

PROTECTING YOUR POSSIBILITIES PODCAST WITH LUKE FEDLAM

Episode 53: Having a Defined Decision-Making Process for Business Investments | Aug. 25, 2021

The following is a transcription of the audio podcast recording. It is largely accurate but in some cases it is incomplete or inaccurate due to inaudible passages or transcription errors.

Luke: I'm sports attorney Luke Fedlam, and welcome to the Protecting Your Possibilities podcast. Each conversation we focus on sharing information and having conversations around how athletes can best educate and protect themselves or their life outside of their sports.

Thank you so much for tuning in to the Protecting Your Possibilities podcast. I'm your host, Luke Fedlam here with another episode. And this time, you know, I've been having so many conversations here recently about deals, business investment deals, private investment deals, however you want to articulate it. But really, it's been interesting how so many people have reached out wanting to talk about deals. And I think part of that is because on the athlete side, more and more athletes are seeing other athletes getting involved in business opportunities, business deals, making investments beyond traditional stocks and bonds types of investments. And they view making business investments as another part of their overall portfolio.

And I think that all that's accurate, and we've had conversations in the past with various guests on our show, where we've talked about deals and things to think about and, and to look out for, but I just have had some recent conversations. And it's been interesting, because if you listen to past episodes, I've talked about decision making. And I've spent time talking about how, with athletes, we train athletes at a very early age to make split second decisions. And we very rarely take the time to help them slow that process down, to be able to make informed decisions outside of their sport.

And so I've put together a decision making model for athletes called REAP. And it's this idea that you reap what you sow what you put into your decision making process, that's what you'll get back out of it. And so the R stands for recognize the decision. E stands for evaluate information. A stands for analyzing options, and P is producing your decision.

And so all of that together helps an athlete to recognize what they are currently doing within their sport. They just happen to do it very, very quickly. It's a split second type of decision. And we talked about how in sports how fast these decisions happen. But when we slow it down REAP is a model that can be used for decisions outside of their sport all the time. And if you think of any type of life skill, it all starts with a decision. Whether you're talking about financial management, networking, brand development, or brand management, thinking about career exploration outside of your sport, healthy relationships, all of these go back to the decision that the athlete makes. And so it just stands to reason that we would have conversation about decision making. However, that's not something that often occurs.

So I've spent a lot of time talking about decision making. I've done work with multiple teams and groups and leagues around decision making. But I think it's important to apply that sometimes

as well, right, and to apply it into areas to help make it that much more real. And that's really what happened here recently, in having a conversation with an NFL team a few days ago, we spoke specifically about decision making. And we spend time training on decision making and thinking about how those decisions that are made, you know, throughout life, how they can go back and have a process, how they can rely on a repeatable process to help them get to an informed and educated decision.

And so then we decided to take that the next step and actually apply REAP, to a situation or a scenario that so many athletes find themselves in. And that is when someone presents a business investment opportunity to them. And so we spent time talking about how you apply REAP to that type of real world scenario that happens all the time.

And so R is recognize the decision. So the first thing that you have to do when you're presented with a business investment opportunity, as you're going through your decision making process to determine if you want to explore doing the deal or if you want to even say that you do want to engage in the opportunity, the first step in the decision making process is to recognize the decision, right? And so what that does is it helps you slow things down. And you want to start to think about what is the type of investment that's actually being presented to me right now? What am I looking at? What am I making a decision about? Because if it's simply to make a decision on investing in a particular type of business operation or product or service, that's what athletes are often sold on, right? They get sold on this idea that hey, crypto is hot right now or cannabis deals are hot right now. Or there's some, you know, certain sectors and certain industries that are hot, wearable technology. And for sports analytics is a big thing, right? Because, you know, people know that athletes will gravitate towards that, because they get it, they live it every day.

So oftentimes, people are sold on the business idea itself or that sector, itself. And so you've got to understand what is the actual type of investment? Right? Are we talking about an equity investment? Are we talking about some form of debt investment or a loan that's being made? Is it a some type of convertible loan? You know, like, what exactly are we talking about here?

