerable margin. The investment club also avoids excessive brokerage costs and the possibility that members are classified as share dealers by tax authorities.

Remember, do not start investing until your investment club has decided what your strategy is going to be. Take your time on this step. Once a strategy has been formulated and accepted, then the members of the investment club must stick to it. Everyone must vote.

## Reality checks

Almost every trader has experienced the adrenaline pumping effects of a fast-paced market. Many have succumbed to the rush, and know that it can lead to making hurried and poor trading decisions in spite of all their trading knowledge. As a committed trader who is always watching the markets, reading the news and setting goals for yourself, you are likely to experience what is called 'mental isolation'. This happens when you are so involved in the micro-view of things that you mistake unjustifiable and hasty conclusions about the market as confident decisions in tune with your mental edge. It is usually only after you are faced with the results of your decisions that you realise you gave in to the rush.

Successful traders realise that the risk of swaying from their trading plan due to mental isolation is always there. The risk is associated with being in an environment where there is a barrage of information that is coming at you in a



create a trading environment that helps you to avoid mental isolation. One of the best ways of doing this is to communicate with other members of your investment club while reading and watching information.

## Create a watchlist

It can be overwhelming to choose your first shares.

### TO SIMPLIFY THIS DECISION, WE HAVE DESIGNED A FEW SIMPLE STEPS TO HELP YOU.

- In the share market, an investment club's main objective should be to maximise wealth! So begin with the end in mind and then work backwards.
- How do you maximise wealth on the share market? You maximise returns and minimise risk.
- Before you can make money on the share market, you need to create a share portfolio of high-quality shares that offer great growth potential. Aim to build a balanced portfolio, using strategies that will help you maximise returns (buy and hold, swing trading or jobbing) and minimise risk (diversification, portfolio structure and stop loss strategies). Remember that it is not as important to make capital gains as it is to avoid capital losses!
- Before you can have a balanced share portfolio, you will need to gain more knowledge about share analysis techniques. There are two schools of thought: Fundamental analysis (looking at the financial statements of the company) and technical analysis (looking at charts for the company). If you combine the two, you have what is called rational analysis. The more informed club members are about a certain industry, sector and share, the better your success on the share market will be.
- Before you can do any share analysis, you need to create a watchlist of interesting looking shares. It is impossible to follow the events of every single listed share as an individual investor, but leveraging other people's time is one of the main benefits of an investment club.
- To create a watchlist, club members will need to go through a 'prospecting' phase. As you gain more knowledge and experience, you will start refining the prospecting process and adapt it to your risk profile, available time and the investment club's strategy.

## Prospecting using fundamental analysis

With fundamental analysis, you have to keep a financial diary, in which you must record the financial year-ends of all the companies that might interest you.

### THE CALENDAR

Companies report their financial results twice a year: interim results for the first six months of their financial year and then year-end results for the whole financial year. As members of an investment club, your preparation for company results needs to start before the results are released.

On the PSG Wealth trading platform, you will find a useful tool called the "Calendar" under the Research tab.

#### 1. THE BUSINESS CALENDAR DISPLAYS THE DATE WHEN COMPANIES:

- Announce/ release their interim or year-end results
- Hold their Annual General Meeting (AGM)



## 2. THE EVENT CALENDAR DISPLAYS THE DATES WHEN COMPANIES:

- Declared a dividend
- Last Day to Trade (LDT) to be eligible for the dividend
- When companies will pay the dividend

### FOR EACH SHARE IN YOUR PORTFOLIO OR FOR THOSE SHARES IN YOUR WATCH LIST, YOU NEED TO KNOW:

1. What is the date that the results will be expected? Usually companies publish their results within three months of their financial year end, but some produce the figures quicker than others.
2. What earnings results do the members of the investment club expect? Would the earnings growth be the same as the previous year, better-than-expected or worse-than-expected?
3. What shares in their share portfolio would they rate as a 'hold' or 'sell.' What shares in their watchlists would they consider as a 'buy' or still a 'watch?'

If you anticipate good results and you believe that the market in general has not picked up on this yet, then you would get in now, before the 'crowd'. Remember, financial results are usually only printed in the financial press two to three months after financial year-end. This gives you a short window of opportunity to make some money fast!

Alternatively, you could access to the research facilities available on the PSG Wealth trading platform. Research tools such as the Value and Quality Filter save a lot of time, as they help to narrow down the choice by using 12 fundamental search criteria. The Company Analysis is a short summary research document on most financial and industrial shares, which provides all the pertinent research information an investor would need to make well-informed investment decisions.

## Prospecting using technical analysis

With technical analysis, you look at charts using various technical analysis indicators to find shares that are 'oversold' or that present a buying opportunity. For example, you might look for shares with prices above their 21- and 40-day simple moving averages (i.e. bullish), while the relative strength indicator is outperforming relative to the JSE Overall Index. Subscribe to the datashare download from PSG Wealth and receive the Wen Professional Plus charting software absolutely free! This technical analysis software will help you track the market, and the shares you are interested in.

## The Share Selection Checklist

Share analysis consists of two schools of thought: Fundamental and technical analysis. The **Share Selection Checklist (SSC) (Appendix 9 - page 56)** will help you to conduct fundamental and technical analysis to choose your shares. It will allow you to identify the characteristics of growth shares and plot potential future growth from historical trends. It also helps you determine a reasonable value for a share, when the share is temporarily on the cheap side of a value assessment.

While the SSC might seem simplistic to many seasoned investors, it is imperative that both novice and more advanced investment club members document their share selection criteria and details of their holdings. Likewise it is important that you set out your investment club's specific investment criteria. This will eliminate 'hot tips' from the neighbour, or dart throwing.

Remember, the SSC is only what we suggest you use – it is not the be-all and end-all method for getting into the share market!



