THE MONEY MARATHON - WHAT YOU CAN LEARN FROM THE FINANCIAL MISTAKES MADE BY PROFESSIONAL ATHLETES JUNE 2010

While I was in college, for three summers I had a job travelling with the Kansas City Royals taking statistics. It was a great experience, and I learned a lot about the life of professional athletes. Unfortunately, that life many times does not include good financial management.

An in-depth article from *Sports Illustrated* March 11, 2009 written by Pablo Torre gives many of the reasons why athletes generally don't manage money well and others can learn from this. Here are some stats from this article on the problem.

- "By the time they have been retired for two years, 78% of National Football League Players have gone bankrupt or are under financial stress because of joblessness or divorce."
- "Within five years of retirement and estimated 60% of former NBA players are broke."
- Numerous baseball players have taken bankruptcy including Hall of Fame players Tony Gwinn and Rollie Fingers. Fingers played 17 seasons through 1985, and had a high annual salary of $1.1 million. In 1989 he filed bankruptcy with almost zero assets, a million dollars of liabilities and an additional $4.2 million of claims against him from over 100 creditors. Some of his investments included a pistachio orchard, wind turbines, and a stable of Arabian horses. Additionally, at least 10 current and former players including former Royal Johnny Damon had money tied up with an $8 billion fraud perpetrated by Texas financier Robert Allen Stanford.

According to *Sports Illustrated*, here are the top four reason why professional athletes have financial problems:

1) The Lure of the Tangible. Former football star Rocket Ishmael, a Notre Dame graduate lost millions investing in the Rock N'Roll Café, an inspirational movie, a music label, a nationwide phone card dispenser, a cosmetic procedure, and shops that produce framed calligraphy of names of a person's choice. Athletes generally are not interested in boring, conservative investments like stocks and bonds that are invisible. "Inventions, nightclubs, car dealerships, and T-Shirt companies have an advantage: the thrill of the tangible." What athletes and others don't realize is that these grandiose ventures are very risky. In fact "industry experts estimate that only one in 30 of the highest-caliber private equity investment deals work out as advertised." Investing a small percentage of a person's asset into these risky investments might be acceptable but athletes typically have a majority of their assets invested in these types of assets.
2) Misplaced Trust: Athletes generally are not trained "white collar executives" and usually have little or no finance training or basic knowledge about budgeting and investing. Instead they have put all their efforts into becoming a professional athlete. As a result, many of these athletes

make “two fatal mistakes: hiring the wrong people as advisors and trusting them far too much.” Relatives, friends and acquaintances take advantage of this naiveté. According to the National Football League Players Association, “ at least 78 players lost a total of $42 million between 1999 and 2002 because they trusted money to financial advisors with questionable backgrounds.” As an example, in 2009 a hedge fund manager, whose client list included at least eight NFL players, was convicted of fraud and money laundering involving more than $150 million. Additionally, many advisors take advantage of players by overcharging them for handling their assets, sometime a 2% to 3% charge instead of the more standard 1% or less.

3) Family Matters: Athletes have a high profile, glamorous, exciting life style that includes extensive travel and time away from home. This life style can make them more vulnerable to divorce and lawsuits than the average person. In fact, “the divorce rate for pro athletes ranges from 60% to 80%.” Divorce usually requires a split of assets which would cost an athlete half of his net worth. Many divorces for athletes occur at retirement with the sudden life style change compounded by the fact that the athlete’s peak earnings is over and reaching his previous earnings in retirement is nearly impossible. Prenuptial agreements can be a protection for athletes, but are used much less by them than by other non athletes with comparable income and net worth. Some athletes also end up with paternity obligations. Former football player Travis Henry had at least nine children by nine different women. He reportedly earned over $11 million over seven years but was arrested and put in jail for not being able to pay the $3000 per month support for one of his children. Kansas City Chief Derrick Thomas, who died in an auto accident, had ignored the advice of a financial planner to have a will and consequently his estate was involved in a court battle between the five mothers of his seven children. Although he had earned over $30 million during his career, his estate was only worth $1.6 million.
4) Great Expectations: With new found excessive large amount of wealth, many athletes face two difficult problems. Suddenly there are a large number of family and new friends who want to help or are searching for handouts. Three years ago, basketball player Ron Artest dismissed six friends who were doing odd jobs for him while living in a house he was leasing for them for $30,000 per year. Additionally, there is peer pressure to spend in excess of what a person can afford in order to maintain the image of being a well paid athlete. Former basketball great and current television announcer Kenny Smith, earned over $60 million in his career, but filed for bankruptcy in 2005 because of excessive spending including eight cars, $41,000 in monthly expenses which included child support, his mother’s mortgage and his own Beverly Hills home and $10,000 per month in “hanging out money.” In Shaquille O’Neal’s 2008 divorce proceeding he listed $876,000 of monthly expenses. Some people call this the “$20,000 Rolex” problem. Rather than investing an athlete’s fund in something fairly safe that could earn 5%, it is spent on something expensive like a $20,000 Rolex or several new cars or a night out at a nightclub in which the money spent is gone or will depreciate rapidly, never to be seen again. Unfortunately, the goal for many athletes tends to be living an ever increasing richer and more elaborate lifestyle rather than preserving his wealth.

Although unlike professional athletes, most of us do not have the set of certain circumstances that lead to the extensive financial problems of athletes, there can still be a tendency in all of us to make some of the same type of mistakes they make. Each person should ask himself these questions: Am I being attracted by the excitement of a risky, get rich quick investment? Have I placed my investments with a professional who I can trust? Am I putting the proper emphasis on preserving and protecting my family? Am I spending because I really need something or am I just trying to "keep up with the Jones"? Hopefully, we can all learn from some of the financial difficulties faced by athletes.

Remember, every investor's situation is unique; and it is important to review your specific situation with a financial professional.

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