# Types of Securities to Avoid in Investment Clubs

MYICLUB.COM INVESTMENT CLUB WEBINARS

**Presented by Doug Gerlach & the myICLUB Team**
**October 2025**


1

## Your Hosts

**Douglas Gerlach**
*President,*
ICLUBcentral Inc.

**Russell Malley**
*Club Accounting Advisor,*
myICLUB

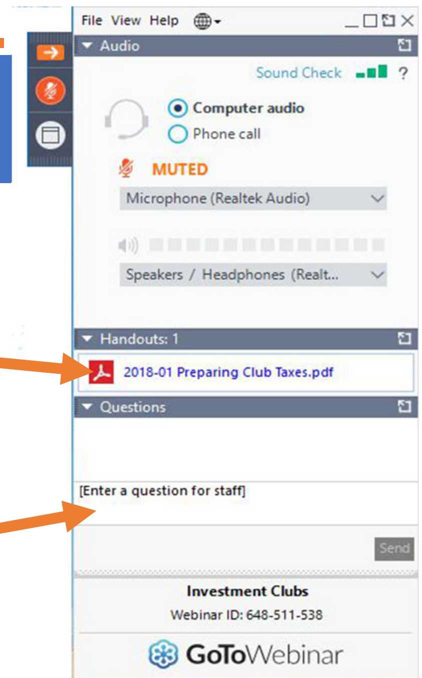
**Sean Pulrang**
*Senior Support Representative,*
myICLUB

2

## Handout & Questions

Handout in PDF format is available in Handouts tab.

Type questions in Questions box.




## The Bottom Line…

Before your club purchases any security that is ***not*** a US-based common stock, make sure you understand ***all*** accounting & tax implications of that decision.

4

# WHY INVESTMENT CLUBS SHOULD AVOID SOME TYPES OF SECURITIES

5

## Why Are Some Securities Problematic?

- 5 key reasons that some securities can be difficult.
  1. Federal tax law regarding reporting investment income.
  2. Federal tax law regarding investing partnerships (different from laws regarding individuals).
  3. Unit valuation system used for investment club member purchases creates additional complications for some types of securities.
  4. myICLUB.com does not support every possible type of investment, in bookkeeping and/or tax preparation.
  5. Total return objectives may not be served well with unfocused portfolio.

6

## Problems with Timing of Transactions

- Investment clubs use unit value accounting, where purchase price of single unit is revalued (usually monthly) & new partner purchases are made at that price.
- This requires that transactions be entered promptly & accurately, especially when member withdrawals are involved.
- However, some securities will only retroactively identify nature of distributed income.
  - Specific examples to follow later in this presentation.

7

## Problems with Complying with Tax Law

- Due to federal tax law regarding partnerships, some types of securities are not suitable for investment clubs.
- Partnerships are pass-through entities, so all tax liability is reported & passed-through to partners each year.
- Federal tax law regarding partnerships doesn't get simpler, only more complex over time.
- Some securities would require additional manual preparation of tax forms or outside accountant to comply.

8

## Problems with Investment Tax Laws

- Federal tax law changes frequently with respect to investment income/loss reporting.
- Increasing complexity can provide difficulties in complying.
- For example, recent changes have affected reporting of income from foreign companies & proceeds from sales.
- Some types of securities will get caught in these changes.

9

## Limitations of myICLUB.com

- Bookkeeping & tax preparation functions of myICLUB.com have been created to serve broadest number of BetterInvesting-style investment clubs.
- These clubs invest primarily in common stocks according to BetterInvesting.
- Limited demand from customer base & guidance from BetterInvesting re: club operations means that some securities types are best avoided.

10

## How Severe Are the Problems?

- Owning certain "problem securities" can present problems for clubs, both in regular bookkeeping and/or at tax time.
- These problems range from:
  - "Mildly irritating for club treasurer,"
  - "Requires hours of additional work by the treasurer,"
  - "Must file extension for Federal tax filing,"
  - "Must hire outside tax preparer or accountant."

11

## Know Before You Invest

- For these reasons, clubs should be aware before they invest in certain problem securities.
- Many clubs limit types of allowable investments in their operating agreements.
  - *Make sure you comply with your club's agreement, whatever it says.*
- Many experienced treasurers understand problems & can provide guidance on what to avoid.