But then you also want understand what decisions have to be made before I can determine if I want to go down this path. You want to think about who's presenting you with the opportunity? Is it someone you trust? Is someone that you have worked with before? Right? And not that those are clear to say, "Oh, well, if I've worked with this person before, they're not going to take advantage of me a second time?" Well, they absolutely could. But it's also a little bit different, you have a little bit more information than if it's someone you never know, built a relationship with, or never, you know, talked with before it's presenting you, right? That whole scenario of being a friend of a friend. So recognizing the decision helps you to slow things down to start to think about, what exactly am I doing here? What am I investing in? Why am I making this investment? How does it fit into my overall plan? Is this something I want to explore? What's the source? Where's it coming from? Right? All of these are smart things to think about, as you're just recognizing the decision that you have to make. Alright, so that's the R step.

The next you want to move on to evaluating information. So if you say to yourself, as you recognize the decision, you know what I do want to make this investment, or at least I do want to explore possibly making this investment, I do want to explore the opportunity that's being presented to me, then you want to start to evaluate information.

So you want to think about what information can you get on the investment itself? And the person who is presenting the opportunity in the company, right, the company that you're potentially investing in, right, all of these things, you want to gather as much information as

possible. Right? Has the person that's bringing you the deal - have they been subject to a lawsuit in the past? Have they been, you know, in some way fined or punished, or held to account by a regulatory body? Understanding who is bringing you into this is important what their role is, what do they get out of it? Are they looking to just get you in a deal so that they can get their finder's fee? You also want understand the company that you're investing in. Alright, how is that company set up and structured? What information can you gather? How long has it been around? Is it just a brand new startup? Or is it something that has been established for a while.

You also want to gather more information on the deal terms and how the deal is structured. And this is a great place where you can start to ask for all of the deal documents. I find myself a lot of times in situations with athletes where they say they're interested in a deal, and I say, "Great, go ahead and ask them for the documents. And we can review the documents and get back to you." And that's a big kind of filtering process right there. Because sometimes people aren't able to provide written documents. And if someone can't provide you written documents on a business investment - big red flag. Big, big, big red flag.

So you want to think about that you'll also want to start to think about a lot of times this is new to people, right? It's my first time doing a business investment. It's my first time having kind of money that I have set aside for this type of investment, and I don't know what to ask. Right? That's one of the common things we hear is, I don't know what questions to ask. And that's oftentimes a role that we can help fulfill, because we know the questions. We know things to ask for things to look for, right? But this is where having qualified advisors, both financial and legal, to help you through the process will help you with identifying the right questions to ask and sometimes also, having your lawyer or your financial advisor asking questions on your behalf is helpful as well if you don't want to do it or aren't comfortable yet, getting to that place.

And this is, it's important to mention that too, because this is where financial advisors, legal advisors, right, your legal team can come together and work together on analyzing and advising on these deals, right. It's a great opportunity to see your financial team and your legal team get together and work on deals for your behalf. Because ultimately, there are significant financial considerations to be made when thinking about making a business investment, and most definitely significant legal concerns that you want to watch out for as well. But that's that easy. That's the E step right of REAP - evaluating information and you want to gather as much information as possible.

The A is for analyzing your options. And this is where it's important to recognize that there are always options that you have out there, right? I mean, there's so many options to think about. And sometimes you just don't know, right. But this is where you can start to, again, use other advisors use people, you trust us people who have gone through this in the past to ask about what those options are. If someone's asking you to make an investment in a business, and it's an equity investment, where you get some percentage of ownership in the business, there are other options and other ways if you really want to invest in that particular business, but you maybe are unsure of the people that are running the company, or that you're thinking to yourself, "what if they just pay themselves back for the loans that they've made as founders of the company?" Or what are they going to do with your money, once you invested in, you don't really have any recourse? Right? I mean, you can look at other structures, you could look at potentially loaning money to the company, you could look at the minority protections that come with being an investor in the business, right. And so there's a lot of options that you can explore when you have qualified individuals around you who have experienced this previously, and can help advise you.

