twelve

5 steps to investing successfully with friends

Let’s start with the basics – Where did investment clubs begin?

In 1951, Tom Ohara and his investing buddies got the vision to start an investing movement of investment clubs which they named the National Association of Investment Clubs (NAIC). Tom Ohara started his investment club (Mutual club of Detroit) in 1948 with $20 monthly dues and this has since grown into an organization of over 37,000 investment clubs with a total of 478,000 active participants

According to Better Investing (also known as the ‘National association of Investors Corporation USA’), Investment clubs date back to the late 19th century. The oldest known investment club, still in operation today, is the Hamilton Trust, an investment club created in Boston in January 1882.

The next-oldest known club began operations in Texas in 1898. Most of the early clubs were formed as social organizations with combined investing as one activity. Based on information captured in 1958 by the National

Association of Investment Clubs (NAIC), there was little, if any, attempt to establish uniform principles for the guidance and education of members of investment clubs until recently.

In Africa, traditional savings contributory schemes are more common than investment clubs. These contributory schemes encourage a savings culture within communities by enabling a cycle of pooling and disbursing bulk funds to those who contribute to these schemes. The traditional name for this scheme is 'Ajo'/'Esusu'. 'Ajo', translated literally means 'pooling resources together'.

Women in the traditional market place have always taken advantage of the power of many with the 'Ajo' scheme. Most of these women lack basic education and thus do not operate bank accounts. The 'Ajo' was a way to contribute to a purse and get access to 'credit' for stock purchase or basic living expenses. These traditional schemes still exist and can now be found in both formal and informal working environments today. However, they are widely exposed to the risk of default and currency devaluation in Africa.

In modern context, an investment club consists of a group of people who decide to collaborate to co-invest in creating a defined investment portfolio. Starting or becoming a member of an investment club provides several benefits which include.

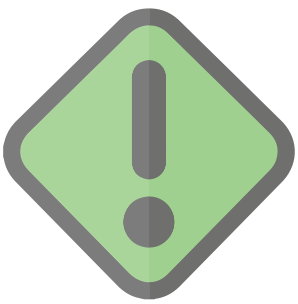
01

More cash to invest in assets that require higher minimums

It is easy to invest in the stock market because most people can afford the minimum required to buy a stock. However, some assets such as real estate, Eurobonds. VC funds require higher minimums. Collaborating with others to co-invest in assets that require higher minimums provides the benefit of taking advantage of the opportunity now and not waiting till you can afford it yourself. Waiting till you can afford it yourself might make you miss out on good deals.

02

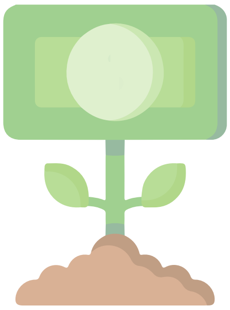
Shard risk



Collaborating to invest with others limits the downside risk for everyone in an investment. Note that it does not eliminate risk, however, pooling funds with others to invest means that individual losses are minimized. In addition, the collaborative investment approach mitigates the risk of information asymmetry that exists when one is investing individually.

03

Independent investment experience



One of the great benefits of investing as a club is gaining from the skills and experience from each member of the club.. As a group, you'll benefit immensely from the diversity of skills and experience of other members You can also leverage your individual networks to gain access to experts in industries, gather specialized knowledge and gain good which will help you make making better investment decisions.

04

Accountability

It takes a lot of discipline and commitment to stay consistent on your investment journey. Being accountable to the members of your club provides the support and accountability you'll need on your investment journey.

An investment club offers everyone a win/win solution. If you think your current income is limited in anyway, you can start an investment club with friends and together you can co-invest in owning asset classes across continents. An investment club takes a collaborative approach to making investment decisions and provides a great learning opportunity – being part of a team makes it easier to learn from the diversity of skills and professional experiences of other members.

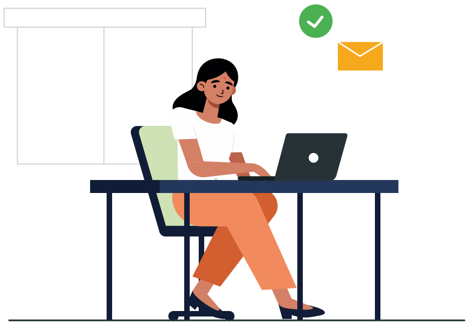
Is an investment club right for me?