## Objectives of a Share Selection Checklist

Two investors can complete an analysis of the same share, using the same data, and their conclusions might be so different that an outside observer would not recognise that the same company was being analysed. Why? Because share selection is highly dependent on the opinions of the person completing the form. There are many opportunities for you to apply your own judgement by making decisions about a company's prospects. The SSC is therefore not a substitute for doing research on a share; it is merely a tool that narrows the focus on some of the most important aspects of successful companies. The keys to successful share selection are to understand the conclusions of your analyses, and to learn to apply your own best judgement to those areas that need input.

### THE RATIONALE BEHIND THE SSC CAN BE SUMMED UP IN TWO PARTS:

1. Companies that have performed exceptionally well over the past five or ten years can be expected to continue performing well over the next five years. In practical terms, this means that it is possible to quantify (to some degree) the success or failure of a company's management. If a company has grown revenues and earnings consistently over the past ten years and the same management team is in place, we can reasonably expect similar growth in future.
2. It is then important to determine a reasonable or fair price to pay for a share with such prospects.

This method of share selection is ideally suited for investment clubs with a long-term buy and hold strategy.

## Share selection shortlist

A share selection shortlist gives investment club members a better idea of how to approach share selection. By a process of elimination, members have now arrived at a list of shares that show certain minimum winning characteristics. These are the shares that are the gold nuggets, or the companies that show great growth potential!

The methods used for creating a shortlist below are by no means fool proof, but can give you some guidance. After studying the market for a while, you might decide to choose shares using your own selection criteria.

## Share selection using fundamental analysis

Firstly, look at all shares that have operating profit margins greater than 5%. Then list all shares that have produced an increase in headline earnings per share (HEPS) of over 15%. The best companies are those that are able to generate large increases in headline earnings per share. Finally, list all shares that meet the first two criteria and have a Price-to-Net Asset Value (Price/NAV) ratio of less than two. This will make sure that the shares included in the shortlist are not overvalued.

Once you have this initial list, list all shares that have an ROE% of greater than 15%. The higher the ROE, the higher the Price/NAV should be. Finally, list all shares that have an interest cover greater than three times. (This means that there are sufficient profits to pay the company's current interest charge three times over.) This is normally the minimum cover required from an investment, and is one of the most important ratios to consider for financial risk. There are enough uncertainties about the future of a company without the need to invest in companies with a high risk of possible bankruptcy! The result will be a shortlist of shares, which can be studied further.



## Share selection using technical analysis

We suggest that you use Wen Professional Plus charting software to look at all shares that are trending up in price (i.e. bullish trend based on cycle analysis, support and resistance trend lines, and moving averages) even though they might be at or near 12-month price highs. Within the bullish trend, find shares that are also at the bottom of a cycle (i.e. oversold based upon various technical indicators such as the Overbought/Oversold, Stochastic, Relation Strength Index indicator (RSI) and Moving Average Convergence Divergence (MACD) indicators).

Next, look at a share's volume and calculate if it is free-dealing or liquid. Also confirm volume accumulation using the Volume Price Trend (VPT) indicator. Look at whether a share is outperforming the market relative to the JSE Overall index based on the Relative Strength indicator. Finally, calculate a price target only if there is a buy signal on the Point and Figure chart and a price consolidation of at least six (but the more the better). This helps to calculate the reward/risk ratio. The result will be a shortlist of shares, which can be studied further.

### Summary

It is important that everyone in your investment club understands the ground rules before you start. This means making sure that members are in it for the same reason and agree on your investing strategy and objectives. Investment clubs that establish an investment philosophy, clear goals and specific strategies for implementation can and do outperform top fund managers and market averages! It was reported in the Wall Street Journal that more than 60% of investment clubs in the United States produce lifetime average compounded annual returns equal to or better than the share market. That is impressive when you consider that 75% of all professional fund managers fail to beat market averages every year.

## Our entrepreneurial spirit drives our every move

PSG was born from the spirit of a visionary, which is why an entrepreneurial spirit drives our every move. We're proud of this heritage, and excited about where it will lead us.



05

---

Appendices

# APPENDIX 1 - SAMPLE INVITATION LETTER



To help you get started, you can base your invitation letter on the sample below. Your letter can be used along with the New Member form (Appendix 2 - page 39).

(INSERT DATE)

## TO THE FOLLOWING PROSPECTIVE INVESTMENT CLUB MEMBERS:

LIST OF NAMES

## TO OUR FAMILY AND FRIENDS:

We are starting an investment club and would like each of you to be one of our founding members. You might be thinking right now that you know nothing about investing. But that is the great thing about this club! We are all relative novices, so we can learn about investing together.

How much do you need to join?

Not all that much! At our first meeting we will decide on monthly payments, but they will be no more than R500 per person per month. And how much time will it take? Not all that much, either! We will have one meeting a month, which will last for about 1½ to 2 hours. You will be expected on occasion to do some share research – we will all learn how. That might take a couple hours at first, but will wind down to about half an hour when you know what you are doing.

The rest of the details we can figure out later. We want this to be a fun activity where we can all learn together, while also making some money in the stock market without much risk.

The introductory meeting will be at (TIME) on (DATE) at (ADDRESS). Please RSVP to either of us on (PHONE NUMBERS) and let us know if you can make it or not. Please come even if you think you are not interested – you might be persuaded. If you want to join but cannot make the meeting for other reasons we will get you the minutes from the meeting. Hopefully at least one person from every couple can make it, but I would like everyone to make it if possible. No money will be needed at the first meeting.

Looking forward to hearing from you... This will be fun!

