

# Module 4. Investment building blocks – The components of wealth management

## Unit 4.1

In this final module of the course, we will focus on a vital aspect of wealth management in sport: the investment building blocks. These asset classes represent the main components of wealth management and, thus, what investment portfolios are made of. First, we will begin by introducing the investment building blocks and the different asset classes that exist. We will examine them based on their risk and return characteristics as well as on the main purpose each different asset class has. We will then focus on the two most popular investment blocks, bonds, and equity. Fixed interest investments or bonds are discussed first, allowing us to better delve into the details on what they entail and what their purpose can be for companies that issue them and individuals who chose them as their preferred investment. Fixed interest investments or bonds in sport are then explored to allow us to better appreciate how this investment building block is being used in the world of sport. Equity, shares or stocks are discussed next, in order to better present their characteristics, as well as the rationale behind investors who opt to include them in their investment portfolio and the reasons why companies might issue them. Following this discussion, we will focus on equities, shares, and stocks in sport, by exploring how they have been used in sport in North America, Europe, and worldwide. Finally, the popular fan engagement trend of fan tokens is discussed through the lens of wealth management and investing in sport.

### 4.1.1 Investment building blocks

Asset allocation refers to the very important process of splitting the capital in smaller parts, dividing it, and allocating to one or more similar or dissimilar types of assets. What is worth considering here is asset classes. An asset class is a term used to refer to a group of investments that have similarities in the risk and return characteristics (Butler, 2014). Examples of asset classes would include cash, equities, fixed interest investments (bonds), property, and different commodities. It is worth noting that there are also a number of investment types that we can refer to as 'alternative' asset classes because they would be considered different to the mainstream asset classes.

Asset classes represent the investment building blocks that one can use to create their investment portfolio (Butler, 2014). In table one, we summarise the main asset classes or the main investment building blocks and their characteristics. It is worth noting that these



three asset classes represent today the main investment building blocks on which most investment portfolios are built, particularly, in the world of sport.

**Table 1. Characteristics of main asset classes or investment building blocks**

<b>Asset class</b>	<b>Cash</b>	<b>Bonds</b>	<b>Equities</b>
Returns	Low but volatile	Medium and more stable	High but more volatile
Inflation	Real risk of devaluation over long term	Some risk of devaluation over long term if not short dated or inflation linked	High inflation protection over the long term
Return mechanism	Purely through interest	Primarily through interest/yield	Dividends and growth
Key role in portfolio	Liquidity	Stable but low returns over long term or to reduce risk of volatile assets	Core real return generator

Source: Butler, 2014, p. 97.

First, we can see that cash is a very popular and, in fact, the most well-known asset class, representing the most popular investment building block in most wealth management and investment portfolios (Butler, 2014). As an asset class, it has a low return, and it can also be rather volatile, especially in the long term. That is because – as we have previously discussed – inflation can reduce the value of our cash annually. Inflation bears the real risk of devaluating the purchasing power of this asset class, and, as such – in the long term – it can have a devastating effect on our wealth. The return mechanism we have in cash is purely through the interest we can earn by depositing our cash in a savings account, for example. The key role or aim of a portfolio that consists of mainly cash is its liquidity, and thus the ability to use cash in any way we see fit and at any point in which we need it.

Bonds tend to be a more stable investment and one that, in turn, has medium and more stable returns (Butler, 2014). Inflation is still a risk since there is some risk of devaluation in the long term, but that is only if inflation has not been linked with the investment. A bond returns interest and yield to the investor, which allows for some return on the investment to be enjoyed. Finally, a portfolio consisting mainly of bonds would be considered stable, but one in which low returns can be seen over a long period of time. This is because often the main aim of building a portfolio through bonds as the main investment building block is in order to ensure that the risk of our investment overall is kept at a low level.



Finally, equities are a higher risk investment and, as such, they tend to have higher returns (Butler, 2014). This means, however, that any returns will be more volatile, since volatility can, in fact, affect greatly a portfolio based on equities. At the same time, protection will exist against inflation in the long term. Dividends and growth are offered to the investors of equities, allowing them a substantial return on their investment. Finally, a portfolio consisting of primarily equities is aiming at generating returns for the investors as a higher risk and thus higher return investment. An equities portfolio is the one that would be considered more profitable than the other two.

