



DUE DILIGENCE

Self-Directed IRAs

WHAT IT IS,
WHY IT MATTERS,
AND HOW TO DO IT WELL

Introduction

More than \$7 trillion dollars are held in individual retirement accounts¹, with roughly two percent of that total held in self-directed accounts.² This percentage is growing steadily as more investors become aware of the opportunity self-directed accounts offer.

Self-directed retirement accounts give you the freedom to diversify your retirement portfolio with investments you know and understand. There are very few limitations in what a self-directed account may invest in. With that investment freedom comes the responsibility to be an informed investor. It takes proper due diligence and an understanding of the questions to ask and the attributes to look for to find the investment opportunities that will help your retirement portfolio grow.

This report describes the investor's role and takes an in-depth look at the process of conducting due diligence for the most common self-directed investments. It is intended to be used as a resource for all investors seeking further education in their investment strategies.

The Investor's Role

Investors play an essential role in their self-directed accounts. First off, the investor decides how to invest the funds. Some examples of self-directed investments are real estate, stocks, and precious metals. Research and due diligence are essential steps in deciding the best investments for their retirement funds. This often means seeking qualified tax and investment advice, which The Entrust Group and most administrators of self-directed retirement accounts do not provide. Investors need to look to experts such as financial planners, tax advisors and other professionals for that assistance. Once it's decided where to invest funds, the next step is for the investor to direct the administrator or custodian of their IRA to send the funds to complete the purchase.

This table illustrates the responsibilities of both the investor and the IRA administrator or custodian:

The Investor	The IRA Administrator or Custodian
<ul style="list-style-type: none">◆ Identifies the investment◆ Investigates the investment risk◆ Conducts all due diligence◆ Negotiates purchase price◆ Pays administrative fees for the IRA◆ Ensures investments are not prohibited by IRS◆ Directs custodian to purchase investments in the name of the retirement account◆ Makes sure accurate valuation of the investment is obtained and provided to the IRA custodian◆ Ensures transactions do not involve disqualified persons	<ul style="list-style-type: none">◆ Administers the sale and purchase of assets and processes invoices◆ Administers account contributions and distributions◆ Provides accurate and timely IRS reporting◆ Ensures accurate and up-to-date recordkeeping◆ Provides annual statement



ERISA: In 1974, Congress passed the Employee Retirement Income Security Act (ERISA), paving the way for investors to take charge of their retirement investments.

What is Due Diligence?

Due diligence is the care that every person should take before entering into any investment. The intent of due diligence is to make sure that you have the right amount and quality of information before making an investment decision. Proper due diligence includes gathering information on things like the cost, benefit, and risk of an investment.

Conducting thorough research and analysis on a company or investment is essential to making informed investment decisions. This is where many self-directed retirement investors underestimate what due diligence entails.

How to Conduct Due Diligence

Due diligence should start with an assessment of whether the investment opportunity makes sense for you. Create a list of questions that you need answered before you commit to any investment. If your representative can't provide the answers or seems hesitant, it could be an indication that something is wrong. Remember, if it seems too good to be true, it probably is.

Some Questions To Ask Yourself:

- Does this investment meet my needs and goals?
- Do I fully understand the investment and the risks that it involves?
- What information exists to back up claims on the investment?
- Can the asset be held in the name of an IRA or qualified plan?
- Is the company familiar with self-directed IRA transactions?
- Does the company have any pending lawsuits or prior bankruptcies?
- What is my exit strategy?

What an Administrator Does Not Do

There are certain things an administrator does not do. A legitimate administrator does not:

- ◆ Offer products or recommend investments
- ◆ Endorse any product or company
- ◆ Provide investment advice
- ◆ Provide legal or financial guidance
- ◆ Promise you will get rich overnight

If an IRA administrator or custodian offers any of these services, it is red flag.



Some Due Diligence Best Practices

- ◆ Ask for copies of written materials before making an investment.
- ◆ Research the background of the company officers.
- ◆ Meet the representative in person. Visit his or her office, if possible.
- ◆ Keep detailed notes on all conversations you have with the representative.
- ◆ Set a realistic timetable for the transaction.

It is important to do thorough research before making any final decisions. Survey after survey has shown that most people turn to family members and friends for financial advice. This can lead to pitfalls when looking into a potential investment. The safer thing is to work with a qualified financial professional.

When you do get financial advice or an investment tip, your first action should be to investigate and verify. As technology and information resources have become more readily available, investors are better equipped to investigate the legitimacy and risks associated with potential investments. It is very important to understand the background of companies, officers, and products, and to ask the right questions to ensure that the investment is legitimate.

A simple way to start due diligence is through an Internet search. A simple key word search can lead quickly and easily to supporting evidence that may help you favor or question a potential investment.

A few reliable sites to search include:

- ◆ BBB.org (the Better Business Bureau)
- ◆ FINRA.org
- ◆ Investor.org
- ◆ Investorprotection.org
- ◆ Ripoffreport.com

FINRA: The Financial Industry Regulator Authority (FINRA) is a helpful, objective resource for investors. FINRA operates the largest foundation in the United States dedicated to investor education. It's been around since 1939, when it was formed as the National Association of Securities Dealers, Inc.

The Financial Literacy and Education Commission is a vast resource for free financial information.³ Created in 2003, the Commission is composed of 21 federal entities that provide financial materials online at mymoney.gov and through the free 1-888-MyMoney hotline.