---

SIGNED

# APPENDIX 2 - NEW MEMBERS FORM



Full name and surname of joining member: \_\_\_\_\_

Identity number.: \_\_\_\_\_

Postal address: \_\_\_\_\_

\_\_\_\_\_

Physical address: \_\_\_\_\_

\_\_\_\_\_

Contact number.: \_\_\_\_\_

Work number.: \_\_\_\_\_

Email address: \_\_\_\_\_

This person was nominated for membership of the \_\_\_\_\_  
(CLUB NAME) Investment Club at a meeting held on \_\_\_\_\_. There has been no  
objection to this nomination. The nominee is warmly invited to become a member of the club by accepting the  
partnership agreement, consenting to club rules and paying the specified joining fee and monthly subscriptions  
according to club rules.

Signed \_\_\_\_\_ (Club secretary)      Date \_\_\_\_\_

## APPENDIX 3 - DECLARATION BY JOINING MEMBER



1. I, \_\_\_\_\_, (NEW MEMBER'S NAME) have received and read the partnership rules of the \_\_\_\_\_ (INVESTMENT CLUB NAME) Investment Club ('the investment club').
2. I agree that the affairs of the investment club will be carried out according to the partnership rules and the spirit in which they have been set.
3. I agree to abide by the partnership rules and any amendments to these rules made in future.
4. I agree to pay a joining fee of R \_\_\_\_\_, which entitles me to a number of units in the investment club as calculated by the current Club Treasurer (using the current unit price applied to valuations for existing club members).
5. After joining, I understand that individual investment valuations will be determined according to partnership rules.
6. I agree to pay a monthly subscription of R \_\_\_\_\_ by standing debit order into the investment club's bank account and according to partnership rules.
7. I will try my best to attend and participate in investment club meetings and to respond to other reasonable requests about investment club business.

Signed \_\_\_\_\_

Date \_\_\_\_\_



**(INVESTMENT CLUB NAME) Investment Club**

**Oath of new officer**

Oath as an officer of \_\_\_\_\_ (INVESTMENT CLUB NAME) Investment Club.

I, \_\_\_\_\_, pledge that I will faithfully execute the duties of my office as the President/Treasurer/Secretary/Educator of the (INVESTMENT CLUB NAME) Investment Club. I will at all times perform to the best of my ability and will exercise due skill and care in all my dealings as the \_\_\_\_\_ of the investment club.

Signed at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_.

Signature \_\_\_\_\_

Full name \_\_\_\_\_

Identity number \_\_\_\_\_

Template



**(investment club name) Investment Club**

We, the undersigned, as members of (investment club name) investment club, nominate \_\_\_\_\_ as the main member (Club President) and contact person for trading.

**The banking details we will use are:**

Bank: \_\_\_\_\_

Branch: \_\_\_\_\_

Branch code: \_\_\_\_\_

Account number: \_\_\_\_\_

Name of account: \_\_\_\_\_

(investment club name) investment club members who resign from the club have to give three months' notice, due to market fluctuations. Other members can decide to buy the exiting member's shares or can nominate a new member to take the exiting member's place.

NAME \_\_\_\_\_ SURNAME \_\_\_\_\_

IDENTITY NUMBER: \_\_\_\_\_

NAME \_\_\_\_\_ SURNAME \_\_\_\_\_

IDENTITY NUMBER: \_\_\_\_\_

NAME \_\_\_\_\_ SURNAME \_\_\_\_\_

IDENTITY NUMBER: \_\_\_\_\_



The partnership agreement sets out rules for how the investment club will operate and agreed to by the partners. In this document, every possible contingency is included. To be legally binding, the partnership agreement and the constitution of the investment club must be signed, dated and witnessed by all investment club members.

1. **Formation of partnership:** The undersigned hereby form a general partnership in the Republic of South Africa (RSA), according to its laws.
2. **Name of partnership:** The name of the partnership will be the \_\_\_\_\_ investment Club ('the investment club').
3. **Term:** The partnership will start on \_\_\_\_\_ and will continue until all partners agree to dissolve it or a partner dies.
4. **Purpose:** The purpose of the partnership is to invest the funds of the partnership solely in shares, for the education and benefit of the partners.
5. **Membership:** Members of the investment club will be referred to as 'partners'. The investment club will at all times consist of between 3 and 20 partners.
6. **Additional partners:** Additional partners can join at any time if 75% of existing partners agree to this in writing or at a meeting, and the number of partners in the investment club will not be more than 20.
  - a) New partners must be proposed and seconded by two existing partners.
  - b) The investment club can refuse to admit any person without giving a reason.
7. **Initial joining fee:** A new partner will pay a joining fee, as decided by the investment club at the inaugural meeting.
8. **Monthly contributions:** Partners must make contributions to the investment club on the date of each investment club meeting. Contribution amounts will be determined by the investment club. A partner's capital account cannot be more than 20% of the combined value of all partners' capital accounts. If it is more than this amount, additional contributions can be limited.
9. **Valuation:** The current value of the assets and property of the investment club, less the current value of the debts and liabilities of the investment club, will determine the value of the partnership. The value of the partnership will be calculated five business days before each periodic meeting (the 'valuation date').
10. **Capital accounts:** Each partner will have a capital account in his or her name. Any increase or decrease in the value of the partnership on any valuation date will be credited or debited to each partner's capital account on this date. (Any other method of valuing each partner's capital account can be used instead, provided that it results in the same valuation.) Each partner's contributions to or withdrawals from the partnership will also be credited or debited to that partner's capital account.
11. **Management:** Each partner will participate in running and managing the investment club. Unless otherwise provided, decisions will be made by the partners whose capital accounts total a majority of the value of the combined capital accounts of all partners. The voting system is 'one partner = one vote'. Partners acknowledge that they only have a right to the growth in their capital accounts if they have fulfilled all obligations set out in this partnership agreement.
12. **Meetings:** Periodic meetings will be held as determined by the partnership. Partners must attend the minimum number of meetings required (normally 75%+). Partners can attend all meetings and vote on all matters. A meeting quorum (normally of half the membership, plus one) will be agreed. A mutually agreed process will be followed for any partner who constantly misses investment club meetings.