Asset allocation would then involve the process of determining which of the above asset classes or different investment building blocks one is to invest in and to what percentage (Butler, 2014). Getting the right asset mix is of vital importance in ensuring that the right risk is taken, in order to succeed in achieving the expected returns. A simple decision would be, for example, to decide how much of the wealth is to be invested in growth strategies, such as allocating our wealth on equity type investments, and how much is to be allocated on a defensive strategy, such as allocating our wealth on bond type investments. Identifying the right mix of assets and thus different investment building blocks can be considered a simple reflection of the risk we are willing to take and the return we are expecting.

In order to better appreciate these building blocks, particular attention will be placed on the most popular class assets used within the world of sport: bonds (fixed interest investments) and equities (shares or stocks).

#### **4.1.2 Fixed interest investments - Bonds**

Bonds or fixed interest investments can be considered in very simple terms as loans given by investors to companies, in order for them to be repaid at a particular already agreed date in the future (Butler, 2014). In return for lending this money, and thus their wealth or capital, the holders of the bonds are paid a fixed amount of money or interest annually. The main reason why fixed interest investments are used in portfolios, especially when done so with a long-term perspective, is to ensure that a reliable and stable source of cash flow will exist. They also allow for a lower risk to be adopted by reducing the volatility or the change in the price of an asset, especially when compared to equities.

What has been assumed or expected in terms of the return from a bond is linked to what the bond has been able to yield as a return thus far (Rutterford and Davison, 2017). The yield or the return is then also influenced by the inflation. Another aspect to consider when discussing bonds is duration. Duration refers to the average time until all the interest and return of capital from the bond have been returned.

While bonds are considered to be of lower risk than equities, additional strategies can be taken to reduce any potential risk (Butler, 2014). These include reducing the maturity risk by opting for shorter term bonds rather than longer-term bonds. This would suggest that



bonds with a smaller time to maturity, and thus with fewer years to maturity (for example, less than 20 years), could incorporate less risk than those with a longer period of time until maturity. An alternative strategy would be to reduce the credit risk by opting for only high-quality bonds. This would suggest that the bonds issued by companies that are believed to be very secure should be chosen over bonds issued by other companies that are believed to be riskier.

Replacing long-term bonds with short-term bonds, especially those of higher quality, and therefore relating to companies that are believed to be of higher investment trust, can reduce the volatility of the portfolio, and thus allow an investor to potentially pursue other investments with higher expected returns by potentially exploring investment in equities. After all, as we argued before, the aim of investing in bonds is often to reduce the overall risk of the portfolio (Rutterford and Davison, 2017).

As it is clear, bonds or fixed interest investments are one of the main investment building blocks available. They do nonetheless represent an asset class, and as such they incorporate different types of assets that share similar risk and return characteristics.

Different types of bonds or fixed interest investments include the following:

- Global short-dated bonds
- Intermediate dated index-linked gilts
- Conventional long-dated gilts
- National savings certificates
- Index/LIBOR-linked high-quality
- Corporate bonds
- Permanent interest-bearing shares (PIBS)
- High-yield bonds, lower credit quality bonds, convertible bonds, emerging market bonds

### **4.1.3 Fixed interest investments – Bonds in sport**

Fixed interest investments or bonds have been used widely within the sport ecosystem. Their most common use is by sport organisations which are trying to raise capital in order to invest in particular new ventures. As we argued, bonds can be considered similar to a loan, in which an individual is lending money to an organisation. Organisations in the sport industry therefore issue bonds in order to allow for this lending relationship to be developed.

A recent example of how they are used can be seen in the way in which Venezia FC, the Italian football club, chose to increase their capital. As the club argued in a statement issued on May 24, 2022, the football club was introducing bonds in order to allow supporters and other investors the opportunity to invest in the club by purchasing the bonds, which would, in turn, allow the club to raise enough capital to support the development of the club's new training ground (Venezia FC, 2022).

What was being argued is that investors will be able to get a 7.5% interest annually, and they will be also able to earn a one-off 15% bonus, if the club managed to be promoted to Serie A, the top national category of Italian football during the maturity time of the bond, which was five years. The minimum subscription that the club was requesting was 1000 euros, and all increments were also set at 1000 euros after that. The bond was offered with a deadline of July 7, 2022 (Venezia FC, 2022).

The president of the club, Duncan Niederauer, stated at the time of the bond issue:

As we transition from a period of rebuilding to a focus on our long-term future, we feel that the time is right to offer our partners and supporters an opportunity to share in our successes on and off the pitch through our first-ever bond offering. The Venezia FC Bond invites you to invest in the future of the Club, alongside the ownership, by directly funding the construction of our new training centre and headquarters. We are proud of what we have accomplished in the last two years, and we look forward to an even brighter future ahead. We hope you elect to join us on this journey. (Venezia FC, 2022, para. 7).

