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Sudden Wealth, How Do You Manage It?

By Mary Becker CFP®

Much has been published over the past several years regarding professional athletes and bankruptcy. Why do these bankruptcies happen? What has been learned by these events and how can this issue be prevented? Why is it important that the athlete's advisor be a fiduciary?

Several reasons have been given for bankruptcies including lack of planning, risky investments, excessive spending, divorce and infidelity, and misplaced trust. Most athletes are young and inexperienced with money. In order to achieve their level of play, they have usually spent most of their lives practicing and playing the sport while others (parents, guardians, or coaches) have taken care of day-to-day responsibilities.

Once they sign their first contract and the money starts hitting their bank account, they are so focused playing their sport, they usually pay little attention to planning for the long future ahead of them. Although most hope to play at least 10 years, in reality they are an injury away from a shortened career. And, even if they play 10 years, the amount of money they earn in those years needs to carry them through an entire lifetime. Without proper planning and discipline, the large monthly checks can dwindle down to a bank account with little to show at the end of the professional career.

The athlete will be offered all sorts of "investment opportunities". Unfortunately, the idea of a portfolio of diversified securities invested for the next 25-35 years does not generate the same excitement as investing in the latest and greatest invention or business. There is also the temptation to overinvest in real estate or to invest in riskier asset classes like hedge funds. A true *Fiduciary* who has legal responsibility and ethical commitment to protect their client can shield the athlete from having to entertain proposals for restaurants and other ventures.

Keeping up with the other players from a material perspective can cause excessive spending on cars, houses, electronics, jewelry, and vacations. Peer pressure and desire to fit-in can contribute to bad spending decisions. Money that would otherwise be invested for the long-term is lost. It is one thing for an athlete to discuss such matters with professionals...we press this point hard with our clients...however, we strongly encourage our athlete clients to speak with the elder statesmen in the locker room. Pick someone whom you respect...undoubtedly, their comment will be: *"reward yourself a little bit for your hard work...but your true reward will be to live the rest of your life without ever worrying about money for yourself and your family"*.

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If the athlete does not have a prenuptial agreement, he or she stands to lose half of the earnings during their marriage to divorce. Since the high salary earning potential is limited to the professional career, the expected payments to a divorcing spouse could be more than the athlete is able to afford. Child support is another cost that creates a long-term obligation, and depending on the number of children can be quite expensive. A prenuptial agreement is not easy for any of us to suggest to your fiancée...many forms of trusts to hold assets can also serve the purpose of a prenuptial agreement, as well as to protect assets against others' claims.

There are many people positioning themselves to be the athlete's trusted advisor. But, that trust is often misplaced. This is where the need for a *fiduciary* is critical. A fiduciary is an individual in whom another has placed the utmost trust and confidence to manage and protect property and money. The fiduciary relationship exists where one person has a legal obligation to act for another's benefit. A *Broker* has no such responsibility.

A fiduciary will spend time educating the athlete and coordinating a financial strategic plan that would provide financial independence to the athlete for the rest of his/her life. This relationship will require the buy-in of the athlete. It requires maturity and confidence in the process. All of the issues mentioned earlier are preventable with proper planning. It takes time and effort, but it will make a difference between another professional athlete's career ending in bankruptcy versus a lifetime of financial independence.



Mary Becker recently joined Sage Hill as Managing Director. Mary brings tremendous passion for excellence to Sage Hill, exhibited through her successful work with business owners and professional athletes!