12

# SECURITIES THAT ARE GREAT FOR CLUBS

13

## Some Securities Are Great for Clubs

- Investment clubs were designed to allow individuals to invest in **<u>common stocks of publicly-traded companies</u>**.
- Common stocks represent ownership shares in a corporation.
- Shares of publicly-traded companies trade on exchanges such as NY Stock Exchange or Nasdaq.
- Note: Other types of securities trade on exchanges but are **<u>not</u>** common stocks of corporations:
  - REITs, trusts, partnerships, ETFs, closed-end funds.

14

## Stick with Stocks in Your Club

- Most investment clubs can operate successfully & fulfill mandate to help members become educated investors by investing 100% in stocks.
- Adding other non-stock asset classes & multi-security investments wreaks havoc with members' management of their personal portfolios.
  - 100% stock allocation makes it easier for members to slot club ownership into personal portfolio management goals.
  - Concentrated portfolio of stocks has better likelihood of outperforming broad market over time.
- Don't aim for club portfolio to act like "balanced" mutual fund – strive to be an equities mutual fund.

15

## SECURITIES TO AVOID IN CLUBS

16

## Securities to Avoid in Clubs

- We can't tell you what to do in your club, however:
  - Some securities are inconvenient for treasurers.
  - Some securities make portfolio management more difficult & derail club's investment objectives.
  - Some securities are not supported by myICLUB.com because they are troublesome or excessively complicated.
  - Some securities make members angry & treasurers weep at tax time.

17

## Exchange-Traded Funds

- ETFs exist in many varieties & some are more problematic than others.
- Equity ETFs that hold US stocks are generally OK.
  - Watch portfolio diversification/allocation carefully, though.
- Equity ETFs that hold non-US securities may require you to report non-US holdings on your federal tax returns.
- ETFs can be priced in myICLUB.com, but no fundamentals are available.

18

## Mutual Funds

- Mutual funds that hold US stocks are generally OK.
  - Watch club's overall portfolio diversification/allocation carefully, however.
- If distributions are paid after 12/31 but are taxable in prior year, transaction must be recorded as of 12/30 in order for Club Tax & reports to pick up correct tax liabilities.

19

## Common Stocks of Foreign Companies

- Prices for stocks that trade on exchanges outside of US are not available in myICLUB.com, so prices must be entered manually when creating valuation.
- As with ADRs, country of domicile of non-US companies held by US taxpayers must now be reported to IRS under certain conditions.
  - Make sure to update Country in myICLUB.com Security Settings to ensure that these investments are reported correctly on tax return.
- Distributions paid by non-US companies may have foreign taxes withheld, requiring additional transaction to be entered by treasurer.
  - Depending on country's tax treaty with US, may get tax credit for this, which are distributed to members at year-end.
- May also need to generate IRS Schedule K-2 & K-3 along with IRS Form 1065.

20

## American Depository Receipts (ADRs)

- ADR is "basket" of single non-US stock that trades on US exchange.
- Generally OK to hold & can provide international exposure, if desirable.
- Country of domicile of non-US companies held by US taxpayers must now be reported to IRS under certain conditions.
  - Make sure to update Country in myICLUB.com Security Settings to ensure that these investments are reported correctly on tax return.
- Distributions paid by non-US companies may have foreign taxes withheld, requiring additional transaction to be entered by treasurer.
  - Depending on country's tax treaty with US, may get tax credit for this, which are distributed to members at year-end.

21

## Real Estate Investment Trusts (REITs)

- REITs must make regular distributions of income to shareholders (quarterly or monthly).
  - However, makeup of distributions isn't known until after close of year.
  - When received in club portfolio, treasurer *temporarily* records as Dividends
- Once REIT releases breakdown after end of year, treasurer must adjust transactions to reflect amounts received by club for various types of distributions:
  - Capital Gains, Returns of Capital, Ordinary Income (Dividends), Unrecaptured Section 1250 Gains, Section 199A Dividends, or Section 897 Capital Gains.
  - Adjustment of past transactions requires manual calculations & rounding of quarterly amounts to match grand total received for each type.
- Cannot prepare club tax return until breakdown is published.
- Any member withdrawn may not receive accurate payout due to adjustments.

22

## Publicly-Traded Partnerships

- Publicly Traded Partnerships (PTPs) & Master Limited Partnerships (MLPs) are "pass-through" tax entities, similar to investment clubs.
- Like investment clubs, public partnerships are subject to same tax deadlines & must report investment earnings to partners on Schedule K-1 by March 15th.
- Since your federal club tax return is also due March 15th, late K-1 from PTP or MLP could force club to request extension and/or delay K-1s for club members.
- Reporting income from PTPs & MLPs may prevent IRS e-Filing of club return using myICLUB.com & require preparation of tax returns by hand.