Interestingly, the purchase of bonds, and therefore the investment in the club, was also accompanied by a number of other benefits that the club argued will be dependent on the amount of money investors were willing to invest, and thus the investment tier they would fall under (as they are illustrated in table 2 below). These benefits would include dinner with a player or the use of the pitch at the training ground for a friendly match between friends or colleagues of the investor.

**Table 2. Venezia FC Bondholder privileges by tier of investment**

	FIRST TEAM HOME JERSEY	VIDEO MESSAGE FROM FIRST TEAM PLAYER	INVITATION TO TRAINING CENTRE OPENING CEREMONY	NAME ON COMMEMORATIVE PLAQUE AT TRAINING CENTRE	"PLAYER EXPERIENCE" TRAINING SESSION + PLAY IN FRIENDLY MATCH WITH LEGENDS TEAM	DINNER FOR 2 WITH A PLAYER AT TRAINING CENTRE	LIFELONG PRIORITY RIGHTS ON VIP TICKETS OR SEASON TICKETS	USE OF TRAINING CENTRE PITCH FOR A MATCH WITH CLIENTS OR FRIENDS (KITS INCLUDED)	DINNER WITH CLUB PRESIDENT AND FIRST TEAM PLAYER
	LIMIT OF 250				LIMIT OF 25	LIMIT OF 40		LIMIT OF 10	LIMIT OF 1
<b>ENTRY</b> €2,000+	●	●							
<b>BLACK</b> €5,000+	●	●	●	●					
<b>SILVER</b> €20,000+	●	●	●	●	●	●			
<b>GOLD</b> €50,000+	●	●	●	●	●	●	●	●	
<b>PLATINUM</b> €100,000+	●	●	●	●	●	●	●	●	●

PLEASE NOTE ALL PRIVILEGES ARE ONCE-OFF EXCEPT PERSONALISED VIDEO MESSAGES (ONE PER YEAR), PLAYER EXPERIENCE TRAINING SESSION (TWICE DURING BOND TERM) AND PRIORITY RIGHTS ON VIP TICKETS (LIFELONG).

Source: Tifosy Capital and Advisory, (n. d), <https://bit.ly/3b2SSkZ>.

The bond appeared to be successful from the moment it was introduced, and is now reported to have assisted the club in raising 5 million euro.

A similar example of using bonds in the sport industry in order to raise capital can be seen in the English football club QPR. Interestingly, QPR FC used the same financial advisors in order to issue their bond in 2021 (QPR FC, 2021a).

QPR was able to reach its maximum allocation limit of 6.8 million pounds (8.05 million euro) in just 10 days after the offer of bonds opened. In doing so, they were able to achieve the largest online bond in British football to this day (QPR FC, 2021a). Once the bond was offered, over 1500 investors, including fans of the club from a total of 38 countries around the world, were able to invest their money in the QPR bond, and therefore help the club raise capital, allowing the club to start building a new training ground.

The success of the bond was unprecedented, as is evident through the statements made by the Club Chairman Amit Bhatia:

This is a remarkable achievement. The QPR Bond has been a resounding success, being filled in such a short time. We believed it would be an attractive investment



to some, but we have been overwhelmed by the speed with which applications have been made. The Board are super excited to welcome so many bondholders as we move forward with the training ground. This is a huge endorsement of our vision and strategy and we are excited about this next chapter for QPR. (QPR FC, 2021a, para. 1-3).

This bond was made to offer 8% interest, which is made up of 5% cash and 3% club credit, which could be redeemed on matchday tickets, and in the QPR store, or even in the online store of the club (QPR FC, 2021b). A 25% bonus was also offered in case the club would manage to get promoted to the Premier League within the term of the bond (the bond's maturity was five years). Interestingly, and because of how the bond was structured, investors could take their returns on a tax-free basis, allowing them thus to minimise the cost their investment would have and therefore maximise the potential earnings or returns from it.

In addition to the interest payments, a rather interesting set of exclusive privileges were developed for the bondholders. These were offered at different investment tiers, as we saw in the case of Venezia FC above. These privileges can be seen in figure one below.

**Figure 1. Privileges to QPR bondholders depending on tier of investment**



Source: QPR FC, 2021b, <https://bit.ly/3cGVQvO>.



