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Scoring a Different Kind of Goal

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Photo: Julia Malackie for the Toronto Star

SPECIAL TO THE STAR

Former NHL star Derek Sanderson blew a fortune on bad investments; now he hopes to save young athletes from the same fate.

Derek Sanderson learned the money game the hard way. In 1972, the 26-year-old NHL hockey star left the Boston Bruins for the World Hockey Association to become the world's highest-paid athlete. By the time his career ended by the end of the '70s, he was an alcoholic, nearly crippled and broke, the victim of unscrupulous managers and his own careless spending.

True to the pluck he showed on the ice, the Turk, as he was known, rebuilt his life and career, and today, at 56, is a financial advisor, helping his athlete-clients avoid a fate like his own. He got into the business somewhat by accident.

"It was the furthest thing from my mind," Sanderson explains over the phone from his home in Boston where he lives with his wife and two children. It was while participating in a celebrity golf tournament in the late '80s that Sanderson met John Goldsmith, then chairman of Tucker Anthony Financial, a regional brokerage firm in Boston.

"He encouraged me to go back to school and get registered and qualified," Sanderson says. Shortly after completing the state of Massachusetts' investment advisor requirements in 1990, he joined Goldsmith's firm as a fee-based financial adviser. While learning the ins and outs of the investment business, Sanderson noticed a pressing need for financial education among athletes.

“I wanted to demystify the investment process and help them understand what they own, why they own it and what they paid for it,” he says. Not a simple task given the practice of many investment firms to turn their statements into what Sanderson calls “an art form of confusion.”

“They’re designed to intimidate and discourage people from asking questions about performance management fees and the other services.”

Sanderson initially cultivated his clientele from among NHLers by visiting team dressing rooms. “I started out in hockey because that’s what I know.” Former Bruins teammate Bobby Orr became his first client, followed by Cam Neely, Keith Tkaczuk and Glen Wesley.

As players from other sports came on board, Sanderson began to assume the role of athlete’s advocate. “I would bring the money manager to the table so the athletes could ask questions, and when the players were a bit shy, I’d do it.”

“These were the questions that I wanted answered when I was young and never got answers to, so I figured the players had similar questions.” He also simplified their statements.

After seven years at Tucker Anthony, Sanderson decided there was a need for an investment product tailored to the needs of younger, less-established athletes. “I wanted something that would be a duplication of the best stocks that the wealthier players were getting, without all the extra fees.”

Sanderson’s vision was realized shortly after he joined State Street Research Management (SSRM) in Boston in 1997 as managing director of the Sports Group. The product, called the Athlete’s Fund, was launched in March 1998.

“The idea was to have a beginning vehicle for young athletes to pool their assets with other athletes in the minors. Then, as they got their contracts and started to earn more money and build their net worth, they could ease into an individually managed stock portfolio,” says Sanderson, whose responsibility was to hire the fund managers and help educate the players. He wasn’t involved in the stock selection.

“The Athletes Fund was a great vehicle,” says Sanderson, but in time he realized that he needed larger in-house client service capabilities. Together with his principal money manager, Gardner Jackson, Sanderson took the fund in May 2001 to State Street Global Advisors (no relation to SSRM), where he became director of the Professional’s Group, a wealth-management advisory business for athletes and others involved in pro sports.

However, Sanderson’s group was laid off last December, after an unexpected decision by State Street to return to its core discipline of index investing for institutions.

“That was unforeseeable,” he says. “They were a great company with some great funds. I think 9/11 really rattled a lot of people and I knew changes were going to happen.”

Sanderson is in talks for a new home for the fund with a number of companies, including RBC Dain Rauscher. In the meantime, he is working as an independent, fee-based advisor.

Wealth management for athletes comes with built-in hurdles, Sanderson says: relatively few peak earning years, lifetime money needs, risk of permanent injury, plus a roster of psychological issues that many young athletes are not emotionally equipped to deal with.

"The money has to last a lifetime," he says. "With players making a lot of money all at once, it's easy to think it will last forever. I certainly did. Most players are not conscious of the fact that it will end some day."

It must be tough talking money sense into these rising sports starts full of youthful bravado. "Oh, sure," he says with a laugh. "It brings me back to when I was 20. Yeah, I thought like that once, but you don't think you're going to get older so I warn them to be careful."

Then there are the guys in the dressing room with stories about how they made 200 per cent on the stock market. "Those same guys who made 200 per cent in one year are down 200 per cent the next. Those stories are hard to beat.

"I want my clients to be the most well-informed in the dressing room, and once I show them just how quickly the money can go, they tend to calm down pretty fast," he says.

Wealth management for athletes means, first and foremost, assessing risk tolerance, Sanderson says.

"You don't want to expose the player beyond the term of his contract. If the player has a three-year contract, we're looking at a three-year window, and assume that's all the money he's going to get and manage the money prudently within that time frame."

That involves budgeting for monthly expenses and investing what's left over.

"We work toward getting all their major hits, like dream home, summer home and life insurance paid off in their earning years so there are no major hits after the fact. I also try to get them to understand the power of compounding and how taxes factor into the equation."

Client portfolios are managed conservatively and in a tax-sensitive way, and the actual investing is done on a regular basis. "The athlete will invest his paycheque every two weeks, which can range from $500 to $500,000, so a different investment process has to take place, which is very on-going."

But what do you tell athletes, or anyone for that matter, during such shaky market times as these?

"I suggest they invest very conservatively. I warn them to stay away from equities and out of the storm until the market legitimately turns around. I'm not sure we've seen the bottom yet." One thing Sanderson emphasizes is the need to think defensively, to continually monitor and update the financial plan, including estate planning.

Another thing Sanderson does is encourage his athletes to think about life after the game.

“There is plenty of time to go back to school at age 32 or 34 and prepare for a second career,” says Sanderson, whose own life after hockey has been satisfying and productive. While building his financial career, he did a 10-year stint as the colour commentator on Bruins’ televised games.

In the early 1980s, he took part in a drug and alcohol awareness program in schools of Massachusetts, an experience he describes as extremely rewarding.

He continues to be an ardent crusader and educator on the dangers of substance abuse and speaks candidly about his own past experiences with addiction, which he conquered in 1980.

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