13. **Research:** All partners are expected to research at least one company per month, using a recommended system of company evaluation.
14. **Minutes:** Minutes must be kept of investment club meetings. Minutes must be issued by the investment club secretary to partners at least two weeks (or as soon as possible) before the next meeting via email or fax.
15. **Choose officers:** All officers (President, Treasurer, Secretary and other roles) must be chosen. Two internal auditors (who are not office bearers) can be appointed to audit the investment club accounts.
  - a) The Club Treasurer will produce a statement of accounts at the Annual General Meeting (AGM). A report detailing the income, expenditure, investment club assets, arrears, end-of-year portfolio valuation and each partner's total contribution/drawings with current values of holdings will be presented to partners.
  - b) An auditors' report will be presented to partners at the AGM.
  - c) The investment club's bank account/brokerage account must be determined annually, or at a special meeting. All meeting dates and venues for the year need to be agreed by members. Between 5 to 10 days' notice must be given for all meetings.
  - d) The goals of the investment club must be stated, including a comprehensive review of asset allocation.
  - e) Partners' monthly contributions will be stated and may be reviewed upwards in line with inflation.
16. **Sharing of profits and losses:** Net profits and losses of the partnership will accrue to partners in proportion to the value of their capital accounts or their unit balances.
17. **Additional units:** The investment club can allow members to buy additional units. However, members keep equal voting powers on all matters.
18. **Books of account:** Books of account of the transactions of the partnership will be kept. These will be available and open to inspection and examination by any partner at all times.
19. **Annual accounting:** Each calendar year, a full and complete account of the condition of the partnership will be made to the partners.
20. **Bank account:** The partnership will choose a bank at which to open an investment club bank account. Funds deposited in this account will be transferred to a trading account by one of two partners (the Club President and Club Treasurer), designated by the partnership. Alternatively, monthly debit orders must be set up by all partners to pay their subscriptions directly into the trading account.
  - a) All income will be paid directly into the investment club's bank account.
  - b) The investment club's bank account must be set up without overdraft facilities.
21. **Trading account:** The Club will open a stockbroking account in its name with PSG Wealth. Two traders will be appointed (normally not the Chairperson/Treasurer/Secretary). None of the partners will act as the stockbroker of the investment club. However, the investment club can choose a stockbroker for the buying and selling of shares. Shares owned by the investment club will be registered in the investment club's name unless another name is chosen by the partnership.
  - a) If the investment club asks any company or transfer agent to transfer any shares to or from its account, this request must be signed by one of two designated partners (the Club President and Club Treasurer). At the time of transfer, the company or transfer agent is entitled to assume (1) that the partnership still exists and (2) that this partnership agreement is in full force.
  - b) Only the named traders are authorised to buy and sell investments on behalf of the investment club.
  - c) No partner is authorised to execute a trade for more money than the investment club's stockbroker holds for the investment club.



**22. Voluntary termination:** The investment club can be wound up if:

- a) 75% of partners pass a resolution at a specially convened general meeting
- b) agreed to by partners whose capital accounts make up the majority of the investment club combined capital accounts

All partners must be given notice of the dissolution. The partnership will be terminated by paying all the investment club's debts and liabilities and distributing the remaining assets to the partners or their personal representatives in proportion to their capital accounts.

**23. Withdrawal of a partner:** Any partner can withdraw a part or all of his/her capital account by giving notice in writing. If a partner resigns, they will receive their share of the investment club's holdings (minus legal and brokerage fees) in full payment within 90 days of resigning. A partner's notice will be deemed received at the first investment club meeting at which it is presented. The valuation statement prepared for the following meeting (the first meeting after the resignation was presented) will be used to determine the value of the partner's account. Between these two meetings, remaining partners will have the option to buy the capital account of the withdrawing Partner (in proportion to their own capital accounts).

**24. Death or incapacity of a partner:** If a partner dies or becomes incapacitated, this will be treated as a withdrawal. The value of the partner's capital account will be paid to their executor (minus legal and brokerage fees) in full within 90 days of the investment club meeting where the death or incapacity was recorded.

**25. Purchase price:** If a partner dies, becomes incapacitated or withdraws from the partnership and other partners buy his/her capital account in cash, these partners will pay a purchase price equal to the capital account, less the actual cost of selling sufficient securities to obtain the cash to meet the withdrawal. Payment will be made within 60 days of a partner giving notice of the purchase. In the case of a complete withdrawal, the withdrawing partner's capital account can be sold for cash or securities, at the option of the remaining partners. In the case of a partial withdrawal, the capital account can be sold for cash or securities at the option of the withdrawing partner. If a withdrawing partner wants an advance payment, the investment club can pay 80% of the estimated value of the capital account at its earliest convenience, and settle the balance of the account according to standard timelines. Where payment is made in securities, the investment club's broker must be advised that the ownership of securities has changed by the valuation date used for the withdrawal.

**26. Taxation:** Tax affairs will be dealt with according to the law of the land.

**27. Disputes:** Any disputes about the interpretation of the partnership agreement will be decided by the Club Chairperson at the AGM or, if requested, at a special general meeting. Disputes relating to the valuation of a partner's share will be decided (after gaining majority approval from club members), by an independent chartered accountant (appointed by the Club Chairperson), whose decision will be final. Fees for the accountant will be paid by the losing party or equally between parties if no clear decision is made.

**28. Dividend policy:** After five years from the formal inauguration of the investment club, partners will hold a meeting to decide on a dividend policy for the next five years. This policy will be reviewed and adjusted annually thereafter.

**29. Amendments to this agreement:** This agreement can be changed at any time if agreed to by partners who hold at least 75% of the value of the combined capital accounts of all partners.





**The investment club rules govern the day-to-day running of the investment club.**

## Rules of the investment club

### 1. ACTIVITIES OF THE INVESTMENT CLUB

The activities of the investment club must comply with the constitution its members have put in place. The constitution can only be changed if 75% or more of current members agree to the change.

