Real-Life Self-Directed Investments

11 Client Case Studies Reveal How Clients are Building Wealth with Self-Directed IRAs

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Beginner Earns 41 Percent Returns in 16 Months with Two Self-Directed Investments

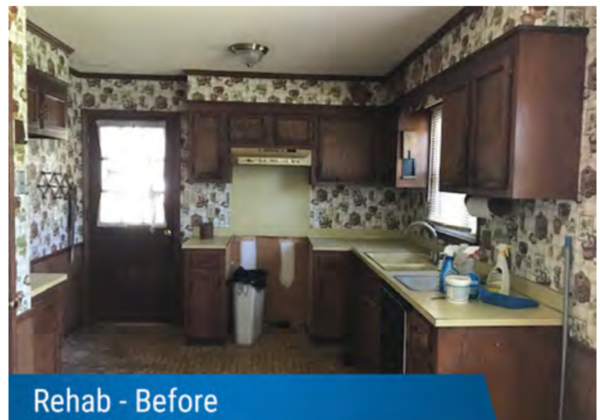
Equity Trust client Mark made $120,000 for his IRA with a real estate rehab and a note in just his first year and a half with a self-directed account.

Mark of North Carolina used to have all of his retirement savings in stocks, bonds, and mutual funds. Since then, he has completed two real estate-related investments, which are benefitted his IRA with double-digit returns. In addition, Mark, who is in his sixties, has several more real estate investments in progress in his IRA.

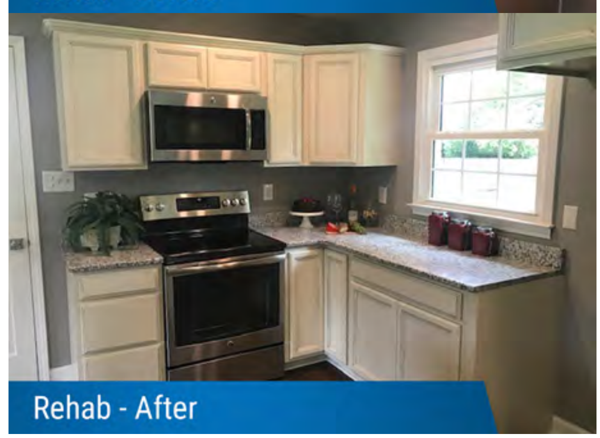
“I wish I would have known about this 10 years ago,” he says of self-directed investing.

In 2017, Mark wanted to diversify beyond the stocks and bonds that his account held. He asked the financial institution where he completed stock trades about the possibility of diversifying with a self-directed retirement account. The company told him that he’d need to find a self-directed account custodian to handle this type of investing, referring him to Equity Trust.

At Equity Trust, Mark’s investing possibilities are expanded. Equity Trust self-directed retirement accounts enable investors to invest in a variety of assets in addition to stocks, bonds, and mutual funds, including but not limited to: real estate, notes, tax liens, cryptocurrency, and precious metals. Mark, who had previously invested in condos, was interested in using his self-directed IRA to fund his real estate investments.



Rehab - Before



Rehab - After

Photos: client

First investment nets 27-percent return

Mark’s first self-directed investment was a rehab property.

The first time Mark stepped into the house, it was like entering a time capsule. The previous owners bought the property in the 1970s and had recently passed away. The wallpaper and décor appeared to be unchanged since the 1970s.

“It needed a bunch of work,” he recalls.

Mark’s Equity Trust IRA purchased the three-bedroom, 1,700-square-foot house for $89,000, based on the appraisal.

“I sat on it for four to five months,” he says. “I never did [real estate rehabs] before…I didn’t know where to start.”

Investments held in an IRA must follow IRS regulations, including prohibiting disqualified individuals (in this case, Mark) from performing work on the investment. Through his networking, Mark was referred to a contractor who was able to walk him through the process and provide the catalyst he needed. The contractor performed extensive updates to give the house a modern-day facelift, including new flooring, appliances, cabinets, HVAC system, landscaping, décor, and paint.

Mark sold the property for over $200,000 just 14 months after purchasing it. After rehab costs close to $64,000, (which must be paid by his IRA, per IRS rules), a profit of $45,000 went back into his IRA.

“You cannot generate that type of return in the stock market today,” he says.

Second investment: 60-percent note ROI

While the house rehab was in progress, Mark learned of another real estate project in need of funding: The project was a house tear-down and rebuild.

Three investors contributed a total of $100,000 for the purchase and were looking for a loan on the holding costs. Mark's IRA loaned $125,000 for the project with an unsecured note. The note was redeemed for just under $200,000 14 months later when the house sold. Mark's IRA gained $75,000 – a 60-percent return.

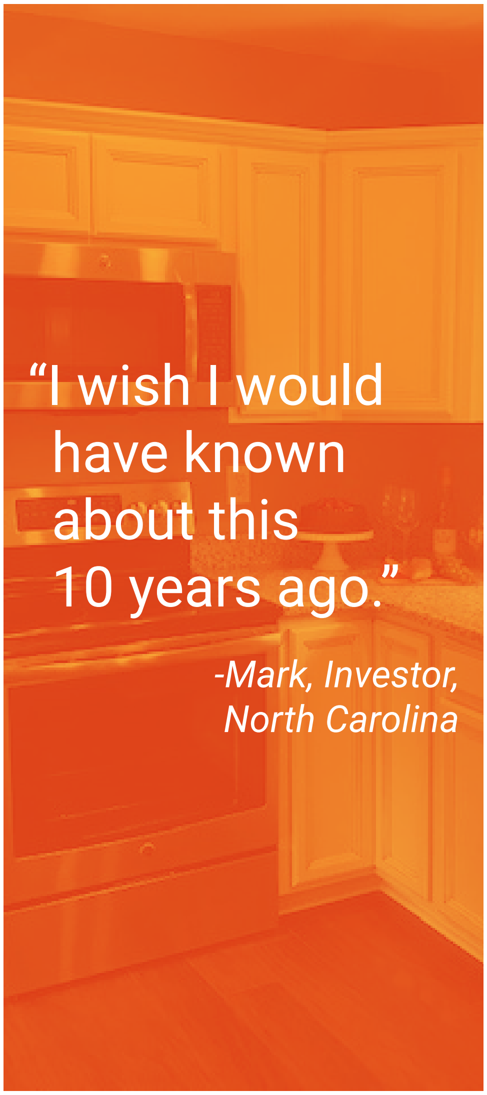
How Mark gained momentum

The two investments were just the beginning of what has been a prolific, profitable period for Mark and his self-directed IRA, but he admits there was a bit of a learning curve.

