

BUILDING WEALTH IN CHANGING TIMES



The Solari Report

MARCH 21, 2013

A group of five diverse people sitting around a table in a cafe, laughing and talking. The text is overlaid on the image.

**Starting a Solari Circle
Investment Club
with Paul Ferguson**



Starting a Solari Circle Investment Club

March 21, 2013

C. AUSTIN FITTS: So with that, let me turn to the interview, which I'm very much looking forward to. We're going to talk about one particular aspect of what a Solari Circle can do. And before I introduce our wonderful guest, Paul Ferguson, I want to talk a little bit about Solari Circles.

I came to the notion of organizing to come together to do circles because I realized as the environment got more and more complicated and the economic situation got more and more troublesome, I realized there was a tremendous need and opportunity for people to start to learn about how the financial ecosystems worked around them and to collaborate and take action together in a way that would help each other, protect each other – sort of raise our immune system from being trained by the debasement and then really help us take advantage of all sorts of opportunities around us to build wealth despite sort of the different things that are going on.

I grew up in a world where everything was run through conspiracies. I never thought of a conspiracy as anything that was particularly wrong. That was kind of how the world got together. You saw an opportunity. You got together. You quietly discussed how you were going to take advantage of it, and then you proceeded to take action. And so my personal experience was that the world was run through millions and millions of successful and profitable conspiracies, small and large. To me, that was how everything got done.

What I didn't realize is how many of us don't feel empowered to just start creating and executing conspiracies. So to me, I think of a Solari Circle as a kind of conspiracy. I'm always saying at the end of the report,



“Don’t worry about if there is one. If you’re not in one, you need to start one.”

And so when you consider, “Do I want to start a Solari Circle?” and if so, “How would it benefit me, and what kind of circle do I want to do?” I want you to think instead, “What kind of conspiracy would most help me deal with my life the way it’s going or help me get to where I want to go? What kind of conspiracy would I most enjoy, and who would I most enjoy having as a co-conspirator?”

So don’t think of it as a Solari Circle. Think of it as a conspiracy. So what is a Solari Circle? It’s an intimate group. I feel it should be 12 or fewer people. I think you need to keep this to a group of people who is very small and very intimate who you can trust and who are really committed to helping enhance each other’s real wealth. Again, it’s critical that it be fun, and it’s critical that you organize it in a way that you give each other energy.

The first thing Solari can do, even if you get together for investment, I think it always makes sense to start with some of the other things I can do. First of all, you can get educated. You can get together once a week or once a month for a potluck dinner and watch a documentary or read books like a book club or a movie club, and use those as vehicles to talk about what in the world is going on. Paul and I are going to talk about it later – one of the things that our circle did for many years was just talk about what in the world is going on in the economy.

And we really helped each other get a good picture. We became our own media, in a sense, by sharing our understanding and our news of what we were seeing in the economy. Another thing that a circle can do – a lot of people are very interested in lowering expenses and improving their financial position by lowering expenses. And I’ve always felt that circles could have a very effective role in bulk purchases. For example, in many cities their terminal markets, if you got 6 to 12 people together and every week one person took the responsibility to get up early, go down to the terminal markets when the trucks come in and buy – buy lots of fresh food in bulk, there’s significant things you can do in reducing the price



of food.

You can also share responsibility for gardening. If you get 12 people together each with gardens and orchards, there's an awful lot of sharing you can do and tremendous lowering of food costs. So food and – anything that lowers your expense area. Another area that's very effective is savings together. I talk in the *Solari* audio seminar we did on – or the – I guess it was an earlier *Solari Report* on Solari Circles – it's in your archive – about hand or partnerships – we're told people come together. Everybody decides on a certain amount to put in at every meeting.

“If you get 12 people together each with gardens and orchards, there's an awful lot of sharing you can do and tremendous lowering of food costs.”

Let's say it's \$100.00. Twelve people come together, and at every meeting, they put \$100.00 in the pot, and one person takes it. So think of it as the bank where your deposits are not in the bank. They're out there on the circle. And what's interesting is you'll see many immigrant groups use a partnership or a hand to build the money thingy to make a down payment on a car, to make a down payment on a business or a piece of real estate, to make a down payment on a home. And what's interesting is when you do this process together, you start to talk to each other and get advice and help and strategic advice about money.

I've known entrepreneurs in New York to do a hand or partnership with other entrepreneurs. And it's really a self-help group for entrepreneurs who get a lot of support and intelligence helping with each other's problems, because entrepreneurship, particularly if you're sole proprietor, can be a very lonely existence. And a hand or partnership will help.

Mapping – as I said before, mapping and strategy – what is going on? What do we do about it? If inflation is running at 9.6 percent, what does that mean, and how can we help each other succeed in this environment? And then people who have a lot more or more sizable assets find it's very useful in terms of doing donations and philanthropy together. So that's another use, but there are many, many different uses. On the investment



side, there are really three kinds of tracks that I've found people have found useful for this kind of circle.

One is simulation. Before when Paul and I started a circle in 2005, we – the group that gathered together didn't know each other, and we started with a simulation. And we said, "We're a family of four. We're homeless, and we have \$1 million in cash." So we had to pick a place in the United States – or we had to pick a place in the world. We chose the United States, and then we had to buy the house and invest in building a self-sufficient property, and then the remaining money we proceeded to invest.