### 2. OFFICERS

The investment club will be managed by three officers: the Chairperson, Secretary and Treasurer. The officers will be elected at the annual general meeting of the investment club by a majority vote. Officers must resign at the next annual general meeting, but can be re-elected. If an officer leaves the investment club, dies or cannot carry out his/her duties anymore, a replacement can be chosen at the next ordinary club meeting. Other officers can be chosen to help the three main officers.

### 3. MEETINGS

- a) The club will hold 11 monthly meetings each year and one annual general meeting, where members can vote on all matters.
- b) Dates and venues of meetings can change if the majority of members at a meeting agree to these changes. At least half of all members must be at a meeting for the decision to be valid.
- c) All members will get minimum five days' notice of meeting dates and venues.
- d) A special general meeting can be called if three or more members want to discuss special items of business. The members must give a written request to the secretary, who must then give at least 21 days' notice to all members.

### 4. MEMBERSHIP

The investment club will have a minimum of 3, and a maximum maximum of 20 members at all times.

### 5. ELECTION OF NEW MEMBERS

- a) A new member will only be accepted if no other member objects to him/her joining at the meeting where the application is considered if at least 75% of the quorum accepts him/her.
- b) A prospective member must be recommended by an existing member at a monthly club meeting, and must be seconded by another member. If all members at the meeting accept the new member, his/her name and address will be included in the minutes of that meeting.
- c) The investment club can refuse admission to any person without giving a reason.
- d) When a new member joins the investment club, he/she will sign an agreement, pay the initial joining fee subscription (if applicable) and the first month's subscription. This will buy the member units in the club's investments, calculated according to investment club rules and the unit value at the time of joining.

### 6. WITHDRAWAL OF MEMBERSHIP

- a) When a member resigns they will receive their share in the investment club account (minus legal and brokerage fees) in full payment within 90-days of resignation.
- b) Upon the death of an investment club member, their share value of the investment club holdings will be paid to their executor (minus legal & brokerage fees) in full payment within 90-days of the investment club meeting where the death was recorded.

### 7. INITIAL LUMP-SUM SUBSCRIPTION (OPTIONAL)

- a) All members will pay a joining fee of R\_\_\_\_. This will buy units based on the unit value at the time of joining.



- b) This fee can be changed at the investment club's annual general meeting or at a special general meeting.

### 8. SUBSCRIPTIONS

- a) All members must pay a monthly subscription of R\_\_\_\_\_ per calendar month into the investment club's bank account. Subscriptions must be paid on or before the 1st of each month by debit order.
- b) Each member's subscription will buy units based on the unit value declared at the previous monthly meeting, after paying for any brokerage fees.
- c) The Treasurer will notify members at the monthly meeting if any member is behind in payments.
- d) The monthly subscription and brokerage fees can be changed at the investment club's annual general meeting or at a special general meeting.

### 9. CAPITAL ACCOUNT

- a) The Treasurer will value the investment club's assets monthly and will report this at the next meeting. The value of investments will be based on closing prices recorded in the PSG holdings (or another reliable source of share price information).
- b) The Treasurer's monthly report will include:
- the current value of each of the club's investments and the combined value of all investments
  - a statement of unpaid accounts and cash in hand
  - the total value of the investment club's assets
  - the current unit value

### 10. MEMBERS' ACCOUNTS

Each member will have his/her own account, showing:

- total investments made (subscriptions, initial lump-sum and additional unit purchases)
- total withdrawals made (units sold back to the investment club)
- total number of units held and current value of holding

### 11. MEMBER LEAVING THE INVESTMENT CLUB

- a) Resignations must be given in writing to the club President, Treasurer or Secretary at least seven days before the monthly meeting at which the member will resign.
- b) Members leaving the investment club must sell all their units back to the investment club.
- c) Members leaving the investment club will be paid the value of their units (based on the unit value declared by the Treasurer at the meeting where the member resigns), less any brokerage fees and any legal fees incurred due to the member leaving. They will also receive their portion of any surplus cash that the investment club is holding.
- d) Members leaving the club will be paid out as soon as possible, and within 90 days of the meeting at which they resigned.

### 12. ADDITIONAL UNITS

The investment club can allow members to buy additional units. However, members keep equal voting powers on all matters.

### 13. RUNNING COSTS

The expenses of managing the club will be recorded in the club's cash account. These expenses will be paid from subscriptions and other income. The treasurer will keep a full and accurate record of all expenses to submit to the auditors annually.



### 14. BANKING

- a) The bank the investment club uses will be decided on at every annual general meeting. The choice of bank can be changed by a majority vote at a special general meeting.
- b) All income (earned on investments or from the sale of investments) will be paid directly into the investment club's bank account(s). However, members can agree that their stockbroker keeps the income from the sale of investments to buy other investments.
- c) The investment club will instruct the bank not to give it an overdraft facility.

### 15. STOCKBROKERS

The investment club's stockbrokers will be instructed that:

- a) Only two named officers are authorised to buy or sell investments on behalf of the investment club.
- b) No member is authorised to commit the investment club beyond the cash it holds.
- c) All contributions to the investment club's trading account must be made by electronic funds transfer (EFT) and no cheques are acceptable. Members must use their names and the investment club's BDA as a reference number (e.g. Joe Soap/123456).

### 16. AMENDMENTS OF RULES

The rules of the investment club can be changed at any club meeting where there are enough members for a vote to be valid. At least 75% of the members at the meeting must agree to the change.

### 17. MINUTES

Minutes of investment club meetings will be kept and must be available for inspection by any member of the investment club at any reasonable time.

