

# Module 2. Wealth and investment planning – Investment strategies in sport

## Unit 2.1

In this module, we will continue our examination of wealth management in sport, by focusing on wealth and investment planning in sport. As such, we will begin by analysing what a wealth management plan entails and the careful steps that need to be taken in order for a proper plan to be drafted when managing wealth. We will then examine how this wealth management plan could take place in the sport industry, while recognising not only that it is often lacking, but also the challenges that implementing such a careful and well thought of plan would face. We will then discuss one of the most talked about and influential regulatory responses to the problematic wealth management of sport organisations, UEFA's Financial Fair Play regulations, its rationale and how it influenced the financial health of football clubs in Europe. Following this, we will introduce some key investment strategy decisions that are to be made carefully by investors and organisations alike, when managing their wealth and thus allocating it according to their goals, objectives, timeframe, expectations and philosophy. Moreover, we will discuss the most popular investment strategies that can be seen in today's wider investment landscape, which reflect the most popular investment strategies we can see in the wider sport industry, both in more 'traditional' investments in sport, such as the purchase of a sport club, and in the quickly developing Web3 space that has also entered the wider sport ecosystem. Finally, we will acknowledge the universal truth in wealth management and investment planning, the fact that the future is uncertain and thus no return on investment can be guaranteed to the investors, something that becomes particularly relevant in the volatile world of sport.

### 2.1.1 Wealth management plan

The first step—and one could argue most important step—in wealth management is the planning. A wealth management plan is of vital importance in identifying the rationale behind the choices we will make and the decisions we will take. A good wealth management plan should, therefore, have the following elements.

First, it needs to identify where we want to go (Butler, 2014). As an investor or a wealth manager, or even as an executive of a sport organisation, we need to know what our financial planning processes are, what our goals, preferences, values, and, most importantly, timescales are. This is because, before any decisions are made and any



planning on how to get there begins, we need to know where we want to get. So, what is our end goal or target? What are our preferences and values on how we are going to get there? What policies we will follow? And finally, when do we expect to get there?

Second, we need to identify where we are today and what are our current financial resources (Butler, 2014). Being honest about the assessment of our financial wealth, in that particular moment, will help us to identify our starting point, which, again, is vital in understanding how we are going to reach the goal we set in the previous step and what our timescale is, in order to get there.

Number three is identifying where we might end up (Butler, 2014). This incorporates an analysis of our cash flow, which, in simple terms, is the money that we are expecting to come into our organisation and any money that is expected to be paid out from our organisation. A cashflow plan is as simple as an estimation of what money we are expecting to be paid in, and what money we are expecting to pay out, so a simple estimation of income or revenue versus expenses. This analysis of the cashflow, however, needs to be realistic. Quite often, we do see in sport that an overestimation of the expected revenue is noted, whilst the expected expenses are underplayed in our planning.

Then, we need to identify, in step four, what our investment strategy will be (Butler, 2014). In simple terms, how will we manage our wealth? In this step, we need to identify where our current wealth and our future wealth will be allocated. It is important, again, that we are realistic in step three, so that our investment strategy in step four also represents something that will be close to reality. We therefore need to be realistic in our estimations, which can help us allocate resources that will represent numbers close to the actual numbers we will have.

The final step in our planning is to identify other relevant planning issues (Butler, 2014). This can include any expenses we did not calculate previously, but might also occur unexpectedly. It is also important to identify, in this step, any other things that are to be taken into consideration when planning our wealth. For example, as we will discuss in the following case of study of how to manage the wealth of a football club in Europe, in this step, step five, the financial fair play regulations that UEFA set up would be considered. These regulations that UEFA set up in order to offer guidelines and rules on how the financial wealth of a football club should be managed, would come into play in step five.

### **2.1.2 Wealth management plan in sport organisations**

In order to better comprehend the five steps we discussed above in a wealth management plan and how they could be (or often not) implemented in a sport organisation, we will examine how they would be applied in a football club. In order to be realistic about the regulations of the sport and how it is managed internationally, due



to the dissimilarities that exist among different federations, we will focus on European clubs, which until recently adhered to the UEFA financial fair play regulations.

