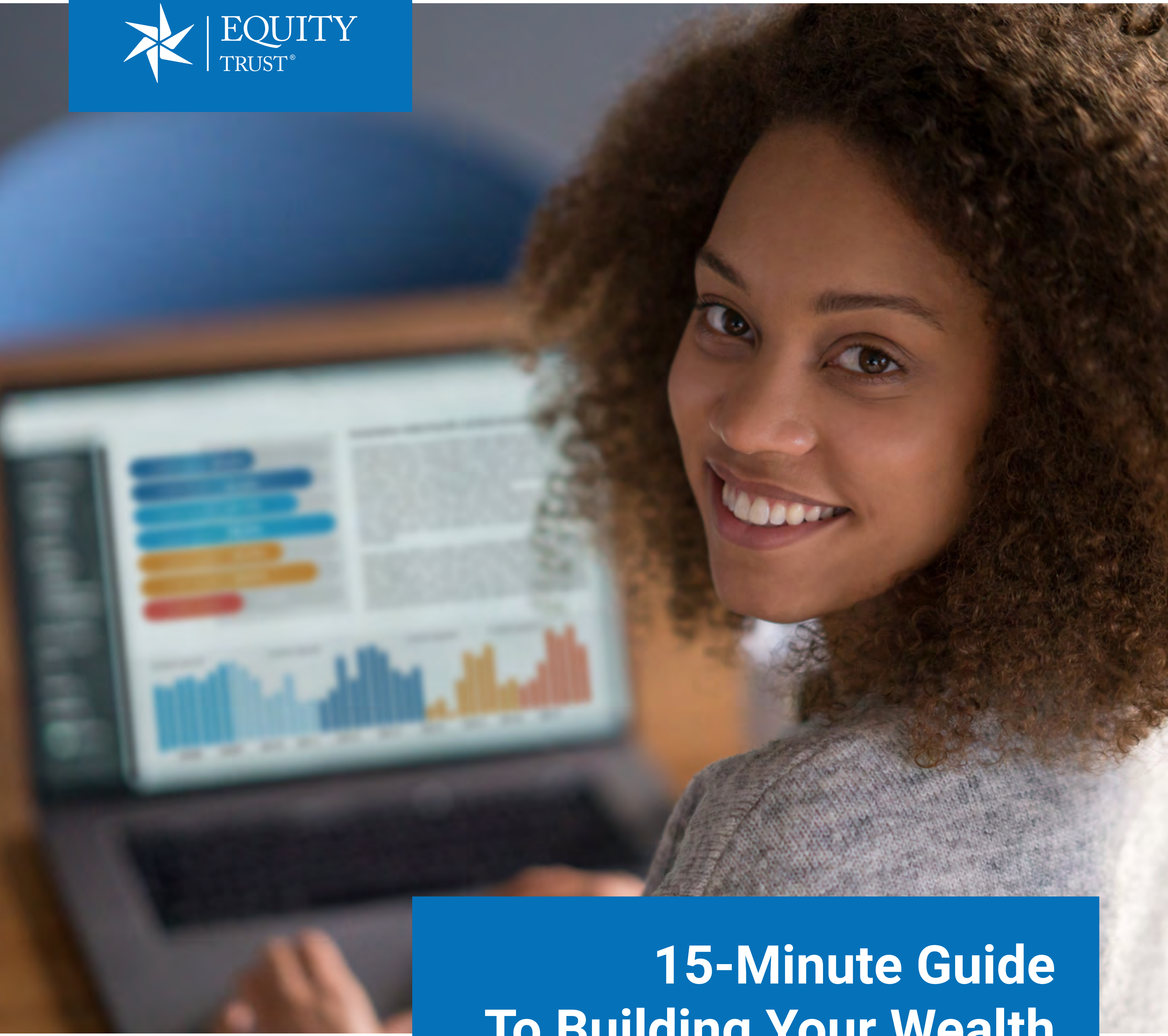

15-Minute Guide To Building Your Wealth

with Self-Directed Notes Investing

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Part I: What is Self-Directed Note Investing?

Could You Grow Your Financial Future by Investing in What You Know Best?