### 18. DISPUTES

- a) Any disputes about the interpretation of these rules will be decided by the chairperson or resolved at a special general meeting.
- b) Any disputes about the valuation of a member's share in the assets of the investment club or his/her entitlement to that share will be decided by an independent chartered accountant (CA). The CA will be appointed by the chairperson and should the dispute be with the club's chairperson, be appointed by the club vice chairperson. The chartered accountant must have at least seven years' experience as a CA. The CA's decision will be final. Any costs incurred to get this decision will be paid by the party who loses the dispute. If it is not clear who lost, fees will be shared between the investment club and the member or ex-member concerned.

### 19. WINDING UP

The investment club will be wound up if at least 75% of members agree to this at a special general meeting. When the club is wound up, all its assets will be divided among members (after paying any expenses) based on the number of units held by each member.

### 20. TAX LIABILITY

Members accept their proportional tax liability on the trading profits made by the investment club in any tax year.

# APPENDIX 8 - CONSTITUTION FOR A VOLUNTARY ASSOCIATION

---

Disclaimer: This document gives an example of a model constitution and might not apply to all circumstances. We recommend that you ask a suitably qualified professional for help before implementing this constitution.

## 1. NAME OF THE VOLUNTARY ASSOCIATION

The name of the voluntary association is: \_\_\_\_\_ (the Association)

The shortened name is: \_\_\_\_\_

## 2. OBJECTIVES

The Association operates for profit and has the following objectives:

- 2.1 \_\_\_\_\_
- 2.2 \_\_\_\_\_
- 2.3 \_\_\_\_\_
- 2.4 \_\_\_\_\_
- 2.5 \_\_\_\_\_

## 3. LEGAL STATUS

The Association is a body corporate with its own legal identity. It is separate from its office-bearers and members. The Association will continue to exist even if the members change.

## 4. INCOME AND ASSETS OF THE ASSOCIATION

- 4.1 Being a member or office-bearer of the Associations does not automatically give you the right to share in the Association's assets.
- 4.2 The income and assets of the Association will be used solely to promote its stated objectives. Income or assets will not be paid or distributed to Association members, office-bearers or any person, except:
  - as reasonable payment for services to the Association
  - to reimburse reasonable costs incurred on behalf of the Association

## 5. TAXATION OF ASSOCIATION

The Association's tax affairs will be dealt with according to the law of the land.

## 6. POWERS OF ASSOCIATION

The Association, acting through its Governing Board, or at a General Meeting, shall have all the powers necessary for it to carry out its stated objectives effectively. Such powers shall include, but not be limited to, the General Investment and Administrative Powers set out in the attached Schedule B.

These powers include:

- 6.1 to take or defend any legal action, and to settle any claims

## APPENDIX 8 - CONSTITUTION FOR A VOLUNTARY ASSOCIATION

---

- 6.2 to prudently invest funds of the Association
- 6.3 to buy, get, maintain, manage, lease, sell, or in any way deal with property and assets of the Association
- 6.4 to donate and transfer the property and assets of the Association to public benefit organisations with similar objectives
- 6.5 to borrow and use the property or assets of the Association as security for borrowing
- 6.6 to execute any act or deed in any deeds registry, mining titles or other public office
- 6.7 all the management and executive powers that the Board of Directors of a company usually has
- 6.8 all the powers and authority that the Association has in South Africa and in any other part of the world

### 7. THE GOVERNING BOARD

- 7.1 **Powers:** The Governing Board will manage the Association according to what members agree in general meetings.
- 7.2 **Number and portfolios:** The Governing Board will have at least five members, with the following portfolios: Chairperson, Vice-Chairperson, Treasurer, Secretary and Vice-Secretary.
- 7.3 **Election:** All members of the Governing Board must be members of the Association. Members will elect the Governing Board at an Annual General Meeting.
- 7.4 **Term of office:** At least half of the members on the Governing Board must retire at every Annual General Meeting. Members who have been on the Governing Board the longest, must retire first. If there are members who have served on the Governing Board for the same amount of time, the Association must vote on which member to keep on. The member who gets the most votes does not have to retire. No member can serve on the Governing Board for more than 3 years in a row without taking a break of at least 12 months in between.
- 7.5 **Vacancies:** If there are less than five members on the Governing Board at any time, its remaining members must appoint Association members to fill the vacancies as soon as possible. These appointments must be confirmed at the next general meeting, otherwise they will lapse.
- 7.6 **Co-option:** The Governing Board can ask additional non-voting members for help if it needs to.
- 7.7 **Resignation, disqualification and removal:** A Governing Board member can resign from office in writing. A Governing Board member will be disqualified from office if the member leaves the Association or cannot carry out his/her duties due to mental illness. A member can be removed from office if two-thirds of the remaining Governing Board members vote to do so. At least four Governing Board members must vote.
- 7.8 **Delegation of powers:** The Governing Board can delegate any of its powers or functions to a committee or members of the Association. This decision must be recorded in the minutes of the meeting where the decision is made. If this happens:
  - At least one Board member must serve on the committee or help the members.
  - The Governing Board must approve expenses that the committee or members will incur in advance.
  - The Governing Board can withdraw or change its instructions at any time.
- 7.9 **Procedures at meetings:**
  - a. The Chairperson must chair all Governing Board meetings.
  - b. Governing Board meeting can be held face-to-face or electronically.
  - c. If the Chairperson is more than 15 minutes late for a Governing Board meeting, the Vice-Chairperson will chair the meeting. If both the Chairperson and Vice-Chairperson are absent, the members who are there will choose a chairperson for that meeting.

