

## PROTECTING YOUR POSSIBILITIES PODCAST WITH LUKE FEDLAM

### Episode 57: Financial Advisors: Managing the Team Around You | Oct. 20, 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 into the Protecting Your Possibilities podcast. I'm your host, Luke Fedlam here with another interesting episode this week. And one of the things that has come up quite a bit in the work that I do has been around understanding, selecting and managing financial advisors. And I think, you know, whether we're talking about professional athletes who are transitioning into professional sports, and either going through their selection process of trying to identify financial advisors, and hire financial advisors, or maybe those who have already hired financial advisors, and are thinking about possibly either making a change, and what that's all about. Also to college student athletes now who are in this name, image and likeness, environment, able to earn compensation, and need to make sure that it's managed appropriately.

This discussion has come up recently, and I just wanted to spend some time kind of digging through this a little bit from my perspective. And again, I think that there will be tips on whether you are going through the process of selecting or managing or providing oversight to a financial advisor. But it would also help when you think about any service provider.

Alright, so whether it's an agent, an attorney, an accountant, right, this, hopefully, some of the tips and things that we talked about will help, as you think through this, or those who, you know, might think through this as well. I had an opportunity to speak to a group of athletes the other day, and this was the topic that they wanted to talk about. And so we dug into this a little bit more. And I just want to share some thoughts with all of you in the hopes that it helps as we think about protecting your possibilities.

So, one of the first and foremost things to think about is the fact that advisors work for you. So if you're the athlete, and you're in this process of identifying and hiring a financial advisor, typically that advisor is going to be someone who has much more experience in this than you do, who's possibly considerably older than you are, and has just this professional knowledge that far exceeds the knowledge that you have in the financial space. I mean, that's, that's why you're hiring them, right. But it's always important to remember that the advisor works for you. So just like when you're selecting a doctor, or you're selecting a mechanic, right, they may know way more than you about, you know, your body or about your car, or what have you. But they still kind of work for you. So you have to go through that process to select them, right. And we know that selecting advisors is not easy. There are a lot of financial advisors, wealth managers, etc., out there. And so going through the selection process is not easy, but having a process, having

a process for how you're going to select and manage advisors, is incredibly helpful, and it's critical for your success.

And when you think about it, too, the other piece that makes this an important conversation is that once you've selected an advisor, it doesn't just end there right there. They're going to be doing the work for you. But you have to provide that ongoing kind of monitoring or ongoing management of that advisor to ensure that they're continuing to be that advisor that you can trust, and that you want to continue to work with.

You know, it's interesting, we think about sports, right? Because in sports, when you make a decision in a game, you get that instant feedback, right? You've made a decision, you've stuck with it, usually you make that decision in a split second. And you know, right away whether or not that was a good decision or a poor decision. Unfortunately, when we think about things like selecting advisors, it's not that easy. And it's not that quick, where we get that feedback to know whether we were successful in our selection process or not. Sometimes it could be years and years and maybe for a certain period of time in our lives. That was a successful choice or selection. But as we move on, maybe it's not the right fit for us.

But this is really important because the consequences and repercussions that can come from a poor decision when it comes to a financial advisor can be severe. And we could rip from the headlines, articles and stories about athletes who have been taken advantage of by their financial advisor, athletes who have had money stolen by their financial advisor and the impact that that has had.

I mean, just a quick snippet. Kevin Garnett, professional basketball player for years, had over \$70 million stolen from him by his financial advisor. Right let that sink in \$70 million. Now, if you think about this \$70 million stolen from someone is after tax money. So if we really think about it, that equates to you know, approximately \$120 \$100 and \$30 million of career earnings, right pre tax earnings. So there are a lot have reasons and we could spend a whole episode and more talking about athletes who have been taken advantage of by advisors.