Many investors are surprised to learn they are not limited to stocks, bonds and mutual funds when it comes to retirement investing.

It is possible to use self-directed IRAs and other self-directed accounts to invest in a variety of assets, including private debt or promissory notes. Other examples of permissible investments include real estate, private entities (such as an LLC), cryptocurrency, and more.

Investors who open self-directed accounts often do so to diversify their portfolios with alternative investments, within a tax-advantaged environment.

Some investors have never heard of self-directed investing, although the concept is not new. Since IRAs were introduced in 1974, the IRS has only listed a handful of items that are not permitted in an IRA, listed in *IRS Publication 590.*

Why Notes in a Self-Directed IRA?

Should you consider an IRA?

The government established the IRA to help you save for your future in a tax-advantaged environment.

Three Ways an IRA Could Benefit You

Potential Tax Benefits

Certain IRAs allow you to reduce your taxable income today, while saving for your future. For example, if you contribute $2,000 to a Traditional IRA during the year, you are eligible for a tax deduction of that same amount ($2,000) when filing your tax return for that same year (provided you meet all the requirements outlined by the IRS). In addition, profits in an IRA are not subject to short-term or long-term capital gains taxes.

Compound Interest

This occurs when you not only earn interest on your original investment amount, but also on the interest earned on the original amount. The effect is multiplied when in a tax-advantaged environment such as an IRA, where your profits are tax-deferred or tax-free.

Wealth that Stays with You

While earned income is required to open an IRA, the account is not tied to your employer. If you decide to change jobs, you don't have to worry about moving an account from your former workplace to your new one with an IRA.

An IRA can also be transferred to your beneficiaries, providing your wealth to future generations. Certain IRAs allow the passing of assets to beneficiaries after death without incurring taxes.

There are different types of IRAs and government-sponsored small business retirement plans that each possess unique tax advantages to help maximize your future wealth.

Your Investment Options

Investing in What You Know Best

A self-directed IRA broadens your investing possibilities. Here are just some of the many investment possibilities available to you with a self-directed account.

Real Estate

- Residential Property
- Commercial Property
- Developed Land
- Undeveloped Land
- Foreclosures
- Mobile Homes
- Rehabs

Tax Liens/Tax Deeds

Promissory Notes/Private Debt

- Mortgages/Deeds of Trust
- Secured Notes
- Unsecured Notes
- Car Paper
- Commercial Paper

Entities

- Private Placements
- Limited Liability Companies (LLC)
- Limited Partnerships

Traditional Assets

- Stocks
- Bonds
- Mutual Funds

Other

- Foreign Exchange Currency (Forex)
- Digital Currency (Cryptocurrency)
- Oil and Gas Investments
- Equipment Leasing
- Accounts Receivables

How Self-Directed IRAs Work

Wondering how the private debt investing process differs works when using an IRA? At Equity Trust, it's easy to invest. Here are the steps:

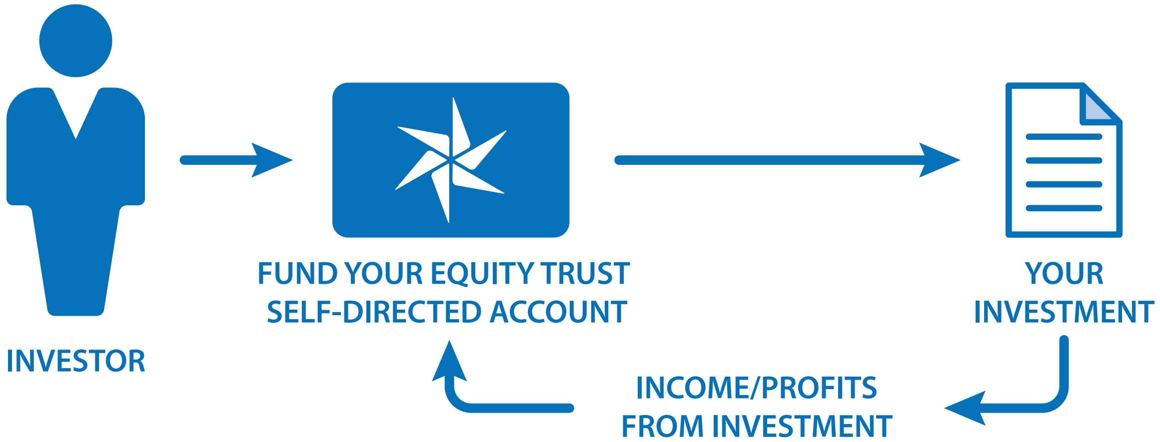
1. **Open an Equity Trust Account**
   One of our specialized counselors will walk you through the process, or you can do it online with myEQUITY.