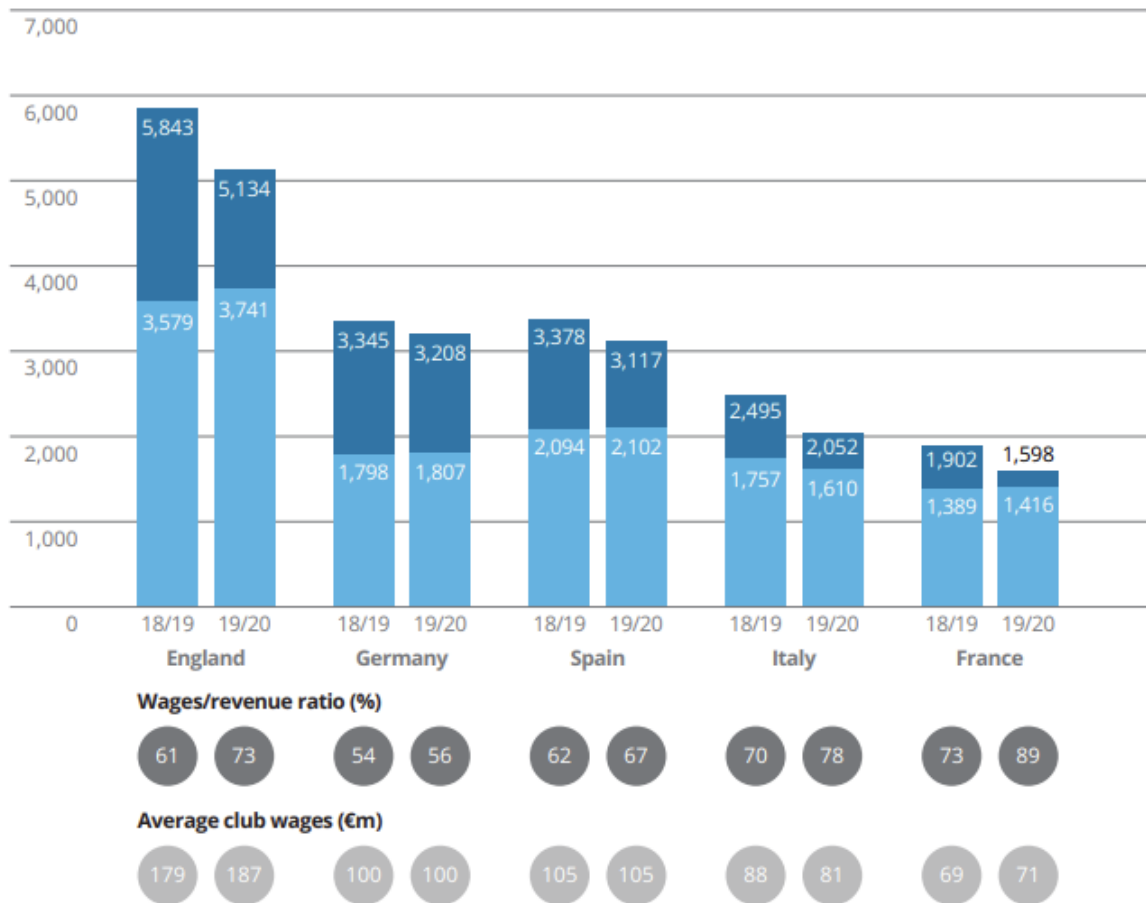
A football club, which is often a medium-sized organisation based on the number of human resources they have, is characterised by a rather dissimilar financial structure to what we see in other medium-sized operations (Manoli, 2014). Football clubs tend to allocate significant amounts of money in investing in playing talent and a dissimilar amount of money in any other operations they are in charge of, such as commercials or operations.

As such, football clubs are often run in a rather less organised way than other medium-sized operations, with a high turnover of activities and yet little planning taking place. This lack of planning can be seen in a number of aspects of the football organisations (Manoli, 2014). In terms of their wealth management, football clubs' planning is often also not that detailed (or sometimes non-existent) because their goals tend to focus more on playing results rather than on financial returns.

The rather imbalanced allocation of resources caused by their lack of planning can be illustrated in the following figure, in which the amount of money that is invested in the salaries of the playing staff is presented as part of their overall income, as reported by Deloitte (Deloitte, 2021). In figure one, we can see the revenue that the 'big five' European Leagues (the English Premier League, the German Bundesliga, the Spanish La Liga, the Italian Serie A and the French Ligue 1) collected in the seasons 2018/19 and 2019/20, marked with a dark blue colour. In the same graph, with a lighter blue colour, we can see the wage costs for the same leagues in the same seasons. As you can see in the figure, football players' wages in these leagues account for a significant percentage of the total amount of revenue of the leagues. For example, in Ligue 1 in France, wage costs accounted for close to 90 % of the total revenue of the league in the 2019/20 season, while in the Italian Serie A, players' wages accounted for 78 % in the same season. In the English Premier League player, salaries represent 73 % of the significant income of the league, in La Liga in Spain, 67 %, and in the German Bundesliga 56 %. Interestingly, an increase was noted in all four leagues, and one could argue in the whole football landscape in Europe.