#### 4.1.4 Equities

Having discussed bonds, we will now focus on possibly the most popular investment building block: equities. The role of equities in one's portfolio is simply to generate return. This return would then be enjoyed in both dividends (amount of money paid annually) and a wider growth in earnings (Butler, 2014). Equities have historically offered the highest long-term return and protection from inflation of any other asset class. This at the same time suggests that a high volatility or lack of security or certainty is to be expected with equities, which is, of course, more intense when seen in shorter periods of time.

An equity can be simply understood as ownership in one's business (Butler, 2014). As such, they allow investors to be involved and participate in both the current and the future profit generated by the businesses they have invested in. These profits are then paid out in dividends to the investors, or kept by the company and are reinvested in order to allow for profits to grow further. In either way, over a longer period of time, individuals who have invested in equities could be expected to earn a significant amount of return, and particularly more significant when compared to the returns they would have achieved through low-risk assets such as cash or fixed return assets such as bonds.

Equities are an important investment building block of wealth management and investment portfolios. They represent an asset class, and as such they encapsulate different types of assets which share similar risk and return characteristics (Butler, 2014).

As a result, a number of different types of equities can be noted, including the following:

- International developed markets equities
- Emerging markets equities
- Common stock
- Preferred stock

Equities, also known as shares or stocks, are one of the most well-known and talked about investment building blocks in sport, and as such they are a growing and useful financial instrument. What the word equities or shares or stocks describes is, in simple terms, a unit of ownership in a single or multiple companies (Rutterford and Davison, 2017). As we discussed, the shareholder or the owner of the stock, share or equity buys a part of a company by becoming the owner of a unit of the company, and as such they will receive dividend payments as well as the right to vote on its decisions, if the company grants them.

It is interesting to note that, even though the terms can be used interchangeably, there are some small technical differences between the words stocks, shares and equities (Rutterford and Davison, 2017).

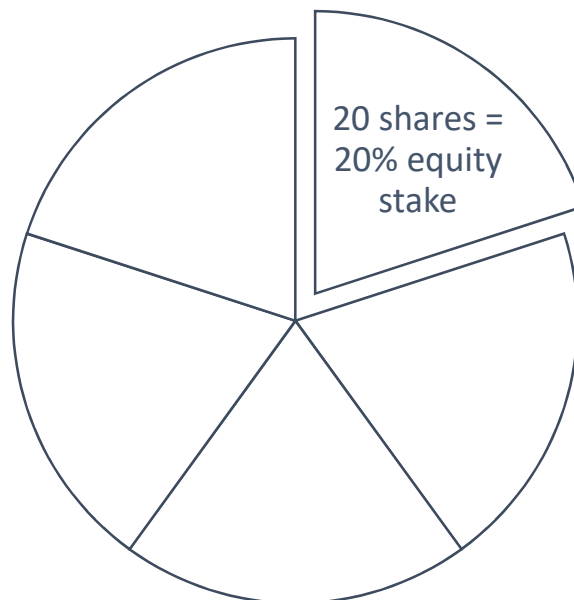


- 'Stocks' is generally used to describe the portion of ownership of a number of companies. For example, one can hold stocks in Serie A clubs Lazio and AS Roma.
- 'Shares' is generally used to describe the unit of ownership in one specific company. For example, one can hold 10 AS Roma shares.
- 'Equities' is generally used to describe the total ownership stake in a company. For example, one can hold a 10% equity stake in AS Roma.

So, for example, if a company issues 100 shares, and one individual owns 20 of them, we could argue that they hold a 20% equity stake in that particular company. The distinction between the terms is illustrated in figure two below.

**Figure 2. Distinction between shares and equity**

**Total of 100 shares in a company**



Source: own source based on Rutterford and Davison, 2017.

The way in which stocks, shares and equities operate is by giving a rather direct exposure to a company's performance. As a result, their value will increase when the company is doing well, and decrease when the company is not doing well.

The exchange of stocks allows the exchange of shares in publicly listed companies. While there are a number of ways in which a company can become publicly listed, their most common one is for them to hold an initial public offering, also known as IPO (Rutterford and Davison, 2017). The buying and selling of shares is often referred to as trading. Trading shares is based on one's assumptions or sometimes speculations on how the price of the shares will develop. Trading is often favoured by individuals who have a rather short-term plan in terms of the company's shares value, and have a good grasp about the shares'

price volatility. As we argued above, a longer-term perspective might be the investment in bonds.

