



How Should Phelps Invest All That New Gold?

By: Eileen Ambrose

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Michael Phelps' challenge didn't end when he clinched his eighth gold medal. Now he must figure out what to do with the tens of millions of dollars he's expected to earn through endorsements.

How should he invest it? And how does he avoid becoming another one of those young professional athletes who are suddenly rich beyond their dreams but end up barely scraping by in middle age?

Phelps reportedly earned \$3 million to \$5 million a year from corporate endorsements before the Olympics. Winning a record eight gold medals is expected to at least double that. And his agent told The Wall Street Journal that Phelps could earn up to \$100 million in his lifetime.

"This is a terrific opportunity," says Thaddeus Shelly, senior managing director of Bessemer Trust in Palm Beach, Fla. "If he handles this correctly, what he does with the rest of his life does not have to focus on income production."

Shelly says Phelps could follow his dreams, whether it's being a businessman or elementary school teacher, without having to worry about a paycheck.

Of course, how Phelps should manage his millions will depend on his short- and long-term goals. Phelps bought a \$1.7 million condo in Fells Point months ago. And there is talk that he and his coach might open an Olympic training center here. But what will his lifestyle be? Does he want to make financial gifts to his family? Or, maybe he'll want to head up his own charitable foundation some day.

Phelps hasn't disclosed his plans. But professionals with multimillion-dollar clients offer this financial advice:

Get a trusted team. Phelps is likely already being bombarded with business and investment propositions, requests from charities and financial pleas from strangers with sob stories and from relatives he never knew existed.

To help him handle this onslaught and other issues that arise, the Olympian needs a team of advisers - if he doesn't already have one. The team should include an accountant, tax lawyer, insurance agent, public relations consultant, estate planning lawyer and financial advisers, said Alban Salaman, a Holland & Knight lawyer who has represented celebrities and professional athletes.

When professional athletes run into financial trouble, it's often because "they get into bad marriages and make poor investments," Salaman says. "They invest with friends in restaurants."

Financial advisers can help Phelps invest wisely, but they also can be the ones to say 'No' if Phelps finds it hard to turn down requests by friends or acquaintances to finance risky ventures.

And if Phelps marries, he should have a lawyer draw up a prenuptial agreement, Salaman says. It's not romantic, but it's practical. Singer Phil Collins reportedly paid nearly \$47 million recently to his third ex-wife, or \$2 million more than Paul "I-don't-need-a-prenup" McCartney.

Invest to make the money last. If Phelps were an ordinary 23-year-old, he could put all or most of his 401(k) money into a portfolio of stock mutual funds for growth. It's aggressive, but young investors can weather the risk because they won't need this money for 40 or so years.

Phelps is far from ordinary. In the next several years, he will make more than most of us would earn over many lifetimes. But his income beyond that is unclear. His endorsements might dry up in a few years. He might make a living in business or as an occasional sports commentator. Or he could hang up his Speedo after the 2012 Olympics and fully retire, meaning his money will need to last another 60 or 70 years.

"He has a more complicated time horizon," says David Citron with WMS Partners.

Phelps needs a diversified portfolio that will provide both growth and preservation of his millions, experts say.

Because of his wealth, Phelps will have access to alternative investments not available to average investors. Those include hedge funds and private equity that are less liquid than other investments, but provide greater growth potential and don't move in tandem with the stock market, says Bessemer's Shelly.

Shelly recommends a portfolio of 48 percent stocks, half of which would be invested in large U.S. companies with the rest a mix of U.S. and foreign small- to large-cap stocks. The remaining portfolio should be 7 percent commodities to protect against inflation, 20 percent fixed-income, 10 percent hedge funds and 15 percent private equity. The fixed-income portion of his portfolio, experts agree, should be largely invested in Maryland tax-exempt municipal bonds to lower his tax hit.

Over time, and after fees and taxes, this portfolio should surpass inflation by 2 to 3 percentage points, Shelly says.

Phelps doesn't have to rush into investing and can park his money in secure, short-term U.S. Treasuries. But he shouldn't sit on the sidelines too long.

"You don't want to keep it parked there at 2 percent for a long period of time when the CPI is running 5 to 6 percent," says Leo Grohowski, chief investment officer with BNY Mellon Wealth Management.

Limit the tax bite. Taxes will be a huge issue, and Phelps will need to consult with professionals on how best to structure his investments to minimize taxes.

One way to reduce taxes and do good at the same time is to set up a philanthropic foundation, says Laura Gamble, market executive of U.S. Trust. Live within your means. You'd think this would be easy. But more than 75 percent of those who come into significant wealth through an inheritance or lottery are out of money within three years, says John Nersesian, managing director of Nuveen Investments.

So how much should Phelps spend each year?

Prudent millionaires aim to spend around 3 percent of their portfolio, says Michael Sonnenfeldt, founder of Tiger 21, a club of 165 millionaires who meet monthly to learn from each other. If his portfolio is \$60 million, Phelps can spend \$1.8 million. Any more would put stress on his portfolio, Sonnenfeldt says.

By the way, Sonnenfeldt adds, Phelps would be welcome to join Tiger 21. "Happy to have him."

Eileen Ambrose's column also appears each Tuesday.

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