An investment involving an IRA requires different paperwork than an investment outside an IRA, so the process can differ from what the investor is used to.

"We had conference calls with Equity Trust, my attorney, and me until we were comfortable with how to title the investment," Mark says, adding it wasn't a major hang-up. "It's just the cost of doing business," he says. "Once we set that up, we knew."

Equity Trust helped Mark through the process, he adds. "[Equity Trust] has always been a pleasure to work with and you're accessible, which is important. It might not always be the processor, but if I call someone will answer my question."



Self-directed investing: it takes a team

After not knowing how to begin his first rehab, Mark now has a go-to contractor and a system for getting jobs done.

"I hired a contractor who knew what I wanted," Mark says, adding, "I go out there weekly to check on it and see where we're at and what is coming next."

By doing this, Mark is able to request the money from his IRA to purchase supplies for the contractor's next task. As an Equity Trust client, he is able request funds from his account or pay bills related to the investment from any internet-connected device with the account management system myEQUITY, saving time and effort.

Once Mark got through the learning process with those first two investments, he wanted to be comfortable before moving forward with partnering on other investments with some of the same investors. "Once those first two went well, I'm comfortable working with them and that's why I feel more confident."

Mark has initiated several more self-directed real estate investments, with even more to come. He has formed a relationship with a builder and a real estate agent and plans to continue using his IRA to fund luxury home construction in the $190,000 to $225,000 range. He anticipates a return of at least 20 percent on each property.

In addition to the learning experience of completing his first few self-directed investment transactions, Mark says he benefitted from knowledge of those he met networking. He received referrals from fellow attendees at the local Real Estate Investors Association (REIA) chapter meetings, and now he has a network of professionals to turn to – not to mention a source for prospective investments.

"There are opportunities out there, people just don't realize it," Mark says. "Go out and network and meet some people. Meeting a Realtor has really been a huge help for me."

Two Investments Earn $130,000 in Profits to Help Boost Five Self-Directed Accounts

Father of four uses his real estate investing knowledge to help grow his children's CESAs as well as his IRAs

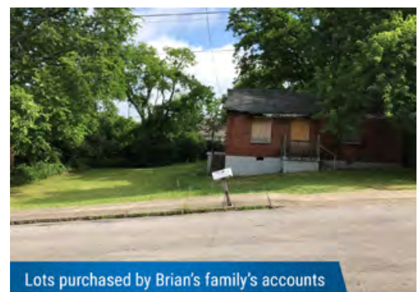
When Brian from Tennessee learned that he could self-direct his retirement account and his children's education savings accounts into alternative investments such as real estate, he was eager to begin. One concern, however, was that there wasn't enough money in his children's accounts to invest in any real estate opportunity he might find.

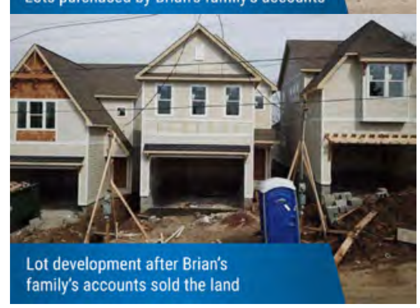
Brian learned he could include his children's accounts in his real estate investments to grow the accounts for their future education needs.

Brian has helped incorporate his entire family's accounts into investments to grow even the small-dollar accounts in a relatively short period of time.

Land investment grows CESAs

Brian opened Coverdell Education Savings Accounts (CESAs) for each of his four children. He saw the savings potential: money saved in a CESA can be withdrawn tax-free when used for qualified education expenses.


Lots purchased by Brian's family's accounts


Lot development after Brian's family's accounts sold the land

Photos: client

An active real estate investor, Brian decided to try to grow his children's accounts using self-directed CESAs.

A CESA's annual contribution limit is $2,000. Brian was concerned that it would take a while to build up enough capital in the account to be able to invest in real estate. His purchasing power increased when he learned that he could partner with other self-directed accounts to make investments.

Brian thought it would be difficult to find a suitable investment property for less than $50,000 in the city of Nashville, but before long he found a vacant lot in the city for $8,000.

He partnered three of his children's self-directed CESA accounts to purchase the lot. One child's CESA invested $4,000, and his two other children's CESAs each invested $2,000.

Brian saw potential in the lot because he spotted new housing construction nearby, as well as a mobile home park that was on the market.

"As I reviewed the potential of the area, I believed the value was going to change once they sold that mobile home park," Brian recalls. "Once the mobile home park sold, additional houses were built continuing to push values up."

The land was sold 60 days later for $60,000. The sale proceeds returned the CESA accounts in the same proportion as was used for the purchase.

Increased purchase power leads to bigger investment

After the lot sale was complete, the CESAs had a combined total of approximately $60,000. Brian began to look for a larger investment, where he could again partner the accounts together. He found two adjacent lots, one of which included a dilapidated house.

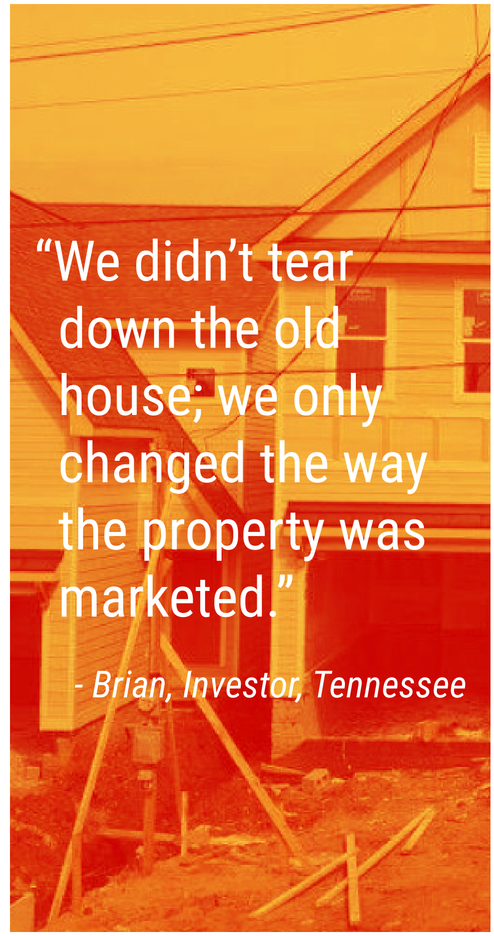
For this investment, five accounts partnered in equal proportions to produce the $120,000 purchase price: his Roth IRA, his wife's Roth IRA, and three of his children's CESAs.