From the side of the companies, they might choose to be listed on the stock market, in order to raise capital by issuing more shares and selling them to other investors (Rutterford and Davison, 2017). An interesting distinction is that not all investors are the same. Institutional investors are entities like investment funds or banks, while retail investors are everyday people who are investing their wealth in the buying of shares.

A company can have any number of shares, from a minimum of one, in the case in which there is only one owner for the entire company, to an undefined maximum of shares, owned by multiple individuals. The number of shares is also not fixed in time, with a number of companies deciding to issue more shares in order to raise further capital at different times throughout their life cycle and when that is required (Rutterford and Davison, 2017). A company might also choose to at times buy some of their shares back from the investors, in order to retain more control within it or raise the price of the available shares.

An important investment factor to take into consideration is the expected profitability of an investment. It has been noted that particular high profitable companies which might have a statistically higher probability of maintaining those profits will have higher returns than the stock market as a whole (Butler, 2014). In simple terms, if every other factor is similar, and two companies have, thus, the same expected profitability ratio, then we would suggest that buying the cheaper of the two would be the right option. In similar terms, if two different companies have the same share price, we would suggest that one should buy the one with the highest expected profitability ratio.

It is also worth noting that there is no universal rule as to how much a share is worth. Different shares can be worth different amounts of money (Rutterford and Davison, 2017). The value of a single share can also change dramatically, sometimes even within the same day. A distinction in terms of a share's value can be found in its fair value versus its market value. The fair value is the intrinsic value of a stock based on the company's characteristics, its profitability, and its prospects. The share's market value reflects the amount of money that individuals are currently willing to pay for that particular share.

This would suggest that in a period of lower demand, and even though the company might be exhibiting the same performance, profitability and prospects, its shares might have a lower market value than expected. At the same time, if the demand for a particular share goes up, and even though its supply might remain stable, then the value of the share will rise since people are simply willing to pay more for it.

In recent years, it has been observed that individuals have gradually become more interested in profiting from buying equity and purchasing and selling shares in the stock market (Belton, 2021). The introduction of user-friendly online platforms and availability of investment advice online has assisted in this trend, with famous stories of individuals



without any prior experience or knowledge of financial management achieving significant wealth through online trading. The additional time spent at home due to the lockdowns enforced in a number of countries around the globe due to the COVID-19 pandemic are also believed to have contributed to this trend, with the BBC reporting that small investors have now been greatly facilitated by mobile share-trading apps and additional time stranded at home (Belton, 2021). While success stories can sometimes capture people's attention and imagination, it is worth emphasising that professional advice should be sought and followed, if one is to engage in such a practice, in order to avoid a mismanagement of their wealth.

Nonetheless, it should be noted that we have seen a wider international trend of retail investors beginning to invest in equities, stocks and shares of a number of companies worldwide. A similar trend has also been noted in the world of sport, as we will discuss below.

#### **4.1.5 Equities in sport in North America**

The sport industry has held a long and interesting relationship with equities, stocks and shares. While historically sports teams had one single owner who was also in charge of running the club, they quickly adopted the trend of issuing shares and selling them to potential investors. In the case of North American sport teams, the sale and trade of sport teams' shares had an interesting yet rather short course.

In 1998, it was the Major League Baseball team from Cleveland that decided to go public and as such sell their shares in the stock market (Sawchik, 2022). Their initial public offering was in the NASDAQ exchange, offering anyone the chance to purchase a small part of the team. The team traded under the symbol CLEV. At that time, the only teams publicly listed in North American sports were Major League Baseball's Cleveland, National Basketball Association's Boston Celtics, and National Hockey League's Florida Panthers.

Possibly due to Cleveland's performance when the stock was first offered in the stock market on June 4<sup>th</sup> 1998, all 4 million shares were sold within an hour of the opening. The IPO was set at US \$15 (almost 15 euro), raising an impressive UE \$54 million (53.968 million euro). Within this offering of shares, the owner had decided to sell half his stake in the club, but interestingly maintained the voting rights and control of the club (Sawchik, 2022). While the owner of the club was pleased with the success of the IPO, he also did not announce how the money would be spent at the time. He did suggest that a diversification was in place in terms of the revenue streams of the club, with new streams to be explored.

In November 1999, the club was taken over by another owner who wanted to be the sole owner of the team (Sawchik, 2022). As a result, the shareholders who held the stock that the club had issued were paid US \$23 (almost 23 euro) per share. Other publicly listed



companies like the Panthers were purchased by an investment group in 2001 and the Celtics were purchased privately in 2002.

