

Stepping Outside the Real Estate “Box” with Self Directed IRAs

Investors tired of watching their IRAs and 401(k)s ride the Wall St. rollercoaster are searching for other ways to create wealth in their retirement accounts. If you turn to most business or financial publications or websites you will find many articles about investing in real estate with a Self-Directed IRA (SDIRA). The majority of articles written about investing with a self-directed IRA pertain to real estate as a popular choice for an alternative investment, and why wouldn't it be.

Real estate offers several advantages. For one, most people understand real estate. Many investors own a home and understand how real estate performs; they understand that real estate typically appreciates in value¹. With real estate it is unlikely, not impossible, that the value of a given property will decline to zero and the investor will lose their entire principal. Compare this to stock investments. It is very possible to lose your entire investment in an individual stock if you are not in charge of the company, or if the company's assets are highly leveraged

Real estate investors like the fact that there is a physical asset they can see and touch, and in some cases exercise some control over. This can help curb any uneasy feelings when the market is volatile.

But what if an investor is not interested in investing their self-directed IRA in real estate? Or maybe an investor already holds a portion of their portfolio in real estate and understands they need to further diversify their holdings. After all isn't diversification one of the founding strategies for risk management of a successful portfolio?

True Diversification

Self Directed IRAs allow investors to truly diversify their portfolios and to invest in an almost endless range of investments, with a few exceptions per the Internal Revenue Code(IRC). Self-Directed IRAs allow people to invest in their core competency. If they understand stocks, then they can invest in the securities market. If they understand real estate, then they can use that knowledge to invest in real estate. If they understand farm animals, show horses, domain names, the restaurant business, construction, and so on then they can take that knowledge and passion to invest in those assets.

The bottom line is – Self-directed IRAs allow people to pursue the investments that they know and understand. As long as the rules and regulations are adhered to their imagination and passion become the only limitations.

What is your passion? What are you knowledgeable about? What do you think will grow your retirement account wealth? These are the questions one has to ask themselves. These are the questions that many investors have already answered and have been enjoying rewarding returns within their self directed IRAs.

¹ Aggregated historical data from NAR, Dow Jones and NASDAQ

Turning Passion into Profit

Investor Joe, a businessman with a background in business development and business analytics, has always had a passion for horses. Joe also understands the potential that dressage horses offer for a healthy return on investment. His experience arms him with the knowledge that there is a difference in value between what a horse is worth in Europe and what it would be worth in the United States.

Joe's Business Plan states: A well trained horse in Europe may sell for \$40,000, but that same horse may bring forth a value of \$80,000 in the United States. The difference in value is the profit margin for this asset.

Coupling his knowledge and passion with his savvy business sense, Joe was able to put together the right people with the right synergies to incorporate his passion into an investment for his self directed IRA. He already had a working relationship with a horse stable and he had in-depth knowledge on buying, training and selling horses. Joe also has a close working relationship with trainer, vet and a transportation company. Joe coordinated a new venture to import, train and sell dressage horses using his self directed IRA as the investment vehicle for this new venture.

Don't have a passion or understanding for dressage horses? Maybe you have an understanding of the process of excavating and how to make money from raw land and dirt.

Investor Ike makes his living in excavation. Ike knows that when excavating land there are many aspects that can bring income other than just getting paid to clear the land. The trees that are cleared can be cut and sold as lumber or firewood, the dirt that is removed can be sold as fill and once the land is cleared it can be divided up and sold to developers.

Ike, armed with this knowledge and a self-directed IRA, uses the self-directed IRA to purchase 50 acres of wooded land in a highly sought after area for residential development. Per the IRC rules and regulations, Ike will not personally perform any of the excavation work on the land that is owned by his self-directed IRA, but he will contract the work for the clearing of the trees and removing of the dirt. He will also decide where to sell the wood and fill. The profits from the sale will flow back into the self directed IRA and will continue to grow tax deferred or tax free. The same goes for the profits from the sale of the land that will be sub-divided once cleared.

Diversification for Everyone

Even if do not have a passion, hobby or specialized knowledge that you think can be profitable, that doesn't mean a self directed IRA won't work for you. If you are creative, it is possible to come up with some interesting strategies that could turn a profit.

For example, Investor Dan, an experienced businessman, lives in New York City and read an article about the sale of covered bus stop stations to minimize the maintenance costs from the transportation agencies hands. As Dan was reading this article it struck him that this could be a good investment, not because they would appreciate and he could "flip" the stations as in real estate, but because of the cash flow opportunities. Each of the covered bus stop stations in the city provides an opportunity to

sell advertising space on them. This would provide a monthly cash flow back into the self-directed IRA and also create a viable cash flow report when the time comes to sell any of the stations. The profit from the sale would also flow back into the self-directed IRA and continue to grow tax-deferred.

No matter what your passion or knowledgebase happens to be, there is bound to be something that you can invest in to generate wealth for your retirement. Structured properly, alternative investments can benefit an investor's self-directed IRA just as easily as a stock or bond.

A word of caution though, alternative investing through self-directed IRAs typically requires additional knowledge of the rules, regulations and guidelines set forth by the IRC. It is not the same as sitting at your computer and purchasing common stock, wherein all the rules, regulations and guidelines are more straightforward (generally due to the streamlining done by the public stock registration process). The best chance of succeeding in the world of alternative investing is to work with professionals that are knowledgeable, specialize in the industry and take the extra steps in making sure that the investment through the self-directed IRA is in compliance with the guidelines, laws, rules and regulations.

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