

### Investment Clubs for Sophisticated Investors

In the past few years, many segments of the equity market have produced exceptional returns. However, one underperformer was North American large caps, excluding those companies that deal in commodities such as oil, gold and minerals. Unfortunately for many experienced individuals who make their own investment decisions, their expertise is in large cap stocks. This is not surprising as information on these companies is readily available and at no cost to the investor. Perhaps the greatest advantage of using certain investment advisors in the past few years was to take advantage of their counsel if they recommended changes to their client's asset allocation away from North American large caps (natural resource companies excluded) and into other types of equity investments.

Individuals that wish to increase their knowledge of non-large cap companies and are uncomfortable with the fees charged by investment professionals should consider joining an investment club for experienced investors. Unfortunately, most investment clubs are structured for novice investors. Although there is lack of empirical evidence on the topic, it appears that many investment clubs fold in the first few years of their existence. There are two "models" for investment clubs – one type for investment novices and a second type for more sophisticated investors. It is our belief that many experienced investors select "the novice model" and quickly lose interest in the club.

The novice model of investment clubs is the traditional structure where individuals with a desire to learn more about investments, study various companies and deposit modest amounts of money, often on a monthly basis.

Many inexperienced investors join a club to learn the fundamentals of investing. Their stock portfolio may be quite small and any stocks purchased may be material as a percentage of their total portfolio.

Investment clubs for experienced investors are fundamentally different than the traditional clubs. Members of these clubs tend to be seasoned investors, who have no desire to pursue individual research and share it with the other members. The monthly contributions are significantly higher than the traditional clubs. Since these investors often own a number of stocks, purchases through the club may focus on the risk portion of their portfolio, whereas novice investors tend to select conservative companies that are the cornerstone of their smaller portfolios.

Experienced investors may wish to join a club with an investment policy that forbids the purchases of North American large cap stocks. The portfolio will be designed from the following investment products in an allocation decided upon by the members:

- stocks from emerging markets
- small, medium and micro cap companies
- business trusts
- real estate investment trusts
- international large caps
- hedge funds, if the members can meet the capital requirements
- exchange traded funds
- options

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