## APPENDIX 8 - CONSTITUTION FOR A VOLUNTARY ASSOCIATION

---

- d. The Chairperson must hold a Governing Board meeting at least once a quarter and whenever two or more Governing Board members ask for a meeting in writing.
  - e. The quorum for a Governing Board meeting is two-thirds of serving Governing Board members.
  - f. If there is not a quorum at a meeting, the Governing Board cannot make any decisions, except to preserve the assets of the Association and to call a meeting of the general members.
  - g. Each Governing Board member at the Governing Board meeting or represented through written proxy will have one vote.
  - h. Matters to be decided on will be put to a vote. If there are equal votes, the Chairperson will have a casting or second vote.
  - i. The Secretary must keep proper minutes and attendance records of all Governing Board meetings. The chairperson for the meeting must sign the minutes. The minutes must be available for inspection or copying by any member of the Association at two days' notice to the Secretary or Vice-Secretary.
  - j. If a resolution is passed and signed by all members of the Governing Board at a Governing Board meeting, the resolution will be valid.
  - k. The Governing Board can appoint employees if it thinks it is necessary.
- 7.10 **Conflicting interests:** If a Governing Board member has an existing or potential conflict of interest relating to the Association, the member must inform the Governing Board in writing. The Governing Board must record the conflict of interest in the minutes of the Board meeting. Where there are conflicts of interest, impacted members can take part in discussions about the subject but cannot vote on related matters or use their influence to impact a vote.
- 7.11 **Confidentiality:** All matters deemed confidential by the Governing Board must be treated as confidential. This includes information about law suits, security measures, contract negotiations and employees. If necessary, only final decisions can be disclosed to the general public.

### 8. MEMBERSHIP

- 8.1 **First and following members:** The first members of the Association must sign Schedule A of this Constitution. The Governing Board can allow natural persons over 18 years old and legal entities to join the Association.
- 8.2 **Conditions and criteria:** The Governing Board will set the conditions and criteria for membership. People who apply to become members but do not meet these conditions can be refused by the Governing Board.
- 8.3 **Transfer of membership:** Membership is not transferrable.
- 8.4 **Register of members:** The Governing Board must keep a register with the names and addresses of all members.
- 8.5 **Automatic termination of membership:** If a member submits a written resignation or the Governing Board is notified of the member's death (or organisational member's dissolution), membership of the Association is automatically terminated.
- 8.6 **Termination by Governing Board:** The Governing Board can pass a resolution to end the membership of any member. However, the member must be given a chance to defend himself/herself in writing or in person at a Governing Board meeting. The termination must also be confirmed by at least two-thirds of the members present at the next General Meeting, or else it will lapse.

### 9. MEETINGS OF MEMBERSHIP

- 9.1 **Annual General Meetings:** All Annual General Meetings (AGMs) must be held within 6 months of the

## APPENDIX 8 - CONSTITUTION FOR A VOLUNTARY ASSOCIATION

---

Association's financial year-end. At least 21 days' written notice must be given to all members stating the date, time, place and business of the AGM. This business must include:

- a. the Chairperson's report
  - b. the presentation of the Association's Annual Financial Statements
  - c. the election of Governing Board members
  - d. the appointment of auditors
  - e. other appropriate matters
- 9.2 **Special General Meetings:** The Governing Board or a third or more of all members can call a Special General Meeting. Members must receive at least 14 days' written notice of such a meeting, stating the date, time, place and business of the Special General Meeting. If a sufficient number of members ask for a Special General Meeting and the Board does not give other members notice of the meeting within 7 days, the members asking for the meeting can give the notice themselves and can hold the meeting.
- 9.3 **Powers of the general meetings:** Members in a general meeting can review, approve or change any decision taken by the Governing Board. However, no such resolution can cancel out an earlier resolution taken by the Governing Board, if the earlier resolution was made according to this Constitution.
- 9.4 **Procedures at general meetings:**
- a) The Chairperson will chair all general meetings.
  - b) General meetings can be held face-to-face or electronically.
  - c) If the Chairperson is not at the meeting within 15 minutes after it starts, the Vice-Chairperson will chair the meeting. If both the Chairperson and Vice-Chairperson are absent, the members at the meeting will choose a chairperson for that meeting.
  - d) The quorum for General Meetings is one quarter of the members of the Association.
  - e) If a quorum is not present within 15 minutes after the meeting starts, the meeting must be moved to another date. This date must be within the next 14 days. All members must be given proper notice of the rescheduled meeting.
  - f) If no quorum is present at the rescheduled meeting within 15 minutes after the meeting starts, the members who are there or represented by proxy will form a quorum for that meeting.
  - g) Votes will be cast by a show of hands or by a ballot. A ballot vote can be demanded if one third or more of members at the meeting or represented by proxy want one.
  - h) Each member at the meeting or represented by proxy has one vote.
  - i) All votes will be decided by the majority vote, except if this constitution requires a specific number of votes. If there are equal opposing votes, the Chairperson has a casting vote.
  - j) The Secretary must keep proper minutes and attendance records of all general meetings. The chairperson must sign the minutes. The minutes must be available for inspection or copying at all times by any member of the Association. A member must give two days' notice to the Secretary or the Vice-Secretary if they want to see the minutes.

### 10. NOTICES OF MEETINGS

- a) All meeting notices must be given to members in writing (personally, via post or via email) at the address the member gives.

## APPENDIX 8 - CONSTITUTION FOR A VOLUNTARY ASSOCIATION

---

- b) A meeting will still be valid even if there were members who were accidentally not notified of it taking place.
- c) All members at a meetings will be deemed as having received notice of the meeting.
- d) If meeting notices are posted, they will be deemed as received seven days after posting.

### 11. FINANCES AND REPORTS

- a) **Bank account:** The Governing Board must open a bank account at a registered bank in the name of the Association.
- b) **Financial year-end:** The financial year-end of the Association will be end February.
- c) **Financial report:** The Governing Board must make sure that proper records and books of account are kept and fairly reflect the affairs of the Association. Within six months of the financial year-end, an independent practicing auditor registered in terms of the Auditing Profession Act must compile a financial report. This report must state if the financial statements of the Association are consistent with its accounting records, if its accounting policies are appropriate and have been correctly applied when preparing the financial statements, and if the Association has complied with the financial requirements of this constitution.