2. **Find a Note Investment Opportunity**
   It could be an investor or business in need of a loan, or you could buy a note from another investor.

3. **Create a Note**
   Draw up the document with the terms of the note. A note servicer can help with this.

4. **Direct Equity Trust to Fund Your Investment**
   Easily initiate your investment with the Private Debt Wizard in myEQUITY.

   Our liaisons are here to help you if you need it.



Understanding Self-Directed IRA Rules

While a self-directed IRA provides the freedom to invest in a wide variety of assets, it's important to understand the IRS rules and guidelines for investing with self-directed retirement accounts before getting started.

For example, the IRS does not permit your IRA to invest in life insurance or collectibles. Some examples of collectibles include:

- Artwork
- Rugs
- Antiques
- Stamps
- Metals (with exceptions for certain kinds of bullion)
- Coins (with exceptions for certain coins)
- Gems

Prohibited transactions

Generally, a prohibited transaction is any improper use of your IRA or annuity by you, your beneficiary, or any disqualified person. For example, your IRA cannot buy, sell, lend money, furnish goods, services or facilities, or otherwise engage in a transaction with yourself or other disqualified persons.

Disqualified persons

According to *IRS Publication 590,* disqualified persons may include:

- You
- Your spouse
- Your parents (and their spouses if re-married)
- Your grandparents (and their spouses if re-married)
- Your children (and their spouses)
- Your fiduciary, which may include a stockbroker, financial planner, tax professional, tax attorney, etc.
- An entity in which you or a disqualified person are a managing member or have at least 50% direct or indirect ownership
- An entity in which you or a disqualified person are a 10-percent or more shareholder or earn 10-percent or more of the yearly wages

For more information regarding prohibited transactions, visit www.IRS.gov to read *IRS Publication 590* and reference Internal Revenue Code 4975.

Arm's-length investing and indirect benefits

IRS rules state that you and the investment must be at arm's length and you cannot directly benefit from an asset owned by the IRA.

Remember, the IRA is built to provide for your retirement and is not intended to benefit you now. It's considered an "indirect benefit" if your IRA is engaged in transactions that, in some way, can benefit you personally. This is strictly prohibited. Some examples include:

- **Personally Using an IRA Property:** Using real estate purchased through your IRA as a personal residence, vacation home, retirement home, or office space is not allowed.
- **Receiving Personal Benefits from Your IRA:** You cannot lend yourself or any other disqualified person money from your IRA. Additionally, you cannot pay yourself, a company that you own, or any other disqualified person to do work on an investment owned by your IRA.

Managing Revenue and Expenses

Since your retirement account is a separate entity, it's important to remember that your account is what holds the investment, not you personally. This is what provides the potential tax advantages, since the investment is held within your tax-advantaged account.

Therefore, all expenses related to an investment are paid from the IRA and all profits are returned to the IRA. For example, if your IRA owns real estate, all payments (revenue) should be returned directly to the IRA; all maintenance and taxes (expenses), should be paid directly from the IRA.

Investing in Private Debt (Promissory Notes) with an Equity Trust Self-Directed Account

How should my private debt investment be titled?

When your account is the only owner, the investment should be titled:

- *Equity Trust Company Custodian FBO [Account Owner's Name] [Account Type (IRA, HSA, CESA, etc.)].*

The complete Investment Titling Guide can be found in myEQUITY under Resources>Education>Private Debt.

What supporting documents may be needed to complete my investment?

Private debt investments require a copy of the note to be submitted with the Direction of Investment. In addition, you may be required to submit documents including:

- Assignment of Note and Assignment of Collateral (if purchasing an existing note)
- Collateral Document
- Filed Articles (if loaning funds to a company)

What is required to be included in the terms of the note?