And in fact, that turned into an audio seminar called *Solari Portfolio Strategy*, and you can see the before and after portfolio. You can certainly see the after one that came out of the simulation or one very similar. So one is simulation. People say to me, "Well, I can't do an investment club because I have no money." And I say, "Well, if you're going to have money, you have to learn – you know, step one is to learn about money, so do a simulation." And now there are all sorts of online tools – Yahoo Finance or others – where you can use software on the web to do a simulation and literally have a portfolio of investments, and you can track them, etcetera.

The second to sort of track is to do liquid investment, and that's what we're going to talk about tonight. Primary focus is securities, so that's equity markets or anything you could do through a brokerage account. And then finally, there's non-liquid investment, which is like private venture or loans or real estate. The crowd funding regulations are going to be promulgated by the SEC they say this year. That's going to trigger a lot of interest in the angel kind of investment, and that can be done in the format where everyone sits around and writes individual checks.

They just work together to figure out – they sort of pool their brains. Or another is where you pool your investment, and in fact in our – if you go to the Solari Circle library in the archive you can find our old document for pooling investments through non-liquid investments. And so that's there as well. But tonight, we're going to talk about the investment



track, doing liquid investment. And so we're going to focus on a Solari Circle for doing liquid investment, which in many respects is very much like a traditional investment club. Now, to do this, there is no better person to join us than – for this kind of discussion than Paul Ferguson.

Paul was a very successful software entrepreneur turned venture capitalist who runs his family office in Massachusetts. In 2005, Paul and I and eight other founding members created the Solari Circle called the First Ever *Solari* Circle. Paul was the most experienced of all of us as he – one of his relatives founded – and he has twice chaired one of the oldest and largest investment clubs in the country, so he was very seasoned. Paul became our treasurer, and he continued in that role. We met every week by phone. We were ten people in I think ten different states all over the country, and we met every week by phone through the end of 2012 when we liquidated the circle's securities portfolio and dissolved the LLC we had created to invest together.

When I posted for this *Solari Report* I took the operating agreement and guidelines that we created for the circle, and given the experience that Paul and I and all of us had with it, I marked it up again. And so we're calling it 2.0, and that document is up on the blog post under the subscriber links, and I think if you're interested in doing a Solari Circle investment – liquid investment, I think you will find those documents extremely helpful and very good at sort of guiding your thinking and discussions.

I was pretty faithful in attending every week the Solari Circle, which we did on Monday night, and one of the reasons was Paul would do a roundup of the markets that was always fascinating and always insightful. So this is a person I've learned a lot from, and so after seven years of shepherding the investment strategy and transactions for Solari Circle, Paul is the guy to help us tonight. So Paul, are you with us?

PAUL FERGUSON: I am, Catherine. And thank you very much for your kind words and for the invitation to be here.

C. AUSTIN FITTS: Well, and I didn't mention, but I should mention once



again I got a fascinating update from you today, because I believe yesterday, Wednesday, you were in New York at the New York Hilton listening to Jim Sinclair's presentation to one and all about the future of the gold markets.

PAUL FERGUSON: I was, and it was fascinating. There were probably – I don't know – 800 to 1,000 people that gathered in New York to hear Jim. And he gave basically a question-and-answer session that went for three hours, spent a fair amount of time talking about Cyprus, and like you he considers it to be a very significant series of events that's underway there and certainly recognizes the geopolitical significance of what's going on. As far as where the gold market's going, he thinks the bottom is in on gold here, particularly because of what's just happened in the Euro zone.

And he thinks the mining stocks represent a great bargain. So despite the fact that it's been a tough slog for a couple of years for investors in that sector, he's fairly optimistic right now.

C. AUSTIN FITTS: Well, it was funny because right before Cyprus happened, you – my experience is you had a lot of precious metals investors saying – literally saying, "You know, gold's not going anywhere; we want to sell gold." And then Cyprus happens, and they were all, "Oh, I remember why I wanted to own gold."

PAUL FERGUSON: Exactly.

C. AUSTIN FITTS: Because what you realize is the bank deposits and the fixed income market literally is standing on a world of government guarantees, and if the EU will pull their deposit insurance that – sort of quickly and monkey with it, what does it mean about everything else? So it was one of those moments when everybody said, "Oh, yes, that's why we bought gold."

PAUL FERGUSON: I just wanted to touch on that one point because I think it's important. You were talking about the FDIC earlier and deposit insurance here, and Sinclair made the very important point that the FDIC is fine if one or two banks fail, but there's no systemic insurance



because the amount of coverage that they can provide is only a tiny, tiny fraction of the assets that are in the U.S. banking system. So he said while we enjoy this false sense of security that the FDIC gives us, in a true crisis it really wouldn't be any protection at all, which is why it's so critical for people to take action to protect themselves.

C. AUSTIN FITTS: Right. Now, I've always believed – basically having worked in Washington, I've always believed that the Fed would stand completely behind the FDIC. But then here's the reality. If you run the whole economy so that it is fundamentally unsound, at some point no guarantee can be worth anything because there's not – you know, if the pie is shrinking, shrinking, shrinking, you can't guarantee your way out of that problem. You have to grow the pie. So in the long run, I'm absolutely with him. I keep hearing the words in the back of my mind – I had a pastor in Washington who used to scream out on Sunday, “God does not bless a mess!”

PAUL FERGUSON: Oh, that's true.

C. AUSTIN FITTS: So we need an economy that's not a mess. So we're very glad you came tonight to help us do that. So I wanted to start out – because you know, we divided our forms of operating agreement between liquid and illiquid – or non-liquid investments. And maybe if we could just start off and describe to the listeners what we mean by liquid investment.