This rather short story captures the short run that professional sports teams from North America had with equity and publicly listed shares. What we can argue is that they tested the waters by being publicly listed and traded, and then shortly after returned to a more traditional model of a single ownership. This trend, however, was followed shortly by football clubs based in Europe, as we will discuss below.

It is worth noting that the Major League Baseball introduced a rule in 2017 that prevents clubs from going public (Sawchik, 2022). They argued that this rule was created in order to allow the clubs (or franchises as they are referred to in the USA) to streamline their decision-making and assist in better controlling and managing each organisation. Similar to the Major League Baseball, the National (American) Football League also prohibits public ownership. At the same time, the National Basketball Association and the National Hockey League have specific requirements that were put in place to create obstacles to any franchise (sport team) interested in going public.

It can be argued that, by obstructing North American teams from entering the stock exchange market, we are limiting their opportunities to grow further. As a result, a number of clubs are still arguing that these conditions should be changed. After all, academic research (Hubman, 2011) that examined the financial success of issuing shares and trading them in the stock exchange argued that, when the Celtics went public, the stock produced an average annual return of 16.4%, including its dividend, during the 14-year period in which the shares were traded in the stock exchange. When comparing it to the annual return of other shares for the same period, we can see that, for example, the S&P 500 had an annual return of 9%. The S&P 500 is a stock market index that records how 500 large companies listed on stock exchanges in the United States are performing. We can thus note that Celtics' performance was 7.4% higher than that of some of the other companies in the stock exchange market, potentially exceeding expectations.

While in the case of Celtics, we saw that North American teams managed to succeed in their attempts in the stock exchange market, even though their attempts were rather short-lived, European football clubs have not always had a similar success in their efforts. We see today that some of the biggest football clubs in Europe have released their shares in major stock exchanges, with no indication that this trend will stop.

#### **4.1.6 Equities in sport in Europe**

Let us look at the case of Manchester United football clubs, one of the biggest English Premier League clubs with substantial success both in the country and in European competitions (Lea, 2021). In 2005, the Glazer family were able to gain a 28.7% equity stake of the club and managed to get the club delisted from the London Stock Exchange. Manchester United, guided by the Glazer family, issued their IPO in 2012, this time in the



New York Stock Exchange, but unfortunately the shares of the club were priced well below what was originally planned or estimated (Oran, 2012). When the shares were offered publicly, the initial public offering was priced at 14 US dollars (approximately 14 euro), which was substantially below the expected price of 16-20 US dollars (16-20 euro) per share.

This in turn valued the football club at only 2.3 billion US dollars (2.298 billion euro), which means that more than 100 million US dollars' (100 million euro) worth of value was removed from the anticipated earnings and thus the overall value of the club (Oran, 2012). In other words, the value of the sport entity went down due to the reduced market appreciation of the shares of the club. Had their estimations been correct, the club would have been valued at 3.3 billion US dollars (3.29 billion euro), which shows a substantial difference from the final market-based value of 2.3 billion US dollars (2.29 billion euro).

The club offered 16.7 million shares in the stock exchange and as a result raised 233.2 million US dollars (233.19 million euro), which was in turn shared between the club and its owners, the Glazer family (Oran, 2012). The substantial loss of almost 50 million US dollars (49.9 million euro) not only affected the public perception of the club, but it also damaged its potential in terms of spending on new playing talent and other potential investments.

Nevertheless, the deal represents the largest sporting IPO at that time, despite the way in which the club ended up being evaluated by the market, which was considered a big setback for Manchester United by sport fans (Oran, 2012). While wide criticism existed on how this money will be spent towards the owners and the debt that the club had towards them, and potentially less so on further investments for the club, the Manchester United case offers some valuable lessons. It allows us to highlight an important truth about sports teams as potential investments.

Sports clubs, and in this case football clubs, are not run like typical businesses. While some indeed might strive to make profit, the majority of them are instead focused on winning, which in turn suggests that the revenue generation and in particular profit generation, therefore the control of the costs and expenses made, might not be their main priority (Janiaud, 2020). It can be argued that football clubs are, in fact, unconventional companies, since they are not created with the main purpose of making money. So, in the case of publicly offered equities, the shares of a football club are not created in order to add or offer value to the shareholder.

At the same time, success on the pitch does not always mean an increased value of the shares. After all, Manchester United is one of the most decorated and successful football clubs not only in the English Premier League, but also worldwide. That being said, Manchester United did not stop their public offering and instead remained on the stock exchange market (Janiaud, 2020). As we can see to this day, their shares have been traded



throughout these years, with the market value assigned to them as figure three below shows, illustrating a significant fluctuation.

