

What is an investment group?

Generally, an investment group is any group of individuals, who pool resources together, to invest in a project that will yield a profit, which will be shared among the members in prescribed ratio. These groups are developed by a people who share similar social interests and a desire to learn more about investing.

Usually, when one talks of an investment group, many often associate this with an organization that solely deals with shares and other similar securities traded in the stock exchange. However, the truth lies in the definition of an investment group. It therefore follows that even those groups that invest in real estate or general business should fall under the category of investment groups

Why should I invest with an investment group as opposed to by myself?

An investment group will encourage you to invest regularly and knowledgeably, and to understand the risks associated with investing. In addition, it will assist you to acquire investment skills that will benefit you on an individual level as well. A group will:

Increase your capital outlay

Due to the little capital available to an individual, an investment group offers the opportunity to pull resources together with other individuals, into large pools of funds that can be used to invest in projects that require a large capital outlay.

Help you learn how to invest

A good investment group offers a new investor the opportunity to interact with seasoned investors, thereby learning the art of investing. You can pick up tips on how to spot investment opportunities and research on their viability. An investment group is a more

effective way to learn about investing, as opposed to a classroom situation, due to the practical nature of activities of the group, that expose you to real investment situations.

Create Group mentality

Most budding investors are terrified at the thought of investing on their own, probably due to the risk of failure and a feeling of inadequacy. A group therefore offers a solution, as participating in a group transfers the pressure from the individual, to the group. In addition, it minimizes the risk of failure, by diversifying it to the group

Improve your saving habits

Saving on an individual level proves difficult for many. Participating in a group on the other hand ensures mandatory saving in the form of regular contributions. Default on these subscriptions usually attracts a hefty penalty, which ensures members pay up on time. This instills discipline in an individual to save, a commitment he would have broken if he were to save on his own.

Help you meet and make new friends and contacts

An investment group offers a very good opportunity to meet and interact with new people. In fact, lasting friendships can be forged. These friends later become vital business allies later in life. A good group maintains a friendly and fun atmosphere in the group, so as to encourage interpersonal relationships.

I like the idea, but how do I go about starting my own group?

The inception of a group can be broken down in to three:

- The preliminaries
- The first meeting, and

- Tasks after the first meeting.

This can be evaluated as follows.

5.1 The Preliminaries

The first step is to tell a few friends you trust and think will be interested in joining the group. You, together with these friends, later embark on the task of recruiting members for the new group. This can be done by contacting other friends, or sending personal letters to persons you feel would be interested in joining your group. In choosing people to include in the group, you should take the following points into consideration:

a) Interest in joining an investment group

You should only choose those with a genuine and lasting interest in investing through joining an investment group. This is extremely important so as to ensure sustained interest in the group, and avoid sub optimization by some group members in the future.

b) Goal Congruence

It is obvious that all the members in the group will have been brought together by the desire to make money. However, how to do this is usually the point of disparity. While some members would desire to invest in stocks, others prefer real estate, or risk free securities such as treasury bonds. This is as a result of the differences in the individual group members' attitude toward risk, expected rate of return, and expected pay back period. This is why it is emphasized that the founder of the group should clearly articulate the group's objectives, by specifying all the key areas before hand, and avoid general

objectives such as, “to make money by any means possible”. This can avert group confrontations in the future.

a) Variety in the group

The group should have a variety of people with varied interests, experience and perspectives on investing. The importance of this is to ensure quality discussion, covering all angles of investing. The danger of having a group of like-minded individuals is having a rigid, narrow-minded group. In addition, boring meetings will be inevitable, as all the members will always agree or disagree on the same points. A good group is one that diversifies its membership across all types of professions, attitudes, skills and experiences.

b) Composition

Having a group of interested dedicated people is not a guarantee of a winning group. One needs a variety of people who will bring in unique, differentiated individual skills to the group. These needs include leadership, innovation, implementation of ideas and scrutiny of accountability and profitability of projects. One scholar named Dr Raymond Meredith Belbin (Appendix 1), best explains the individual qualities that make up a good group, in his model of team roles.

c) Number of group members

Many who have contributed to the subject of investment groups, have come up with various numbers, which they think is ideal for an investment group. The number ranges from as low as 6, to as high as 25. Others even insist on an odd number so as to ensure no stalemates when voting in meetings. However, all these contributors agree on the fact that the number should not be too low, as to bring in a problem of

accumulation of capital, and that it should not be too high as to jeopardize the management of the group and the quality of discussions.

- After completing all the preliminaries successfully, the founder sends out an invitation to the first meeting. Therein, he should specify the date, time, and venue of the meeting. In addition, he can include an agenda for the meeting.

