

Handling Investment Club Member E-Payments

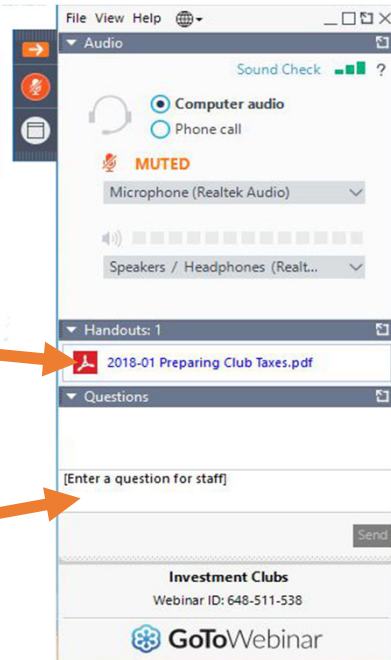
DOUG GERLACH • MYICLUB.COM • SEPTEMBER 2024



Handout & Questions

Handout in PDF
format is available
in Handouts tab.

Type questions in
Questions box.



Where's Doug?



- Sep 21, 2024 - Alaska BetterInvesting Chapter, Anchorage
- Oct 12, 2024 - Rocky Mountain BetterInvesting Chapter, Online
- Oct 26, 2024 - Puget Sound BetterInvesting, Online
- Nov 02, 2024 - LA/MS BetterInvesting Chapter, New Orleans
- Dec 07, 2024 - Philadelphia BetterInvesting Chapter
- Mar 01, 2025 – Northeast Ohio BetterInvesting Chapter

See details at:

www.smallcapinformer.com/Resources/Upcoming-Events



3

Defining Member Payments, Fees, Deposits



- Investment clubs typically require members to put cash into club on monthly (or other periodic) basis.
- These funds buy units & are called **member payments**.
 - Don't call them "dues" – this is **capital** paid in to club.
- Clubs may impose penalties, which are called **member fees**.
 - Never use fees to offset expenses.
- Together, **member payments** & **member fees** are known as **member deposits**.

4

Old School Club Cash Management



- Traditionally, treasurer would collect & record in books all member deposits made at each club meeting.
- Increasingly, clubs are meeting online for at least some of their monthly meetings.
- Clubs are also jettisoning bank accounts, requiring new methods for collecting member payments.
- Expanded brokerage services & online bill payment have created new means of collecting capital from members.

5



USING BROKERAGE CASH MANAGEMENT SERVICES AS BANKING REPLACEMENT

6

Cut Out the Bank



- Many brokerage firms (including Fidelity & Siebert) allow investment clubs to access cash management/checkwriting services.
- Often eliminates club's need for bank account for paying expenses & collecting member payments.
- Simplifies accounting since no transfers have to be made & recorded from bank to brokerage account.

7

Depositing Member Payments to Brokerage



- Many (but not all) brokerages allow 3rd party checks (i.e., members' checks) to be deposited.
- Treasurer collects checks from members at meeting & mails/deposits in person into brokerage account.
- Check with your brokerage for specific instructions, especially required payee formatting.
 - "FBO" payee designation can often be used even if brokerage don't stipulate, so worth trying.

8

What Does “For Benefit Of” Mean?



- FBO means “For Benefit Of” & is used in financial services industry as payee for:
 - Parents/guardians making deposit for minor.
 - Transfer of retirement account funds.
 - Deposit of rollover checks into another retirement plan.
 - Electronic transfers transferred/received by financial institution on behalf of an accountholder.

9

Format for FBO Payments

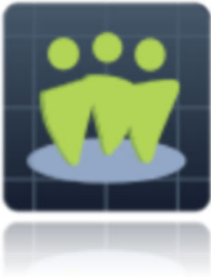


- Checks must usually be written in some variation of the following format:

PAYABLE TO: [Brokerage Name] FBO [Club Name] [Club Account #]

PAYABLE TO: TradesABunch Brokerage FBO
Any Investment Club a/c #123456-7890

10



HANDLING CLUB MEMBER E-PAYMENTS

11

Cutting Out Paper Check Deposits



- Increase in e-Banking & online club meetings has caused interest in switching from paper checks for members' club payments.
- Several methods can be explored, depending on each member's bank & club's brokerage.

