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Vernon Davis Is Going to the Super Bowl, But Should He Go in Your Portfolio?

Fantex offers stocks tied to the future earnings of professional athletes; financial advisers urge caution

Vernon Davis of the Denver Broncos is one of the players covered by a tracking stock offered by Fantex. Photo: Aaron Ontiveroz/Denver Post/Getty Images

By Yogita Patel
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Global financial markets are in turmoil, oil prices are at historic lows and it seems one of the few certainties in life is that the Denver Broncos and Carolina Panthers will face off in Super Bowl 50 on Sunday. But does the popularity of the National Football League make it worthy of a place in your portfolio?

The prominence of professional sports has fueled a boom of ventures that allow fans a chance to make money off on-field action. In 2015, daily-fantasy games alone registered an estimated $3.1 billion in entry fees, according to research firm Eilers & Krejcik Gaming, LLC.

One new venture, Fantex, is hoping to take this a step further by giving individuals the ability to invest in securities tied to the future earnings of professional athletes. Financial advisers, however, caution that these untested securities merit at most a small role in the “play money” part of a portfolio.

Fantex securities might appeal to someone who isn't comfortable with the stock market but does have a great deal of familiarity with the NFL or other major sports leagues, according to Michael McKevitt, a financial planner at Palatine, Ill.-based Guillaume & Freckman Inc. But he said his firm, which has about $160 million in assets under management, doesn't consider it a good long-term investment for its clients, given the risks and Fantex's limited operating history.

Fantex, based in San Francisco, has issued six "tracking stocks" that each aim to deliver a return based on the earnings of a single NFL player. While those securities aren't traded on a major exchange, the company is now planning an offering to be underwritten by UBS Securities that will be listed on the New York Stock Exchange and be linked to the earnings of 10 players.

The securities, which the company identifies as highly speculative in its prospectuses, are technically common shares of Fantex and don't give buyers any direct claim on the athletes involved.

Fantex's majority owners are co-founders Buck French and David Beirne.

The company says one of the big benefits of its securities is that they will likely never be affected by broader market events. "It provides tremendous value to investors to have access to a noncorrelated asset class," said Mr. French, who is also CEO. Fantex uses a host of data in calculating each athlete's earnings potential, including playing statistics, which he says is a draw for investors since they can use the same data to derive their own estimates.

Mr. McKevitt said no clients have asked him about Fantex. But if anyone did, he said, he would tell that person to think of it as an entertainment—"almost as if they are going to Vegas"—not as an investment.

He said buying a security tied to one athlete, who in any game can suffer a career-ending injury, is far riskier than investing in just one company.

The first Fantex tracking stocks were sold to investors in 2014 and the company raised about $26 million from six offerings, the majority of which went toward upfront payments to the athletes who received the money in exchange for signing away a portion of their future earnings. The company has yet to turn a profit—it had a loss of about $2 million for the nine months ended Sept. 30—and cites the substantial upfront costs as contributing to its high risk.

Some individuals have bought a single $10 share in one tracking stock, Mr. French said, while in more than one offering an investor has bought the 10% maximum allowed, or more than $100,000 based on the smallest offering.

More than 90% of the money has come from accredited investors—which the SEC defines as someone who made $200,000 or more in each of the two prior years or has a net worth over $1 million—rather than less affluent individuals the company dubs "fanvestors."

The six players covered by the initial tracking stocks are Vernon Davis, who plays for Super Bowl contender Denver Broncos, EJ Manuel, Mohamed Sanu, Alshon Jeffery, Michael Brockers and Jack Mewhort. So far, only the offerings related to Mr. Davis and Mr. Sanu have paid dividends. The shares are only changing hands through Fantex's own brokerage and should be considered illiquid, Mr. French said.

The company expects the exchange-listed product to debut by mid-February. Its return will be linked to the earnings of the six NFL players included in the initial offerings and four other athletes who have entered into brand contracts with the company but don't have individual tracking stocks, including Los Angeles Angels pitcher Andrew Heaney, representing Fantex's first offering outside of the NFL.

Hart Lambur, a 32-year-old based in New York, said he isn't a big sports fan but the idea of securitizing professional athletes' brands appealed to him. He has spent a few thousand dollars on tracking stocks for Messrs. Davis, Manuel and Sanu. He said he has a buy-and-hold approach to the securities.

"They're priced at a discount because it's a new asset class and I think it's a good long-term investment," Mr. Lambur said.

But Peter Lazaroff, a wealth manager and director of investment research at St. Louis-based investment adviser Plancorp, urged caution, noting that the benefits to players seem clearer than those to investors. He said that if he were approached by a client considering investing in the Fantex offerings, he would try to talk them out of it.

"If someone really felt passionate" and could afford it, "then this might be better suited for a personal play portfolio" than a retirement portfolio, Mr. Lazaroff said.

He said the inherent premise of the securities makes them particularly unattractive, given the poor financial management and long-term earning prospects of many NFL players, which make up most of Fantex's offerings.

"I would rather go buy the future earnings streams of a series of accountants," he said.

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