"We didn't tear down the old house; we only changed the way the property was marketed," Brian recalls.

He divided the two lots into three and put it back on the market for sale. A year after purchasing the land, he sold all three lots for $200,000 to a developer who wanted to build homes on the site.

The profit went back into the accounts in the same proportion it came out of the accounts.

"I love that I was able to partner everyone's accounts and make about $80,000 in profit for our family," Brian says.



Making the transition: real estate investing inside a retirement account

Brian had been investing in real estate for a while before he was aware that he could self-direct his retirement account, CESA, or other accounts into real estate and other alternative investments.

Between his and his wife's retirement accounts and his children's CESAs, Brian's family now has a total of eight accounts at Equity Trust.

He has learned that the self-directed investing process is different than when he completes real estate investments outside of a retirement account. For example, closing documents must be titled with the account as the owner rather than personally (for example: *Equity Trust Company FBO John Doe*), and any expenses related to investments are paid from the account.

He found the self-directed investing process to be "straightforward" and that his investments were able to be completed relatively seamlessly.

"I like that Equity Trust is so responsive," he says. "I can request paperwork, a wire transfer or check, and have it completed on time and correctly."

Closer to "semi-retirement" and paid tuition

Brian and his wife continue to use their family's accounts to invest in real estate and other assets. Brian hopes his investing will help him enter a "semi-retirement" phase of life more quickly.

In addition, Brian believes continued investment in the CESAs will help pay for the children's private school and potentially college.

"I've got a good start on it," he says.

How an Investor Structured a Real Estate Purchase to Turn $100 into $21,000 for his Self-Directed IRA

Bret from Louisiana helped a family in need while boosting his retirement savings

Photos: client

Bret of Louisiana was a self-described "mutual fund person," relying solely on this asset class to save for retirement.

A few years ago, he learned he could diversify his retirement portfolio with alternative assets such as real estate. He sought out real estate investing education and decided to expand his retirement portfolio.

After opening a self-directed retirement account, he was able to find and structure an investment for only $100. It resulted in more than $21,000 in profit for his retirement account and a boost for the community.

Ready to strike: creating the conditions needed to act quickly

Through real estate investment education seminars, Bret learned how to find sellers, understand and empathize with their property-related challenges, and effectively communicate and implement solutions, while also benefitting his account.

For example, Bret located a potential seller who was facing challenges with her property. It was in a struggling neighborhood (nearby homes were being auctioned off for just thousands of dollars), it needed repaired, and was facing code violations.

Brett saw a potential opportunity to purchase the property, fix the violations and with some rehab he could either rent or resell it. But he had a problem: almost all of his IRA funds were currently invested in a different real estate project.

From his previous real estate training, Bret remembered an investing tactic involving a contract assignment, sometimes referred to as "wholesaling."

Bret contacted the homeowner and explained he did not have the funds now, but negotiated a contract to purchase the property at a certain price within a certain time period. Bret's IRA paid the homeowner $100 for the contract and the right to purchase the property in the future.

A few weeks later, Bret learned from neighbors of an individual who grew up in the neighborhood and was looking to return and who had home rehab experience. Bret contacted the former neighbor about the property. The former neighbor saw the potential in the house and agreed to buy it from Bret's IRA.

Bret's IRA executed the contract with the seller to purchase the property at the agreed price, the property was then sold to the former neighbor moving back to the community. The difference between what Bret's IRA paid for the property and what it was sold for resulted in a $21,000 gain.

Personal and community ROI

Bret's IRA investment was unique and structured based on his years of experience and education in real estate investing. He credits the flexibility of using his self-directed IRA.

Besides the positive impact on his retirement account, Bret's transaction also benefits the seller and the community.

"The entrepreneurial spirit allowed us to relieve the seller from pressure and simultaneously provided an opportunity for another party to purchase a personal residence in a neighborhood in which they grew up and still have many connections to this day."

He opened his self-directed account after learning this was possible from other investors and has been happy with the decision.

"I like the idea of being a steward of my own retirement and future."

Investor's Retirement Account Allows Him to Capitalize on Resort Area Land

Short of funds in his savings, Colin used his self-directed IRA to purchase a potential campsite as an investment.

The resort area of Bear Lake, which spans from Idaho south over the Utah border, is sometimes referred to as "the Caribbean of the Rockies" due to its crystal blue waters. It's a popular warm-weather destination for water recreation, camping and more, and attracts skiers, snowboarders, and ice fishers in the winter months.

Utah resident Colin lives a few hours from the spot and owns a vacation home in the area. He heard about an acre of land on the market and saw the investment potential – possibly as a rental property for passive income.

"From past experience, I know that there is a hot rental market for cabins or campgrounds during the warm weather in the area," Colin says, adding, "A friend of mine built a cabin and is financing its construction through seasonal rental of the property."

Seeing the investment potential, he wanted to seize the opportunity. The only problem: he was in between jobs at the time and didn't have enough capital in savings.

Photo: stock image

Colin turns to self-directed IRA for investment

Fearing he would regret not buying the property, he researched funding options. That's when he discovered he could use his retirement account to fund the investment.

A self-directed retirement account provides the flexibility to invest in a range of assets beyond stocks and bonds, including real estate. (More information can be found in IRS Publication 590.) There are other rules Colin became of aware of when investing with an IRA, such as he can't live in a property his IRA owns, not even for short period of time.