PAUL FERGUSON: Okay – well, when I think of liquid investments, it's basically all those items that you can – that can be readily bought and sold, and for this case through an online brokerage. So those would be stocks of individual companies, bonds, mutual funds or ETFs – items like that.

“While we enjoy this false sense of security that the FDIC gives us, in a true crisis it really wouldn't be any protection at all, which is why it's so critical for people to take action to protect themselves.”



C. AUSTIN FITTS: Okay – so what we had for the First Ever Solari Circle was we had – we essentially used a brokerage account. You can do other things that aren't securities, but obviously there's so much software and sort of easy accounting for doing securities between the brokerage firms and the different online providers that they're pretty – I would say liquid – liquid in investment in this context is much easier if you just stick to a brokerage account.

PAUL FERGUSON: I agree.

C. AUSTIN FITTS: Yes.

PAUL FERGUSON: I agree.

C. AUSTIN FITTS: Okay – so why do this? Why would you go to the bother of getting together and doing an investment club like this? Now, you've done this three times, if I'm not mistaken.

PAUL FERGUSON: Right – yes, I've done it a few times, and it's been a different experience each time, and I always learn very, very useful things in the process. But basically the reason why I think it's important to do this is you have to put your money somewhere. I mean, even staying in cash in a bank is a decision and is an allocation, and given what's just happened in Europe, it's another reminder that it may not be a no-brainer. In fact, it may require some brain. So being passive really isn't the same kind of an option that it was in different times. So you have to do something.

This market is incredibly difficult. You listen to the most seasoned professionals, and they'll tell you it's the most challenging environment they've ever operated in. You've got distortions in the market from Fed policy. They're in there buying \$85 billion worth of assets a month. You've got high-frequency traders that are now well over 50 percent of the market volume. So there's just things going on out there that haven't existed in earlier markets are now a much greater factor that make it even more difficult than it is usually.



So I find that if you can bring a group of people together to take it on, then you have the benefit of everyone's different perspectives and skills and backgrounds, and it's a little bit less formidable and daunting when you can pool your energies and your brain power and your resources and kind of tackle it as a group.

C. AUSTIN FITTS: That was my inspiration in 2005. We'd have several unusual events in the market, and I just said, "You know, I don't want to be alone. I don't want to do this alone. It's too hard."

PAUL FERGUSON: Absolutely.

C. AUSTIN FITTS: Yes – and I didn't know enough – I couldn't get enough people in Hickory Valley interested in doing it with me. And in fact, one of the inspirations had been one of my neighbors who came up to me and said, "You know, we're not going to be able to depend on Social Security, so we need another plan. So would you start an investment club, because we need to deal with this? And I would like to get together and – so I know you know a lot about money – would you start an investment club?" So it was one of my neighbor's ideas.

And I made an effort to kind of get people together, and I couldn't do it. There was – for a variety of reasons, I just didn't come together. And so that's when I reached out and said to people, "Let's do it by telephone. And if I can't find folks in my neighborhood, I'll find them remotely." But my real inspiration was I didn't think I could be intelligent enough alone, and I thought a group of people could be a lot more intelligent than just one person alone.

PAUL FERGUSON: Absolutely, and the fact that we were geographically distributed did give us the opportunity to learn what was happening on the ground, you know, across the country on a weekly basis to get a real visceral feel for what was happening out there from people that are living in those areas. You know, there are challenges when you teach geographically distributed, but I think – I've done it both ways – you know, done it with a local club and with our circle that was distributed, and there are certainly benefits to having a broader perspective that



comes with the geographical distribution as well.

C. AUSTIN FITTS: One of the reasons I sometimes encourage people to do a Solari Circle focused on this kind of investment is that – what I find is that folks who traditionally have not been interested in finance, they have one source of information about the world. So let’s say they read the local paper, and then for their investments, they have another source of information. So they’ll read Yahoo Finance or Bloomberg, and they have two separate worlds, and they think of these worlds as totally separate, and they don’t connect the world that they walk around in and see or the world of politics or governance.

In their minds, it has absolutely no connection with investment. They don’t have an integrated view of the world. They don’t have an integrated map, and one of the things I say to them is, “Look, if you’re going to govern the management of your own assets, which everybody ultimately has to do, you know, you need to start to integrate these worlds. And to me, the fastest way to integrate them is to just start doing investments. Start going into that world of investment and start connecting the dots between your day-to-day world and what you know or what you want to learn about and what’s going on in that world.

You and I both know when we watch the prices swing around, and we see how the money’s moving, to me that’s part of reality, whereas you’ll read the paper, and they’ll say something very, very different from that. So if the long treasury bond market is down eight percent for the last six months, but the newspapers are saying, “Everything’s wonderful!” you see an integrated reality if you’re watching the money anyway. Part of it is I just think people get a much better map of their world if they start to integrate into this.

And the other thing – interestingly enough, our inspiration for doing this *Solari Report*, we have a wonderful family who are subscribers, and the parents said, you know, “We want our kids to learn how to one day assume responsibility for the family assets, so we want to do a Solari Circle so that we can start to learn as a family how to build wealth together, and we can make sure that the next generation coming up



knows how to assume responsibility for these assets.” So to me it’s great for families. If you go back and listen to the *Solari Report* on family wealth with Jake Hughes, which is one of my favorites, he talks about getting the family together once a month for dinner to talk strategically about, “How do we help each other succeed?”

