

STREET & SMITH'S
SportsBusiness
JOURNAL

Pro athletes must use caution to avoid financial runaround

When the infamous Willie Sutton was asked why he robbed banks, he said, "Because that's where the money is." If Sutton were alive today, perhaps he'd target professional athletes. Instead of his risk-taker's bravado, he could steal millions from unsuspecting pro athletes with simple razzle-dazzle and lies.

While professional athletes are among the most financially fortunate members of society, they are also among the most vulnerable. Young, financially inexperienced and often surrounded by yes-men, professional athletes are magnets for scam artists.

Kirk Wright, founder of hedge fund International Management Associates, is the latest to be accused of defrauding current and former pro athletes. From 1998 to 2005, which The Wall Street Journal points out included the worst bear market since the Great Depression, Wright reported average annual returns of more than 27 percent. The returns apparently were fabricated. The Securities and Exchange Commission estimates that Wright, who was arrested by FBI agents in Miami on May 17 and faces 21 counts of federal mail fraud and three counts of securities fraud, bilked investors out of at least \$115 million.

According to the Journal, Wright partnered with former Atlanta anesthesiologists Nelson Bond and Fitz Harper, who helped win over fellow doctors. He also hired Steve Atwater, former Broncos football player, as an investment adviser. An SEC complaint filed in February said Atwater invested \$2.8 million of his own money in IMA, and the Journal said he helped raise about \$15 million from his NFL friends, including Blaine Bishop, Terrell Davis and Rod Smith.

In 2002 the NFLPA established the "Registered Financial Advisor Program." IMA applied for and was registered under this program. In June, Bishop, Davis, Atwater and others filed suit against the NFL and its players organization alleging negligence in recommending the services of registered firms. While the NFLPA program may increase the likelihood that NFL players select suitable financial advisers, it is certainly not foolproof, especially when a fraud is perpetrated.

So what can pro athletes and others do to keep from falling prey to unscrupulous financial advisers?

Demand answers you can understand, and walk away if you don't get them. IMA's marketing materials said that the fund's "objectives are achieved through a top-down, bottom-up process that identifies disparities in the economy or security sectors creating +/- changes in market perception." Investors accepted this gobbledygook and pulled out their checkbooks.

Don't believe the hype. The competitive makeup of professional athletes, doctors, and even savvy businessmen often leads them to take huge risks in hopes of achieving spectacular returns. Unfortunately, investments offering steady and reasonable returns are less attractive to them. Pro



Former NFL Pro Bowlers Blaine Bishop (left) and Steve Atwater lost money to a hedge fund.

athletes are not wired to “play it safe.” Historically, consistent investment returns of 8 percent to 12 percent are superb, but psychologically it’s hard to resist the natural impulse to chase bigger, faster, stronger returns.

Verify the numbers. Professional athletes and others should not entrust their money to anyone without verifying that the financial information provided is accurate. Invest only in deals where the financial statements have been audited by a reputable certified public accounting firm. According to the SEC complaint, Wright mailed investors forged Ameritrade account statements. It is critical to establish direct online access to your account and check it regularly.

Hire team players. Your financial adviser’s interests should be fully aligned with yours. Find out whether a financial adviser sells products for a fee or commission. There is nothing inherently wrong with commissions, as long they do not cloud recommendations and are fully disclosed, and the investment in question is in the client’s best interest.

Don’t jump into hedge funds. The SEC requires that net worths of hedge fund investors exceed \$1 million. The theory is that millionaires are financially more savvy and, therefore, do not need the government to protect them from unscrupulous or incompetent hedge fund managers. Professional athletes would be better off if they self-imposed a \$3 million minimum on their investment capital before layering on riskier asset classes such as hedge funds. Selecting the appropriate hedge fund definitely favors the prepared, sophisticated investor.


Good and bad information does not come in neatly labeled bottles. Separating the good investments from the bad means taking an active interest in your financial affairs. Ultimately you do have to put a certain amount of trust in someone. But you should implement controls to protect yourself from worst-case scenarios of fraud and incompetence.

As the admittedly financially unsavvy humorist Will Rogers once said, he was not “as concerned about return on investment as return of investment.” Good advice.


Easy Targets?

Professional athletes are frequent victims of unscrupulous agents and financial advisers. Some recent cases

- Sports agent Tank Black was convicted in 2002 of stealing at least \$12 million from several professional athlete clients
- In 2004, former NBA star Scottie Pippen sued his former financial adviser Robert Lunn. Pippen reportedly lost \$17 million. He was awarded an \$11.8 million judgment against Lunn. (Lunn filed for bankruptcy three months later.)
- According to the NFL Players Association, from 1999 through 2002, 78 NFL players lost at least \$42 million as a result of criminal fraud.



Black



Pippen