Note terms and conditions will vary based on the agreements within the note. All notes must include:

- Face value
- Interest rate or flat fee amount
- Maturity date
- Repayment terms, which may include:
  - Periodic payment amounts
  - Balloon payment amount
  - Payment dates

How do I manage payments received from the borrower after my purchase is complete?

Your borrowers may send payments directly to Equity Trust to be deposited into your account via direct debits from their checking or savings account. Online payments may be set up as one-time or recurring. Visit www.TrustETC.com/make-a-payment to learn more.

You can also send the check or wire made payable to your account with a Deposit Coupon.

If your account has partial ownership of an asset, you should only submit payments based on your percentage of ownership of the asset.

Case Study: Self-Directed Note Investment Earns $74,000 in 14 Months

Equity Trust Educational Speaker John Bowens sat down with Mark from North Carolina to discuss how he successfully completed a note investment resulting in nearly 60-percent profit in 14 months.

John: You can invest your self-directed IRA in loans secured by real estate, or potentially unsecured loans.

It's up to Mark or up to the account holder to do their own due diligence. Mark, can you take us through the transaction?

Mark: The Realtor that got me involved with this was a friend of mine. He knew I wanted to get involved with real estate also, and he asked me, what do you want to do?

Do you want to actually buy some rehab properties? Do you want to just rent? Or do you want to invest in notes or how do you want to do it? And I said, I'm not sure.

About two months later, he came to me with this opportunity.

They needed somebody else to invest $100,000 and then invest another $25,000 in the holding, the interest payments, if you will, for the loan from the bank.

He got me involved with this and initially it was going to be a rehab of an existing house that was there. The property is located about two miles south of downtown Charlotte in a very desirable area. They are rehabbing houses in this area often.

Now the builder that was one of the partners, said, "The margins are kind of tight. I'm not sure whether it makes sense to rehab this."

The Realtor knew what the codes were in Charlotte and was able to actually turn this into two properties, rather than one property, because it was on a corner and have each property face each street so you could actually have two homes on one existing lot itself.

So ultimately, that's what we did. It was a tear-down and we put two $700,000 homes on this one lot versus one $700,000 property.

They used me for $100,000 in the carrying costs for the loan that they were taking out. And that was $25,000. Again, I was one of four partners.

Ultimately, what we ended up with was $74,000 apiece, or in this particular case, just under $300,000 split between four. It was a great, great find.

John: Did you get a promissory note? Was that the actual financial instrument if you will, that your IRA received?

Mark: We had to do an unsecured note because they actually took out a loan and the loan wasn't in my name. It could not be titled or anything in my name. And that's why we did it that way.

Real Estate Note

Project: Tear down house, replace with two houses

Loan amount: $125,000

Redemption after 14 months: $199,000

We contacted my attorney and Equity Trust to work through how we could set this up to where it worked for all parties. And ultimately, that's why we had to do an unsecured note.

John: There are secured notes and unsecured notes.

In this case, Mark got his financial team members in place and made a loan to the builder's LLC. He was partnering with a few other individuals as well. And then ultimately upon the sale, the monies were returned and split according to the agreements.

His IRA made a $74,000 interest profit into the retirement plan. At closing, that money went back into the IRA.

What are your plans going forward? What types of transactions are you looking at?

Mark: Well, after we closed on the property we all went out to celebrate and have dinner.

Shortly after that, two of the three other folks involved asked me to invest in two additional properties with them, and I agreed.

Now this time, it's not an unsecured note, it is secured through real estate. There are two separate transactions. Both closed in the month of January. One of them for $135,000, and the other one for $150,000.

There's a total of four homes being built from the ground up. They bought lots and now they're building on those lots. They're small luxury homes.

John: Did you charge a per annum interest rate, a flat interest rate, or how do you carve up those loan agreements?

Mark: Both. The $150,000 one was done on a pure, guaranteed interest, guaranteeing 20 percent. So on $150,000, I'll make $30,000 on that investment.

When they came to me, it was back when the stock market tanked and my wife said, "You're buying more real estate?" I said, "Well, yes!"

