

Tips, Tricks, & Techniques

Club Accounting Topics

by Gene Rooks

Withdrawal Penalty Consequences

There is always considerable misunderstanding about the use and consequences of withdrawal penalties/fees. Some clubs think a withdrawal penalty will cut down on members leaving, or that they deserve a fine for the 'trouble' of processing a withdrawal. We all should keep in mind that membership in an investment club is NOT a marriage, 'til death do you part. People have a right to move on when appropriate for them, without leaving part of their money behind for others to have an increase in their unit values. Treat members as you want to be treated.

It has been my observation that constant withdrawals reflect problems within a club. Perhaps something is going on in the club that is making meetings unproductive or tense, lack of cooperation, one group overbearing, etc. Educational growth may be lacking, resulting in poor portfolio choices. Another factor is members are taken in too casually, without expectations being clear, and when they realize they are expected to put in some time and effort, they bail out.

If your club is working right, members are learning, taking part in their assignments, good portfolio choices are being made, and the atmosphere is organized but fun, people won't be leaving all the time. Perhaps this example, exaggerated for clarity, will illustrate the inequity of using anything more than actual costs for your member withdrawals.

Assume a club with a market value of \$10,000, having 5 members each with a value of \$2000. The club has a 10% WD penalty.

A withdraws \$2000, less 10% penalty of \$200, receives \$1800.

4 remaining members now worth \$2050 each, club value \$8200.

B withdraws \$2050, less penalty of \$205, receives \$1845.

3 remaining members now worth \$2118.33 each, club value \$6355.00

C withdraws \$2118.33, less penalty of \$211.83, receives \$1906.50

2 remaining members now worth \$2224.25 each, club value \$4448.50

D wants out, so the partnership disbands, as it cannot continue with just one person. Fees cannot apply upon disbanding, so D & E each leave with their \$2224.25.

They made an additional 11.12% on their original \$2000 value. Everybody else lost.

If the club had used no penalties beyond deducting any actual cost, which would not change club value, each member would have left the club with \$2000. Now, which method is more fair to each and every member, whom we hope are at least friendly colleagues? And do you really think the average prospective member can foresee this effect when they are told about or read the paragraph about a 3%, 5%, or higher withdrawal fee?

Rather than a withdrawal fee, I would suggest clubs have a minimum three visit application process, and use an initiation fee, say a flat \$50 to \$75, that does not buy units. This is fair if everyone pays it. This tends to discourage too early withdrawals, as most would stick around long enough to recoup that amount in gains.

Stock Splits and Merger Transactions

IClub has a wonderful resource page for sticky split and merger transactions, which includes this one. Check out this link under Support > <http://www.iclub.com/support/kb/default.asp?page=transactions>