But what I'd like to do is try to focus more on some solutions, some ways in which you can go through a selection process and provide that ongoing kind of oversight to those advisors who want to work with you. So when we think about creating your advisor, kind of selection and management process, first things first, we want to slow everything down. And as you've heard me talk about decision making, in particular, I always talk about slowing the process down. I think, a lot of times with athletes there is this innate desire to make quick decisions. And that is because you have been taught you've been trained to make quick split second decisions within your sport. I mean, if you think about it, since you were a kid, when you first started playing whatever sport it is that you play, you've been taught to make split second decisions, you have practiced scenarios, you've done your drills, you've watched film, right, the worst thing you could do is not make a decision to be indecisive. And so that carries over sometimes into life. But when it comes to selecting an advisor, financial advisor, you want to slow the process down.

And one of the things that I see in athletes transitioning from college to the pros quite a bit is that they'll go through and select their agent first, and then we'll feel like okay, now I need to select my financial advisor. And either the agent provides the name of that financial advisor that they recommend, or the athlete has had financial advisors who have come to them, you know, and tried to recruit them throughout their time in college. And now the athlete feels like there is an immediate need to make that decision, because right now, I'm trying to focus on getting drafted. Alright, so I want to focus all my efforts on basketball, on football on whatever my sport

is. So I want to make a quick decision here so that I can just put it behind me and move on, or I want to outsource that decision to someone else to make, maybe it's my parents or someone else that's helping me in my overall process as my as I transition into the pros.

The key here is you just want to slow things down, you want to think about what is it that I need? And what is it that I want? What actually do I need someone to provide in the realm of my financial management? Right? What services do I need? So when we're thinking about this, from this initial research, or this initial thought, it's like, what services do I want? Thinking about, did this advisor, financial advisor, reach out to me directly? Or did I reach out to them? Again, it's not saying that one way is better than the other, it's just important for you to think about as you're analyzing and comparing the advisors who you are considering to manage your money.

You want to think about what information do you know right about the advisor? Like, what have you found out about the advisor? And where is that information coming from? Is it coming from a reliable source that you trust? Or someone who that advisor has worked with? Is it coming from an independent third party? Right? You want to understand that because this is your process? So you want to think about for you? Who is this person that wants to work with you? How did you come to know them? Right? And what is it exactly that you know about them? So when you think about this, you know, kind of in these initial phases, a lot of times, there are a lot of different names for financial advisors. And it's important to understand what it means right?

There are some nuances among the different names, whether it's a wealth manager, a financial advisor, a broker, a money manager, an investment manager, or banker, those all kind of give tips to different ways in which those advisors might work with you. You know, money manager is just going to manage money and investment advisor is going to advise you on your investments, right? But you also want to do some research on to the individual in the firm. And you can do that in a lot of different ways. Right? So one way is through FINRA, right? The Financial Industry Regulatory Authority, they have a broker check where you can go in and look up information on advisors, you can type in their name or type in their firm name. And it will give you a lot of information that is available around who they've worked for how long they've worked for those different firms when they've moved and changed firms, if they've had any disclosures or complaints made about them. It'll give you that information.

You also want to look at if you're playing in a professional league, does your professional league have a database or rather the Players Association have any type of database to understand who these advisors might be? So for example, the NFL Players Association has their financial advisors program. And again, they're not saying that this financial advisor is good or not good. What they're saying is that they have met certain requirements to become certified by the NFL Players Association, right? So whether that's a league, a law license, a CFP, CFA, whether it's an insurance license, they have to have been licensed for a certain number of years, I think they do have to have a CFP or CFA now, they, you know, can't have any complaints against them based on fraud. So there is a series of requirements within the NFLPA financial advisors program that are required of those advisors. So again, that's just another way to kind of help.

And then there are third party vetting tools that are out there, right. So sometimes, when different deals are involved, we might have clients that will reach out to us in terms of background checks on, you know, lawsuits, or past lawsuits against an advisor or their firm. There are other vetting tools that use artificial intelligence to go through and search 1000s of databases around the world, you know, to be able to see if there are many indicators of fraud or

other complaints, etc. So there are ways to do some of that vetting or that due diligence on the advisors who want to work with you.

