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Even the rich face financial issues from time to time

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Personal Finance

KEVIN PLANK, the 33-year-old founder of Under Armour, is poised to take his Baltimore athletic apparel company public, potentially making his shares worth $300 million even under conservative assumptions.

That's more money than most of us will ever have, although it's still fun to fantasize.

But after the private plane, the house on the beach and, of course, the one in the mountains, there are bigger issues for the newly super-rich to face:

How do you invest such a large sum of money? That mutual fund that serves you so well in your 401(k) just won't cut it here. And with so much money, does one really need to build another fortune?

"When you have $1 million, it's not as if you can retire to a tropical island and sip mai tais every day," said Thom Melcher, managing director of Hawthorn in Philadelphia, a division of PNC Advisors. With $10 million, you might only be able to relax one or two months a year on the island, he said. "But when you have $300 million, you might be able to buy an island."

Financial professionals see two divergent reactions to sudden wealth: paralysis or, even worse, the spending spree on hundreds of new close friends.

"Their first inclination is to buy a football team and Nascar sponsorship," said John E. Allison, president of Allison Investment Management in Columbia, S.C. "That's an urge that needs to be overcome."

The right investment move depends on the person's age and objectives. But most mega-millionaires aim to preserve their wealth, not to double it, experts said. And once the newly rich come to grip with their situation, goals often turn to philanthropy and taking care of family members for generations to come.

To help, there's a small army of professionals, including accountants, estate planning lawyers, financial advisers and money managers. And some millionaires have created clubs to learn from each other.

One is New York-based Tiger 21, whose 59 members meet once a month to confidentially discuss finances and critique each other's investment portfolios. To join the club, millionaires must manage at least $10 million of their own money, and they must have something worthwhile to teach their peers. (Plank would be welcome to join, if he has the time to attend meetings, said founder Michael Sonnenfeldt.)

"Most of our members are former entrepreneurs, who built successful businesses over a fairly extended period of time," said Sonnenfeldt, who built and sold two real estate companies. "All of a sudden, they sell their business and wake up and say, 'My God, I have all this money to invest and I have never been an investor. What do I do?'"

The answer - whether it comes from a paid professional or fellow millionaire - is the same: Diversify, diversify, diversify. That's especially critical for those whose net worth is tied up in a single stock.

Diversification is easy with a lot of money.

"The world of investments is available to them," said Steven Reiff, managing director of Mellon's Family Office division, which caters to families worth more than $100 million. Top-flight hedge funds or private equity deals that require a minimum investment of $1 million or $5 million are no longer off-limits, he said.

Still, many of the recommended investments are familiar to small investors. Financial professionals suggest a broad array of individual growth and value stocks in small, medium and large companies, both here and abroad.

Municipal bonds are considered a portfolio staple for the rich because the interest income is not subject to federal taxes, said Doug Charney, president of the Charney Investment Group in Harrisburg, Pa.

The investors also won't pay state taxes if the bond is issued from their home state. Nevertheless, investors should buy municipals from around the country, so their portfolio won't take a hit if one area suffers, such as the Gulf Coast in the aftermath of Hurricane Katrina, Charney said.

Portfolios should also contain real estate, which can be done through a partnership that owns multiple commercial buildings in different areas of the country, said Leslie Smith, managing director of U.S. Trust Co. in Washington.

Sonnenfeldt said Tiger 21 members are less keen on bonds, leaning instead toward private equity investments in small companies and hedge funds that aim to be less volatile than stocks but provide a higher return than bonds. In recent years, Tiger members have added commodities, such as gold and oil wells.

It's not always easy to diversify, though. A company founder, for instance, might be restricted from selling shares for a year or more after an initial public offering, and even then there might be limits on stock sales, Reiff said.

And some individuals find it emotionally difficult to give up the stock that made them their fortune, Melcher said.

Also, diversification runs counter to entrepreneurs' experience, which has been focused on a single company, Sonnenfeldt said.

Financial advisers say that in these cases they set aside a portion of the money for the entrepreneur to invest in a startup or other venture, while

TIGER 21

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Super-rich need advice on financial issues, too

they manage the rest so the money doesn't run out.

There are also a variety of strategies for those who hold onto their shares, but want some protection or diversification.

Investors could purchase an equity collar, which would protect them against the price of their stock falling, although they would forfeit some of the upside, said Hawthorn's Melcher.

Some investors use an exchange fund, where they contribute shares to the fund without selling them.

Dozens or hundreds of others do the same with their stock. Usually, after seven years, the investors can receive a basket of various stocks tax free, although once the securities are sold capital gains taxes will be triggered, said Bernie Kent, a tax partner with PricewaterhouseCoopers' Personal Financial Services in Detroit.

Other sophisticated mechanisms exist, but Melcher said investors might be better off keeping things simple by selling the shares when they can, paying capital gains taxes at a rate of 15 percent and investing the proceeds.

After investing, millionaires often turn their attention to other financial issues, such as estate planning. Some want to provide for following generations; others don't want to leave a penny to heirs.

Entrepreneurs worry about crushing the entrepreneurial spirit of children by giving them too much, Sonnenfeldt said. Some dole out inheritances over time, so children and grandchildren don't lose it all at once.

Philanthropy also becomes a goal for those wanting to leave their mark on the world while getting a tax deduction to boot.

One option is to set up a charitable remainder trust, where assets are donated to the trust and the donor gets an upfront tax break. They can receive an income stream from the trust over their lifetime, and upon death, the money in the trust goes to the charity, Charney said.

Some families establish a charitable private foundation, putting their children on the board so they can learn about finances while developing philanthropic values, Melcher said.

Fortunes made can quickly turn to fortunes lost. Melcher recalled two brothers who each inherited $30 million 20 years ago. One brother's portfolio is worth $82 million; the other lost all his money in business ventures.

High lifestyles also have quickly depleted huge bank accounts of numerous celebrities and lottery winners.

Sonnenfeldt said Tiger 21 wants its members to enjoy the fruits of their success, but he made a point about budgeting.

"It doesn't matter how much money have, you need to have a budget or you overspend," he said.

So, maybe the rich aren't that different from you and me.

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