And part of that is managing their assets together. One big question is if you do this, do you want to do it in your family? Do you want to do it with friends? Do you want to do it with colleagues? Whom do you want to do it with? And my experience is there’s a huge range of possibilities, but the one thing I would say is you always want to do it with people you can trust.

PAUL FERGUSON: Absolutely! You want to do it with people you can trust. I mean, we do have some taboos in our culture about talking about money. It’s considered private and intimate, but the circle does give you a structure and a format where you can deal with some of these difficult and challenging issues in a setting that’s energizing and educational for everybody. So it absolutely makes sense. And as you were talking about, it’s like I need to start doing something like this with my family. My daughters are now 18 and 19, and my older daughter asked me when she was on Christmas break about investing. She said she wants to start learning about it. So I think now is the time –

“It’s considered private and intimate, but the circle does give you a structure and a format where you can deal with some of these difficult and challenging issues in a setting that’s energizing and educational for everybody.”

C. AUSTIN FITTS: Oh, how wonderful!

PAUL FERGUSON: Yes – so thanks for planting that seed. I’ve got to get started on that myself. Another circle – here we go!

C. AUSTIN FITTS: Here you go.

PAUL FERGUSON: It’s great, though. I like that.



C. AUSTIN FITTS: One of the things we didn't do when we brought together – and I should mention our circle was – the name was First Ever Solari Circle. But when we started, we – for short we called it FESC, First Ever Solari Circle. When we started First Ever Solari Circle, we didn't do a time budget, and the one thing – I think the most important thing when you design out a circle is for each person to make a clear decision about how much time they're willing to contribute, and then you organize your activities within that time budget. And so if everybody can only give two hours a month, then you have an hour to meet, and you have an hour to do research, and whatever you do is going to have to fit within that budget.

It's important to have a balance of contribution. So everybody needs to contribute, but you need to design a scope within the time that you're willing to commit, and you need to organize it in a way which saves time. So for me, you know, the time I spent on the circle helped me not struggle alone with trying to figure out what was going on. So in that sense, it saved me time. And I think you really want to be very, very sensitive to people's time, and that's another reason to keep it small. The larger you get, the harder it is to get a group of people who are very committed to respecting each other's time.

PAUL FERGUSON: Yes – absolutely. I mean, you want to keep it fun. That's important to remember when you're going through. It should be fun. And it's possible to keep it fun. But on the other hand, in order for it to work well, there is a certain amount of administration that needs to be done. So you've got to strike the right balance between making sure that the business that needs to get taken care of gets taken care of, that everybody's contributing, but that it's not so much that it becomes a burden or people start to feel like, "This is work."

But if people don't put any energy into it, then nobody's going to get much out of it, either. So being realistic about what each participant is willing to do is important up front to make sure everybody understands that. Absolutely.

C. AUSTIN FITTS: How much have you found – in your experience, Paul,



how much should someone be willing to invest in a circle?

PAUL FERGUSON: Well, I gave it some thought when you sent your notes before the call, and I think it's one of those situations where you need it to be enough so that people will take it seriously and pay attention and feel like it's worthy of their time and effort to remain and to stay involved and to stay active, but it shouldn't be so much that it becomes either a significant portion of their assets or net worth or where the management of those funds becomes a real concern for them. So there's a happy medium in there somewhere I think.

And everyone's got to know what their own comfort level is. And then the other thing is you don't want it to be too skewed towards any one member, you know. It doesn't have to be exactly even in terms of partnership/ownership, but more or less a balance so one person doesn't feel like their vote should count more than everyone else's.

C. AUSTIN FITTS: Right. Well, what I've gotten from the younger subscribers and readers is they said, "Well, we don't have a lot of money." And what I've said is, "Well, first of all, start with a simulation." So the key to making money is not necessarily having money. The key to making money is knowing how to make money, and getting good at this through simulation doesn't cost – it takes your time, but not your money, and you can get pretty good just through simulation. It will be more real if you do real money, so why not start with a small amount, and each year put in more like a savings club, and let it grow.

PAUL FERGUSON: Well, you develop the mechanisms. You develop the practices and the thinking. I mean, you're going to hone all that as you're going along, so that absolutely makes sense to me.

C. AUSTIN FITTS: Right – and then even if you do have more assets, you know, if this is new, and you don't want to put a lot in because you want to get to know each other, you build trust, you start to build confidence about investing as a group, and then you – each year you can put in more. So it can grow as the process develops.



PAUL FERGUSON: Yes, start at the shallow end of the pool.

C. AUSTIN FITTS: Right. One of the critical things is to understand roles and responsibilities. Now, as I said, we put the operating agreement – the form of an operating agreement and guidelines, which is a markup of what Paul and I used for First Ever Solari Circle, and it's up in the subscriber links on the blog post. If you read through it, I think you'll get a sense of roles and responsibilities, because we envision a group there, some of which you may want to use, or obviously you can figure it the way you want. But we thought that would be helpful – but maybe if we could just touch on the different roles and responsibilities and go through those, Paul.

PAUL FERGUSON: Sure. Generally, the circle is like a traditional investment club in terms of the structure. You want a chairperson, a treasurer and a secretary, at least. Those are your club officers. The chairman will put together the agenda and schedule the meetings and so forth. The secretary generally is responsible for sending out minutes – or taking minutes, handling some of the administrative functions, and then the treasurer typically would take care of dealing with the brokerage, managing the portfolio in terms of keeping track of it in whatever accounting software you're using.