We get this question all the time and the honest response is, do you work well in teams? You must be a great team player to achieve your financial goals with an investment club

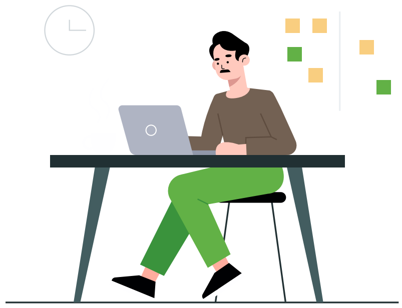
If you've always wished there was a way you could do more or achieve more with the money you have, then you should consider starting or joining an investment club.

Five steps to a successful investment club

1. People



> Work with people you like



Start an investment club with people you know well and can work with over a period. Money can be a sensitive issue with friends or family so you should be objective about who you think is able to handle the highs and lows that come with making investment decisions.

In terms of the number of members required, you can have as many members as you believe is necessary to achieve your financial goals. However, experts advise, you start with a minimum of 5-10 people. It is easier to manage and get 5-10 people to agree on a shared objective.

When trying to identify the right members for your investment club, here are some questions to help you be objective in making a decision;

- Is this person objective or does he/she get emotional, especially when money is involved?
- Does this person have integrity? (Do a quick check-in by asking friends about this person's money habits. If this person takes a lot of loans, for instance, that might be a red flag)
- Is this person forward looking and disciplined? (Do they consciously try to learn new things? Are they open-minded? Are they disciplined with keeping information?)
- How do they make decisions? On-the-go or after thorough research of facts? (This will help you understand the role this person can play in the club)
- Is this person a team player? Do they isolate themselves and form cliques? (If a person isolates themselves often, that's red flag that might dis-unite the club)
- What are this person's values? (Check to know you can relate to their values so you avoid unnecessary clashes)

2. Aligned goals

> If everyone is moving forward together, then success takes care of itself.
>
> – Henry Ford

This second step provides the foundation for all subsequent investment decisions. It is important to discuss and agree on an investment goal or objective for your club as this may make or mar future investment decisions. Differing views should be discussed openly and analyzed before club operations commence.

In the words of an acclaimed expert on investment clubs in Africa, **Tomie Balogun.**

Start your club with friends with similar investment goals. This will make investment decisions easier to make. You must also be patient as It can be a long and tedious journey. There will, most likely, not be instant gratification or glory. However, having a very clear objective and the mindset from inception will help you stay focused in the high and low seasons of your investment journey.

Differing views or additional perspectives on the goal of the club should be evaluated and discussed comprehensively before the investment club is incorporated. The 3 questions below will help you define your club's objective.

01

Is the objective to build long-term wealth or earn short-term dividends? Is the wealth objective to invest in a specific asset category or multiple asset categories?

The answer to this question will determine what investment options the club takes advantage of. Long-term wealth requires investing in long-term sustainable assets. Assets that are long-term in nature might not be easy to liquidate on short notice; however, you're assured of a sizeable appreciation in value over time.

Short term dividends will require a different mindset. When members want to pay out returns earned rather than plough it back to grow the fund, they are interested in short term dividends. You'll will have to invest solely in short-term investment options or an asset mix of long-term and short-term options to make this happen on a regular basis.

If your objective is to invest solely in one specific asset category, this should be discussed and agreed with all the members from inception.

02 **Is there a defined tenor for the existence of the club? i.e. Will the investment club exist for 2 years, 5 years or until the wealth goals are met?**

An investment club can exist till infinity or for a defined tenor. An ideal period to measure the growth of your club is 3-5 years. This period offers you time to grow as a club, learn how to make investment decisions together, grow your investment portfolio and assess the performance of your investment portfolio as well.

The questions below provide context for discussions within your club.