Due to the unique record-keeping required for investing with self-directed accounts, not all IRA custodians offer the option to self-direct a retirement account. Colin's search for a self-directed IRA custodian led him to Equity Trust Company. He opened an Equity Trust IRA and transferred money from another retirement plan.

Investment becomes a future campground rental

After negotiation, Colin's IRA purchased the property for $39,000. His IRA still has money left over for property taxes and to pay for modest improvements. He envisions renting the spot for camping.

"There had been a house on the land previously, but it burned down," he says, adding, "It has a septic tank that hasn't been used for a decade. There's city water connected to it. I'm hoping to hire someone to build bathroom facilities. You'd have a toilet and running water – for camping in warm weather, it should be sufficient."

For the time being, Colin rents the property to a man who pastures horses there and makes repairs as part of the rental agreement. This works out for Colin, because IRS rules prohibit him from performing any work on property that his IRA owns. Any expenses incurred must come from Colin's IRA, and the rent he receives goes back into the IRA, with no taxes on his gains.

Colin hopes to eventually rent the space to campers and possibly have a cabin built there at some point, but he wants to keep the expenses relatively low to be consistent with his initial investment.

Based on his acquaintances' experience and his knowledge of the tourism in the area, Colin doesn't anticipate having trouble finding renters.

For others considering investing in real estate with an IRA, Colin adds that a little due diligence can make the self-directed investing process less intimidating.

"I think anybody who is willing to do the work and research can put something like this together," he says. "That's the whole self-directed thing."

"I think anybody who is willing to do the work and research can put something like this together. That's the whole self-directed thing."

-Colin, Investor, Utah

It’s Not Too Late: Client Turns to Real Estate to Boost Retirement Wealth

Around the time Alan found his portfolio was reeling, he got his unlikely start as a real estate investor.

Throughout his career in education, Alan of Texas utilized the available options for retirement savings, participating in the Teacher Retirement System’s Optional Retirement Program (ORP), 403(b) tax-sheltered annuity plan (TSA), and a 457 Plan. Those plans provide options in stocks, bonds, and CDs. But after the 2008 recession and the volatility of the stock market, Alan’s portfolio took a hit, and he started seeking different investment options for his retirement savings.

Life event triggers change in retirement investing

Alan’s interest in different retirement investing options piqued around the same time he got an unlikely start as a real estate investor. He was provided a home as a condition of employment when he became president of a local college. He decided to rent his personal residence. Two years later his mother-in-law became ill and unable to live alone. Alan purchased her home to add to his rental properties – using the rental income Alan was able to pay off a loan to his mother-in-law while also providing her with a supplemental income in addition to her Social Security.

Photo: client

Both experiences of renting homes, while initially causing Alan uncertainty, ended up being positive. He discovered an aptitude for real estate investing and began to think about including real estate in his retirement portfolio.

“My long-time financial advisor had stressed the value of diversification and rebalancing of assets, and I decided to take action with my portfolio,” Alan says.

Real estate investing in an IRA generates wealth for retirement

With the knowledge and experience gained from the previous rental experiences, Alan opened a self-directed IRA to invest in real estate. His goal was to take the knowledge of investing outside an IRA and apply it to a tax-advantaged account.

“I wanted to stabilize my retirement portfolio,” Alan says. In 2010, he went to his advisor for guidance on investing in real estate in an IRA.

In addition to transferring funds he was also bringing the knowledge, experience, market insights, network, and other learnings from renting outside of his IRA to stabilize his retirement savings in a tax-advantaged account. Alan purchased his first IRA-held property shortly after opening his account.

With self-directed IRAs, Alan generates nearly $33,000 annually after expenses

After opening his Equity Trust account, Alan found a home facing bank foreclosure. The property was rehabbed and turned into a rental property.

“I was apprehensive at the start, but I am open to learning new things and felt comfortable as I went through the process,” Alan says.

Alan’s Traditional IRA purchased the property for $71,000 and updated it over time with approximately $20,000 in improvements. Recently, the property had an approximate appraised value of $123,000 and generated $1,350 per month in rental income. “The return on investment varies from 8 to 13 percent, depending on maintenance costs and increases in taxes and insurance,” Alan says.

Completing the first transaction with his Traditional IRA gave him confidence to do it again. This time his traditional IRA purchased a property at an estate sale, and again after rehabbing, turned the property into a rental. He then converted the property from his Traditional IRA to a Roth IRA, stating he “anticipated the long-term tax benefits even though it meant paying higher taxes for that year.” The property, recently valued at $79,000, was earning $1,200 a month – deposited directly into his Roth IRA.

Alan established a network of people he contracts and works with to complete rehabilitation and updates to properties. Using Equity Trust’s myEQUITY online account management system is straightforward and allows him to easily pay vendors. He also has established agreements with long-term tenants, helping him keep rental income steady and boost his portfolio.

Alan has purchased six rental properties: three in his Roth IRA and three in traditional IRAs with Equity Trust over the years. Now retired, Alan says he receives Social Security and a stable flow of rental income due to his decision to diversify is retirement account into self-directed IRAs.

“The return on investment varies from 8 to 13 percent depending on maintenance costs and increases in taxes and insurance.”

-Alan, Investor, Texas

Like Mother, Like Daughter

At just 23 years old, Brittany is well on her way to building herself a financially secure future with tax-free investments, with help from her real estate-savvy mother

It's common for parents to say they don't want their children to make the same mistakes they did. It's safe to say 23-year-old Equity Trust client Brittany is learning from that lesson. Unsatisfied with some of her past retirement saving strategies, Brittany's mother, Jan, has been helping her daughter take control of her own financial situation for years now. So far, so good: Jan predicts that if Brittany stays on pace, she will retire a multi-millionaire.

Jan has had success buying, renovating and selling high-end real estate in the suburbs of St. Louis and Los Angeles for decades, but she admitted that she made some bad choices when it came to her retirement savings strategy. She had heard about self-directed IRAs decades ago, but it wasn't until 2008 – when she lost an unsettling amount of money in the stock market – that she decided to seriously research them.

"I decided it was time to take control of my IRA…I converted everything (in my retirement account) to a Roth IRA when the account balance was at its lowest." With Roth IRAs, the account holder pays taxes when the account is opened, as opposed to the Traditional IRA, which is taxed when distributions are taken.