I don't believe we can do that right now in the stock market. So the first one is a 20 percent. The other one was sharing part of the profit, no less than 15 percent.

But it could actually be more than 20 percent. And on that one, the one for $135,000, I actually anticipate that and would prefer to share in the profit instead of getting a flat fee for my investment. It gives the builders more of an incentive to do a good job.

John: Equity Trust takes our directed nature as a custodian very seriously, we want our clients to be reaching out to members of their financial team.

I really admire Mark reaching out to the necessary professionals, and then coordinating with Equity Trust Company in terms of what is needed for processing.

And as always, prior performance is not predictive of future results.

But again, Mark, incredible story in the returns on investment that you've been able to achieve. And most importantly, as we talked about here, doing it in a tax-advantaged environment.

I was just running some compounding interest calculations for my team: over 15 years starting with $150,000, and making a consistent 18-percent return on investment year-over-year, compounded just once per year, and in a tax-exempt environment, one would have well over $1.5 million.

When you start to look at those returns, it's quite incredible.

Anything else to add, Mark?

Mark: I just wish that I would have known about this 10 years earlier. But I'm glad I do it today.

Equity Trust Simplifies the Note Investing Process

Equity Trust helps you invest your IRA in private debt quickly and easily.

- Initiate and manage your investment all from your tablet, smartphone, or computer, on myEQUITY.
- The myEQUITY Private Debt Wizard walks you through the process step-by-step, eliminating confusion and allowing you to invest on your schedule.
- The myEQUITY Online Bill Pay allows you to quickly pay third parties, issue funds for investment expenses, and schedule and modify recurring payments.
- Your borrows can easily submit payment online, which are then deposited directly into your account.

Self-Directed Accounts Overview

Choosing the Right Self-Directed Retirement Account

It is best to consult with your tax attorney, CPA, or other financial professional to determine which account is best for you. Here are some factors to consider when making your decision.

Traditional and Roth IRAs

Two common accounts for individuals are the Traditional and Roth IRA. Here's a comparison to help you determine if one of these plans is right for you.

	Traditional	Roth
Tax Advantages	Account balances compound tax-deferred until funds are withdrawn.	Account balances compound tax-deferred. BUT funds that are withdrawn are tax-free if account is five years old and account owner is over 59½.
Eligibility	Individuals must have earned income*.	Individuals must have earned income* and modified adjusted gross income less than current limits (see www.irs.gov for details)
Tax Deductions on Contributions	Yes	No
Penalties for Early Withdrawal	10-percent penalty for withdrawals before age 59½.	10-percent penalty for withdrawals before 59½ and a five-year seasoning period. (Note: Roth contributions can be taken out at any time without penalty.)
Exceptions for 10-percent Penalty	Yes	Yes
Cut-off Age for Contributions	No limit	No limit
Required Distributions	Yes. You must take your first required minimum distribution by April 1 of the year after you turn 72 (70½ if you reach 70½ before January 1, 2020).	None

*Earned income is defined as the salary or wages you receive as an employee. If you're self-employed, earned income is your net income for personal services performed. Passive income such as interest, dividends, and most rental income are not considered compensation for the purpose of funding an IRA. Consult a financial professional to determine your earned income.

Small Business Plans

If you own a business, you may be eligible for government-sponsored small business retirement plans such as the SIMPLE, SEP, Solo 401(k), and Roth Solo 401(k).

You should consult with a qualified financial professional before making a decision, but one of the reasons to consider small business plans is that they have higher contribution limits and, if you qualify, potentially larger tax deductions than other retirement accounts.

In addition, it may be possible to have both a self-directed IRA and a self-directed small business plan. You could benefit from the advantages each account offers.

