8 Investing Lessons From NFL Players

An athlete's financial journey can be complicated, but the same principles apply to the rest of us.

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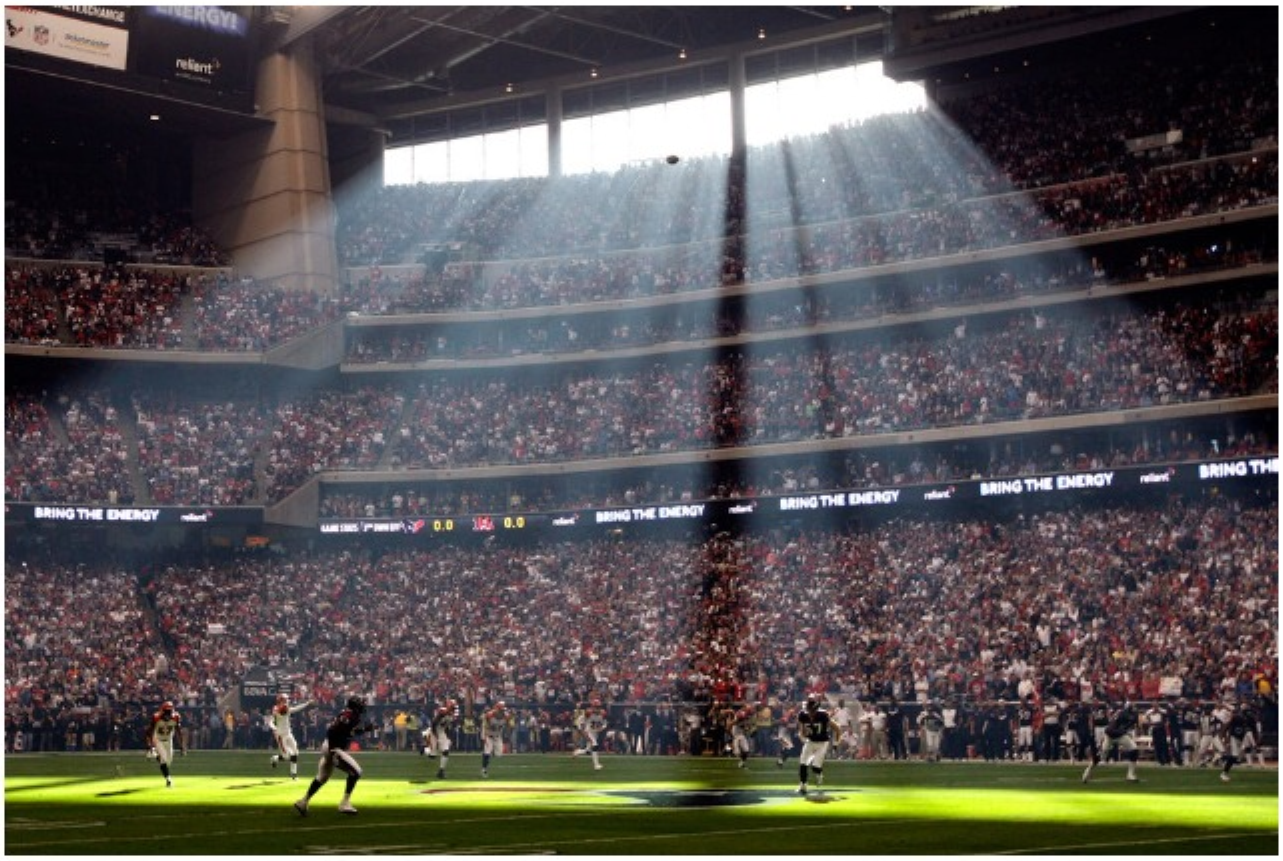

"You have to play each year like it's your last year." (Getty Images)

Plenty of stories have circulated about NFL athletes who are bankrupted two years after they retire, or undergoing financial stress. There are plenty of similar tales of woe about how restaurant owners or tech startups fail in their first year.

"Every athlete is essentially an entrepreneur," says former NFL linebacker Dhani Jones, who now owns a Cincinnati-based private equity company. "When you get out the league, you're making the transition into the real world, but ultimately you've just sold your last business."

Most entrepreneurs will say that selling a business is leap of faith. "And if you've sold it for a lot of money, now you've got a really amazing parachute, that's huge and will never hit the ground," says Jones, who recently spoke at the Collision tech conference in New Orleans.

The only caveat, Jones says, is knowing how to protect that parachute in Kevlar.

[See: **The 10 Best Ways to Buy Tech Stocks**.]

That means knowing one's strengths to build a team cautiously. Unlike a generational wealth transfer that may earn money at a higher income level over the next 30 years, an NFL athlete's window of playing time averages 3.3 years, according the NFL Players Association.

Here are some financial tips from professional athletes, based on principles of personal finance.

Think long term. When Craig Dahl signed with the New York Giants in 2007 as an undrafted rookie safety, he earned a $15,000 signing bonus, plus the league minimum of $385,000. "But that's all relative," says Dahl, who tore his left anterior cruciate ligament in the final regular season game of that inaugural season. He rehabbed for six months only to tear his right ACL in the 2008 preseason. "Nothing is guaranteed outside of the signing bonus until a player officially makes a team."

While he was on injury reserve, Dahl says his pay was cut by 40 percent because of his split contract, but he later returned to the NFL in 2009 to play the next seven consecutive seasons at a higher pay grade.

Prior to his injuries, Dahl had frugally opted for a roommate in a two-bedroom apartment in New Jersey and traded in his Chevy Silverado pickup truck for a used 2005 Acura TL, using his discretionary income on going out to eat. "It's not like I had a ton of money," says Dahl, who is now a multimillionaire and has invested in real estate property in Minnesota. "I knew the more I put away, it didn't matter if it was working or not, it was just being saved."