12

Methods of Payments & Transfers



- Online Billpay/Electronic Checking.
- Automated Clearing House (ACH).
- Wire Transfer.
- Venmo/CashApp/Paypal etc.

13

Online Billpay/Electronic Checking



- Many brokerages accept online billpay, paper, e-checks from 3rd parties.
- Individual members can initiate/schedule automatic payments that are directly transferred/mailed to brokerage for credit to club's account.
- **Check with brokerage to determine policy, procedures, payee formatting, mailing address to use, etc.**
- Checks can often be written using FBO format:
 - Payable to: **TradesALot Brokerage FBO Any Investment Club a/c#123-456-7890.**

14

Automated Clearing House (ACH)



- ACH is system of transferring funds between financial institutions.
- Typically takes 3-5 business days to complete.
 - Most institutions process 3 batches daily; if you miss last batch transfer won't start processing until next business day.
 - Same-day ACH may be available, usually with fee.
- Often offered at no charge or with very low fee.
- Secure & traceable, often considered safer than wire transfers.
- May not be available outside U.S.
- More common for business accounts than individuals, but may be available.

15

Wire Transfers



- Typically used for large payments.
- Often can be completed in single day.
- Requires identify verification & set up member's bank account.
- May carry charges for individuals to use.
- As result, probably not viable for member payments.

16

Venmo/CashApp/Paypal etc.



- Some brokerages support cash transfer apps like Venmo, CashApp, Paypal, but not from 3rd parties (only between customer's own accounts).
- As such, member payments may not be possible using these (right now).
- Some clubs have members send payments to treasurer's personal account, who then makes bulk deposit of all member payments into brokerage account.
- We don't recommend this since it's complicated & chain of custody of funds is interrupted.

17



UPDATING THE CLUB'S PAYMENT POLICIES

18

Club Policy for Recording Deposits



- Because it takes 3-5 days to complete transfers, clubs should set deadlines by which funds must be received in order to be credited to that month's deposits.
- Members should allow plenty of time for transfers to be received in club's brokerage account.
- Deposits received after set date should not be recorded until next month's meeting.

19

Give Instructions to Members



- Once method of deposit is determined, treasurer should provide explicit instructions to members for how electronic payments are handled.
- Include deadlines & payee instructions.

20



USING THE PENNIES METHOD TO IDENTIFY MEMBER DEPOSITS

21

Identifying Cash Deposits by Members



- Brokerage statement will not show names of members making payments.
- To identify members, use Pennies Method.

22

Using the Pennies Method



- Each member is assigned 2 digit number & appends that number of cents to each monthly member payment:
 - James Hook: \$100.01
 - Anne Bonny: \$100.02
 - William Kidd: \$100.03
 - Edward Teach: \$100.04
 - Henry Morgan: \$100.05
 - Grace O'Malley: \$100.06

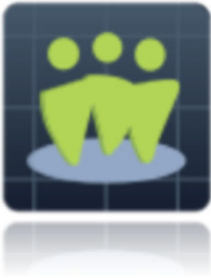
23

Pennies Method Considerations



- Works for up to 100 active members in club, so will accommodate nearly all clubs.
- Can recycle penny amounts after members withdraw.
- Some members end up contributing more than others when using this method, but amount is minimal over course of year.
 - Any member who objects to others paying in more can add another \$1 to their payment (based on club's operating documents).
- Do update club operating documents if this method is currently not permitted.

24



QUESTIONS?

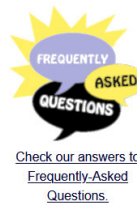
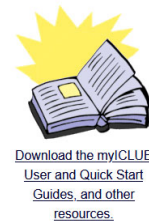
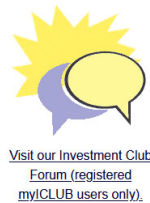
25

Get Help When You Need It!



Check all of our Help & Support resources at:

www.myICLUB.com/support



More Questions?



CONTACT ME AT
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