Jan focused her investments in the area in which she has more than 25 years of experience. "My business is real estate, so I understand it very well," she says. "My expertise is in renovating houses — finding properties, hiring contractors, making decisions and selling properties."

Family Project: Self-Directed Real Estate Investing

Illustrating that you're never too young to begin self-directing, Jan and Gary have been involving their 23-year-old daughter, Brittany, in their self-directed real estate investments for years. Here's one example of the effect her small role in an investment can have on her financial future:

The family used their Roth IRAs to buy and renovate a single-family home in St. Louis County.

IRA funding source: Gary: 65 percent, Jan: 30 percent, and Brittany: 5 percent.

Purchase price: $132,500

Sale price: $349,000

Profit after all expenses (renovation, commission, property taxes, utility and other expenses): $80,000 tax-free profit back into the IRAs

Bottom line for Brittany's account: Her contribution was $9,800 or 5 percent. A 5 percent portion of the total $80,000 profit was $4,000. Her IRA increased in value by 40 percent in five months, taking her balance from $9,800 to $13,800.

Investing is a family affair

Ever since she can remember, Brittany has enjoyed helping her mom out with the business. That interest only grew when she was 13 and Jan and Brittany's dad, Gary, gave her a check for the work she'd done for her mom.

Her first thought was, "this is a lot of money…I'm going to go shopping!" That's probably what a lot of teens would have done. But when her parents introduced her to another option, Brittany realized a new level of excitement. With the help of her parents, Brittany opened a Roth IRA and partnered the money in it with her parents' accounts to buy two houses.

"I enjoy being able to go see homes, help out with contractors and give opinions on things; it's a great learning experience…it's what I want to do when I'm older."

Brittany admits that she was apprehensive about self-directed investing at first because, as a budding entrepreneur, she was used to receiving quicker returns from her business ventures. Her other businesses have included dog walking, babysitting and teaching retirees in her grandparents' community how to use technology.

Unlike the pay from those jobs, the profits from self-directed investing aren't available to Brittany right away.

"I can't access that money for several decades," Brittany says, acknowledging that she has come to terms with the idea. "I'm absolutely interested in reaching financial security so I don't have to work as long and so I can help others." She explains that during a recent service trip to Haiti, she realized she needs to be financially successful if she is going to be able to give back in a big way.

> It's possible to partner your IRA with other IRAs - from your family or other investors. Discover this and other partnering methods in the 10 Ways to Partner on a Deal with Your IRA checklist.

Never too early ...or late

Jan says some of their investments (see box for an example) achieve returns as high as 40 percent. Jan knows that with the power of compound interest, Brittany's early start will have a huge impact on her financial future.

"Even if she only makes half that (40 percent), a 20 percent return, she'll have oodles of millions of dollars by the time she is able to start withdrawing funds at age 59½," Jan says. "It's fun to run the numbers with her and inspire her in that way."

Jan also hopes that with this early start, Brittany will be able to teach others these financial lessons, and they will carry on to the next generation.

"You can do this with your kids and grandkids," Jan says, adding it's easy – and can even be beneficial – to get children involved in the work involved in the investments. "Brittany sends mailings, meets with contractors, and helps me buy properties I wouldn't have been able to purchase otherwise. "Plus, people trust me more when they see her involved."

Increasing children's financial literacy

Brittany began learning to budget her money when she was in fifth grade. "Before the budget, my mom and I would go into a store and it was a game to see if I could get her to buy things for me," she says. This helped Brittany develop her negotiation skills, but little else. Now her mom works as her consultant and Brittany makes all the decisions and enters her transactions in a phone app to track her income and expenses.

Whether children are in fifth grade or in college, investing isn't out of the question, Jan says.

Couple Discovers Partnering to Purchase Real Estate in an IRA

Combining small-dollar IRAs with another funding source heightened the Colorado couple's investing possibilities

Laurel of Colorado was interested in using her retirement funds to invest in real estate. She didn't have enough in her retirement account to cover the purchase of a piece of real estate she identified, but as she discovered, that wouldn't hold her back.

Laurel and her husband, Jason, each used their self-directed Roth IRAs to invest in two condos, but neither had enough to cover the full amount of their respective purchases. To come up with the remaining funds, the couple also looked outside of retirement accounts and combined funds with another source.

Self-directed IRA investing: starting small and partnering with different funding sources

Laurel had previous real estate investing experience and discovered the ability to use retirement accounts to invest in properties. She and Jason transferred some of their retirement savings to Equity Trust, each opening a Roth IRA.

Looking for opportunities that fit their price range, Laurel searched the real estate market in North Carolina. After completing due diligence they found two condos they were interested in purchasing, but their IRAs did not have enough money to purchase both. They learned they could partner their IRAs with outside funding sources to complete the investments.

Partnering on self-directed investments is possible, as detailed in IRS Publication 590. When partnering two or more funding sources, any expenses have to be paid from the funding sources in the same proportion as the purchase. Likewise, any profits flow back to each funding source in the same percentages.

Laurel's existing LLC provided additional funding to complete the purchases - Laurel's Roth IRA was invested in one and Jason's Roth IRA in the other.

To the right are the condo investment details. As Laurel also learned, real estate investing doesn't always go according to plan. The Condo 2 purchase (box at right) shows how Laurel's planning for different scenarios came in handy.

Laurel's loan servicer began the foreclosure process on Condo 2 with a few potential outcomes. Before foreclosure is complete, the buyer can catch up on payments, or the buyer could sell the property and pay-off the loan in full. If those don't occur, Laurel can see the foreclosure process through and receive the property back.

"It's important to have a lot of exit strategies," says Laurel.

Condo 1 – Sold with Seller Financing, Buyer Paying on Note

Purchase price: $20,000

Funding: Laurel's LLC – $18,000 (90 percent) and Jason's Roth IRA – $2,000 (10 percent)

Repairs: $8,000

Total expense: $28,000

Sale price: $39,500 with seller financing: 30-year loan to the buyer at 8.9 percent (monthly payments of $315)

Profit after expenses – The buyer is currently paying the loan off in monthly installments. After 30 years, total interest will be almost $75,000 on top of the buyer paying the $39,500 principal. In accordance with partnering percentages, 90 percent of any income from the property goes back to the LLC, and the other 10 percent goes to Jason's Roth IRA.