And if you go back to like, what it is that you want as your desired outcome, like why you're even doing the deal or considering doing the deal, you really want to think are there other ways to achieve the same outcome? Right, because if your outcome is I want to just be involved in this particular sector, this particular industry because I want to learn it more, then you might structure an investment in you know, one particular way. But if it's saying, "Hey, I really want to get the biggest return possible, I don't care about the business, I just want to make money," then you might structure it a different way. Right? So you want to think about are there other ways to still achieve the same outcome as you come up with various options for potential investment in a business.

And finally, is the P step right? So we've recognized the decision, we've evaluated information, we've analyzed our options, and now we have to ultimately produce the decision. And so this is where we want to make sure: one, that you've used your leverage in negotiating the terms of the deal. And to do that, you need to understand the terms of the deal. And one of the things that I always say to athletes all the time is please don't make a decision on something until you have reviewed the contract or the agreement or whatever paperwork is related to that deal.

Oftentimes people will make a decision, and they'll make it up in their mind what they're going to do. And then if they say, yes, I'm going to do this deal. And then the person says, great, here's the paperwork, it's just so easy for people to sign, then without really understanding what they're signing or using what they're signing, you know, the agreement itself as part of their due diligence process, right part of their analysis process. So make sure that you're asking for any agreements in advance before you make a decision. And then you can use that to ensure that you're, you know, utilizing your leverage to negotiate the terms that work best for you. If you don't like the terms at the beginning of an agreement or the beginning of an investment, you know, it's probably likely that you're not going to like those terms later on, either.

And so the last thing with that, too, is, you always want to make sure after you've kind of produced your decision, you always want to make sure that you can take a moment and go back and review your process to see if it worked for you to see what parts you could have done more with what parts were helpful to you so that you can dig in even more the next time, right? Taking a moment to just take stock of what you just went through is really important as you develop that muscle memory around this REAP model, right as you apply it to your own individual decision making.

So that's REAP and that's using it in the context of a business investment, which oftentimes come up in front of athletes on a regular basis, especially, you know, when the season starts, because think about this, we're going into football season. Now, basketball season is right around the corner. And oftentimes people who are looking to get athletes to make investments are they're fine with asking for these investments during the season when the athlete can't give it all the time needed for due diligence and analysis. So again, having a strong team around you, is incredibly helpful for that.

So some last tips to think about right as you as you think about possible business investments. You always want to make sure that you slow things down. There's no need to rush. Even though oftentimes people will say, you know, we're holding this deal open just for you, but we can only hold it open for another day. Right? I mean to pressure you into doing the deal. Slow things down. Understand what it is that you're getting into. Understand the type of investment that's being put in front of you, right?

Be able to analyze the terms and the structures, know what you're getting into, analyze them, and use your legal and financial teams to help you understand what it is that's being put in front of you, how it works, the impact that it has on you, how you can get your money out, if you can get your money out, right? All of these things are important for you to understand, you've got to know that that return on your investment, you have got to know that exit strategy.

And then please, please, please, please, please, please make sure that you or your legal team, review any and all agreements, before you sign anything. It's so important to make sure that you know exactly what it is that you're getting into and use that as leverage. Right, the agreement itself. Use that as leverage to make sure that you're getting the terms that you want the terms that best protect you.

So hopefully, this has been helpful. Just another, you know, again, I try to have these conversations around topics that keep coming up with clients, prospects, other folks that we talk to on a regular basis. So I just wanted to share with you, our listening audience, Because you are the best. And thank you so much for your subscription to the podcast, for your consistency and listening for the comments that you send to me. And please, you know, go ahead and rate the podcast, share it with a friend or a teammate, a colleague, and make sure that you continue to communicate with us and let me know if there are topics that you're seeing that you'd like to hear more about. Happy to have those discussions as well. So again, thanks so much for tuning in. Have a great day. We'll talk to you soon.

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