excessive spending or payments that seem out of the ordinary. The first step we take is to flag the clients' accounts and watch their spending closely. We may then let them know we have a concern and try to ascertain the degree of the problem. We stay in regular contact and if the gambling continues and becomes habitual, we refer them to a professional trained in addressing the issue.

IMPULSIVE SPENDING

The big leagues mean big salaries. These big salaries, however, can be squandered away fairly quickly—particularly by young athletes who've never had much money in their pockets. Spending, in fact, can become something of a game with athletes—a competition to see who has the best cars, houses and other expensive toys. This impulsive mindset is very prevalent among younger athletes' who have received their first big contracts. They call us wanting to buy a brand new Denali, a million-dollar house or a $200,000 diamond ring for their fiancée. They aren't factoring in the carrying costs associated with owning an expensive home or the fact that they may not be in the house long enough to make the purchase worthwhile. The long-term view is missing. They often hear friends or teammates talking about "the next big investment" and immediately want to get in on it. When we get these phone calls from clients, we run analysis and have long discussions about whether these are prudent actions. We do the research on the "can't go wrong" deals and, almost every time, end up telling them to stay far away.

The Stanford Financial scandal is a case in point. After Texas banker R. Allen Stanford lured customers into buying uninsured certificates of deposit that carried "improbable and unsubstantiated" high interest rates, the SEC froze all the assets of the three entities managed by Stanford. Innocent investors suffered, including those who didn't have money invested in these CDs, but rather just had their investments with broker-dealers whose accounts were with a Stanford affiliate. The scandal affected several athletes, including baseball players Johnny Damon, Xavier Nady and Mike Pelfrey. This incident underscores the importance of due diligence and transparency when forging affiliate relationships.

BECOMING A BANK TO FAMILY AND FRIENDS

Family and friends, regrettably, often view the professional athlete as a money tree. It's common to see a professional athlete frequently approached for loans and other financial assistance by those close to him. It's a tough situation, especially for someone so young and inexperienced with money. That's why it's important for the advisor to be supportive and act as the gatekeeper, so to speak, to the athlete's money.

> **FAMILY AND FRIENDS, REGRETTABLY, OFTEN VIEW THE PROFESSIONAL ATHLETE AS A MONEY TREE.**

We frequently have conversations with athletes about whether they feel a request for money is warranted. If the client wants to lend assistance, we ask the athletes to have their friend or family contact us to structure the help in the form of a promissory note. If the client rejects a request, we will break the news to the friend or family member that lending the money at this point in time is not in everyone's best interests. There is a line between helping people and being taken advantage of. We try to help our clients see when the line is being crossed, and are happy to be the "bad guy" to take the pressure off of them.

COMPLEX TAX AND ESTATE ISSUES

Professional athletes are not only in high tax brackets, but they are also taxed in most states in which they perform. Among the details advisors need to keep track of to prepare an athlete's tax return are the days played in each state, days traveled with the team, days injured and expenses that were or were not reimbursed by their team. Advisors need to know the proper timing of estimated tax payments and the types of alternative investments that provide potential tax breaks.

The estate planning and risk management for a professional athlete can be very complicated. Wealthy public figures can be the target of frivolous lawsuits, so there is a need for not only asset protection but also anonymity. Among the tools for this type of planning are LLCs, trusts and partnerships.

The large size of a typical sports contract and the manner and timing in which the money is deployed are important factors in determining the best way to structure an athlete's estate plan. The net present value of a contract needs to be considered when calculating an athlete's potential estate tax liability. We will often advise an athlete to use gifting and ILITs—strategies that reduce the size of the taxable estate—as one layer of protection.

There is no cookie-cutter method to managing the financial health of a professional athlete. Since each client is unique, so are the strategies employed to secure his financial future. The one constant denominator, however, is the "trust factor"—particularly in today's scandalous environment. Providing athlete clients with transparency and full disclosure is paramount to forging a strong relationship. *PW*

