
Avoiding Investment Club Accounting Headaches

MYICLUB.COM INVESTMENT CLUB WEBINARS

Presented by the
myICLUB Team
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Your Hosts



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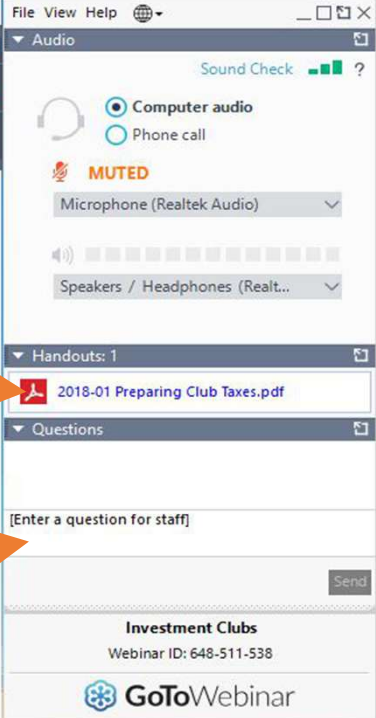


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Handout & Questions

Handout in PDF format is available in Handouts tab.

Type questions in Questions box.



The screenshot shows the GoToWebinar interface. At the top, there are tabs for 'Audio', 'Handouts: 1', and 'Questions'. The 'Audio' tab is active, showing 'Computer audio' selected and 'MUTED' status. Below it, there are dropdown menus for 'Microphone (Realtek Audio)' and 'Speakers / Headphones (Realt...'. The 'Handouts: 1' tab shows a PDF file named '2018-01 Preparing Club Taxes.pdf'. The 'Questions' tab shows a text input field with the placeholder '[Enter a question for staff]' and a 'Send' button. At the bottom, the 'Investment Clubs' logo and 'Webinar ID: 648-511-538' are visible.



SOME TYPES OF SECURITIES YOU MIGHT WANT TO AVOID

4

Unsupported Securities



- Starting easy, some investments simply not supported.
 - Cryptocurrency. (Bitcoin, Doge, Ethereum, etc.)
 - Commodities. (Gold, Silver, Platinum)
 - Royalty Trusts.
 - Limited Partnerships (LP) and Master Limited Partnerships (MLP).
 - Common Stocks of Foreign Companies. (Tickers that trade *only* on foreign exchanges or on the “Pink Sheets.”)
 - Options

5

Supported But Can Cause Extra Work



- Real Estate Investment Trust (REIT): Restated dividends at the end of the year. Edit old entries to account for true nature of distribution-199A dividends, Section 1250 gains, Section 897 gains, Non-dividend distributions; and you won't know the amounts until the 1099 arrives.
- Exchange-Traded Fund (ETF) and Mutual Funds: Restated dividends at the end of the year.
- American Depository Receipt (ADR): Foreign tax applied to dividends; not bad if the club uses Broker Sync, but depending on the brokerage it can be tricky reading the statement to figure out the Gross and Net dividends.

6



DIVIDEND REINVESTMENT

7

Issues With Dividend Reinvestment (DRIP)



- Hard to track differences in share amounts. The longer the club uses DRIP the harder it is to track down issues with mis-match of total shares.
- Similar issues with cost basis especially when selling or transferring shares; if the broker doesn't use the same blocks the club records, you might need to back track through dozens of blocks to find the issue.
- Checking cost basis during tax prep. IRS requires clubs track cost basis of sold shares at tax time. myICLUB club tax can help a bit, but selling 8 or 10 years of DRIP shares will still take time to validate when working on taxes, especially when 1099 lists "various" for the dates of tax lots sold.
- Easier to get caught in a wash sale. Selling shares too close to a recent reinvestment might trigger a wash sale you didn't intend to.

8

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.

9



TRANSACTIONS TO AVOID

10

Frequent Trading



- Purposely Buying and Selling several times a week:
 - Short term capital gain, if you sell for a gain.
 - Wash sale more likely to be triggered.
 - Buy transaction within 30 days from sale at a loss.
 - Statistically more likely to lose money in the long-term.
 - Spending time trying to time the market. *“Time in the market beats timing the market – almost always” – Ken Fisher*

11

Wash sales



- What is a wash sale?
 - Buying the same/equivalent security within 30 days of sale for a loss.
 - Loss can be one tax lot within a sale with a gain overall.
 - Buy can be 30 days before to 30 days after the sale at a loss
 - What are wash sale consequences?
 - All or portion of loss disallowed.
 - Cost basis and holding period of newly purchased shares must be adjusted.
 - Adjustments complex in myICLUB – usually need help

12



CLUB OPERATIONS TO STEER CLEAR OF

13

Inconsistent or Irregular Valuations



- The sample partnership agreement from both ICLUB and BetterInvesting describes setting a single Valuation Date “preceding the date of each periodic meeting determined by the Club.” In addition, the myICLUB system assumes a valuation on 12/31 of every year, to close out the year. Keeping to this schedule helps make sure that the club members can be certain that any payments, withdrawals or expenses during the month will adjust the units and value of the club in a reliable way.