**Figure 3. Manchester United shares' price over time – price shown in US dollars**



Source: Janiaud, 2020, <https://bit.ly/3BPD12I>.

Interestingly, we see the highest value being reached at the end of 2018. What we can also see in the figure is that the COVID-19 pandemic in early 2020 affected the club greatly, dropping the value of the shares close to what it was originally valued when first offered in the stock exchange.

Nowadays, we can still see some major European football clubs offering their shares in the stock exchange (Lea, 2021). Examples of these would include the Italian clubs Juventus, AS Roma and Lazio, all traded in the Italian market, the German club Borussia Dortmund traded in the Frankfurt Stock Exchange, the Scottish Premier League club Celtic traded in the London Exchange and the Dutch club Ajax traded in the Amsterdam Stock Exchange.

Out of these clubs, Manchester United shares are now seen favourably by investors since they have been paying dividends since 2015 (Lea, 2021). Juventus's shares have also had a rather interesting course, with their initial listing being in 2001. In 2006, the shares were at their lowest possible point, since the club was involved in a match-fixing scandal which resulted in the club being relegated to the second division of professional football in Italy. However, since 2012, and following the playing success they have been achieving and the significant efforts to rebrand and refresh the club, the club's shares have been also attracting additional attention (Lea, 2021). AS Roma has also been listed in the market for more than two decades; however, they have not been able to perform particularly well within these years. The Borussia Dortmund shares have been performing well in the market, gradually and steadily increasing their value over the past 22 years in which they have been offered publicly (the club listed its shares in 2000). An equal steady and

impressive increase in the price of the shares has been also seen in the case of Celtic football club (Lea, 2021). The club was first listed in 1994, and since 2012 the price of its shares has been following an upward trend. Lazio has not achieved much success on the stock exchange market, while Ajax remains to this day one of the steadiest investment options for investors who are interested in steady and continuous returns on their investments (Lea, 2021).

#### **4.1.7 Equities in sport world-wide**

As the above discussion on the sport teams that are still trading their shares publicly has shown, recent reports suggest that interest is again building up in purchasing shares of sports teams. *Forbes* argue that since the beginning of 2022, and with the uncertainty of the economy now being noted in a number of countries around the globe, the individuals in charge of managing a substantial wealth are, in fact, looking into adding sports team stocks in their investment portfolios (Ozarian, 2022). The argument that is made is that, since the economy is overall unstable, most companies whose performance is linked with the stability of the economy are expected to see a decline in the interest of purchasing their shares. At the same time, a higher demand in sports teams' equities is to be expected since their profitability and prospect is not directly linked to the wider state of the economy. Interestingly, when the COVID-19 pandemic was starting, it was suggested that sports shares will be the ones to be hit the most, due to the consequent lock-downs brining sport events to an abrupt halt.

A more positive outlook to investing in sport equity is now being taken. One of the trends seen according to the *Financial Times* is to not invest in single sports teams, but instead in sport leagues, governing bodies or competitions (Ahmed *et al.*, 2021). The *Financial Times* are arguing that investment firms are now exploring the option to invest in governing bodies and competitions, whilst suggesting that this might find fans in disagreement. New Zealand Rugby, the governing body that runs New Zealand's national sport, has been at times approached by a number of different Investors, most recently by a Californian firm known as Silver Lake.

What is argued within this wider and longer discussion of purchasing shares of a governing body is that there is a broader and yet rather simple question to consider. How much control are governing bodies willing to give away in exchange for cash? After all, issuing and selling shares can assist an organisation in raising capital, but it also leads in part of the ownership being passed on to other individuals (Ahmed *et al.*, 2021). If these individuals are to have a vote in the decisions made by the league, which in turn can affect the national and international championships offered and the rules by which the sport in its country or region is governed, then wider governance questions should be also accompanying these investment and wealth management decisions.

#### **4.1.8 Fan tokens**



When discussing investment in equities, shares, or stocks, and by looking at today's investment trends, we cannot but focus on the emerging trend of online or digital assets. In the case of sport, these have manifested into what are now called fan tokens. Fan tokens are digital assets providing various privileges to their owners (Demir *et al.*, 2022). Most fan tokens are issued by a company called Socios (Socios, n. d.). They have become particularly popular among football clubs and investors, who tend to be supporters of the clubs they purchase the fan tokens of. Fan tokens provide specific privileges to their owners, including particular rewards and promotions, as well as sometimes voting rights in specific polls.