We used the online ICLUB software. And then other clubs might have an information officer or – you know, depending on how large the group gets, you might have an assistant chairman. So you kind of have to gauge what's appropriate based on the size of the circle. And in some cases, if your circle is small, then there is going to be somebody probably wearing multiple hats. So in some situations I've functioned as all three. I do not recommend that.

C. AUSTIN FITTS: Right.

PAUL FERGUSON: But, yes, in a smaller circle you might have to be both secretary and treasurer, for example.

C. AUSTIN FITTS: Right – and one possibility is to rotate those functions.



PAUL FERGUSON: Absolutely.

C. AUSTIN FITTS: So we never rotated the functions in Solari Circle, but I think rotating those functions is a very good idea. And if you can envision that from the beginning, then it's healthy, because then you get more of a balance.

PAUL FERGUSON: Yes, and it's good for everybody to know what's involved and to give them a sense of ownership. Otherwise, it's very easy – it's easy to kind of kick back and let other people do most of the heavy lifting. But then you're not going to get much out of it that way. So I think demanding participation from all the members is something that is definitely vital to keeping the organization vibrant and useful for everyone.

C. AUSTIN FITTS: Well, one of the things I suggested and I added to the operating agreement and guidelines was the group setting mandatory standards for participation and contribution from the beginning. I think you keep a much better tempo to the group if you pretty much restrict it to people who are actively participating and contributing. And if somebody can't, you need to make it easy for them to withdraw, and maybe they can come back, but you really need to keep that tempo because if you don't have a tight consistency there, then you're going to have a few people doing everything, and it's going to get out of balance.

So to me setting those standards going in is going to be important. Another thing we had under the roles and responsibilities was envisioning people who are focused on different kinds of investment research, but I do think everybody's going to have to commit to doing some kind of investment research. And that's why it's very important that when you decide on what your investment focus is going to be, it's going to be things you want to learn about and are interested in because to keep that pace of learning over time you want to keep moving through the markets and focusing on those areas of investment that

“Demanding participation from all the members is something that is definitely vital to keeping the organization vibrant and useful for everyone.”



really speak to your desire to learn and participate.

I know we had a particular focus and strategy in the First Ever Solari Circle, and as the market shifted that was one of the questions was, “How do we shift our investment strategy?” So how does the group grapple with, “What do we want our focus to be, and how do we develop and investment strategy?”

PAUL FERGUSON: Well, I think for us – I mean, one of the things that’s different and special and unique, I would say, about the Solari Circle is that your participants are all coming into it not with maybe the exact same mindset, but with a very similar outlook on the world and set of values. And so that gives you a little bit of a leg up I think in terms of having an outlook – the worldview and the market and what you do with your investments is all tied together, as you were talking about before. So when you have kind of a shared worldview that lends itself to having a cohesive focus and strategy.

In our case, given what’s going on in the world and the market and with the dollar and everything else, we decided that defense was very critical in this environment and staying in precious metals for the most part was probably the most prudent investment allocation decision we could make. And in retrospect, it turned out to be absolutely the right decision.

C. AUSTIN FITTS: Right.

PAUL FERGUSON: But I think that coming to that – I mean, I thought – as I was preparing for this discussion tonight, I was thinking about how could I have done that in one of my other investment clubs, and there’s just no way. I mean, I would have gotten shot down as soon as the word “gold” came out of my mouth.

C. AUSTIN FITTS: Right! Yes, we were clearly very different.

PAUL FERGUSON: Having a common place that you’re coming from to work on these issues I think really does give you a leg up.



C. AUSTIN FITTS: Yes, it was – I will say this. Mr. Ferguson beat the Index every year. I believe was it every – maybe not 2012. We might not have beat the Index 2012, but we certainly did every other year.

PAUL FERGUSON: That’s right.

C. AUSTIN FITTS: I wanted to talk a little bit about this notion of total economic return, because two of the things that make a Solari Circle unique is – one is generally we try to keep it smaller, more intimate and more consensus-focused, and that’s number one. But number two, generally we’re interested in finding things to invest in which are useful to this world. So avoiding things which are destructive, and what I find is that every human being has a different definition of what that is, and it’s an art, not a science. So one of the things I added to the operating agreement and guidelines was before you get going, creating a common vision of what that is – you know, what’s useful, what’s not useful.

And I think most people using good sense can do a pretty good job of that. One of the ways I do it is I just say, “Look, I’m going to avoid all large caps, because I’m trying to decentralize,” and generally because smaller companies which get bought up generally have a better return. They have a higher volatility, but a better return over time, avoiding the large caps is one of the ways I do it. I keep it pretty simple. But I think sitting down and saying, “Okay, you know, we want to invest in things that make the world better. What’s our definition of that? What are we going to avoid?” So I have a very strict rule with anybody who deals with me: Monsanto is no. No! No!

PAUL FERGUSON: Nice and easy – yes.

C. AUSTIN FITTS: But I know we didn’t come up with those guidelines to begin with, and I remember you and I sitting through some pretty uncomfortable conversations because we tried to figure out how to do food and agricultural stocks, which I would point out have done gangbusters over the last three years. And of course, we had a lot of people who would have preferred to do local investment as opposed to securities investment. And so it got very complicated. Anyway, so I



would say don't make that up as you go. Try and come up with some simple guidelines to begin with. Picking a brokerage firm – how does the circle go about picking a brokerage firm?

PAUL FERGUSON: Well, I mean, really practically speaking your choices are fairly limited. You want to keep your transaction costs low, especially if you're dealing with a relatively small amount of money. You want it to be as small a percentage of your funds as possible. So that means you're going to be going with a discount broker, so that's someone that provides online discount brokerage. And which ones are better than the others? I really have a hard time with that, but – because there's only so much we can know as retail investors about what's going on in the back office.

