

## **INVESTMENT CLUBS**

It is estimated that there is more than R44 billion saved in stokvels around South Africa. Stokvels are a way for people to pool their money together with the objective of saving for the mutual benefit of all in the group. The group dynamic can be a very powerful tool to help people save and invest, especially in a country with no culture of saving and investing.

### **Saving is difficult**

There are many similarities between endurance fitness training and the discipline required for saving and investing. In both instances, we are required to sacrifice short term satisfaction for long term gain. Sadly we all prefer instant gratification which is why so many people are unfit and financially troubled.

One of the main reasons why people exercise in groups, is because it enforces greater self-discipline. It is more difficult to skip your daily exercise if you have a group of friends waiting for you. In the end, the group holds you accountable for your goals. This is a powerful motivating force that could be harnessed to help us save and invest our money more successfully.

Stokvels provide a great example of this combination of group pressure and saving. Every person in the stokvel agrees to save a fixed monthly amount that is pooled and paid out to one member of the group on a monthly basis. There is massive social pressure from within the group for all members to make their monthly contribution which enforces the discipline required to save.

### **Investing in a group**

Whilst stokvels are great for saving, they don't really help with investing. This is where I believe we can make greater use of Investment Clubs. These used to be popular before the advent of money laundering regulations that made it difficult to open accounts for groups of people. In addition, the administration of investment clubs is complicated, especially with regard to tax reporting. However, these difficulties should not prevent people from starting Investment Clubs, there are ways to overcome the complications.

### **Set up your agreements and rules before you start**

When you combine groups of people with money, you have the ingredients for a very combustible situation. I believe the only way to ensure that you can prevent problems with Investment Clubs is to ensure that you have a clear set of rules that govern the Club from the very beginning. You need to establish how people enter and withdraw from the Club as well as how investment decisions are made. Ideally, members should be allocated specific responsibilities so that everyone knows their role in the club. In addition, the financial information of the club should be transparent and easy for all members to understand so that there can be no disputes in future.

Most importantly, rules need to be created to hold people to account when they do not meet their savings commitments.

Many investment professionals are happy to spend time with well-run Investment Clubs as a way of educating their members. This enables the members to learn about money whilst they are building their wealth.

### **Treasury should get involved**

Government is deeply concerned about the lack of savings in South Africa. One of the problems is that investment costs are high, especially for low income groups. I believe that Treasury should focus on making it easier to open and manage Investment Clubs as a way for people to pool their money to take advantage of the economies of scale that exist with all investments.

Many of us struggle with our money, why not make use of our built-in social drive to help us with the problem?