Condo 2 – Sold with Seller Financing, Buyer Behind on Payments

Purchase price: $23,000

Funding: Laurel's LLC – $20,700 (90 percent) and Laurel's Roth IRA – $2,300 (10 percent)

Sale price: $30,000 with seller financing: 15-year note

Profit after expenses –Similar to Condo 1, the property sold with seller financing, but the buyer didn't stay current on payments. Fortunately Laurel was prepared for this risk.

Self-directed investing growing in popularity

Laurel found that she had to educate some of the people involved with transactions about self-directed investing. For example, when she closed on one of the investment properties, other parties at the closing weren't familiar with the unique titling required on the purchase agreement associated with a retirement account. On top of that, the IRA was partnering with another entity, which resulted in a purchase agreement most title agents don't often see.

Investment titling was one of a few differences when using a self-directed IRA (the property is titled in the name of the IRA), but Laurel says she wasn't intimidated by the process.

"Sure there's a learning curve, but there's a learning curve about everything in life," she says.

Continuing to build wealth with self-directed IRAs

Laurel plans to continue to make self-directed investments and gradually add more properties to her Roth IRA. Her goal is to "grow my IRA so that it can buy a property outright, without partnering with my LLC," she explains. If Laurel is able to use just her self-directed IRA on a purchase, all investment profits would be in the tax-advantage account, with hopes it will grow future wealth.

But for now, she is content successfully partnering her Roth IRA and her LLC to purchase real estate.

> "Sure there's a learning curve, but there's a learning curve about everything in life."
>
> *-Laurel, Investor, Colorado*

First-Investment Dilemma Solved: How "Not Enough Money" Didn't Hold Investor Back

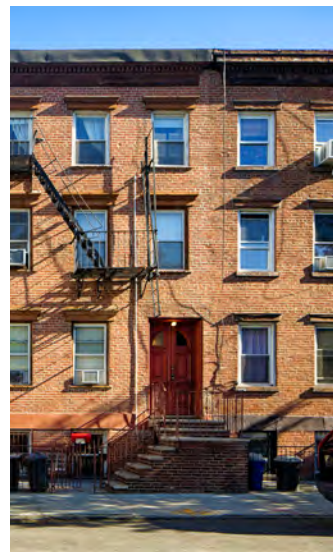
Client Emerich of Ohio found a way to raise the extra capital he needed and quadrupled his retirement account balance in just a few months

It is a dilemma all too familiar for many aspiring investors: not having enough money to get started.

Too often investors pass on an investment opportunity because they do not have enough money in their IRA to complete the investment. In fact, Equity Trust client, Emerich from Ohio, found himself in this same quandary a few years ago.

Emerich is a member of his local Real Estate Investment Association (REIA) and had attended educational events dedicated to the concept of self-directed IRAs. As a real estate investor for the last 20 years, he was well-versed on investing. He wanted to open a self-directed IRA so he could use his real estate investing knowledge to build for his retirement, but how could he get started when his IRA was underfunded and did not have enough to make an investment?

Little-known loan option paves the way to first investment



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Emerich didn't think there was any way for him to get the funding he needed in his IRA.

Then, at one of his local real estate club meetings he learned that an IRA could utilize a non-recourse loan to purchase real property. "This was the green light I had been waiting for," he recalls. "As soon as I learned I could invest with debt financing when my IRA couldn't purchase outright, I was ready to go."

Putting the pieces in place for his first investment

Emerich opened a Roth IRA, which was funded with $10,000 from an existing retirement plan. Knowing there were few real estate opportunities available for $10,000, he enlisted the help of his neighbor as the non-recourse lender.

Emerich purchased his first property in his Roth IRA for $15,000: $10,000 from his Roth IRA and $5,000 from his neighbor as a non-recourse loan. He was able to purchase a four-unit property at a discount because he found a motivated seller in his network who was getting older and could no longer keep up with the property.

Three of the four units were already occupied with long-term tenants, which provided cash flow from day one. Additionally, Emerich had a buyer lined up who he worked with in the past and was purchasing an assortment of properties in the area.

Three months after the purchase, Emerich was able to sell the property for $55,000. After repaying the $5,000 for the non-recourse loan and all expenses and fees associated with the maintenance or sale of the property (including Unrelated Business Income Tax (UBIT)), Emerich netted approximately $40,000 to his Roth IRA, tax-free.

As Emerich states, "I was able to quadruple my account within about three months with my first real estate investment in my IRA. I think that is awesome!"

"You don't need as much money as you think"

Emerich wants his experience to be a lesson to other investors. "You don't need as much money in your account as you think," he says. "Go out and talk to people and find people who are willing to lend money. Just go for it, make the offers. You can't find the investments unless you make the offers. You'll come up with the money if the opportunity is right."

Now that Emerich has grown his retirement savings, he's spreading what he learned about non-recourse loans to other investors in his network and is continuing to invest for his retirement. He has provided a hard money loan from his Roth IRA to another investor and purchased another property with a non-recourse loan from the same neighbor who originally kick-started his first Roth IRA investment.

Emerich has gone from the investor whose Roth IRA needed a non-recourse loan to make his first investment to the investor who is providing loans from his Roth IRA so others can complete their own investments.

Sanitation Worker Sidelined by Injury Discovers No Retirement Account is Too Small to Grow

Seth of Chicago makes a 20-percent profit for his Roth IRA after learning there are self-directed investments that don't require as much capital as he thought

Fueled by misfortune, Chicago-area resident Seth discovered that you don't need to be rich to find ways to secure your financial future. Seth made a living as a sanitation worker until he broke his back a few years ago. Even after multiple surgeries, he physically couldn't do the same type of work. After learning about self-directed IRAs, he closed out his pension plan and opened a Roth IRA at Equity Trust with $13,000. The account sat without activity for a few years because Seth thought there wasn't much he could do with his modest savings.

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In the meantime, Seth, who has some experience with real estate investing, lent $4,000 to a business acquaintance for a real estate opportunity. After attending an Equity Trust educational workshop, Seth discovered that he could also loan money from his Roth IRA, which would allow him to put his retirement savings to work, even with his smaller account balance. So when the same acquaintance approached him about securing a loan to expand his trucking company, Seth felt ready to make his first self-directed investment.