5.2 The first group meeting

In this meeting, the members discuss and agree on issues such as:

i) General objectives of the group

Members discuss what they would like out of an investment group. This ranges from what type of investment group they want, i.e. whether a group directed or self directed investment group, types of projects to invest in, required pay back period, rate of return, and so on. The founder should be clear in pointing out that an investment group is not a get rich quick vehicle, and should caution the members that returns may take time to be realized, and sometimes losses will be experienced.

ii) Venue and regularity of meetings

The group should find a time that works for everyone, since attendance of group meetings is key in attaining group objectives. The venue should be one that is accessible to all the members, and offers privacy and comfort, at minimal charge. Some groups adopt a system, whereby meetings are rotated around the member's homes.

Most groups usually agree on monthly meetings as the most convenient frequency of group meetings.

iii) Amount of monthly contributions

The members should decide on an amount that is both affordable, and sufficient to cater for the investing needs of the group. This amount, from groups interviewed ranged from Ksh 500 per month for students, to Ksh 6,000 per month for working class persons.

iv) Group Name

The members should be creative with this. However, a good name usually reflects aspects such as the group's purpose, location or names of the members. A good example is from a group interviewed called 'Synergia Investments,' which is a creative way to allude to the member's wish to obtain synergy from the group.

v) Projects to invest in

For a group directed investment group, the first meeting offers an opportunity to discuss the types of projects the group will put money in to. This will include securities such as shares and bonds, investments in assets such as real estate, or starting up general businesses.

vi) Formation of the group

It is important members decide how the group is to be recognized in the eyes of the law, since the law has not made any special provision for these types of entities. The most common options available are:

- a. Limited liability company or
- b. A partnership.

These can be evaluated as under:

a) Limited Liability Company

This is a business entity incorporated under the company's act, which has a separate legal personality from its owners. In addition, its members have limited liability, meaning they can only be liable for the company's debts up to the amount of capital that they have contributed.

Main Advantages

- Limited liability – the members cannot lose more than they have contributed, when paying for liabilities incurred by the company.
- The company is a separate legal entity from the members, and therefore can own property or sue in its own name.

Main Disadvantages

- Tax burden. – These corporations usually attract a corporation tax rate of 30 % in Kenya. This may be too high for a small group.
- Rigorous rules to abide by – Examples include holding of an Annual General Meeting, preparation of audited accounts and filing of tax returns. This may be too much of a hassle for a small group.

b) General Partnership

This is a type of business relationship that has a minimum of 2 members, to a maximum of 20.

Main Advantages

- The terms of this type of business relationship are clearly stipulated in the partnership deed. These terms include duties of members, profit sharing ratios, among others. This is advantageous in averting future disputes.
- This type of legal business relationship is well known and well defined. This reduces uncertainty in its operation and gives clear steps in dealing with specific issues that may arise.
- A partnership does not attract a separate tax rate, and member's earnings are taxed on an individual level.

Disadvantages

- The members have no limited liability, and the members are jointly and severely, personally liable for liabilities such as debts, taxes etc, of the partnership.
- The partnership has no separate legal existence from its members. This means that death or withdrawal of a partner will mean an end to the partnership. This can be time wasting and inconvenient as it will stall activities of the group.

It is therefore upon the group to evaluate the options available, find one that is most suitable for them. It is however recommended to register a business name for the group. This will allow them to legally engage in any business activity, with minimal legal requirements.

vii) Group Agreement

This is basically the group's constitution, and it outlines basic rules and regulations that govern the group. It usually depends on how the group decides to form the group. If a Partnership is adopted, the agreement will be contained in the partnership deed; but if a group forms as a company, its constitution will be contained in the Articles of Association.

Generally, a group's constitution will contain clauses that touch on areas such as:

- Amount and regularity of contributions
- Method of sharing profits
- Conduct of group meetings
- Steps or avenues of dispute resolution
- Procedure of removing a group member, or inducting a new one
- Procedure of winding up the group.

vii) Office bearers

They are the heart of the group as they act as facilitators to group activities. The number and roles of the office bearers vary from group to group, and will depend on the activities of the group, and the group agreement or constitution. However, in essence, a typical group will have the following office bearers:

- Chairperson – He calls and presides over meetings, and acts as the chief planner of the groups activities.
- Vice Chairperson – His work is to sit in for the chairperson whenever he is not available. In addition, he may assist him in carrying out some of his duties as may be set out in the group constitution.

- Treasurer- He keeps records of all financial transactions of the group, which may include receipt of monthly subscriptions, cash inflows from various projects, and payment of expenses.
- Secretary- mainly, his duty is to send out notices of group meetings, and take minutes at such meetings. In addition, he can be charged with the task of having custody of all-important documents of the group.
- Educational Coordinator – This is a member who will plan for a brief educational session on investing, for the group members. In addition, he can be in charge of research of potential investments. This role can be assigned to a member, or be added to the Vice Chair’s list of responsibilities.

For the first meeting, these officials can be appointed on an interim basis, pending an election in the future

5.3 Tasks After the First Group Meeting

i) Opening of the Group Account

It is paramount that a group opens a bank account, to safely keep regular subscriptions, and future cash inflows. This account should be opened by the group’s treasurer, and have at least two other group members as signatories. This acts as a measure to ensure the treasurer always acts in the best interest of the group, since the other two signatories must authorize any account activity.

