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Fun Fades at Investment Clubs--Wary of Market Uncertainty, Interest Wanes in Get-Togethers; Stocks Are 'Scary'

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Members of Don Danko's **investment** club in Lake Orion, Mich., are friends who exercise together, drink beer together, and, at club meetings, lament the stock market's uncertainty together.

Four of his friends yanked money out of the club. One member persuaded the group to buy a gold fund. The mood of remaining members, most of them united by their commitment to a nearby Catholic church, is strained.

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"It is quite frustrating to try to preach that long-term investing really pays off, when it just hasn't over the past decade," Mr. Danko says.

The Dow Jones Industrial Average is just 155 points away from a new high after closing Friday above 14000 for the first time since October 2007. But many **investment clubs** are suffering or even disappearing, casualties of a deep shift in investor psychology.

BetterInvesting, a group in Madison Heights, Mich., that provides support to **investment clubs**, says total membership at groups it tracks fell to 39,000 in 2012, from 400,000 in 1998. Overall membership has declined every year since 1998.

At the Old Bay **Investment** Club near Baltimore, four members quit last year. In northern New Jersey, **investment**-club devotee Tony Maiello used to draw 15 curious people a month to recruitment meetings. Several recent meetings attracted no new faces at all.

"It used to be that if you went by the numbers, you could pick a pretty good stock, but that isn't as true anymore," says William Pearce, president of the Maryland club. "When the market takes a hit, even the good stocks take a hit."

To keep people interested, the club is using stock options to limit losses and is buying stocks of trendy companies, including one involved in three-dimensional printing.

In the 1990s, enthusiasm of ordinary Americans helped unleash a bull market that was dubbed a love affair with stocks. But the collapse of technology stocks in 2000, the housing bubble and the financial crisis caused an epidemic of suspicion.

Much of the overall stock market's recent rise was driven by the growing clout of hedge funds, high-frequency traders and computer algorithms. Hedge funds and high-frequency traders generate more than half of all trading volume, according to Tabb Group.

The problem, as many individual investors and **investment**-club members see it: Stocks aren't fun anymore; they are scary. When stocks fall, ordinary investors feel pain. And when stocks rise, investors fear they will fall.

"If you get kicked and you are hurt, you curl up into a ball," says Brooke Harrington, a sociology professor who wrote a book about **investment clubs**. "That is the beginning of the end for **investment clubs**."

As of Dec. 31, Mr. Danko's club had eked out a lifetime gain of just 8% since it was born in the late 1990s, badly trailing inflation. For many years, its cumulative investments were in the red.

The returns are painful to Mr. Danko, who used to edit a BetterInvesting magazine and has devoted more than 20 years to promoting careful stock analysis and long-term, buy-and-hold investing. While he still believes in the philosophy, "when you talk like that and then it doesn't happen . . . it is kind of difficult to ask people to keep the faith," Mr. Danko says.

Investment clubs typically meet at the homes of members, who contribute $30 to $50 a month. Members report on portfolio performance and analyze stocks they are following. At a recent meeting in northern New Jersey, Jo-Ann Skiena Garey reviewed the book "A Random Walk Down Wall Street," which argues that individual investors aren't likely to beat stock indexes.

"Why are we here? What are we doing?" Mrs. Garey commented, to laughter. The club soon got back to discussing stocks they might buy or sell. She wants to learn as much as possible so she can handle her personal finances better.

Investment clubs trace their roots back at least to 1940, when some young men in Detroit started a club that grew into BetterInvesting, also called the National Association of Investors Corp. "We used to have up to 800 people at our conferences, and now we are happy to have 100," says Brian Altschul, who helps organize events for BetterInvesting and other investing groups.

Some regional umbrella groups have withered or disbanded, leaving local **investment** groups on their own. Meanwhile, the Internet and social media have made **clubs** less useful.

"When I go to the conferences in recent years, I am noticing more and more gray hair and less and less replacement investors," says Daniel Boyle, a vice president at money-management firm Seger-Elvekrog Inc. in Novi, Mich. Its clients include **investment**-club members.

Because the market has been troubled for so long, "it is really difficult for someone in their 20s to have any interest at all," says Mr. Altschul, a friend of Mr. Maiello. "If you look at the financial blogs, most of them, especially for people in their 20s, are about recovering from debt, rather than about investing."

Kamie Zaracki, BetterInvesting's chief executive, says the average age of **investment**-club members seems to have stabilized and even declined slightly. "When conferences are offered online, we are seeing fabulous attendance," she adds.

Mr. Maiello says **investment clubs** tend to die with a whimper. One club in which he was a member shrank to 10 people from 15. Then some members moved away, and one decided he was more interested in trading than long-term investing.

"That left five of us, so it just disbanded" in 2011, he says.

Lynn Ostrem's club near Minneapolis changed with a bang. When the financial crisis hit in 2008, the 15-member club saw the value of its portfolio slide 35%. She and three other members wanted to use automatic sell orders, options and other strategies to protect the portfolio. Other members hesitated to trade so actively. Ms. Ostrem feared the club was dying, so "we staged a coup and we blew them out," she says. Now the club has four members.

"A lot of people lost enthusiasm in studying stocks, and they didn't want to participate at the level we needed them to. So we opened the door and freed up their future," she says. "We are leaner, meaner and more casual."

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