Fan tokens are not the same as stocks or shares of football clubs when it comes to ownership properties. They also tend to be highly associated with the mood of the investors and as such their price changes depending on the playing results, something that has not been clearly found in typical shares as we discussed above (Demir *et al.*, 2022). As academic research has shown, typical shares tend to be mostly associated with the financial and business performance of a sport club, while fan tokens can be more volatile based on a club's playing success. However, it is not only the playing success that can affect the price of a fan token.

A recent example showed that when PSG, the French football club, was close to signing Lionel Messi, the price of the fan tokens associated with the club increased significantly (D'Urso, 2021). This in turn resulted in significant earnings for the traders that were able to predict the behaviour of the fan tokens in time. That is because, whilst the value of the fan tokens increased significantly in the days before the transfer, it also decreased significantly right after the transfer was completed. This resulted in the following investment outcome: the individuals who had purchased fan tokens early and sold them also early, managed to make money, since they bought them when the value was low and sold them when the value was high. Those individuals, however, who followed the trend and purchased fan tokens after the price had already increased, were not able to sell them when the price was higher than the one they purchased them at, since there was a sudden price drop (D'Urso, 2021). As a result of the volatility of the price, these individuals lost money from their investment. Once again, this illustrates how fan tokens, as shares, stocks and equities are a high-risk class asset, and thus a high-risk investment, with a high volatility in their price and a rather unpredictable future of how their price will go.

'Socios' fan tokens appear to be a growing fan engagement and investment trend. Nowadays, we can see them not only in major football clubs around the world, but also in basketball, tennis, American football, ice hockey motorsports and e-sports (Socios, n. d.). The difference between fan tokens and typical shares is that they are directly linked and in fact focused not on the element of ownership, but on that of fan engagement. This means that rather than aiming at purchasing an actual unit of ownership of the club, they are based on the notion of facilitating votes on various matters related to the running of



the club. This voting takes place through the Socios mobile application, allowing fans to feel involved in the decision-making of the club.

The similarities that fan tokens bear though with typical shares is the element of high-risk they involve, as well as the high volatility associated with their price, since they are traded online. As with any high-risk investment, it is wise to argue that they are thus suitable only for financially sophisticated individuals (Belton, 2021). Those who are well acquainted with how the market works can predict and not speculate what the trends will be, and are very careful with how they manage their wealth. This would also suggest that these individuals who can manage the risk they are willing to take and then expect adequate returns based on the risk taken are those who should engage in high-risk investments.

As we argued above, online trading is interesting and appealing to a number of individuals. The technological advances we have been witnessing and the ease by which we can now access online trading has increased its appeal to the wider audience (Belton, 2021). However, we need to stress that such investment decisions are to be made only after careful consideration and following the advice of knowledgeable individuals. As such, wealth management needs to be accompanied by carefully made and well-educated decisions. Since we cannot fully predict the future, speculating about where the prices will go can embed a high risk that individuals might not be able to take by themselves.

## **Summary**

In this module, we focused on the investment building blocks, the class assets that represent the components of wealth management in sport. After introducing class assets, we delved deeper in better understanding fixed interest investments or bonds and how they are being used in sport. Following this, we explored equities, shares or stocks and how they are utilised in the world of sport world-wide. Finally, we introduced fan tokens, the fan engagement tool through the lens of wealth management.

## **Course summary**

In this module, we have introduced and discussed in detail an important aspect of wealth management in sport, wealth planning in sport. First, we began by analysing the different financial personalities encountered, as well as the factors that influence them. We then explored the different risk profiles and the risk pillars that affect them. Moreover, we explored emotions and financial behaviours before we introduced the different money styles that can influence our decisions, and the assistance we might need in terms of wealth management in sport. Following this, we delved deeper in wealth management and investment planning, by exploring what a wealth management plan entails and the particular factors that are to be considered in the world of sport. We then focused on the key investment strategy decisions before examining the main investment strategies that can be encountered in sport. Subsequently, we introduced the key investment principles,



and, in particular, the key relationship between risk and return in sport. We then focused on the relationship risk and return have with price and uncertainty, before exploring investment 'bubbles' in sport and shedding light on the different types of risks that can be encountered. Finally, we centred on the investment building blocks with which wealth management and investment in sport can materialise. Particular attention was paid to bonds and equities or shares, and how these two have materialised in investment and wealth management in sport worldwide.

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