Dump the flash and cash. As Dahl, who is currently a free agent living in Dallas, is quick to point out, "every single athlete is going to have a time where they aren't going to be able to earn the amount of income they are used in the past. You don't know when that time is. You have to play each year like it's your last year."

Still, there are plenty of rookies that splurge on a diamond necklace. "In my experience, by the time they are 25, they aren't even wearing it any more because they're over it," says Mark Doman, CEO of The Doman Group, an investment advising firm in New York. "I tell them there's no reason to wear your wealth."

It's a pitfall many athletes fall into, Dahl says, especially when players see fellow athletes driving a Mercedes, wearing "the chains" or owning an expensive house.

"Many people think I have to live like that because I'm a pro athlete. But you're not necessarily at the same income level as them, or have played as long," Dahl says. "You have to have an understanding of what's it going to take to make this lifestyle happen through the years, so you can't fall into that trap."

Instead of measuring up against other athletes, think about everyone else who is a similar age.

"Don't compare yourself against the other guys in the locker room," Doman says. "Compare yourself to your collegiate alumni that aren't professional athletes."

Downgrade now or downgrade later. Doman says NFL athletes should first ask themselves: What do you spend each month and what do you want to be able to afford? Then work backwards with a financial advisor to set up an investment strategy while exploring industries that might be interesting for a post-athletic career.

Although salaries can vary drastically, Doman says he typically puts many of his rookies on a $1,000-a-week discretionary allowance and makes all athletes he supervises sign a nonbinding spending summary with key takeaways every fiscal quarter to keep his athletes in check. Many still crave the luxury lifestyle.

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He usually tells the athlete: "I like to have things to look forward to, don't you? It would be very sad if I had to downgrade my lifestyle as I get older." By putting the saving in that context, Doman says he usually gets a head nod in agreement.

"There are a lot of athletes that don't rise to a household name, but are really and truly set for life financially," he says.

Invest conservatively. Patrick Kerney, a former NFL defensive end who is the director of business development for NFC Investments in Greenwich, Connecticut, says the more boring the investment, the better.

For any rookie drafted after the second round, Kerney suggests three things: "Get used to living on $50,000 a year. Keep a year's worth of spending in cash, $50,000 in this case, for job searching and expenses, and then save the rest for investing." Kerney suggests investing in the Vanguard Total Stock Market ETF (ticker: VTI) because of its broad mix small, mid- and large-capitalization investments.

Doman recommends "a vanilla mix" of stocks, bonds and real estate deals and occasionally with disability or life insurance.

"We look for dividend-yielding stocks, the General Electrics (GE), the Apples (AAPL) of the world that will get us both capital appreciation and a dividend yield north of 2 percent," Doman says. "In the fixed income side, we are buying municipal bonds and high-credit quality corporate bonds from S&P 500-level companies where you can get hopefully clip a coupon of 3 percent or more."

In some limited cases athletes may have an annuity, if they have dependents. But Doman generally doesn't advise it because they are not liquid and can't be easily cashed in.

"The goal is to preserve the wealth they've already earned and slowly accumulate it over time," Doman says. "We aren't trying to hit home runs, we are trying to hit singles and doubles and be a contact hitter so we never strike out."

Create a three-year post-career cash plan. Both Dana Hammonds, senior director of player affairs for the NFL Players Association in the District of Columbia, and Jones suggest three years is the typical amount of time it takes to transition from the NFL to post-athletic life.

The first year is spent wondering if someone will pick them up to play, Hammonds says. The second year, Jones says "you start to get itchy. I wanted to pull out my six-shooter and start shooting holes in things." During the third year, reality sets in and most athletes make their official transition.

Financial advisors can be held two standards. Regardless of who is handling the investing, it's important to make sure whoever is entrusted with the assets is held to a fiduciary standard, which requires financial advisors to have their client's best interests at hand.

The suitability standard means the client's financial needs may not be in their best interest, Kerney says, because the financial advisor only is required to give "suitable" advice and doesn't have to disclose conflicts of interests.

"But getting a fiduciary advisor is like a non-disclosure agreement, it's only as good as the integrity of the person who signed it," Kerney says.

Don't invest in anything you don't understand. All experts say it's important to ask questions and not to pretend you understand when you really don't. Far too many players invest in business prospects, using their own personal money without realizing what type of partnership they are going into, Hammonds says. For example, some NFL players have secured a real estate loan only to have their partner default and come to the NFLPA looking for help.

"The bank still wants the money, so they'll just garnish your wages," she says. "I've had players come to me and say 'I had no idea that could happen.'"

Be patient when building business relationships. "In the world of sports, patience doesn't work," Jones says. But it does in the business world. Business relationships are built over time and trust. Coming out of that bubble is a big transition.

Start by looking at who is in the owner's box, stadium suites and press box, Jones says. He approached a variety of businessmen this way, including Dan Gilbert, the chairman and founder of Rock Ventures and Quicken Loans, and Miami Dolphins owner Steve Ross, who is the chairman of Relative Companies, the developer behind the $15 billion development of Hudson Yards in Manhattan.

"They are already vetted," Jones says. "They are the ones giving to people on the Dow and S&P 500, so go talk to them. They want to hear from you, but you have to check your ego and be open to mentorship and having a dialogue."

Jones says he approached such business leaders with a simple strategy.

[Read: How to Invest in Bottoming Commodities.]

"I told them 'I've made the transition from the game of football into the real world and I'd love to hear from you," he says. "And then I just listened."

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