Seth loaned the man $10,000 for his business after reviewing the business plan and agreeing to a 20-percent interest offer. Based on their past transaction, Seth felt safe with the agreement. "After he paid me back from the original transaction, he had proved himself to me," Seth says.

Seth receives monthly payments on his loan, which are deposited back into his Roth IRA. When the loan is repaid in full, Seth's original $10,000 will grow to $12,000 in his tax-free account.

Seth takes action and gets rewarded

When Seth hears of someone being hesitant to complete that first self-directed investment, he responds by telling them that you have to be willing to take action, but to take an educated, strategic risk. "You don't want to be just throwing money out there," he says.

Self-directed investing has opened Seth's eyes and made him excited to discover more opportunities.

"I was only looking at real estate and stock market investments when I found out I could invest in private companies and make a steady return," he says. "This has led me to look for more companies considering expansion, where I might be able to get a piece of or earn favorable returns."

The size of the loan also expanded Seth's awareness of the prospect of small-dollar opportunities, in businesses and elsewhere.

"Sometimes a real estate investment might only need $2,000-4,000 for closing costs, light rehab just to get it done. You may not only get a piece of that investment and get your principal back, but you can get monthly cash flow as well," he says. "It's exciting that there are a lot of different possibilities out there."

For those investors who are still hesitant or not sure how to get started, Seth recommends taking advantage of the volumes of self-directed investment education available.

"Equity Trust offers tons of webinars," he says, adding, "There's a lot of information out there, all you have to do is search online – there are books and people sharing ideas of how they are building investments with small dollar amounts."

Long-Distance Real Estate Investment Nets Client 33 Percent Returns Per Year

Arnold of Michigan bought, rehabbed, and earned income from a rental property in Hilton Head, S.C. without ever stepping foot in it

Not all investors live in a "hot" real estate market. So how can investors take advantage of opportunities to invest outside their local area, potentially thousands of miles away?

In the case of Arnold from Michigan, long-distance investing success is not only possible but available with the help of the internet and a sound plan in place.

Arnold had prior experience investing in real estate outside of an IRA. While attending a local real estate seminar, he learned about the concept of self-directed IRAs and the ability to invest in real estate with tax-advantaged retirement funds. As he recalls, "In some cases I was losing money or breaking even on my investment properties due to the tax implications."

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Research is paramount to Arnold's success

During his research of potential IRA custodians, Arnold approached his local bank and said he was interested in setting up a self-directed IRA to invest in real estate. "They didn't know what I was talking about," he recalls. He then contacted his current IRA custodian to transfer funds and open a self-directed IRA, but was told they did not offer that type of product. He learned most traditional custodians and banks do not offer self-directed IRAs.

After extensive research, Arnold decided to open an IRA with Equity Trust so he could begin his real estate investing in a tax-advantaged account.

The importance of the internet, ingenuity, and a strong team

Arnold grew up on the eastern seaboard and considers anywhere from Florida to Maine as his target market. He routinely scours the internet for investment opportunities and considers it one of his greatest tools. He is able to conduct his due diligence, analyze the market and location, and identify team members who can help make the investment happen.

During one of his searches, Arnold came across a property in Hilton Head, S.C. that was on the auction block for the third time in the last 60 days. He knew the area enough to know that this was an opportunity worth investigating.

Vetting an investment more than 1,200 miles away

Again, Arnold took to the internet. He found several real estate agents in the area and reached out to them by email and phone. As he recalls, "If the agent didn't respond promptly and professionally I knew they would not be a good fit." He eventually decided on a local real estate agent in the Hilton Head area, and asked her help investigating the property in question.

She was unable to enter the property but researched to find old photos and interviewed people who had been in the home recently. She also provided Arnold with rental market and sale price analysis, contacts in the area for property management and contractor services, and advised him on a reasonable bid limit for the auction of the property.

It was helpful to have someone as a local point of contact, but Arnold's research was not yet complete.

Arnold used the Google maps street view to look at the property, homes in the neighborhood, and to get a feel for the area in general. He was able to research local school districts, migration patterns, population trends, and demographic information. He found information on rental rates, vacancy rates, local home prices, and anything else he was interested in via the internet.

“I typically look for growing areas,” he explains. “If a city is growing or doing something that attracts people to live there, it’s worth a look.”

Armed with his research and a trusted local real estate agent, Arnold felt confident bidding on the property. His IRA was able to win the auction for less than the maximum bid he had decided.

Managing the rehab process with online resources

After the purchase was complete, his agent was able to enter the home, send pictures, and assisted Arnold in determining what was needed for the rehab. He then hired local contractors or department store employees to measure what was needed for each aspect of the project. “Most of them didn’t realize I didn’t live in South Carolina,” he recalls.

Kitchen: Before and After

After two months of long-distance management, Arnold went to Hilton Head to check on his investment. “By the time I arrived more than 60 days after the purchase, 95 percent of the work was done,” he says. All that remained were some finishing touches, appliances, and furniture.

Where do you think he found those? Naturally, it was the internet.

Arnold was proud to announce that all the appliances and furnishings in the home were either reclaimed or came from the secondary market, with the exception of the refrigerator and sofa. He was able to find stainless steel appliances at a discount through Craigslist and utilized the local contractors to find cost-effective rehab solutions.

Double-digit returns on a long-distance investment

With monthly rental income around $800-$900, Arnold would break even, but he decided to test the market. He posted an ad on Craigslist with a monthly rent of $1,500 and received only one call. When he lowered the price, the calls began to pour in.

He currently has a tenant with a three-year lease paying $1,250 a month, netting Arnold an approximate 33-percent return on investment (ROI) per year tax-deferred back into his IRA. Arnold is now faced with a tough decision: rental prices in the area have increased to $1,800 - $2,100 per month. With the improvements and appreciation he estimates he is now sitting on $40,000 of added value in the property.

He is currently deciding between holding the property, possibly raising the rent, and keeping the cash flow or selling the property.

Furthermore, neighbors of his investment property have contacted Arnold and thanked him for rehabbing an eyesore, filling the unit, and helping to increase the value of their neighborhood.