**Figure 1: 'Big five' European league clubs' revenue and wage costs – 2018/19 and 2019/20 in a million euro**

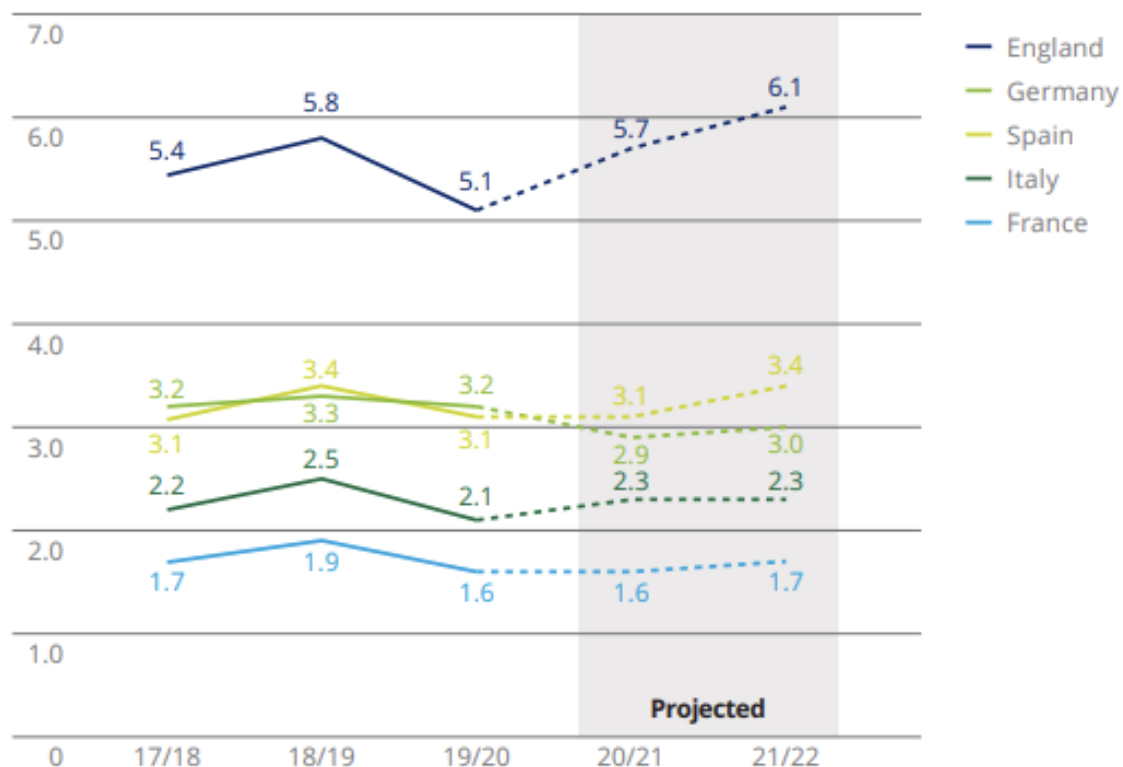


Source: Deloitte, 2021, p. 18.

Taking this information into consideration, as we move on to step two in the planning process, would mean that the football clubs' current financial resources are often drained due to the significantly high salaries offered to football players. This is despite the increasing income generated by the European clubs, which in the case of the top five European leagues exceeds the billion-euro mark (Deloitte, 2021). As figure two below shows, a collective revenue of above 5 billion euro is earned by the English Premier League clubs, above 3 billion euro for the clubs in the German Bundesliga and the Spanish La Liga collectively, above 2 billion euro for the Italian Serie A, and above 1.5 billion for the French League 1 for the seasons examined, with similar amounts being projected for future seasons as well.



**Figure 2: 'Big five' European league clubs' revenue for the seasons 2017/18 to 2021/22 in a billion euro**



Source: Deloitte, 2021, p. 17.

Yet despite this income, we unfortunately see that wealth is not managed appropriately in these football clubs. If we take both pieces of information into consideration, we can see that the high expenses, the lion's share of which are footballers' wages, have led numerous football clubs in these leagues into the accumulation of debt, as we will discuss further within this analysis (Deloitte, 2021).

In step three of the wealth management plan, we should see football clubs being honest and realistic in their planning of the wealth they currently have and the wealth they are expected to have in the future. Unfortunately, we once again see that clubs tend to often underestimate the number of expenses that they are to have and overestimate the amount of income they are expecting to receive (Kennedy and Kennedy, 2012). As a result, a number of clubs in European football continue to be in debt and, in fact, collect debt and add more debt year after year, since this wealth management planning presented here does not seem to be taking place. Since an honest and realistic assessment and evaluation of their expected income is not occurring, a realistic assessment and re-assessment of their future expenses is more often than not occurring, as the growing number of wages when compared to their income shows.



This would suggest that step four of the wealth management plan, that we discussed in the previous section of this module, does not take place in a manner that would allow for a club to stop having the same amount of losses they have had in the previous years. As a result, the wealth sport organisations such as football clubs have is not managed appropriately, with their existing resources often mismanaged.

An example of this mismanagement would be the firing of managers who have already secured long-term contracts with the clubs. It is well known that, once a club fires a manager that has a contract with them until a future day, they are obliged to still pay that manager until the contract runs out, unless a clause against it has been added to their contract or the football club, and the manager agrees on the dissolution of the contract. In the case of the English Premier League club Chelsea, Roberto Di Matteo continued to receive £130.000 (151,710 euro) per week, after being fired by the club, increasing the expenses of the club in those months until his contract came to an end (Dickenson, 2013).

Alternatively, fired football managers are often given the option of a payoff: a single amount of money given in the moment of being fired as a remuneration, in order to dissolve their contract and not expect future payments from the club. In the case of Steve Bruce, for example, when he was fired by the English Premier League club Aston Villa, an eight million pound (9336 million euro) payoff payment was offered, increasing thus the unexpected and unplanned expenses of the club for that season (Nicholson, 2021). That is because both of these clubs mentioned had to pay simultaneously the current manager and previous managers that they have fired. This, in turn, results in additional expenses that were not previously calculated in their planning, which, in turn, results in less wealth to be managed and, therefore, an increasing and continuing amount of debt for each season.

Since in step four the allocation of current and future wealth does not take place as planned, so does the final step of the wealth management plan. As such, other relevant planning issues, such as regulations and expenses to be considered, are often not taken into consideration in smaller sport organisations such as football clubs. In fact, these regulations have to, at times, be enforced with corresponding fines and punishments introduced, in order for football clubs to adhere to them and add them in their wealth management process and planning, when that exists. Possibly, the most fundamental wealth management regulations to be introduced in sport to this day are the UEFA Financial Fair Play regulations, that we will examine in the following section.