- How long do we plan to contribute to the investment plans?
- Do you plan to continue investing for the entire period the investment club exists or only at the inception of the club after which you simply monitor the investment?
- If your club invests in long term assets, how do you plan to liquidate the funds after the defined period? Sell them off or keep them as assets for longer?

03 Do we pay each other dividends regularly or plough back profit into club funds?

Dividend payments might not give the club an opportunity to maximize the growth of the investment portfolio. However, if the members decide paying out regular dividends is the core objective of them setting up the club, that's the decision to stick with. An option to consider might be holding off on paying out dividends till the defined tenor for the investment club ends after which a lump sum dividend can be paid to all members.

3. Defined contributions

> Invest when you don't need it, and it'll likely be there for you when you do

In an investment club, monetary payments made by members of the club are defined as contributions. Regular monetary contributions or a defined lump sum contribution at inception are a key characteristic of a financial investment club.

Each member's contribution is defined as a monetary amount. All members may agree to make equal or different monetary payments. The cycle of payment may be monthly, quarterly basis or annual payment basis. All members should set an agreed date for contributions to commence.

In summary, all members can agree to contribute X amount monthly for a defined period (long-term/short term). "Long-term" should refer to a minimum 5 yr. period or more.

It is not necessary for everyone to contribute the same amount. A member's ownership or stake in the club can be calculated by valuing contributions made with units of stock. However, it is easier to manage your financial records when everyone has an equal stake.

Once you decide on the monetary amount each member will contribute and how frequently the contributions will happen, the next step is to set up a plan for how money is received, managed, and audited.

To avoid payment defaults, it is important that regular monetary contributions, both in terms of the amount and frequency agreed, are set at a convenient level for all members. A convenient monetary contribution ensures the club can make the necessary investments decisions according to plan. You can also consider setting a low contribution threshold for everyone at inception and slowly raising the threshold after a while.

4. Legal Structure

Do yourself a favor and legalize your club

The investment club should be registered as a legal structure. All members of the club need to agree on the best legal structure for the purpose of the club. Options include registering a limited partnership or a limited liability company.

Each legal structure comes with its pros and cons. There are tax advantages that come with a partnership; however, each member might be exposed to unlimited personal liability. A limited liability offers protection and is quite easy to formalize. The agreed legal structure will ensure the investment club becomes a formal entity and all members are recognized as shareholders or partners.

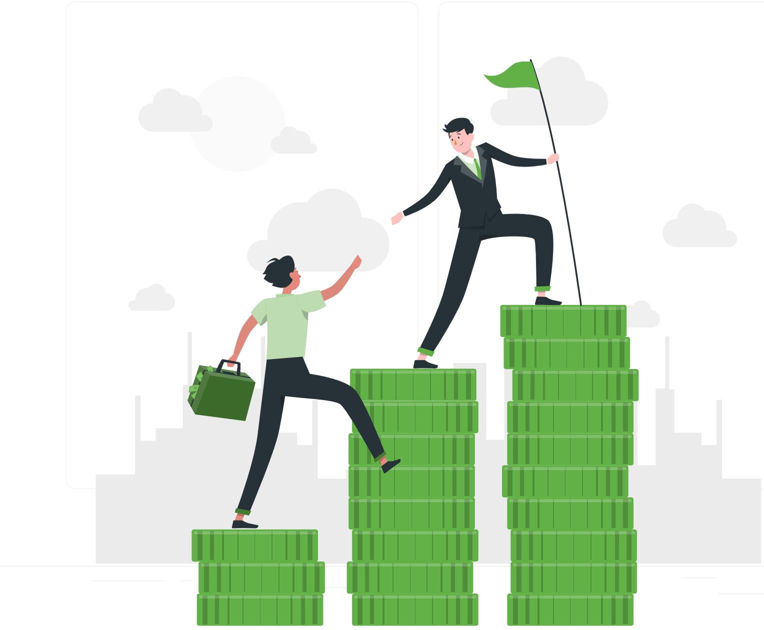
Do we need to register our investment club as a legal entity?

Yes, you do. It might seem like a bother but money is a sensitive issue and it's best handled within the confines of a legal entity. A legal structure is required to make your investment club a recognized legal entity and ensure all members are recognized formally as shareholders or partners. You should speak to a legal counsel about creating a legal agreement or creating a constitution that governs the club for all members to execute.

