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Self-directed IRA adds investment options

Your Money **RUSS WILES**

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There's a big investment world out there, and it's even bigger if you use a self-directed IRA.

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Individual retirement accounts have been around for roughly four decades, and Americans have \$4.9 trillion in the tax-sheltered vehicles, according to the [Investment Company Institute](#). But one version, the self-directed IRA, isn't so widely known or utilized. These vehicles account for only 2 percent of IRA assets.

With a self-directed IRA, you can hold a broader selection of investments than with mainstream IRAs, which are focused around stocks, bonds, mutual funds, bank deposits and the like. You may venture into real estate, precious metals and even more esoteric stuff, such as tax liens and promissory notes.

Jeff Brown, 46, of [Queen Creek](#), who works in sales at Insight Enterprises, likes the ability to invest in real estate through an IRA, so he transferred roughly \$50,000 from his workplace 401(k) account to purchase homes to fix up and sell, partnering with a few other investors. He uses a self-directed IRA that he set up through IRA Financial Group in Miami Beach, Fla.

Brown, who also is the vice mayor of Queen Creek, said his investment group has bought, refurbished and sold four homes since October. "I wanted to be in control of my own investments," he said. "I thought that with real estate, I could better control my returns."

Adam Bergman, a partner at IRA Financial Group, estimates that at least 80 percent of the self-directed clients his firm serves focus on real estate "because that's what they're comfortable with." Many investors like the self-directed concept as a way to diversify some retirement assets away from securities, he added.

Investor enthusiasm for self-directed IRAs has risen with heightened financial-market unease, agreed J.P. Dahdah, CEO of Vantage Retirement Plans, a Phoenix firm that sets up accounts and keeps records for investors.

"It has come to the surface as stock-market volatility has increased," he said.

Still, regulators caution investors to tread carefully with self-directed IRAs. The Securities and Exchange Commission and North American Securities Administrators Association issued an alert last year warning of risks tied to the accounts. NASAA said it noted an increase in complaints, and the SEC has brought several cases against promoters.

The alert wasn't a direct attack on self-directed IRAs, which are legal, but cautioned about some of the investments placed in them.

"Investors should understand that the custodians and trustees of self-directed IRAs may have limited duties... (and) will generally not evaluate the quality or legitimacy of an

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investment and its promoters," the alert says.

In other words, with more personal control comes greater personal responsibility.

Fraud and the possibility of loss also can happen with stocks, mutual funds and other mainstream investments. But there's often an intermediary, such as a broker or financial planner monitoring things, and many financial companies restrict investors to holding "firm-approved stocks, bonds, mutual funds and CDs," according to the alert. With self-directed IRAs, this layer of oversight doesn't exist.

Also, regulators say, some assets commonly held in self-directed accounts -- such as real estate, promissory notes, tax-lien certificates and private placement securities -- might come with "unique risks," such as a lack of disclosure and poor liquidity. Then again, liquidity isn't necessarily an obstacle, because retirement accounts are designed for the long haul.

"Alternative investments are frowned upon for illiquidity," Dahdah said. "But IRAs are illiquid accounts anyway."

Also, real estate and other investments that people typically put in self-directed IRAs often require more homework or research on the part of investors.

Brown said he spends five to seven hours a week on his self-directed IRA. He doesn't do physical renovation -- such tasks as painting, roof repairs and carpet installation -- but spends time shopping for properties, researching prices and more.

Brown said the self-directed concept was "completely foreign" to him until he learned about it from IRA Financial Group. The firm neither provides financial advice nor touts specific investments. Rather, its team of attorneys offers guidance in setting up accounts, transferring funds and answering tax-related and other questions. The firm's account setup fees vary but average \$1,300, Bergman said.

Even more obscure than IRAs are self-directed 401(k) plans, which are geared to people with self-employment income and, typically, no employees.

Rick Pendykoski of Self Directed Retirement Plans in Goodyear said many of the people who contact him about self-directed IRAs switch to the 401(k) version when they hear about the benefits. These include no income limitations for making contributions, higher annual contribution levels (compared with IRAs) and the ability to earn matching funds and take out loans, as with workplace 401(k) plans.

"There's more out there than IRAs," Pendykoski said.

IRA Financial Group also sets up self-directed 401(k) accounts, as do other firms.

The self-directed route doesn't make sense for everyone. Many individuals lack the funds to venture into such areas as real estate -- the median IRA account balance is about \$42,500, reports the Investment Company Institute. Nor do many people have ample sophistication or time.

"It's not for everybody," Bergman said, "but it should be known to more Americans."

Reach Wiles at

russ.wiles@arizonarepublic.com or 602-444-8616.

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