But we ended up with Scottrade. I find if you find a broker that treats you well, that you have – or preferably has a local office that you can actually go and speak to somebody, that's helpful. So there are some brokerages like I know Fidelity or – I don't know – Scottrade and others have local branches that you can actually visit. And then use people's experience. Draw on the experiences that all your members have – who's had good or bad experiences with different brokers – and use that as well.

C. AUSTIN FITTS: One of the things I'm sure – if you do get a firm that has an office locally, you know, one thing I've found is that they will always welcome your club to come in and get a little briefing and lecture and tour and a little introduction to how to use the software, etcetera. So being a club, you know, you've got purchasing circle power.

PAUL FERGUSON: Oh, yes!

C. AUSTIN FITTS: So you can get a little attention –

PAUL FERGUSON: Get advantage –

C. AUSTIN FITTS: Yes. One question while we're at it – I just got a question. "I already have a paid financial advisor, so would an investment circle



still benefit me?” So you take this one, but I’ll take it, too.

PAUL FERGUSON: Okay – well, I would say yes, because, look, a paid financial advisor is going to give you probably very sound, mainstream advice. But depending on who that advisor is, they may have certain predispositions about things like alternative investments or assets like gold or whatever that traditionally are not promoted by mainstream advisors because they get – there’s a number of reasons. It’s – the assets that are under their management so they don’t get a fee, it kind of belies a lack of confidence in the financial system, which is contrary to the business they’re trying to promote.

“Depending on who that advisor is, they may have certain predispositions about things like alternative investments or assets like gold or whatever that traditionally are not promoted by mainstream advisors...”

But if it’s somebody like yourself, for example, then maybe there would be less utility. I just find that having a number of people with different perspectives, different skill sets, different backgrounds, you get a better picture. You have more data points. And if they’re the right people, then it’s good information that you’re getting. I have a hard time seeing how you wouldn’t benefit.

C. AUSTIN FITTS: Here’s what I feel, because I think some people would benefit, some not. I have friends, family, clients who say, “I love what I do, and I just don’t want to spend any time on this, so I want somebody else to do it for me, and I’m happy to govern it, and I want to know enough that I know how to govern it and oversee other people managing it, but I just don’t want to manage it. That’s not fun for me.” Now, in fact, there are ways of doing a circle that say, “Okay, well, what do you” – let’s say you’re fascinated by the entertainment world, so you start a circle and you just do entertainment stocks.

Or you do an angel circle and you do crowd funding for artists, you know, or something like that – or when the SEC promulgates the crowd funding rules – so you focus it that way. So it might be interesting for



you as something else, but in that sense, no, it wouldn't make sense for you to do a circle because you have other things you want to do with your time.

PAUL FERGUSON: We covered raising chickens and mobile chicken coops – I mean, we covered a lot of good territory.

C. AUSTIN FITTS: We had mobile slaughterhouses. Yes, we did everything. You know, to me, one of the reasons to do a circle is to understand your world. I'm amazed because you have so many wonderful people in Europe, in America, in Asia, they understand their living ecosystem, but they don't understand the financial ecosystem, and they can't integrate them. So part of the reason I encourage some people to do it is this is just a way to learn about how your world works. It is a way to get smart and be able to kind of see what's going on in a way that protects yourself. Let's say you really want to govern your money, particularly if you have an awful lot of money, I think that learning how to manage a small piece of it by yourself can really make you much more astute at governing it and dealing with money managers.

So I'm not saying use this to manage all your money. I would take a tiny piece, and I would start out very small and build up. We started with a simulation and then did tiny dollars. So I know many people who do this – people who have very significant assets, they have a tiny amount that they do in an investment club kind of context, and they use that information as portfolio mapping and strategy for their other assets which they so separate.

PAUL FERGUSON: Absolutely!

C. AUSTIN FITTS: And members of our club were absolutely doing that.

PAUL FERGUSON: Oh, sure – it makes sense.

C. AUSTIN FITTS: Yes – so they would take what they learned, and then they would go off and do things in their own money that were very private and no one knew. So we were kind of a tiny experimental pot where they



would take what they got and use it on their money back when. For some people – if you have professional people managing your money I think for some people taking a small piece and doing a circle makes tremendous sense. For others, it's not where they're going to get their kicks. And I keep coming back again, you should be doing this with people you enjoy, and it should be a process you enjoy, and you should be learning about things you want to learn about.

So it's got to work that way. Let me just say rather than go through the nuts and bolts of the transactions in accounting and taxes, what I would do is encourage everyone to go through if you're interested the form of the operating agreement and guidelines, which again are posted at the blog. In the introduction to the forms, we've also posted some of the best books on starting an investment club that are more traditional in orientation than the circle. But a lot of the material is very, very useful to starting a circle as well. Okay – so longevity, Paul, how do you keep the circle going after people run out of ideas?

PAUL FERGUSON: Well, that's a good question, and I don't know that we ever ran out of ideas, although I guess there were some times where it was harder to come up with things than others. But you know, I think that there's a couple of different ways to do that. If you're in a period where there's not much happening or you're not getting as much value out of the club as you were or the circle then, you can perhaps meet less frequently. If you were meeting every week, then you could go to a biweekly or maybe once a month thing.

But I think that it's an organic entity, and if it's not at a place where it's continuing to provide value for everybody, then maybe that's a sign that it's time to wrap it up and move onto the next thing. So I don't know.