A legal structure is advised for the additional reasons below.

- Operational activities like opening a bank account, managing member contributions or receipt of external funds, making investments etc. can be executed formally with a corporate bank account
- The legal agreement and other legal documents will outline clearly all the terms that apply to formation and purpose of the investment club
- It also helps with legal recourse if required.

5. Growth



Follow the money

– Peter Thiel

There are different investment club models. Some of the models we've implemented include.

- **The core model (financial)** – where members simply collaborate solely to invest and build other businesses.
- **The business/project model** – where members of the club collaborate to start a business or carry out short term projects.
- **The Hybrid model** – where members of the club start with a savings scheme for a short period before proper investment begins.

The choice of what model you adopt is a decision the prospective members of the club must make together and agree on. Each choice requires an active decision to 'follow the money' to grow the investment club.

Each member's contribution is defined as a monetary amount. All members may agree to make equal or different monetary payments. The cycle of payment may be monthly, quarterly basis or annual payment basis. All members should set an agreed date for contributions to commence.

Vilfredo Pareto developed the pareto principle in 1906 after a mathematical observation of Italy's income distribution. 20% of the people who lived in Italy owned 80% of the land in Italy. It is also known as the power law.

The power law is dominant when you follow the money: In an investment club, active decisions need to be made on how to profit from exponential growth in your choice of investment options. With start-up or growth companies, a few companies attain exponentially greater value than all others. Stick with those companies. With securities or assets, some are more likely to yield higher returns than others. Stick with those assets or securities. For context, stick with the companies, securities or assets that offer higher returns or growth if you can handle the risk.

How to originate deals

Deal origination is the process of sourcing for investment prospects. An effective and efficient deal origination process results in successful investing. Some of the ways to originate investment deals include;

01 **Network**

Good networking is meeting the right people with the right prospects/influence. The right people can introduce your club to interesting investment opportunities you can take advantage of over time. It might not be immediate but building the right relationships always pays off.

Networking also refers to reaching out to friends/family within your network who might know one or two investment opportunities you can invest in as a club. While networking with friends you already know might help, the club should avoid making biased investment decisions due to an existing friendship. Always carry out your due diligence and avoid making emotional decisions.

Some interesting events where you may meet like-minded people include start-up pitch events, general enterprise fairs and investment workshops/conferences.

02 **Leverage the internet and social media platforms**

You can leverage the internet with a website or with social media. Social media provides the best of both worlds; a social presence and interaction with business prospects. One of the best ways to leverage social media is to build a

One of the best ways to leverage social media is to build a social presence on popular social media platforms such as Instagram, Facebook, twitter, LinkedIn and various email lists. A social presence provides a way for interested parties to connect with your investment club. It also gets you noticed by business owners with interesting business opportunities in the market place.

03

Seek investment advisers

Success, to a large extent, is determined by access to good advice when required. The best way to seek good advice is to seek out investment professionals who have a track record of transparent dealings and request for a meeting. Work on making the relationship a win/win relationship so it doesn't seem like you're taking advantage of their expertise for free.

Join the Twelve Community. It's free!

The Twelve Community is a digital investment community for Africa and Diaspora. The community was established to provide access to exclusive alternative investment opportunities at accessible minimums across borders.

In the **Twelve Community**, we are focused on harnessing the power of all the members who join as individuals or groups who join as clubs within our network into a force to be reckoned with within our local and global economy. It would be great if your investment club becomes a member of our community. Some of the other benefits of joining the community include the following;

- A club dashboard for easy club reporting and transparency so you don't have to keep your financial records on a boring excel sheet on a member's laptop.
- Automated financial report downloads for every member when a member needs the information for themselves or third parties.
- Access to curated investment opportunities from top asset management companies when the members of your club are confirmed as qualified investors
- An opportunity to partner with other investment clubs (SPV) to invest in a project when your club does not have the required liquidity.
- Access to a network of experts in various fields who can provide advice and insight that may protect you from fraud or loss of your investment.

If you found this resource valuable and would like to access more, sign up on the Twelve blog here and become a part of the Twelve investment community here.

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