### 12. AMENDMENTS AND DISSOLUTION

- a) This Constitution can be changed, the name of the Association can be changed and the Association can be dissolved if at least two-thirds of the members present at a general meeting agree to do so.
- b) If such changes are proposed, all members must be given at least 21 days' notice of the meeting and of the changes to be discussed.
- c) If the Association is dissolved, all debts and commitments must first be paid. Any remaining assets will then be donated to a non-profit organisation that the Governing Board (or, as second choice, members at the general meeting where the dissolution is discussed) considers appropriate. This non-profit organisation must have the same or similar objectives as the Association. If the Association is exempt from paying any taxes and duties, the non-profit organisation can also be:
  - i. any similar Public Benefit Organisation that has been approved in terms of section 30 of the Income Tax Act
  - ii. any institution, board or body that is exempt from tax under the provisions of section 10 (1)(cA)(i) of the Income Tax Act and has the primary objective of carrying on any public benefit activity
  - iii. any department of state or administration in national, provincial or local government.

### 13. INDEMNITY

- 13.1 Members, office-bearers and appointed delegates of the Association will be indemnified by the Association for all acts carried out in good faith on its behalf, subject to all relevant laws.
- 13.2 No member of the Association will be liable for the acts of any other member. Members are also not liable for losses, damage or expenses suffered by the Association as a result of actions necessary to carry out their duties. However, a member will be liable for such losses if they result from the member's dishonesty or the failure to apply the care, diligence and skill required by law.

# APPENDIX 8 - CONSTITUTION FOR A VOLUNTARY ASSOCIATION

## SCHEDULE A

SCHEDULE OF FIRST MEMBERS				
	NAME	ADDRESS	DATE	SIGNATURE
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				

## SCHEDULE B

### POWERS OF THE GOVERNING BOARD

The Governing Board shall conduct and manage all of the affairs of \_\_\_\_\_ (Investment Club) and shall be entitled to do all matters and things not specifically required to be done at a general meeting, including ensuring that the investment club operates efficiently and in terms of its objects and attainment thereof as set out in the constitution.

**Without limiting the rights of management, the Governing Board shall have the following special powers:**

1. to convene a meeting
2. to hold and have the custody and control of the funds and other property of
3. open and operate banking accounts either itself or by authorising the secretary to do same in the name of \_\_\_\_\_ (investment club name) for the purpose of transacting its business.
4. to take legal action, on behalf of the Association, in any court of competent jurisdiction.
5. to accept or refuse applications for membership
6. Impose, collect and/or receive subscriptions, levies, donations, or other monies and invest or apply such monies to the advancement of the interests of the investment club
7. to cooperate or affiliate with anybody having similar interests or objects likely to further the interests of the investment club and its members
8. the Management generally be responsible for the administration of the affairs of within the framework of this constitution as may be required to be done in pursuance of the interests of good management of and for the promotion of its objects.

# APPENDIX 9 - SHARE SELECTION CHECKLIST



SHARE SELECTION CHECKLIST (SCC)	
Share name:	Share code:
Date:	
Nature of the business:	
Financial year-end (YE):	Date results expected:
Sector:	Sector Price-Earnings (P:E) ratio:
Share price:	Share Price-Earnings (P:E) ratio:
Earnings yield (EY%)	Dividend yield (DY%)
FUNDAMENTAL CHECKLIST	
Turnover growth %:	
Gross profit growth %:	Gross profit margin %:
Headline earnings growth %:	
PEG (PE):	PEG (NAV):
Price/NAV:	
Operating margin %:	ROE %:
Cash flow/EPS	
Interest cover:	
Management comment:	
TECHNICAL CHECKLIST	
Long-term trend (weekly)	Short-term trend (daily):
Support levels:	Resistance levels:
50 & 200-day exponential moving average (EMA) crossover: (Bullish or bearish?)	
OB/OS: (Overbought or oversold?):	
RSI buy & sell zones (Overbought or oversold?):	
RSI crossover:	
Stochastic buy & sell zones (Overbought or oversold?):	
Stochastic crossover:	
MACD (Overbought or oversold?):	
Volume analysis: Free-dealing? Volume accumulation or distribution?	
OBV:	VPT:
Relative strength analysis (Outperforming? Underperforming? Market performing?)	
JSE overall?	
Sector?	
Peers?	
Point & figure price projection?	
Buy?	Sell?
Watch?	Hold?
PORTFOLIO CHECKLIST	
Structure: Large caps? Middle caps? Small caps?	Number of shares in portfolio? 8 – 12?
Spread: 3 – 5 different sectors?	
Stoploss? Yes/No?	Stoploss %?

# APPENDIX 9 - SHARE SELECTION SHORTLIST



SHARE SELECTION SHORTLIST – FUNDAMENTAL CRITERIA								
SHARE NAME	SECTOR NAME	PROFIT MARGIN >5%	HEPS GROWTH >15%	PEG >35 <75	P/NAV <2	ROE >15%	CASH FLOW >0.75	INTEREST COVER >3TIMES
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								

SHARE SELECTION SHORTLIST – TECHNICAL CRITERIA							
SHARE NAME	SECTOR NAME	BULLISH TREND	OVERSOLD ZONE	VOLUME ACCUMULATION	MARKET OUTPERFORM	PRICE TARGET	CURRENT PRICE
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							



The \_\_\_\_\_ (name) Investment Club follows these recommended investment principles:

1. Reinvest regularly, regardless of the market outlook.
2. Reinvest all earnings.
3. Invest in value or growth companies.
4. Diversify to reduce risk.

The investment objective of \_\_\_\_\_ (name) Investment Club is to double our money every five years. To do so, our investment club must average a 20% compounded annual growth rate.

For a company to be considered for a purchase by the \_\_\_\_\_ (name) Investment Club, an investment club member must show:

1. a completed Share Selection Checklist for the company
2. majority approval by the members to purchase the share

Template



Updated March 2017