C. AUSTIN FITTS: One of the reasons I wanted to pull out of the First Ever Solari Circle was now I'm working on a team on money management, so I'm spending several hours a day in a team context working on investment strategy, monitoring, etcetera. And then also I'm talking with you every week about the same. And so it was another hour to do that, and given the time we had at night, given my travel schedule, it was very



hard to make it. So it was more a change in circumstance I think for some of us. But I would say this, because it was our producer who asked me that question originally.

And one of the things I said is, you know, investment, whether it's liquid or illiquid, involves everything on the whole planet. It involves all places, all different kinds of activities from healthcare to sports to entertainment to food to transportation to grocery stores and food stores and fashion. Our investment club has been plowing me through looking at high fashion companies. You know, there I am in the investment committee saying, "I've never gotten Coach. I just never got that handbag thing."

Or – you know, it was really funny, because I'm one of those people – you know me, Paul. I have to try it. I cannot invest in it if I haven't tried it. So we were looking at this company that sells these high-cost creams. Well, sure enough, I got on Amazon - \$ 150.00 for like a tiny jar or cream. I couldn't believe it. I bought it. My Quaker ancestors were fainting, and it was horrible. I didn't like it at all. But you know I had to – you know me. I have to experience it personally.

Investment involves all activities in the world and all places, all countries. And so I can't imagine ever getting bored by investment, because it's everything. Pick up a world almanac: it involves all of it. And the politics of – you know, the financial system is highly complicated, and the geopolitics are wild. And so you're getting – you know, you're going in, and you're dealing with the real deal.

The thing to me which is the most inspiring is that every day I'm looking at teams of people who are creating enterprises that do fantastically useful things. You have entrepreneurs and you never see this or get this when you hear the news or you listen to the news. But all around the world, there are teams of people coming together and starting companies to solve the real problems before us. And it is the most inspiring thing to see and hear and read.

So you read about the companies that are making the fabrication equipment or making the 3D printers, or they're coming together to



come up with new desalination techniques for water or ways of purifying water or cleaning water or – you know, it goes on and on and on. And they're these quirky little businesses you never thought of, and to me it's the most positive, hopeful flow of information I've ever dealt with. And I can never imagine getting tired of it. Now, maybe that's why I'm in the investment business.

But the idea of getting bored with it – I can't imagine it. Now, I think one thing I would say that I did not do a good job when I started our circle – we had some people who were very interested in local investment, and some people who were very interested in securities investment. And in fact, if you're interested in local investment, you ought to do an angel format, or you ought to pool for non-liquid investment.

PAUL FERGUSON: Right.

C. AUSTIN FITTS: You know, if you're going to do securities investment, you need people who are really interested to do that.

PAUL FERGUSON: We couldn't – yes, doing local investment with a geographically dispersed group was not a combination that could work. You have to have that comfort of being able to see and talk to the people that you're doing business with.

C. AUSTIN FITTS: Yes. It was funny because a couple of times, I went to the people who were committed to local investment and said, "Look, you need to withdraw because we need this to be focused. We need a tempo. We need a beat." And they didn't want to withdraw because we all found it so interesting to talk about what was going on every week. And of course, we kept outperforming the Index, but we could never kind of sort out that local versus global differentiation.

If you want to do something on local, that's great, but you need to do it with people in your area; you can't do local remotely. It is not going to

“If you're interested in local investment, you ought to do an angel format, or you ought to pool for non-liquid investment.”



work that way. So the one other thing I wanted to mention. At the blog, Paul, I put up a link to myICLUB, and maybe you could just describe myICLUB because we use them, and I've found that to be a marvelous support mechanism for a Solari Circle.

PAUL FERGUSON: myICLUB is a web-based accounting tool that is really essential if you're doing an investment club or Solari Circle where you get a brokerage account and start putting money toward it because it gives you all of the tools that you will need to track ownership, to generate reports, to do taxes, to monitor the portfolio. It's all in one package, and it's very easy to administer. The online help is good, and I just cannot imagine trying to run a circle without a tool like that.

I think there's only one other that's out there called ViVio. I've never used it. In all the investment clubs I've used, we've always used the ICLUB, which is – it started out as a desktop tool – PC software that was put out by the National Association of Investment Clubs, the NAIC. And the myICLUB is the online version of that software.

C. AUSTIN FITTS: Yes, it's a great – does it cost anything, or is it open source?

PAUL FERGUSON: No, there's an annual subscription, but there's no limit on the number of members in your club. So the club or the circle has to pay a yearly subscription, and then –

C. AUSTIN FITTS: But it was pretty modest, as I remember.

PAUL FERGUSON: Yes, it's less than \$100.00. It's like \$60.00 or something like that.

C. AUSTIN FITTS: Right – and if you look at what it would be like to do that without it, you know –

PAUL FERGUSON: I can't imagine. You wouldn't want to do that.

C. AUSTIN FITTS: No, you certainly wouldn't want to be the treasurer and do that. So in summary, Paul, please let us know anything else you'd like to



add. And what I'd love to hear is in all your experiences of doing investment clubs, what did you most enjoy? What did you most enjoy doing in First Ever Solari Circle? What did you get out of it? How did it benefit you?

PAUL FERGUSON: Well, I just think it was really important in – particularly in these times that we're in right now – to have a sounding board, to have a group – an intimate group of likeminded individuals to kind of try to navigate through this madness that we're in. And even if we were in better times, I think it's useful to leverage the strengths of others and to help you see the world in a broader perspective. So for me, it's all about having a group of people that I really respect and like and trust and value their perspectives, and having that available to me on a regular basis was just invaluable.

