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MARKET MATTERS: Suddenly rich athletes; are they training for money management?

By Joseph Matthews

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The surest sign of spring is here; not the emergence of flowers or the occasional mild day before a cold blast reminds us it is still winter, but rather the sudden appearance of baseball on the sports channels as spring training returns as surely as the swallows to Capistrano.

Residents of warmer climates already are scheduling days off or weekend excursions to enjoy “America’s Pastime” while munching pizza, popcorn and hot dogs. Meanwhile, they will be watching a group of young athletes who may be coming into a windfall equivalent to winning the lottery as they start their first season or advance in their athletic careers.

How much money are we talking about? Well, if you are a Major League Baseball player and make less than one million dollars per year, there are 464 players ahead of you who have reached that milestone. The minimum starting salary for the 2018 season is $545,000.

So how will these young millionaires handle all that money? Why do we so often hear about athletes sidelined early due to illness or injury who are in financial trouble?

Spring season starts in February for some, and by March for the rest, and the playing season continues until October. During this period the players are on the job constantly, playing weekends, double headers that take them late into the night, and often are on the road for away games, as well. During the season and with this schedule, there isn’t a lot of time to sit down and go over the books; and when the season ends, so do the paychecks. In addition, there are other distractions that come with being young and surrounded by people looking for “a piece of the financial action.”

Professional athletes have one other strike against them. Their paychecks keep coming only so long as they are playing. Circumstances ranging from injury to illness, legal issues or simply aging and no longer being able to play at a professional level can put an end to the ride. When they hang up their uniforms for the last time, there will be only whatever they invested or put away for retirement.

And there’s the rub. Sometimes young athletes, some of them very well-known, take a typical youthful view of retirement - retirement is something for old people and not an issue they need be concerned with now. But with the short life of pro athlete careers, retirement should be on their minds from the first day they take to the field.

So what should they do with the newfound wealth? I suggest they postpone buying the new luxury car. Instead, sit with an unbiased professional to map out a detailed strategy that would allow some spending today, but with a plan for investing the majority of the funds so there is a sufficient nest egg when playing ball is no longer a realistic option. Contribute the maximum allowable to a retirement fund such as a 401(k). Consider a mixture of dividend-paying stocks, for some extra luxuries today, plus a careful selection of equities with long-term growth potential. Companies based outside the U.S also deserve a look-over. Greater diversity can help to mitigate risk.

Of course, we easily can expand the analogy of young athletes who are suddenly in possession of large sums to money to anyone with a sudden windfall: a large job bonus, an inheritance, a lottery win, the sale of a successful business … all of these require financial know-how and a certain amount of discipline and wisdom to boot. And, these windfalls are not solely the territory of the young; a financial Grand Slam can happen out of the blue, at any time in life. Being prepared with a carefully-thought-out financial plan is key.

It is nice to know the difference between the Infield Fly Rule and a Double Play, but it’s even nicer if that knowledge is the foundation for a lifetime of income, even when running the bases is no longer an option.

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