Currently, the cheapest and most convenient accounts available for investment groups are personal accounts, for as low as an opening balance of Kshs 400, and no monthly charges. (Equity Bank). These are easy to open, with the only requirement being the minimum balance, and copies of identity cards of all the signatories. However, for

larger groups, current accounts are available, which even provide cheque books to ease payment of cash in bulk. This type of account usually requires a higher opening balance of about Ksh 5,000 (Equity bank)

ii) Funding the group

As deduced from groups interviewed and other contributors, most groups generate capital from the monthly contributions. However other sources of funds include Loans from sources such as:

- a) Financial institutions like banks, Micro Finance Institutions among others. As will be seen later, these sources have stringent terms, and are limited to well-organized groups that have been in existence for a relatively long time, and can raise sufficient collateral. This ends up locking out deserving groups that are just starting out.
- b) The government, through the youth fund initiative. This is aimed at individuals aged between 18 and 35, who have organized themselves into groups. It is limited to groups that have been in existence for at least 3 months, as indicated by the date of registration of the group. Again, this locks out a majority of groups that are either starting out, or are operating without being registered.
- c) Family members. This is a very common source, since it is readily available, very flexible, and has no stringent terms of repayment. It is an advisable source for groups that are starting out.

d) Business angels. These are individuals in the society that are well off, and come in to lend a helping hand to individuals who are starting up businesses. They do so by providing finances, and in some cases technical guidance, to the group. This is a scarce source, which cannot be relied upon.

iii) Accounting for the Groups Money.

It is paramount that the group should keep financial accounts of its activities. This enhances accountability, and knowledge of whether the group is making profits or losses. The type of accounts kept depends on the general business of the group, but in general, books should be kept to record the following:

- **Member's monthly subscription.** This is done to keep track of how much has been collected, the amount in arrears, refunds and over payments
- **Portfolio Performance.** This records the net worth of all investments of the group, their cost, and current market value. This account is kept for assets such as shares and real estate.
- **Investment Transactions.** This records income and expenditure in investing in various projects. An example is in the purchase and sale of shares, or other investments held by the group.
- **Performance reports.** These summarize activities of the group within a certain period, and report on the group's profitability. Such summaries include the group's profit and loss account and balance sheet.

While some groups may use manual accounts, most have embraced computerized accounting. Here, groups use applications such as Microsoft Excel and Microsoft Access to keep track of their funds. However, computer companies have come up

with software specifically designed for accounting for investment groups. One such company is I Group, which has developed the software “Group Accounting 3”. While this may ease the task of accounting, it is relatively expensive, retailing at 220\$ (Ksh 15,000) in the United States

We have a group, but we are not registered. Is this a priority? What are the options available to us?

All is not lost. It is important members decide how the group is to be recognized in the eyes of the law, since the law has not made any special provision for these types of entities. The most common options available are:

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These can be evaluated as under:

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Main Advantages

- Limited liability – the members cannot loose more than they have contributed, when paying for liabilities incurred by the company.

- The company is a separate legal entity from the members, and therefore can own property or sue in its own name.

Main Disadvantages

- Tax burden. – These corporations usually attract a corporation tax rate of 30 % in Kenya. This may be too high for a small group.
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It is therefore upon the group to evaluate the options available, find one that is most suitable for them. It is however recommended to register a business name for the group. This will allow them to legally engage in any business activity, with minimal legal requirements.

I am in a group that has never formalized its operations. We feel this is a long and complicated process.

- **Trust**

This is a major concern in many investment groups, since some members turn unscrupulous and carry out group activities with an aim of benefiting themselves. This is not only dishonest, but also demoralizing to the group members. This can be overcome by setting up checks and balances that ensure no under hand tactics go unnoticed. These include having more than one signatory to the group's accounts, or having, group agreements prepared and signed by all members, clearly outlining matters such as consequences of dishonest behavior, and setting up a clear system of dispute resolution.

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We are very enthusiastic about our group, but we never seem to have time to run the administration side of the group, e.g. taking minutes, filing of documents, or doing the manual accounts.

We feel limited to in the types of projects available to invest in, i.e. shares. Are there other investment opportunities available to us?

Our group has been in existence for some time, but I feel that the momentum has fizzled out. How do we bring back the spark?

My group consists of novices to investing. Our investment decisions have been based on hearsay and gut feeling. We feel we need expert advice and and a neutral, factual source of information.

One of our group members as decided to pull out of the group, and has requested his stake in the group. Most of the group's money is tied up in shares and other investment projects, which have appreciated in value from the time we acquired them. How do we go about calculating how much to give him?

One of our members has brought along his friend to a meeting. He says he has very good contacts and an abundance of capital he could loan the group. However, the group has been in existence for very long. How do we induct him as a new member, and how do we calculate how much he should submit, and restructure the profit sharing ratio?

My group has very good ideas, but lacks enough capital to implement these ideas.