14

Inconsistent or Irregular Valuations *cont.*



- We also occasionally see clubs who want to add a new Valuation ahead of a member's withdrawal "to make sure their value is accurate". Having extra valuations just for cases of member withdrawal, especially if the Valuation isn't on or just ahead of a meeting date defeats the purpose of having a Valuation that the entire club has seen and agreed on. Adding a new valuation can create inconsistencies and perceptions of unfairness, especially if the market is volatile. Keeping to a consistent schedule ensures that all members are treated equally, regardless of when their withdrawal is processed.

15

Inconsistent or Irregular Valuations *fin.*



- This is not to say that the club should never have a second Valuation during the month; if the club meets mid-month, it might be good to have a month-ending Valuation to compare vs. a bank or brokerage statement. In that case though, the club should hold a vote to set clear guidelines for when extra valuations are added, and above all: Be Consistent.

16

Ignoring Member Status and Valuation When Paying Withdrawals



- Unless entering a partial withdrawal for an agreed upon amount of money, having the broker send a check or transfer shares before confirming the amounts can cause problems.
 - With no Valuation in place or no agreement on which one to use, the amount of the withdrawal might change.
 - The Valuation report and Member status are an agreement within the club about the value of the withdrawal and the price of the shares that will be used to calculate that value; calculating based on price at transfer opens the club or treasurer to complaints about whether they tried to time the withdrawal.

17

Withdrawals – Follow Partnership Agreement!



ALWAYS follow the procedures in your partnership agreement
especially concerning withdrawals!

Partnership agreement (PA) is a contract among the members.
All members should understand withdrawal process from
Notice, Valuation date to payment.
If withdrawal process in PA unclear –
Amend PA so process is clear to all.

18

Other Things to Avoid



- Keeping Equal Member ownership
 - Can hinder new member recruitment
 - All member deposits must be equal and within strict time limits
- Use equal allocation of expenses
 - Penalizes small % owners
 - MUST be in Partnership Agreement, otherwise illegal
- Not auditing records
 - Audits catch errors before causing big problems
 - Reconcile wizard can do mini-audits thru year
 - Catch errors soon - makes annual audit easier

19

Things to Avoid (con't)



- Not including fractional shares in relevant transactions
 - Mergers, spinoffs, splits often include fractional shares.
 - If part of transaction – include them in the entry.
- Selling different tax lots than your broker sells
 - Broker must use FIFO, myICLUB default is FIFO
 - If you choose other than FIFO must inform broker before sale
 - Broker website may allow a different default

20

Things to Avoid (con't)



- Forgetting data backup
 - Good practice to backup frequently
 - No backup consequences can be severe!
 - Backup manager in myICLUB for online backup
 - Export utility for off-line backup
 - Backup manager and Export both in **Accounting > Utilities** section

21

Things to Avoid (con't)



- May seem obvious but still occur
 - Don't enter these as income
 - Member deposits
 - Proceeds from stock sales
 - Don't enter these as expenses
 - Member withdrawals
 - Stock purchase cost

22



THINGS YOU SHOULDN'T AVOID

23

Keep Your Monthly Schedule



- Enter Member Deposits.
- Enter Buy/Sell/Dividend transactions
- Create a Valuation, even if your club took the month off or you have no transactions that month.
- Check and match to your bank/brokerage accounts; even with Broker Sync, there may be transactions you need to enter manually.

24

Get Help!



- Get a co-treasurer (or two). One of the primary reasons we see for clubs closing is that the forever treasurer doesn't want to do the job any longer.
- Have someone be in charge of education – depending on the size of the club portfolio, it can be time consuming to keep track of all of the stocks; have someone be in charge of making sure an SSG (or at least a StockWatcher report) is updated on a regular basis for the club's holdings.
- Ask questions on the myICLUB forums.
(<https://www.myiclub.com/forum/?forum=1>)
- Check with your closest BI chapter for education events.
(<https://www.betterinvesting.org/my-chapter>)

25

Get Help!



- Use the Help files in myICLUB
 - The Help tab gives context sensitive help
- Use the Free Resources from myICLUB.com
 - Located in **File Storage > Free Resources from myICLUB.com**
 - User Guide, 3 Quick Start Guides, and more



26



ANY QUESTIONS?

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Thank You!