It's also important to understand, really kind of the overall duties that advisors might have to you. And these duties are different based on the type of advisor that they are. So one that you might hear quite a bit is this fiduciary duty, right, and being a fiduciary, and being a fiduciary is it's a legal requirement to serve the best interests of your client, right. So there's a duty of care, which means that they must make informed decisions based on all the information that they have at the time.

And there's a duty of loyalty, which means that they can't have undisclosed economic interests in opportunities that they present to you. So if you think about that, if a financial advisor has a business that they own, and they come to you and say, or maybe they're an owner, maybe they're even a minority owner in the business, and they say to you, hey, there's this great business I want you to invest in, I think it'd be great for you, and you invest in it, and they've never told you about the economic benefit to them, or the economic interest that they have in that business, then that really is a breach of their duty of loyalty to you. So that's the fiduciary duty.

But then there's also a suitability standard. And so not all advisors have a fiduciary duty, and we'll talk about that here in a second. But there is a suitability standard, there really means that an advisor must offer investment advice and products that are suitable for you. So taking into consideration your investment horizon and timeline, kind of what you're looking for, what your cash flow needs, are, etc., are the investments that they're recommending suitable for you. So understanding kind of those requirements, and those duties that advisors might have to you are important. So if we were to think about this, again, going back to the services that you're looking for, oftentimes what we hear from athletes in particular, as I need help with budgeting, maybe it's bill pay, or cash flow management, it's possibly investment management. And it could be, you know, identifying business investment opportunities.

And when you think about that, thinking about those services might lead you to the type of advisor that you want. And when I say type of advisor, I think if we looked at different buckets of advisors, you have some advisors who work for banks, some who worked for wire houses, and some who worked for registered investment advisors. And I'm not here to say that one type of advisor is better than the other or not, because they're all different.

And really, you know, I had a question just yesterday from a mother of an athlete and she asked me basically, how do you know who the right advisor is and I said, it really is up to you to decide who is right for you right or who is right for your son in this search because there's a lot that goes into it, you know, between the services that are provided, the fees that are charged, the relationship and trust that can be built between the two, the ability to provide or have oversight and understanding and transparency on what the advisor is doing. Potentially having a system of checks and balances for that advisor a lot of different factors go into what makes you know kind of the best advisor for you.

And so if we think about it, you know, I mentioned fee so thinking about fees and understanding fees, it's important understand some advisors charge a percentage, and that percentage can vary a lot of times when it's just investment management that's usually a percent if it's under a million dollars, you know, maybe it's, it's less if the assets are more than a million dollars. There's also the expense ratio of a fund or the actual products that you're investing in. There could be these internal fees that you want to at least understand. And then if you're someone,

an athlete that says, hey, you know, I don't know want to invest or I don't have any assets that I have available to invest, I'm trying to just understand my budgeting my cash flow, especially for rookies, you know, who have been drafted and are in their first year of playing, you still have to figure out kind of what are the costs of my lifestyle, right, depending on the city that I get drafted to, it's much different living in Kansas City versus living in LA, right, or New York.

And so understanding kind of what my cash flow needs are on an ongoing basis, it's important. And so sometimes you might have an advisor that maybe charges your retainer or some type of ongoing, you know, either monthly fee or annual fee to just provide those services of budgeting, cash flow management, and reporting. Maybe it's bill pay as well.

So again, this goes back to just understanding what is it that you want? What is it that you need out of a financial advisor, because that can help you in your decision making process?

When it comes to oversight, you know, it's important to think about, what communication are you having with that advisor, one of the most important things to understand is a statement or a report that that advisor provides to you. Right, so those reports can come monthly and quarterly. And you want to really make sure that especially early on that you have the advisor sit down and explain to you what does it actually mean? What is it that you're looking at, what are some things that you should be looking for when you look at these statements.