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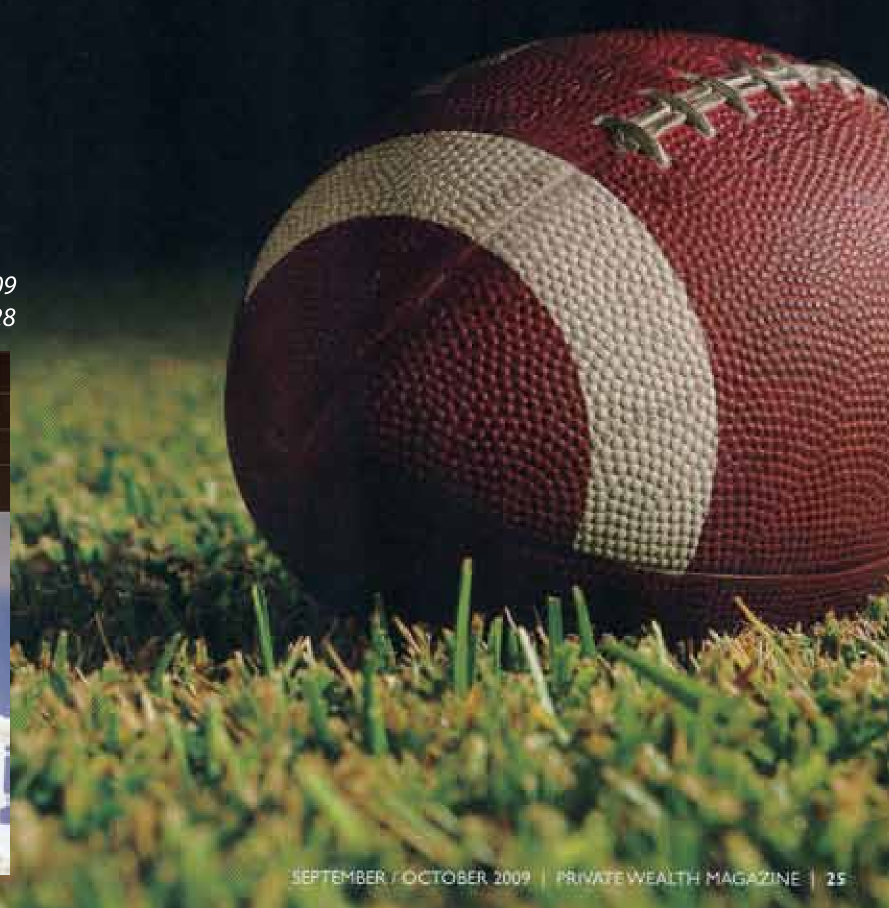
ATHLETIC PROWESS

Serving as an advisor to professional athletes requires a thorough understanding of their complex and unique issues.

By Joseph Geier and Melissa Jordan



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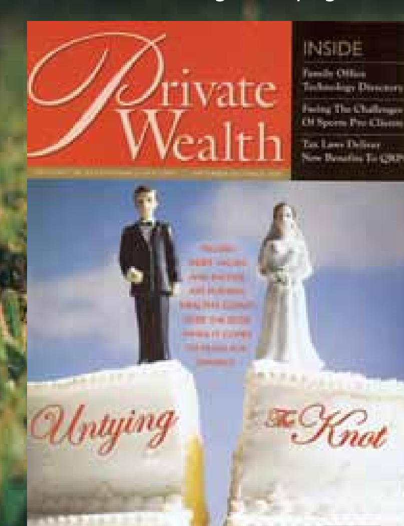

Few clients bring as much fame and fortune to the table as do professional athletes. But advisors who wish to serve this wealthy clientele should take note: Sports figures face myriad complex and unique issues that require special expertise to unravel.

Advisors will find, in fact, very little that's "typical" about high-net-worth clients from the world of professional sports. These clients' career paths are at times uncertain and extremely unpredictable. Many of them are overnight millionaires, signing lucrative contracts right out of college or even high school. Their earning power, however, can vanish just as instantly if they sustain a serious injury or are unable to perform for other reasons.

Advisors will also find that professional athletes are anomalies when it comes to retirement planning and investment horizons. Whereas most advisors are looking at winding down their clients' careers after 30 or 40 years, athletes typically hang up their cleats after less than 10 years. A 2007 study, for example, concluded that the average career of a Major League Baseball player lasts 5.6 years. National Football League careers are even shorter, with an average length of 3.5 years. Advisors, therefore, will find that planning for an athlete's "retirement" will entail helping him plan for a second career.

For these and other reasons, advisors serving professional athletes need to have a high expertise in not only finance and investing, but also in the intricacies of professional sports. Advisors must understand salary structure, contract and bonus structures and what the athlete does and does not get reimbursed for by the team. They must also know the financial repercussions when an athlete is injured. They need to know, for example, how long the athlete is expected to be sidelined and if he will travel with his team during the recovery period—factors that must be considered when preparing tax returns.

Perhaps more important than knowing finances and sports, however, is the effort an advisor makes in knowing his professional athlete client. Sports figures live fast-paced lives and often are forced to adopt a nomadic lifestyle that requires them to move from team to team, tournament to tournament and city to city. Advisors can be a valuable source of stability in a professional athlete's hectic life, but only if they take the time to get to know their clients and are diligent in looking out for their interests. Knowing the client's general data—risk tolerance, net worth and cash flow—is just the tip of the iceberg. Advisors need to know their clients' life goals, what their dreams and aspirations are after their playing days are over, and have a solid relationship with their families.

That means lifestyle management should be an integral part of how advisors serve professional athletes. Our firm spends a lot of time traveling, attending sporting events and helping athletes and their families with matters such as purchasing cars and real estate, obtaining loans, reviewing business ventures, and setting up and shutting down temporary housing—in essence, acting as a personal CFO.