### **2.1.3 Financial Fair Play**

In 2011, UEFA introduced the Financial Fair Play (FFP) regulations to moderate and help manage the wealth of European football and allow for its financial health to be preserved. UEFA did so because they had identified the growing issues within European football, caused by the bad wealth management of football clubs (Freestone and Manoli, 2017). At the time, football clubs were accumulating debt by mismanaging their existing wealth,

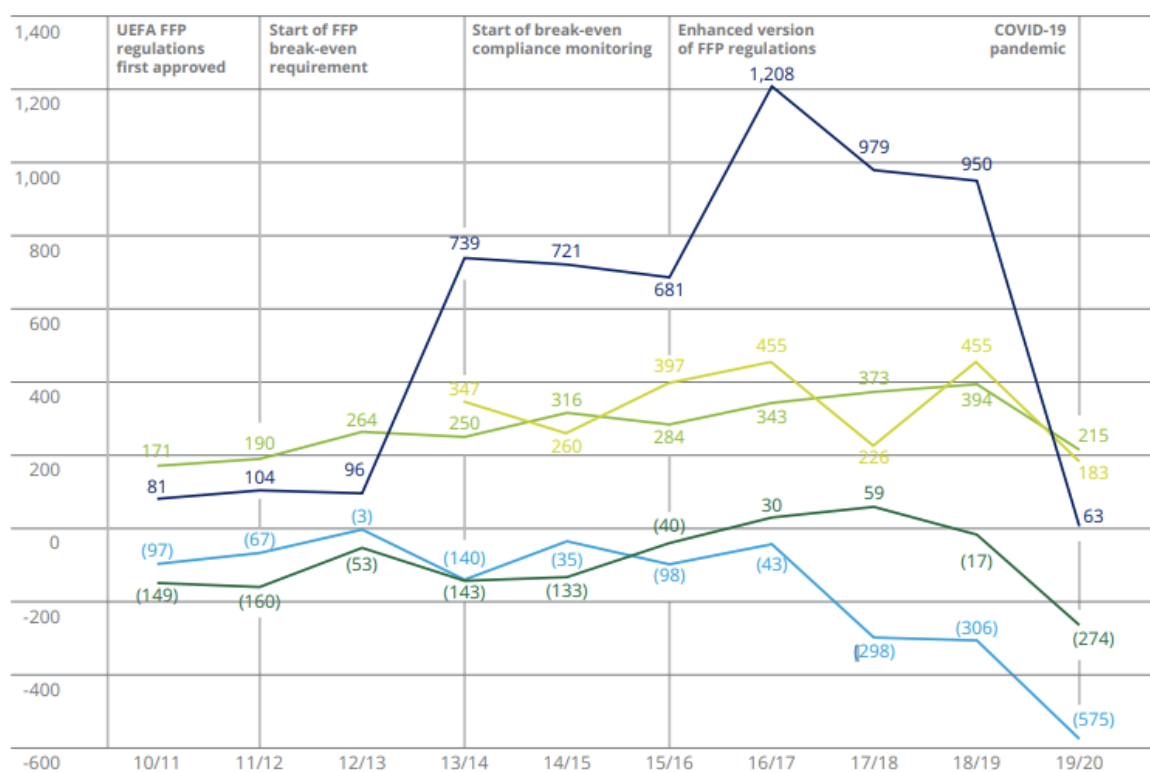


underestimating the expenses that they had to cover, and overestimating the income that they were expecting.

This accumulation of debt, despite the significant income generated within European football, can be illustrated in figure three, in which the big five European league clubs' profitability for the seasons 2010/11 to 2019/20 is examined (Deloitte, 2021). As it is shown in the figure, due to the high expenses of the leagues, and despite their income, the Italian Serie A and the French League 1 were almost consistently accumulating collective debt in all the above-mentioned seasons. At the same time, the German Bundesliga and the Spanish La Liga were achieving some, yet reduced profits. Finally, the English Premier League, at the time the FFP regulations were introduced, were collecting almost half the profit of La Liga, despite achieving a significantly higher amount of income.

**Figure 3: 'Big five' European league clubs' profitability in the 2010/11 to 2019/20 seasons in million euro**

**Chart 5: 'Big five' European league clubs' profitability - 2010/11 to 2019/20 (€m)**



Source: Deloitte, 2021, p. 21.

Note: the following colour coding is used to represent each league: dark blue for England, light green for Germany, yellow for Spain, dark green for Italy and light blue for France.

This accumulated debt discussed has even resulted in clubs being bankrupt and therefore being relegated due to their debt. Examples of this can be found even in arguably the



biggest football league in the world: the English Premier League. Leeds United football club, a club that was even able to participate in the UEFA Champions League in the 2001/02 season, had to liquidate its assets and be relegated before going into administration in the 2006/07 season, due to their bad wealth management and the consequent accumulation of debt (Sweeney, 2019).

The Financial Fair Play regulations were introduced in order to add a balance in the European leagues, forcing football clubs to pay attention to their income and expenses every year, and thus to assist in the wealth management of the clubs (Szymanski, 2014). According to the Financial Fair Play regulations, a football club could not spend more money than the money they earned that year. Whilst the regulations were amended a number of times to allow for some disparity between the income and the expenses, the overall aim was always consistent, to keep a balance in the clubs' wealth, so a balance between the incoming and the outgoing wealth within the clubs.

Unfortunately, a number of cases within European football proved that Financial Fair Play regulations were not enough to manage and protect the wealth of football clubs. Indeed, UEFA had to fine and punish—with exclusion from European competitions—a number of clubs that were actually misreporting their income and expenses, in order to adhere to the rules on paper, whilst, in reality, not following the suggested guidelines (Draper, 2022).