And in doing that, you also want to make sure that you have communication, either through zoom or face to face or over the phone on a regular basis with your advisor. Now, that regular basis could mean different things, depending on your professional sports season, it could be, you know, maybe once during the regular season, but then, you know, a couple times during the offseason, right, whatever that is for you just making sure that there's some regularity there, you don't want to just say, Oh, that's my financial advisor, my wealth manager, they're handling everything, and then you no longer keep tabs on what they're doing for you. That's how advisors, in certain instances have taken advantage of professional athletes. Just want to make sure that you fully understand fees. And that should be clear on your statement. But really understanding the fees that you're paying and the impact that that has, you want to make sure that you're clear on that from an ongoing perspective.

And then kind of finally, when you're thinking about that you may want to hire or engage a third party that provides ongoing monitoring. I've had conversations with athletes who have done that there are some that are just technology driven, that provide ongoing oversight and monitoring that have the ability to track those things that might be red flags that come up for advisors, they're also have heard of athletes who have hired another financial advisor and told them, Hey, I don't want you to manage this money. And I want you to know that you're not going to manage this money, but I want you, on an ongoing basis, maybe it's twice a year to meet with me and review my statements from this advisor. And even if you tell me that there's something that you wouldn't do, you're still not going to get the assets. So it's truly independent and objective, but I want your second set of eyes on what is being provided by that advisor. And so that can be another way of having that third party oversight to make sure that that everything looks good, or it looks right, rather, in your financial portfolio.

So finally, just a couple things to think about. When you're thinking about interviewing a financial advisor, right? First, you have to ask yourself some questions. And then you want to prepare yourself to ask the advisor some questions. And some of the questions that you want to think about when you are kind of thinking about asking yourself questions, here's what services again, is it that you're looking for? Does the advisors business meet your needs? Right? Does

their philosophy match your philosophy? Or does it match what you're seeking out of a financial advisor? You know, how are you going to identify advisors? Are you only going to interview advisors who reached out to you? Or you're going to do research, talk to your peers, talk to others, and get recommendations and referrals? Or do online research? or what have you to identify advisors? And then start to think about how are you going to interview them? Is someone going to help you in your selection process? Understanding all of this is important as you think about starting that process of interviewing advisors.

And once you interview the advisor, have the opportunity to sit down and talk to the advisor you want to think about, you know, just things like how many clients do they work with? How many of those clients are athletes? What do they have in terms of assets under management individually, but then also firm wide? How are their fees charged? Right? How familiar are they with your league's benefits? Are they registered? If your league has a financial advisor registration program or certification program, are they registered with it? Have they had any customer complaints or lawsuits filed against them? Have they ever had to fire a client or has a client ever fired them? Are they able to provide references?

And let me be clear, you know, I'm a lawyer, I got to provide some disclaimers every now and then right? Those questions that I just shared are not really determinative of who is a good advisor or a bad advisor. It's more so just to give you information, when you have this information, and you have the same or similar information, you know, answers to the questions that you ask from multiple advisors, it allows you to compare and contrast the differences, right.

So often athletes will select a financial advisor based on the relationship feel, well, it sounds like they know what they're talking about. And I really seem to be able to relate to this person, being able to manage your money, and being able to have good personal relationship building skills, that's different, right? One doesn't necessarily correlate to the other. So you want to make sure that yes, it's important to have a good relationship with your advisor. But at the same time, you want to make sure that they have the ability to actually do the work that you need out of them.

So I know this was a lot. Hopefully this was a helpful conversation as you think about the advisors that you may want to hire, and provide management and oversight of in another episode, we'll talk more about the transitions away from advisors and things to think about when you transition away from an advisor. There's a lot that goes into that situation, both the decision as well as the execution. But for today, hopefully this was helpful as you think about, you know, the selection process and kind of just managing the advisors around you.

So again, all of these conversations are focused on protecting your possibilities to make sure that you're protected as you make the decisions throughout your professional career and beyond. Hopefully you found it helpful. If you did, please feel free to give us a five star rating share this podcast with colleagues, friends, teammates and others. And continue to make sure that you subscribe, and check out future episodes of the Protecting Your Possibilities podcast. Again, I'm Luke Fedlam. Thank you so much for tuning in. Have a great day.

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