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Managing a windfall: one signed a multimillion-dollar contract; another bought a lucky lottery ticket; a third sold property rights. We'll look at what they did with their sudden gains and what you should do with yours

Black Enterprise, Nov, 2006 by Lynnette Khalfani

It's the get-rich-quick dream shared by millions of people nationwide: to strike it big by winning the lottery. For Chicago resident Sterling Plumpp, that dream came true five years ago.

Plumpp won a cool \$1 million from a \$10 instant lottery pick in August 2001. After Uncle Sam grabbed his share--some \$400,000 in taxes--he netted a hefty lump sum of \$600,000. "You can't believe the phenomenal rush you get when you win the lottery," says Plumpp, who had been teaching at a university for nearly 30 years and already qualified for a pension.

Despite his winnings, Plumpp still works. He didn't go into a mad shopping frenzy. And he managed to keep his most prized family relationships intact. In the five years since hitting the jackpot, he has continued to live a modest life. That's not to say Plumpp hasn't enjoyed his money; he has--just with moderation.

"I bought a new wardrobe. I needed expensive dental work, so I took care of that. And I did buy a new car, a 2001 Mazda 626, because I previously owned a 1976 Cadillac Sedan Deville. It was coming apart," he says with a chuckle.

Plumpp's experience as a lottery winner is atypical--very, very few lottery players win big. But he's far from being alone in having to manage sudden wealth. Americans are increasingly dealing with financial windfalls of all types. More commonly, they are widows or beneficiaries who inherit money or receive life insurance proceeds, recipients of divorce or lawsuit settlements, retirees who get a lump sum payout from their jobs, or entrepreneurs who sell their businesses.

Although most people think they would love to come into an enormous pile of cash, experts say that amassing sudden wealth is fraught with financial and emotional pitfalls.

"One of the most common misconceptions about sudden wealth is that it categorically eliminates stress," says Harold Hadnott, an associate with Merrill Lynch's Private Banking and Investment Group in San Francisco. In reality, "a financial windfall--whether a substantial unexpected inheritance, insurance settlement, or a stock option cash out--can cause great anxiety for those who lack effective planning techniques," he says.

One reason for this anxiety is that recipients of instant fortunes must now deal with a host of new and complex issues, such as asset management, tax strategies, estate planning, and philanthropy.

Plumpp made his winnings easier to deal with by getting financial help. "I went to a lawyer first thing after I won, set up a trust and a living will and a way of investing the money," says Plumpp, who now meets with his lawyer four times a year.

Although Plumpp says he didn't know much about Wall Street, the lawyer he selected is a proficient stock picker and works as Plumpp's financial adviser as well. "In the five years since I've invested in the market, my portfolio is up more than \$100,000," he says, adding, "I still have about 80% of the money I won, and I think I'll have it when I die."

Plumpp gradually invested about \$260,000 of his lottery winnings, over nearly three years, and has since parlayed that investment into a \$400,000 nest egg. A key part of his strategy has been diversification--he's purchased 22 different stocks, including off exploration stocks and shares in well-known companies such as McDonald's, Pfizer, Harrah's Casino, Boeing, and Walgreens. Plumpp says 17 of his stocks have increased in value.

So far, the most gratifying thing he's done with his money, Plumpp says, is to help his adult daughter, Harriet Nzinga Plumpp. "When she got married, I was able to pay \$30,000 for the wedding," he says. "And later on, when she needed \$20,000 toward the down payment on her house, I was able to help with that, too."

These days, Plumpp stays busy by teaching courses part time in African American literature and creative writing at Chicago State University. But Plumpp's ideas have changed about big financial wins of any kind. "When you win a lottery, your first reaction is that it's a blessing from God," he says. "But now my philosophy is that the real wealth in life comes from your health, your children, and your work."

NBA star Bobby Simmons also knows what it's like to manage a huge windfall. Last July, Simmons landed a \$47 million, five-year contract with the Milwaukee Bucks--a deal closer to \$50 million when various contract options are included.

Growing up in the rough-and-tumble South Side of Chicago, Simmons always wanted to be a basketball star. Seeing that dream come to fruition--and the financial, personal, and professional implications that come along with it--have been a real eye-opener for the 26-year-old athlete.

Before signing the fat contract, Simmons took the hard road to the NBA. The Seattle Supersonics, Washington Wizards, and Los Angeles Clippers all passed up the young forward. Simmons was even sent to the Development League, a sort of minor league for the NBA. Simmons described his experience there as "humbling."

Reggie Brown, a sports management agent with Priority Sports & Entertainment, mentored Simmons. "Athletes like Bobby work intensely to be the best because they understand that an average NBA career lasts just six or seven years. A great career lasts maybe 12 years," says Brown. "So these guys know they have to take advantage of that narrow window of opportunity."

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