Due to a number of issues that emerged through the introduction of the FFP regulations, UEFA is currently (in 2022) in the process of withdrawing them and instead suggest that they would be replaced with a different system that would better assist in securing the financial health of football clubs (Slater and Bosher, 2022).

Nevertheless, as it is clearly illustrated in figure three above, while FFP regulations were introduced at a time in which the wealth management of the clubs was rather unsuccessful, they have, even partially or to a small extent, improved the financial health of European football. The figure shows that in all leagues a small increase in the profit is noted, as seasons progressed, with a notable increase seen in the profits of the English Premier League (Deloitte, 2021). Notably, after the final amendment to the FFP regulations was made (marked in the figure as 'enhanced version of FFP regulations'), a decline is noted in the profit of all leagues, exaggerated further by the Covid-19 pandemic and the corresponding lockdowns.

What this analysis allows us to see is that financial planning and wealth management in professional sports organisations needs more attention. Wealth management planning needs to follow careful steps, as they were detailed above, and needs to be done in an honest and realistic manner, especially when assessing the expected income and expenses, as well as the trajectory it can have in the following years. Wealth management planning can then help sport organisations ensure that their financial health is maintained, and that wealth is managed appropriately so that potential investments to increase it can be made.



## 2.1.4 Investment strategy decisions

The way in which wealth is being managed involves the correct allocation of resources to the areas that are deemed as more important, according to our goals, our strategy, and our aim. If we think about wealth management in sport, we will therefore have to identify what the investment strategy of the organisation and individual involved in the wider sport ecosystem are. In simple terms, where do they place their emphasis? And therefore, where should they put most of their wealth?

How wealth is then allocated and maintained in the short, medium and long term is a result of a number of decisions, all of which are of great importance. We will discuss these decisions in this section, before analysing the most popular investment strategies in the following section.

First, an investment strategy needs to take into account what the financial goals of each organisation and individual are (Butler, 2014). This then dictates where wealth will be placed.

If we go back to our analysis on European football clubs, we can easily see that the investment portfolio of some football clubs—such as the English football club Chelsea—and, as a result, the investment strategy of their owners and their administration is based on where their wealth was focused. We can therefore see that their focus has been on winning or playing success. Winning championships, cups, national, and international trophies was, in fact, their goal and, as a result, that influenced their behaviour in terms of management of wealth (Trophy Cabinet, n.d.). Their wealth management was therefore focused on acquiring the best talent available, in order for their goals to be achieved, which in turn indicates that their investment strategy was largely focused around acquiring talent and developing it further through additional emphasis placed on support around the playing staff.

If we then examine football clubs that have a different profile, such as the Dutch football club Ajax, we can then see that their focus tends to be more on the development of talent within their own system, rather than on succeeding in winning trophies (Chaudhuri, 2020). This in turn means that their wealth management is more focused towards investing on academies and on academy staff that will then generate talent through their systems, in the long run. This then would suggest that when decision-making time comes, more wealth is distributed on supporting and investing the academy resources than on the purchase and transfer of new talent and the support provided to the first team.

While this is only the first investment decision to make, we can see that it greatly influences the second investment strategy decision too. The second decision to take into consideration when creating an organisation's or individual's investment strategy is the rate of return that we considered required for our goals (Butler, 2014). This is, of course,



influenced by the timeframe we set when we strategise regarding our wealth management.

If we believe that through the way in which our wealth is managed in a particular organisation, for example, we have a timeframe of five or ten years to achieve the required return on investment, then a long-term investment strategy can be adopted, in which a relatively lower return on investment might be offered in the first years, with that pace gradually increasing as years pass. It might, in fact, be a few years after the initial investment is made before returns begin to materialise; however, we might still be on track with our schedule, if the schedule was to receive a total return on investment equal to the overall return we will receive within the planned timeframe.

At the same time, if our investment plan has an expected or required return on investment of less than five years, then riskier approaches might be adopted. In that sense, our investment strategy might then aim for riskier investments, such as the purchase of already developed talent for the playing squad, hoping that a winning result will be achieved faster rather than later.

Again, the previously used examples can be examined through the lens of their expected rate of return. In the case of Chelsea, it is worth noting that success was achieved almost directly after the takeover from the club's new owner, Roman Abramovich. Abramovich bought the club in 2003 and invested a significant amount of wealth on the transfer of new already recognised playing talent, as well as on celebrated managers to run the club (Scott, 2006). As a direct result of this investment, Chelsea was able to win the national championship only two years later, meeting the goals set and thus offering the required return on investment. In this case, the monetary return on investment might be more difficult to calculate, since it is not clear if such monetary targets were set in the first place. Rather by looking at the club's successful course in winning national and international titles, we can safely assume that playing targets were set as the required immediate return on investment, with monetary targets, such as the increase in the value of the club, on non-monetary targets, such as the increase in the international fan base and the improvement of the owner's public perception set for the investment made.