C. AUSTIN FITTS: Right – I would say that we had a marvelous group of people in the First Ever Solari Circle, and the conversation was always very enriching and uplifting, and people would bring ideas or news that I would never have thought of. I always left with my mind expanded. And one of my favorite things is the news would say something about something going on in Oregon, and our Oregon member would say, “Oh, no, here's the real deal on that.” And somebody from Ohio would say, “Oh, no, here's the real deal on that, and here's what's really going” – you know, we had one person who was from Louisiana originally, and all his relatives kept us up to date on what was going on in the Gulf Oil Spill.

And it just kept everything grounded because you had people in ten different – you know, we had east coast, west coast, middle of the country, and you had all these different perspectives.

PAUL FERGUSON: Hawaii.

C. AUSTIN FITTS: Hawaii. Everybody just kept bringing us back to ground, and it was very enriching, and I'm very glad we did it. But it would never have worked if we hadn't had the world's best treasurer. So my favorite thing about the First Ever Solari Circle, as I said when I



introduced you, was Paul Ferguson and his roundup on the markets once a week. I couldn't be without it.

PAUL FERGUSON: Well, thank you, Catherine.

C. AUSTIN FITTS: Anyway – so Paul, thank you very much for joining us on the *Solari Report*, and thank you for everything you've done for this network. I can't tell you how much I appreciate it.

PAUL FERGUSON: My great thanks to you, Catherine, for everything that you've done for us also.

C. AUSTIN FITTS: Well, it's a pleasure. So any chance you got a chance to watch the documentary?

PAUL FERGUSON: Oh, that was great! I loved it.

C. AUSTIN FITTS: Oh, good! Yes, let me just briefly describe it. So stay on and share with us on the documentary. In "Let's Go to the Movies," I chose *Something Ventured*, which is a recent documentary that tells the story of the venture capitalists who financed the creation of a whole series of Silicon Valley companies. So that's south of San Francisco – Intel, Apple, Cisco, Atari, Genetech, PowerPoint and Tandem – and it's a very interesting story of the non-liquid side of the house.

This is private venture investment before people go to the public markets and turn the securities into liquid that can be traded. And it gives you a wonderful feeling for how wonderful things are when it works. They leave out how depressing it can be on the other side. For every one that works, there are 30 that don't, and interestingly enough in venture capital – I can hear Paul in the background; he knows that – it takes a remarkable person – and of course, you're the venture capitalist here, Paul.

It takes a remarkable to keep using their creativity and imagination through the 30 that don't work for the one that works. And interestingly enough, in venture capital, on a portfolio of 30 with one that works, the



one that works makes enough to cover all your costs on the 30 that don't. And one of the reasons I wanted you to see this is not only does it put you in the "let's make a deal" mood, but if the possibilities when the crowd funding regulations are promulgated this year by the SEC, and those are the provisions under the JOBS Act that will let crowd funding be applied for equity deals sort of through the Internet.

I think it gives you a sense, if you can imagine that milieu in a much smaller mode – a sort of a crowd funding mode – it sort of sets the tone for what could happen with crowd funding. So tell us what you thought of the documentary, Paul.

PAUL FERGUSON: Well, I thought it was fascinating. The way these guys could start with an idea and create something from nothing. It takes a real kind of a suspension of disbelief – all the things that can go wrong along the way – I mean, it's really – you have to be a little bit crazy to start a business, I think, or to even invest in somebody that's crazy enough to start a business. But without it, we wouldn't have the genius and innovation that we all take for granted around us. So just – there is some bravery that's involved, I think, and a little bit of madness.

“Without it, we wouldn't have the genius and innovation that we all take for granted around us.”

C. AUSTIN FITTS: Yes – and frankly, it's always been one of America's great strengths. We have more entrepreneurial and venture capital madness than any other country on the planet. Or we have had – China is beginning to surpass us in that sense, but there's still plenty of it here.

PAUL FERGUSON: Absolutely.

C. AUSTIN FITTS: But I think that documentary gets you in the mood for it. Do you know what I mean?

PAUL FERGUSON: It's still there. It's still out there. I see it every day, and I think you're right. We just have to kind of focus on those things and



nurture them.

C. AUSTIN FITTS: Right – because it’s – to me, the way to get back to an economy that works is to be part of enterprises and activities that help it work.

PAUL FERGUSON: Yes

C. AUSTIN FITTS: So stop putting our money and our time in the enterprises that drain the economy, and start putting our time and bank deposits and investments in the enterprises that are building the economy. To me it’s always been very simple, and just pull away from the negative and support the positive. And frankly, if everybody did that, it would make an enormous difference. And that’s why I love that Kickstarter example, because in three years Kickstarter has gone from a website in the boroughs of New York to being almost double the size of the National Endowment of the Arts.

PAUL FERGUSON: Really? That’s amazing.

C. AUSTIN FITTS: That’s amazing. So I’m ready. Let’s make a deal! Okay, Mr. Ferguson, thank you again.

PAUL FERGUSON: Thank you very much, Catherine. Good night.

DISCLAIMER

Nothing on The Solari Report should be taken as individual investment advice. Anyone seeking investment advice for his or her personal financial situation is advised to seek out a qualified advisor or advisors and provide as much information as possible to the advisor in order that such advisor can take into account all relevant circumstances, objectives, and risks before rendering an opinion as to the appropriate investment strategy.