Meanwhile, we remain cognizant of the following issues that differentiate professional athletes from the traditional high-net-worth client.

SHORT CAREERS, UNPREDICTABLE INCOME

The short career of the average professional athlete doesn't leave much room for error. It often puts advisors in the unusual position of having to implement a retirement income plan for people who have not yet reached the age of 40. Retired athletes, however, need to understand they are similar to a 60-year-old in that they need to secure a sufficient income stream. The challenge for advisors is to drive home this message to a 23-year-old who is still basking in the glow of signing a multi-million-dollar contract right out of college. In many cases, depending on the sport, these overnight millionaires may even be younger.

Forecasts, spreadsheets and a mountain of numbers often overwhelm younger athletes. That means a strictly quantitative approach can be counterproductive when trying to drive home the benefits of saving and investing to the professional athlete. While it's important to use quantitative tools internally, advisors should strive to get their message across in a more friendly and relaxed conversation. We try to stress how important it is for our clients to understand our investment philosophy and the funds in which they are invested. Providing the younger athlete with case studies or real-life stories of what can happen if money isn't managed properly can be helpful. Explaining what can happen when athletes get caught up in "glamorous" and costly investments is sometimes all the ammunition an advisor needs to keep clients focused.

Since the typical athlete's prime earning potential lasts just a few years, it means he has to get conservative in his investments early on. Just because an athlete signs a multi-million-dollar contract does not mean he can put off saving and dive into high-risk investments. Dollar-cost averaging needs to begin immediately to build up the nest egg that will soon become his primary source of income.

We typically set our athlete clients up with a budget account in which their paychecks get deposited, with a certain percentage flowing into their investment accounts each month. We focus on safe, low-cost investments such as mutual funds to give them a slow and steady return. We offer nine models for our clients to invest in ranging from very conservative to somewhat aggressive. The models that fall on the lower side of the risk spectrum consist of cash, international and U.S. bonds such as the Prudent Global Income Fund and Hussman Strategic Income Fund, and hard assets such as U.S. World Precious Metals. On the other side of the risk spectrum, we use

a larger percentage of growth stock funds, and hard assets since we see the long-term outlook for gold, energy and natural resources to be very favorable. We also have balanced portfolio models consisting of funds such as the Ivy International Balanced and Fidelity Balanced Funds, as well as Leuthold Core Investment.

SECOND CAREER PLANNING

Because athletes retire at such a young age, it is crucial for them to start thinking about their second careers during their playing career. We like to call it planning for their "Next Game." We stress to athletes that if they have not finished their education, they should use any resources provided to them by their employers to do so. Many athletes, for example, get a scholarship program included in their first professional contract.

Athletes have a unique opportunity to make great business contacts during their playing days—contacts that can be invaluable to them when those days are over. One of our clients, Baseball Hall of Fame member Cal Ripken Jr., parlayed his business contacts into the eventual ownership of minor league baseball teams and the building of Ripken Stadium in Aberdeen, Md.

We also try to make the transition easier by having the athlete focus on a passion or hobby that can develop into a second career. Some of our clients have become successful coaches, broadcasters, real estate developers and small business owners. Many times we suggest that they seek the guidance of a business coach.

HIGH DIVORCE RATE

The professional sports industry, unfortunately, isn't always marriage friendly. Recent studies have put the divorce rate among professional athletes at about 60% to 80%. More than 80% of 178 athletes polled in a recent Rothstein Kass survey said they were concerned about being involved in either an unjust lawsuit or a divorce proceeding.

When a life event such as a divorce takes place, advisors need to help clients make the necessary financial adjustments. Lifestyle expenses almost always need to be adjusted downward. Divorce will touch not only property and investment accounts but retirement plans and pensions as well. To help mitigate the potential conflicts, we highly recommend that a prenuptial agreement be executed prior to any marriage. Although this is a sticky topic, it is particularly important in planning for an athlete's financial future and we feel it is our duty to make sure it is at least considered.

If you've built a strong relationship with an athlete's family, you may be pulled in two different directions. You become, in essence, the mediator between the husband and wife, trying to help fashion a mutually agreeable resolution that is in the best interests of each party involved and their children. Many times we assist the attorneys in drafting an equitable distribution schedule so that both parties understand how the assets will be divided. In several situations such as these that we've experienced, both the athlete and the spouse have remained clients.

GAMBLING

A competitive nature is what propels a lot of professional athletes, but this personality trait can sometimes lead them astray. Gambling, for example, can be a problem among sports figures, as exemplified by the case of Pete Rose. The horrible impact gambling can have on athletes often gets overshadowed by performance-enhancing drugs. But gambling remains a significant problem in all of professional sports. By paying athletes' bills and monitoring their daily finances, we have the ability to spot