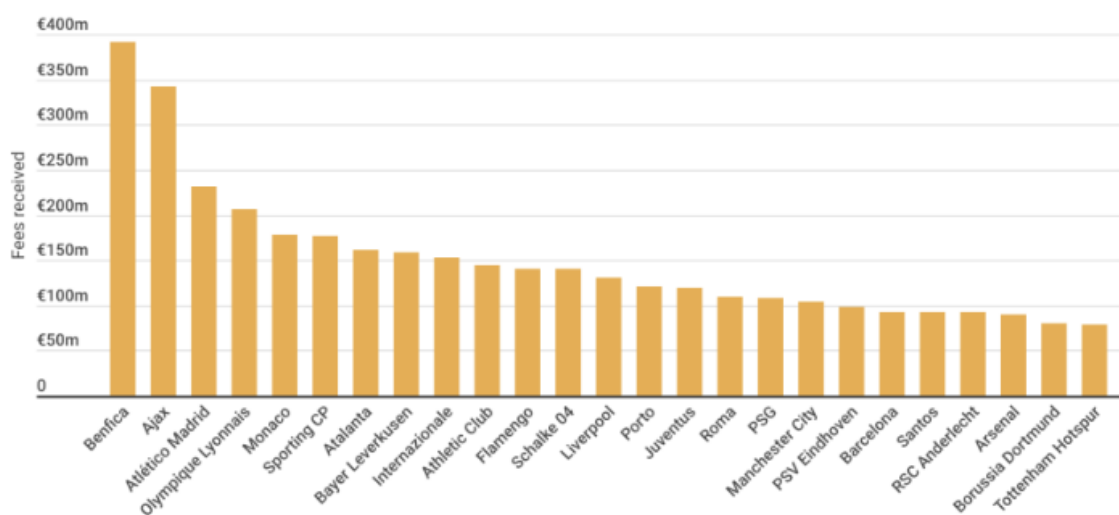
If we now examine the case of Ajax football club and the wealth management of the club, we can identify that a different investment strategy decision was made in terms of the timeframe of the required return on investment. In the case of Ajax, a longer-term perspective was adopted, in which the focus on academies embedded in their wealth management and investment strategy suggested that returns on the investment would be achieved, but over a longer course of period (Chaudhuri, 2020). As such, and through the investment in academy staff and processes that allow for talent to be recruited and nurtured, before it is ultimately offered a contract as a player and consequently transferred to other football clubs around the world, the club has achieved an impressive monetary return on investment. It is reported that they have generated more than 342 million euro in transfer income from the sale of players who were trained in their



academy, making them the second most successful club in achieving a high return on investment in transfer fees through academies (Chaudhuri, 2020). What is being noted is that Ajax was able to increase its overall revenue by 42 % just through the sale of academy players, therefore diversifying their income revenue and creating an interesting and potentially profitable for a long period of time source of income, through their investment strategy.

As the following figure shows, a number of European clubs have, in fact, invested in this slow and long-term return on investment strategy, due to its potential for success and thus added value to the clubs. Interestingly, Chelsea football club cannot be seen in this figure, due to their investment strategy adopting a rather shorter-term view in their return on investment decisions.

**Figure 4: Transfer fees received for academy-developed players**



Source: Chaudhuri, 2020, <https://bit.ly/3PCDzP1>.

The third investment strategy decision that individuals and organisations often might neglect is the duration of their plan and its intensity [in terms of continuity of the wealth allocation or investment to be made] (Butler, 2014). That is to say, an investment strategy needs to reflect the wider direction of travel regarding the wealth that is to be distributed on particular elements over a shorter or a longer period of time. If this wealth is to be kept steady and continue thus in the same levels, then the planning needs to reflect this steady flow of wealth placed on particular aspects. If the wealth is expected to increase or decrease, then that should be noted in the initial investment strategy, since different investment decisions might need to be taken depending on the overall direction.

Both examples of football clubs analysed in the previous two investment strategy decisions can be examined again here. What our analysis of their wealth management shows is that a longevity and a rather steady flow of investment was potentially clear from the beginning of their planning. As their wealth management has demonstrated so



far, even though the expected return on investment had a different timeframe for Chelsea and Ajax, their investment strategy decision consideration on the duration of the investment appeared to be rather long-term and steady in both cases. While details on the planning are not available, the decision to invest in the development of academies, in the case of Ajax football club, suggests that a long-term investment of a steady wealth was considered certain, in order to support the design and management of the academies and the time required for any returns to begin to yield (Chaudhuri, 2020).

In the case of Chelsea football club, while accurate reports on the actual amount of wealth invested in the club cannot be found, through the club's expenditure in the almost 20 years that the club's main shareholder was Roman Abramovich, we can note that the duration of the investment was possibly known in the time of the original planning (Trophy Cabinet, n. d.; Conn, 2022). As such, and even though the return on the investment was almost instant as we discussed above, with the club achieving success shortly after the initial investment was made, we can see that the wealth allocated to the club did not decrease, with arguably similar investments made over the whole duration of the ownership. As such, and based of course on the willingness of the owner, it was made clear early on that a high amount of wealth will be allocated to the particular investment of playing talent annually, with fluctuations between seasons to be expected.

Should that amount be decreased for Chelsea football club, different plans should have been made in terms of the signing of players and the contracts to be offered to them. After all, signing a player and offering them a contract for the following years suggests that the club will be able to honour that agreement and therefore pay the player the required amount monthly (BBC, n. d.). If the owner's decision was to invest a large amount of money once after purchasing the football club, and not repeating that investment in the following years, then the wealth should have been allocated in different resources. In the case of investment in playing talent, it should have influenced the decision to sign different players, for example, or even the same players, but for a shorter amount of time.