Not bad for an investor over 1,000 miles away.

Long-Distance Investing: How Arnold Did It

- Local contacts in Hilton Head handled the measuring for each aspect of the rehab and provided Arnold with the details for new carpet, kitchen cabinets, paint, granite countertops, bathrooms, and more.
- Arnold visited his local Home Depot in Michigan to choose materials (drywall, paint, etc.) and received installation quotes based on the provided measurements. He then ordered the needed supplies from the Home Depot in Hilton Head near his investment property and paid local contractors in Hilton Head to install the items.
- Equity Trust’s online account management system, myEQUITY, allowed Arnold to pay contractors and supply stores directly from his self-directed IRA.

First-Time Self-Directed IRA Investment Helps New Company Revitalize Baltimore

Brian used his IRA to invest in a limited partnership that renovates blighted properties and helps low-income residents find housing

Brian, an active duty member of the United States Army for the last 16 years, and his wife, bought a house near the army base where he was first commissioned. For the better part of a decade, Brian's home alternated as a rental and a residence between deployments.

"It worked out well," he says. "It was a home and an investment all at the same time, which was great."

(This was prior to opening a self-directed IRA. Per IRS rules, you cannot personally use or live in an asset held in your IRA.)

Searching for real estate investment opportunities

After selling the home when he was deployed overseas, the experience stirred a curiosity in Brian that continues today. "I was kind of bit by the real estate bug and never really let it go," he recalls. "Even overseas, I kept looking for properties and things to invest in."

Upon returning to the United States, Brian wanted to get back into real estate investing, but faced challenges many investors encounter. After purchasing a new home for his family (not with his IRA) and working full-time, he felt he didn't have the capital nor the time needed to invest in real estate.

Despite the limitations, curiosity and determination continued to drive Brian.

Turning to retirement account for investment funding

To this point, Brian's experience in real estate was solely with his personal funds. He didn't yet know it was possible to use retirement accounts to invest in real property.

He previously focused on stock and mutual fund investments with his Roth IRA until he learned about self-directed IRAs and the ability to invest beyond traditional investments. Once Brian discovered a self-directed IRA could invest in real estate, he realized the investment capital he was searching for could be found in his Roth IRA.

"I learned that when the government created retirement accounts, it created them so you could invest in almost anything – with a few exceptions," he recalls of his discovery. In fact, self-directed IRAs and alternative investments (like real estate) have been permitted by the IRS since the IRA was established in 1974.

With his newfound knowledge, Brian decided to move forward. He transferred a portion of his Roth IRA to a self-directed Roth IRA at Equity Trust, while maintaining traditional stocks and bonds in the previous account at another financial institution.

"I decided to start investing in other things and truly diversify," he says. "Not just diversify within the stock market, but diversify into real, tangible investments."

Finding an investment opportunity for his self-directed IRA

Brian remained active in his real estate investing market – regularly attending local investor group meetings and networking with like-minded individuals. He connected with a team of investors that had recently formed a limited partnership focused on revitalizing a key area of residential real estate in Baltimore.

Brian, who describes himself as a "measure twice, cut once kind of guy" performed his due diligence on the limited partnership and their investment strategy. He traveled to Baltimore to meet the investors and to see the properties the limited partnership was already renovating and the neighborhoods it was targeting for investment.

Satisfied with his due diligence, Brian directed his Roth IRA to invest $10,000 for a 10-percent ownership in the real estate limited partnership.

Revitalizing areas of Baltimore

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The limited partnership was targeting an area of east Baltimore near Johns Hopkins University. The neighborhoods were full of vacant and blighted properties, including "rows of boarded-up townhouses with no one in them," Brian says.

Despite the surroundings, the area was not without hope.

"You could see people trying, little by little, to turn it around," Brian recalls of his visit. He described neighborhoods where one of the 20 houses was recently renovated. "You could see there was one person, who bought one house, trying to fix it up."

The strategy of the limited partnership – and what attracted Brian's interest – was to invest in an entire block. "Instead of doing one at a time, the goal was to pool funds to renovate properties on the whole block or several blocks," he says.

The limited partnership's approach is to help provide Section 8 tenants a place to live, while the guaranteed income from the government-backed program helps provide the financial return for investors like Brian. After the time required by the Section 8 program, the limited partnership has the option to continue renting or sell the unit.

Another potential benefit that interested Brian was the property values. "The price values for each house are partially based on the surrounding properties," he says. "So if the entire block is improved, all the properties potentially benefit from the price increase and hopefully the values of all properties go up."

Passive investment provides financial returns and community impact

The limited partnership "had all the pieces in place," Brian says, including acquisition, construction, renovation, and property management. Brian felt this structure was scalable and allowed him to remain passive throughout the entire process.

At the time of publication, Brian's Roth IRA received a total of $756 through the first nine months – keeping pace with the 10-percent annual percentage yield (APY) he expected when first making his investment.

The payments are set to continue through the first two years until his initial investment is returned. The returns are tax-free because he used a Roth IRA.

Brian admits a cash investment in a limited partnership is a risk, with no collateral or tangible property – a characteristic that first attracted him to real estate. It was a risk he considered worth taking after performing his due diligence.

"That's the case with any investment: you need to accept the risks that go with it," he said. "You don't take your grocery money to the casino because you need to be willing to lose whatever you invest."

His first self-directed IRA investment was financially motivated to help save for retirement, but Brian admits "it's pretty cool" his investment is helping in other ways. His Roth IRA investment is helping to revitalize run-down areas in Baltimore and provide affordable housing to residents in the area.

Brian's story is another example of the flexibility self-directed IRAs can provide investors. "Now that I've done it once, I know I can do it again," he says.

"I love real estate and love being involved in real estate, but I just don't have the time. This investment allowed me to be part of the process and learn about the real estate industry without taking away from my family or my job," says Brian, adding, "which is pretty important too."

Could You Become the Next Success Story?

If you and your financial professional decide that you could benefit from the potential advantages of a self-directed IRA, call Equity Trust to get started and open an account.

Why Choose Equity Trust?

- 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 personalized service
- Regular educational and inspirational opportunities include newsletters, webinars, videos, case studies, events, resource guides, and more

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