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Cape man using 401(k) to invest in real estate

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CAPE CORAL, Fla. - People wary of Wall Street are finding ways to put their 401(k)s to good use - now. One Cape Coral man says investing his funds in real estate is already paying off.

Mike Aranda has a story like many others. "When the market crashed, we lost a significant amount of money, and decided to liquidate account from there, try to do trading on own, and that didn't work out very well," Aranda said.

He tried bonds and mutual funds, but lost even more money. So he decided to invest

in something he could see: local homes. And it worked. "We made about 20% on our investment, including rental income and the equity that was in the property when we sold it," Aranda said.

Now, Aranda and his company, Seasons, Inc., find local foreclosed homes for people interested in making alternate investments.

"With the credit rating of the United States being downgraded, people are looking at real estate as way to really protect selves and hold hard assets," IRA Financial Group Tax Attorney Adam Bergman said.

Whether buying and selling, or buying and renting out, Bergman said millions of people are putting their 401(k)s to work. The biggest benefit, he said, is all of your gains and income are tax-free. "It's really the tax-deferral," Bergman said. "The power of deferring tax as long as you can, so that your money can grow and compound tax-free."

But, there are some rules. You can't buy a home for yourself or your family. You can't do repairs yourself, either.

There are also big risks. One mistake, and your IRA could be subject to tax or penalty. Still, Aranda said it was all worth it. "What made me feel better about the risks," Aranda said, "rental income was going to come in, it was just a matter of how much."

Aranda suggests investing in properties that don't need a lot of work, and are possibly even rent-ready. Bergman said, anyone can do this. The key is finding a tax expert who's well-versed in the rules, and taking time to educate yourself on the process.

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