An additional yet similar investment strategy decision to be made is whether there will be any wealth allocated to tangible assets (Butler, 2014). Infrastructure investments in the case of a sport organisation like a football club would be its stadium, its training ground, and other facilities that the sport organisation and its employees (playing and non-playing staff) are using. An investment in infrastructure suggests that a significant amount of money or wealth is to be allocated to that resource for a long period of time, and as such it needs to be paid particular attention early on in the investment strategy. At the same time, while the expense on an infrastructure project might be very high, the return from it might take years to materialise, making it a longer-term investment and one that might not coincide with the investment in, for example, playing talent, which also requires high expenditure [and yet is expected to yield returns earlier] (Nagy and Tobak, 2015). This should therefore be reflected in the investment strategy in order to potentially influence



or guide the other investment decisions that are to be made within the same plan or around the same time.

Investment decisions on assets are hard to be made due to how significant the amount of investment needs to be for an asset, and how long the return on investment might take to materialise. We can thus understand why a number of sport organisations might be reluctant to invest their wealth on developing infrastructure, despite its necessity and the wider argument that better infrastructure is needed in order for sport to be developed (Nagy and Tobak, 2015). It is through the analysis of an investment plan and therefore a wealth management strategy that we are presented with the fundamental difficulty of doing so.

In order to better illustrate this in a manner that aligns with the cases discussed earlier in this section, we can examine the case of the English football club Manchester City. Manchester City is currently part of a wider group of football clubs that fall under the umbrella of the City Group, the main shareholders of which are the Abu Dhabi United Group (City Football Group, n. d.).

After the club was taken over by the investment group, a complete revamp of all its departments took place, including an overview of its administration structure, its first team, its academies, and its assets. As such, it was reported that more than 10 million pounds were spent on renovating their academy base on Platt Lane, adhering to their overall investment strategy to renovate and significantly improve their academies (Linton, 2010). At the same time, it was announced that their plans to renovate and improve the current stadium in which they play were approved, suggesting that yet another significant investment strategy decision was made (BBC, 2014). Both these decisions, the renovation and improvement of their academy facilities and the stadium in which they play, suggest that despite the significant amount of wealth required, a slow return on investment was to be expected. Yet, despite that, their investment strategy appeared to incorporate both these elements within it.

We can therefore see that the investment strategy decisions made reflect the need for a significant amount of money that seems to be consistently high for a relatively long period of time in order for the plans to materialise. If the City Group was to allocate a smaller amount of wealth to the operations and development of the assets and infrastructure of Manchester City, then the investment strategy drafted for the club from its administration should have reflected that by making smaller investments with potentially quicker returns on investment (for example, through the signing of already developed playing talent).

Finally, an important—yet more difficult to evaluate—element to consider when designing an investment strategy is the investment philosophy of the individuals in charge of making the financial and wealth management decisions (Butler, 2014). If we are referring to owners of football clubs, for example, their investment philosophy directly



relates to their personality and the objectives they set for any investment and wealth management decisions. Some individuals tend to be rather risky with their investments, while some tend to be more reserved.

At the same time, some administrators who might be more reserved in their personality have a philosophy of a high-risk and high return for the organisations they manage, in order to better highlight their potential value to their employers; while other administrators might follow a slower and steadier pace in their wealth management decisions and their investment strategies, in order to be able to present a steadier and less risky outcome to their employers.

Whilst the discussion of one's investment philosophy exceeds the purpose of this module, a wealth management advisor should take this into account when developing their clients' wealth management plan, and thus deciding on their investment strategy. It is worth noting that football clubs' administrators who deal with different investors in their organisations should have a good understanding of the investment philosophy of the clubs' owners, in order to be able to offer wealth management and investment strategy suggestions that align with those.

### **2.1.5 Investment strategies**

After these decisions are made, then the investment strategy that best suits the interested individuals or organisations can be identified. Literature suggests that there exists a number of popular investment strategies, which will be examined in this section.

First, we have the passive and active strategies. A passive strategy would entail making an investment decision by purchasing an entity or shares and holding on to them (Malkiel, 2003). This means that a longer-term approach is adopted, in which one decides to invest in an entity with the aim of preserving it for a long time. In a volatile market, such as the new Web3 space, for example, a trend that can be already seen in the sport industry through the rapid emergence of investment products, such as fan tokens, holding on to an investment, might mean that over time that volatility of the market can be overcome (Jaiswal, 2022). Passive strategies therefore tend to be less risky, since the investment is made for a longer period of time (Malkiel, 2003). An example of a passive investment strategy would be the investment made to be the majority shareholder of a sport organisation for a long time, thus investing the wealth with the intention of holding on to it, similarly to what Steve Gibson did with Middlebrough football club, as we discussed in the previous module of this course (Steve Gibson, n.d.).

On the other hand, an active strategy would involve the frequent buying and selling, and therefore changing constantly the investment portfolio that one might hold. This strategy would be in response to one's belief that a higher return can be achieved through this continuous buying and selling, and thus the reshuffling of one's investments, rather than the one achieved in a passive strategy. When examining the fast-developing Web3 space,



active strategies can be seen in the way in which fan tokens can be traded, for example. Fan tokens have been at times bought and sold quickly, in order for the fluctuation in the price and the demand and supply to be taken advantage of for the profit of the investor (Jaiswal, 2022).

A different investment strategy will be the one focusing on growth investing. In this case, investors might choose a particular time period for which they would like to invest, based on the value they would like to create on their investment (Eisenmann, 2006). If investors believe that by their investment in an entity and by focusing on that particular entity, such as a sport organisation, for example, that organisation will grow in the coming years, then they also expect for the value of the investment to go up. As such, they build their investment around the support of that particular organisation or any other entity they plan to invest in. On the other hand, if investors believe that the entity, say, for example, the sport organisation, might demonstrate good value in the next year or two, then a short-term strategy is adopted. This would suggest that whilst they are again focusing on the organisation's growth, they intend to be involved in this investment for a shorter amount of time.