Small Business Retirement Plans at Equity Trust

- SIMPLE (Savings Incentive Match Plan for Employees)
  - Designed for small businesses with 100 or fewer employees who have earned income of $5,000 or more during the previous calendar year and currently have no other retirement plan.
  - An employer contributes a percent-based salary (1-3 percent) match to its employees' SIMPLE IRAs, while the employees make elective salary deferrals.
- SEP (Simplified Employee Pension)
  - Allows for contribution amounts of up to 25 percent of your salary.
  - Enables you to make contributions toward your own retirement without getting involved in a more complex plan. Any type of business or employer (you, if you're self-employed or a sole proprietor) is eligible.
  - Typically designed for business owners who employ 25 or fewer.
- Solo 401(k)
  - Designed for owner-only businesses and spouses.
  - Can be established by both incorporated and unincorporated businesses, sole proprietorships, partnerships and corporations. You can contribute annually through salary deferral, plus a profit-sharing portion of 0-25 percent of your salary.
- Roth Solo 401(k)
  - Has the same contribution limits as the Solo 401(k) but you can designate the salary deferral contributions you make as Roth contributions.
  - The portion you contribute as Roth does not qualify for a tax deduction but the profits from these contributions grow tax free.
  - All qualified distributions are tax-free.
  - Profit-sharing portion (0 to 25 percent of your salary) of the Roth Solo 401(k) is just like the standard Solo 401(k) and is tax-deferred.

Visit our website for contribution limits and eligibility requirements for each of the account types. You can also speak with an IRA Counselor at **855-673-4721.**

Take Control of Healthcare and Education Costs with Tax-Advantaged Savings

Health Savings Account (HSA)

- Contributions are tax-deductible (subject to limitations)
- Withdrawals tax-free when used for qualifying medical expenses
- You must be covered by a High Deductible Health Plan (HDHP) to be eligible
- Unlike other medical savings accounts, the funds can be carried over from year to year
- When self-directed, you can use your contributions to invest in alternatives such as real estate

Coverdell Education Savings Account (CESA)

- Created for the purpose of paying qualified education expenses for the designated beneficiary of the account
- Can be opened for a beneficiary that is under the age of 18 or someone with special needs
- Earned income is not required to open the account

How to Open and Fund an Equity Trust Account

Whether you're opening a new account or transferring an existing account, it's easy to get started at Equity Trust.

To open a new account, visit www.trustetc.com/open-account and follow the prompts to establish the account.

Rollovers/Transfers from Existing Retirement Accounts

It may be possible to use an existing IRA, 401(k), 403(b), Thrift Savings Plan, or other retirement plan you have from a previous employer/other financial institution to fund a self-directed account at Equity Trust.

Here's how it works:

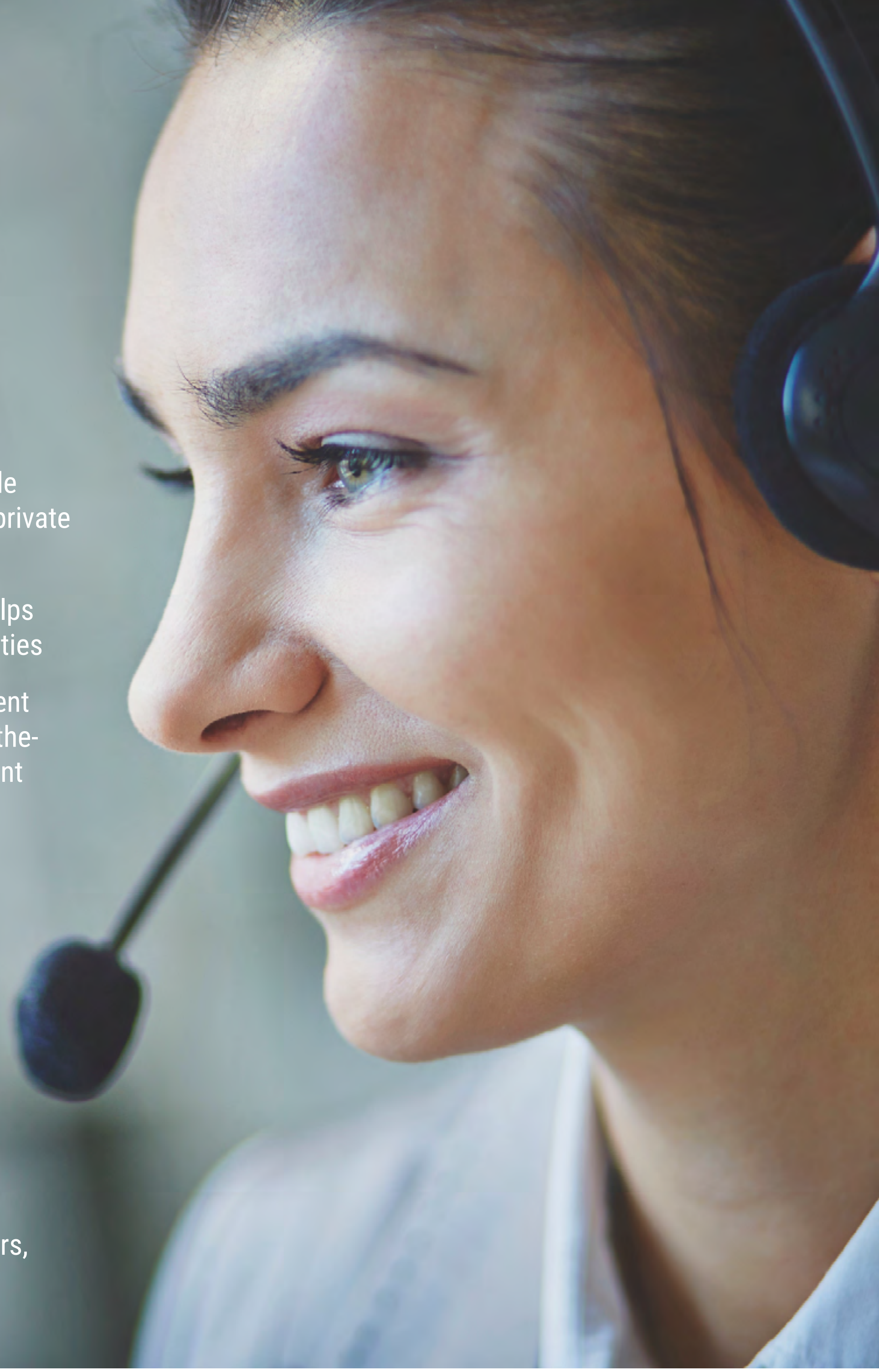
1. **Open Your IRA** (www.trustetc.com/open-account)
   - Begin your application online or call an IRA Counselor at **855-673-4721**
   - Indicate the method of funding on your application
2. **Complete Rollover/Transfer Forms**
   - If transferring from an account at another financial institution, complete Equity Trust's Account Transfer form or the Transfer Wizard through the online account management system myEQUITY.
   - To complete a rollover, contact your current custodian to determine their rollover requirements and complete their paperwork.
3. **Include Other Documentation if Transferring**
   - Current account statement (dated within three months)
   - Contact your current provider to verify if additional documentation is required
4. **All Forms Signed and Delivered to Transferring Custodian or Previous Employer**
   - Rollovers and transfers may take between two and four weeks. After you initiate the request, Equity Trust must receive the needed documentation and funds from your current provider before your new account is active. You can track the progress of your rollover or transfer through the online tracker on myEQUITY.
5. **Funding Sent to Equity Trust and Deposited into your New Account**

Working with Equity Trust Company

The Equity Trust Advantage

You have your choice of self-directed IRA custodians. So why choose Equity Trust? The difference is clear.

- Nearly limitless investment options include stocks, bonds, mutual funds, real estate, private entities, cryptocurrency, and more
- Investment District online marketplace helps you locate potential investment opportunities
- State-of-the-art online account management system myEQUITY provides easy, around-the-clock account and investment management capabilities from any device
- More than 45 years of experience in the financial services industry
- Clients from all 50 states have entrusted us to custody over $34 billion in retirement assets (as of 8/31/2021)
- Dedicated representatives provide personal service
- Regular educational and inspirational opportunities include newsletters, webinars, videos, case studies, and more



If you're ready to get started investing in what you know best to build your future, you can begin your application at www.TrustETC.com/open-account.

For more information on self-directed IRAs and how one can be established for you, contact an Equity Trust IRA Counselor at **855-673-4721**.

Equity Trust Company is a directed custodian and does not provide tax, legal or investment advice. Any information communicated by Equity Trust Company is for educational purposes only, and should not be construed as tax, legal or investment advice. Whenever making an investment decision, please consult with your tax attorney or financial professional.

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