23

## Royalty Trusts

- Royalty Trusts are pass-through entities designed for income, treated similarly to PTPs & MLPs for tax purposes.
- myICLUB.com does not support royalty income transactions.
- Like your investment club, they are subject to same tax deadlines & must report investment earnings to partners on Schedule K-1 by March 15th.
- Since your federal club tax return is also due March 15th, late K-1 from royalty trust could force club to request extension and/or delay K-1s for club members.
- Reporting income from royalty trusts may prevent IRS e-Filing of club return by requiring manual entry & revision of paper forms.

24

## Gold & Precious Metals

- IRS identifies precious metals as **collectibles** & thus handles gains/losses differently than for securities.
- myICLUB.com/Club Tax does not support gold or precious metals trading, transactions, or tax reporting.
- Club cannot e-File with myICLUB Club Tax, & treasurer would need to make manual revisions to form & file on paper, including member K-1s.

25

## ETFs that Hold Gold or Precious Metals

- ETFs that hold gold or precious metals directly are treated as if shareholders held those assets directly.
- Thus these ETFs are taxed not as "investments" but as "collectibles."
- myICLUB.com/Club Tax does not support gold or precious metals trading, transactions, or tax reporting.
- Club holding ETFs that hold gold or metals cannot e-File with myICLUB Club Tax.
- Treasurer would need to make manual revisions to form & file on paper, including all member K-1s.

26

## Commodities

- Commodities are raw materials like oil, gold, or agricultural products such as wheat and corn, often traded as part of futures contracts.
- IRS taxes commodities differently than for other types of investments.
- myICLUB.com/Club Tax does not support commodities trading, transactions, or tax reporting.
- Club trading commodities cannot e-File with myICLUB Club Tax.
- Treasurer would need to make manual revisions to form & file on paper, including all member K-1s.

27

## ETFs that Hold Commodities

- ETFs that hold commodities directly are subject to same tax provisions as owning commodities directly.
- myICLUB.com/Club Tax does not support commodities trading, transactions, or tax reporting.
- Club cannot e-File with myICLUB Club Tax.
- Treasurer would need to make manual revisions to form & file on paper, including all member K-1s.

28

## Equity Options

- myICLUB.com does not support option transactions, pricing, or tax reporting.
  - Some manual workarounds are complex & not recommended.
- Clubs investing in options cannot e-File with myICLUB Club Tax.
- Treasurer would need to make manual revisions to form & file on paper, including all member K-1s.

29

## Cryptocurrencies

- Tax law is changing rapidly in this area.
- For 2025, cryptocurrencies are taxed as "property," same as stocks.
- However, individual taxpayers must report sale, trade, exchange, or receipt of financial interest on cryptocurrency on personal IRS tax returns,
  - If the club must report digital asset transactions on its tax return, all members must report on their personal tax returns.
  - This reporting requirement may not automatically be reported to members by myICLUB.com/Club Tax

30

## Federal Tax-Free Money Market Funds

- Taxable money market yields are so low that investors have very little to gain from choosing federal tax-free interest vehicles instead.
- Some states (including NY) require additional accounting for federal tax-free interest.
- myICLUB.com/Club State Tax do not support this reporting.
- Tax returns would need to be prepared by 3rd party to be e-Filed.

31

## Bonds

- myICLUB.com does not support bond pricing, or tax reporting.
  - Valuations would need to be created manually each month.
- Transactions are otherwise able to be entered using myICLUB.com, & Club Tax does support.
- However, most clubs have no need for bonds.
  - Clubs should not mix asset types – let individual members invest in bonds according to their own needs.

32

# WHAT TO DO IF YOUR CLUB ALREADY OWNS A PROBLEM SECURITY

33

## Act *Now!*

- If you own problem security, first understand its characteristics.
- If club (especially treasurer) is not happy with effort required, sell security ***now*** before another year passes.
  - This will eliminate problems in future years.
- Contact myICLUB to see if (limited) support is available to you on dealing with these securities.

34

## Once Again…

Before your club purchases any security that is ***not*** a US-based common stock, make sure you understand ***all*** accounting & tax implications of that decision.

35

## ANY QUESTIONS?

EMAIL ME: GERLACH@ICLUB.COM

36

# Thank You!