Along the same lines, a different investment strategy can be seen, called value investing. In a value investing strategy, an individual or organisation is focusing on an investment based on the intrinsic value the investment opportunity has (Arshanapalli *et al.*, 1998). This suggests that, despite previously existing research, investors might have additional knowledge or beliefs that the true value of that investment is in fact different to said investment's current appreciation. This would in turn suggest that those individuals are knowledgeable enough to be able to argue that the market research and the value dictated for that investment deviates from what they would think the value is; therefore, through their investment, they can correct the value of these undervalued investment opportunities.

In simple terms, if a sport club is valued at 'x' amount of money, and yet an investor believes that the true value of that club is 10 times the 'x' amount, then by implementing a value investing strategy, and thus by investing 'x' amount on it, they can profit when selling their investment and 'correct' this error in the market. This would then suggest that a higher return can be achieved on their investment when that club or any investment is being sold.

Income investing is an additional interesting strategy that can be adopted. This type of strategy focuses on generating cash income, rather than investing only in order to increase the value of a portfolio (Hipp and Plum, 2003). Income investing would suggest that individuals are after quick returns rather than increasing the value of their investment over a longer period of time. A simple example of an income investing strategy would be when individuals purchase football clubs in order to agree to the transfer of their players, and therefore increase the income that will be generated from the investment immediately, rather than increasing the value of the investment overall.



Another investment strategy that can be adopted is the dividend growth investing. In this type of investment strategy, an investor might focus on companies that offer dividends to their investors annually (Ap Gwilym *et al.*, 2009). Companies that tend to have a track record of paying dividends consistently tend to be stable and less volatile, compared to other companies that might aim to increase the dividend payout every year. Investors can then reinvest their dividends and benefit over the long term in the same companies, thus gradually and steadily increasing their investments.

When examining the football clubs that have entered the stock exchange market in the past few years, we can see, for example, that Turkish football clubs have had a very stable market share value over the years, thus offering their investors a secure income should dividends be paid (KPMG, 2017). At the same time, Premier League clubs have had a different course in the stock exchange market, with a very high initial price offering given, which was unfortunately not met according to the market value offered upon the introduction of those clubs in the stock exchange, thus leading to no dividends being offered.

An interesting investment strategy is what investors call contrarian investing (Lakonishok *et al.*, 1994). This type of strategy allows investors to invest at a time of wider inactivity within the market. This would suggest that investments are at a low level, and therefore a lower amount of money might be required for purchasing something that under different circumstances would be of higher value. In simple terms, individuals can buy something at a low price and then wait until the market returns to some form of normality, and thus appreciate their investment before they sell it at a higher price.

This downtime in investments could be at a time of a wider economic recession, at a time of political instability, or, as it was recently, during a worldwide pandemic. Investors who managed their wealth in a manner that allowed them to invest in a number of opportunities at that time were in fact able to profit once the economy gradually went back to normal and their investments had more value.

### **2.1.6 The uncertainty of investments**

No wealth management plan and investment strategy should be ever drafted before a simple truth is acknowledged by everyone involved. That is, that the future is always uncertain (Butler, 2014). As such, no investment exists that can offer the individual making it a definite return.

If we focus on the world of sport, we can easily see that the uncertainty of sport has been historically noted. Economists have long argued that it is the uncertainty of outcome that has driven the interest to sport, individual athletes, teams, championships and events (Freestone and Manoli, 2017). This uncertainty of outcome then filters down to every aspect of the sport. For a potential investor in a sport organisation, there is no guarantee



that their investment in playing talent, infrastructure, support staff, or on management functions can guarantee a definite return on their investment.

In simple terms, an athlete can have an unexpected injury, making them unable to participate in the next match and therefore affecting the performance of the team. Also, an unpredictable scandal could break out at any moment and can have devastating effects on the brand of a sport organisation; even an unpredictable event of any magnitude can affect whether the infrastructure can be used in a way that offers the investor returns.

If we look at the recent past, the emergence of the Covid-19 pandemic and the consequent lockdowns that took place in a number of countries around the globe, made sport lose a large amount of its income through the stopping of live sport, and then the starting of live sport, but without the attendance of fans in stadia. As a result, sport organisations', federations', events' and championships' income sources, such as ticketing, suffered due to an unforeseen event which the investors in sport could not predict (Alfano, 2022). This would also suggest that any wealth that was to be managed and expected to show returns around those events or for those athletes or organisations that were to organise and participate in these events was affected.

The future is uncertain in any aspect of sport, but, when it comes to managing the wealth within the sport ecosystem, additional attention needs to be drawn before any wealth management and investment decisions are made. While it is argued that wealth management advisors tend to say that we should look at the possibility of something occurring and the probability of that actually materialising, in the world of sport it appears that this would be further accentuated. This allows us to suggest that managing wealth within sport and managing the wealth of sport can become a tricky and unpredictable business for those involved. The element of risk in wealth management and how it is influenced by uncertainty in the world of sport will be further explored in the next module of this course.

## **Summary**

In this module, we covered wealth management planning and how this could be implemented in sport. We then introduced the Financial Fair Play regulations and their effects on wealth management in sport. Following this, we discussed the main investment strategy decisions to be made before we examined the most popular investment strategies found within and beyond the world of sport. Finally, we addressed the issue of unpredictability, on which we will delve in more detail in the following module of the course.



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