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Reprinted below:

# Investment Clubs and the SEC

*The SEC's Office of Investor Education and Advocacy is issuing this publication to answer some common questions investors ask us about investment clubs. For additional investor education tools and resources, visit [Investor.gov](http://Investor.gov), the SEC's website for individual investors.*

## **What is an investment club?**

An investment club is generally a group of people who pool their money to invest together. Club members generally study different investments and then make investment decisions together—for example, the group might buy or sell based on a member vote. Club meetings may be educational, and each member may actively help make investment decisions.

In another type of investment club, sometimes called a “self-directed investment club,” members research and select investments together, but they invest individually instead of pooling their money.

## **Do the SEC and/or the states regulate investment clubs?**

The SEC generally does not regulate investment clubs. But since each investment club is unique, each club will need to decide if it has any registration requirements.

- Membership interests in the investment club may be securities under the [Securities Act of 1933](#) (Securities Act). If so, the SEC may regulate the offer and sale of those membership interests.
- An investment club may be an investment company under the [Investment Company Act of 1940](#) (1940 Act). If so, one or more states or the SEC may regulate that investment club.
- A person who is paid for providing advice regarding the investments of the club or its members may be an investment adviser under the [Investment Advisers Act of 1940](#) (Advisers Act) or state law. If so, one or more states or the SEC may regulate that person. Also, if one club member is paid for selecting investments for the club or its members, that person may be an investment adviser.

State securities laws may differ from federal securities laws. To learn more about the laws in your state, call your state securities regulator. To get the telephone number for your state, visit the [North American Securities Administrators Association \(NASAA\) website](#).

## **When does an investment club have to register the offer and sale of its membership interests with the SEC?**

Since the Securities Act requires the registration of the offer and sale of most securities, the investment club must first decide if its membership interests are “securities.” Generally, a membership interest is a security if it is an “investment contract.”

Generally, a membership interest is an investment contract if members invest and expect to make a profit from the *efforts of others*. If every member in an investment club actively helps decide what investments to make, the membership interests in the club would probably not be considered securities. If the club has even one passive member, it may be issuing securities.

## **When does an investment club have to register with the SEC as an investment company?**

An investment club must register with the SEC as an investment company under the 1940 Act if:

1. the club invests in securities;

2. the club issues membership interests that are securities (see above); and
3. the club is not able to rely on an exclusion from the definition of investment company.

For example, a “private investment company” may not need to register with the SEC. To qualify, an investment club:

- must not make, nor propose to make, a public offering of its securities; and
- must not have more than 100 members.

A public web site or other public communication that could be viewed as suggesting that a club is looking for new members might be considered a public offering. An attorney with experience in securities law can help the club evaluate, based on its particular facts, whether its membership interests are securities and whether the club is making a public offering of those securities.

### **Does a person who provides advice to an investment club have to register with the SEC?**

If someone is paid for providing advice about the club’s investments, he or she may be an investment adviser. Also, if one club member (instead of all members) selects investments for the club, that person may be an investment adviser.

Unless an exemption applies, an investment adviser must register with the SEC or one or more states. Even if an investment adviser is exempt from registration, the antifraud provisions of the Advisers Act still apply.

*If you have questions, don't hesitate to contact us at [help@sec.gov](mailto:help@sec.gov), our [online question form](#), or on our toll-free investor assistance line at (800) 732-0330.*

### **Additional Resources**

[Ask Questions - Questions You Should Ask About Your Investments](#)

[Researching Investments](#)

For additional resources on the regulation of investment companies and investment advisers, see the [Division of Investment Management's page](#).

For additional resources on offerings that are exempt from SEC registration, see the [Exempt Offerings page](#) on the SEC’s website.

The Office of Investor Education and Advocacy has provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.