Due Diligence on the Top 3 Self-Directed IRA Assets

Real Estate

Real estate tends to be the most popular investment in self-directed retirement accounts. Even during slow economic periods, real property's tangibility and its potential for returns attracts investors and makes them feel comfortable.

The Entrust Group processes thousands of real estate transactions every month for investors using all forms of investment strategies.

Proper due diligence is the first checkpoint in determining whether or not to proceed with an investment in real estate from a small rental property to a large commercial building. Although all the research in the world cannot guarantee a real estate investment will produce a positive return, diligent research can help protect against fraud.

The most important thing to know about real estate owned in a self-directed IRA is that it must be investment property. That means you and other "disqualified persons"—your immediate family—cannot live in the property. This applies to a primary residence and vacation homes. It means that you and your family members may not be tenants in a building owned by your IRA. If you don't follow the rules about prohibited transactions and disqualified persons, you could end up owing tax penalties.

Investment Opportunities:

- Commercial property
- Residential property
- REITs
- Multi-family properties
- Strip malls
- Non-performing notes
- Mobile home parks
- Self-storage facilities
- REOs
- Deeds of trust

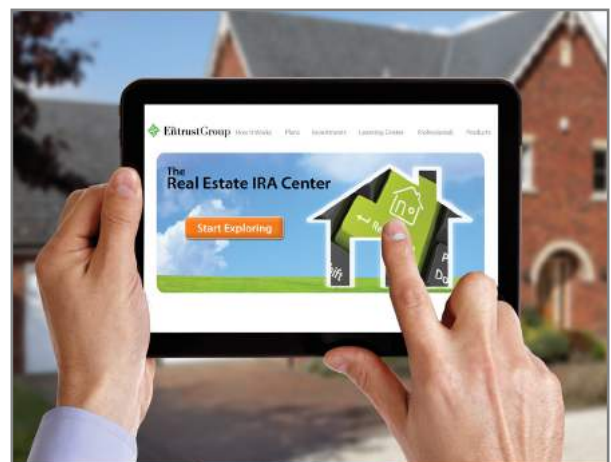
In 2014, ultra high net worth individuals invested nearly one-quarter of their portfolios in real property, and the percentage is increasing.

*The Wealth Report 2014 Knight Frank Research
and Citi Private Bank*

Other Important Facts About Property In An IRA:

- ◆ The property becomes an asset of the IRA.
- ◆ The IRA holds the title. Example: The Entrust Group FBO John Doe IRA #12345
- ◆ Investors cannot purchase property that they, their spouse, descendants, or ascendants already own.
- ◆ All income and expenses generated by the property must flow into and out of the IRA.
- ◆ An IRA can get a loan to fund a purchase.

For more information on how to purchase property in an IRA, rules, and more visit our [Real Estate IRA Center](#).



When Conducting Real Estate Due Diligence, Be Sure To:

- ◆ Understand the parties who need to be involved.
- ◆ Know your real estate professional and check for any complaints on his or her record.
- ◆ Review the expiration of the current lease agreement if there is a tenant. Before the lease expires, you may want to negotiate with the tenant for a renewal of the current lease agreement prior to closing.
- ◆ Conduct a thorough inspection of the property through a trusted provider to see what repairs may be needed. Home warranties can protect against the larger and more expensive repairs such as appliances, electrical, and plumbing.
- ◆ Know the fees and who is responsible for paying them.
- ◆ Calculate the annual vacancy rate for rental properties. If the property could be potentially vacant for extended periods of time, the expenses can drain the IRA.
- ◆ Understand how long the closing process is, especially if you are buying a bank-owned property.
- ◆ Complete a thorough title search. Are there any encumbrances (easements, rights-of-way, mortgages, taxes) or outstanding third-party litigation or claims?
- ◆ Determine whether you will need a property manager and the related costs.
- ◆ Consider existing or potential environmental issues, such as contamination or hazardous waste problems; air, water, and noise pollution.
- ◆ Check to see if any insurance is needed (title, earthquake, flood, fire) and verify that the insurance company will issue insurance in the name of the IRA.
- ◆ Make sure that the financials allow for an amount of liquidity in the IRA to pay for expenses.



Precious Metals



Gold and other precious metals have always been a valued form of asset diversification, particularly in retirement accounts. In the past decade, the price of gold has increased over 500%, making it easy to understand why precious metals are the second-most popular investment among account holders at The Entrust Group.

Self-directed investors choose the precious metals dealer from whom they will make the purchase. At Entrust, investors also have the advantage of choosing the depository where the precious metals will be stored.

When choosing a precious metals dealer, you should perform due diligence on the company, its products, and commission structure. Prices may be negotiable and can vary significantly, so it is wise to look into multiple dealers before making a final decision.

It's equally important to look into the refiner that sold the metals. The London Bullion Market Association (LBMA) is an international association that sets rules describing the characteristics of gold and silver, known as the Gold Delivery Rules. With more than 60 refiners in 26 countries around the world, the LBMA works with governments and regulators. The LBMA has developed high standards for due diligence among refiners and maintains strict standards for those on its list of accredited smelters and assayers. Be sure to ask if your precious metals dealer works with a refiner that adheres to the Gold Delivery Rules to avoid metal purity risk.

Be wary of any investment promoted as guaranteed or risk free. Be cautious when dealing with any metals dealer or representative who uses those terms. Just because the gold price has risen dramatically in recent years, does not necessarily mean it will remain on the same path. Metals prices are affected by market demand and other conditions that cannot guarantee the absence of risk.

Precious Metals Center

> **The Entrust Group launched our Precious Metals Center in 2012, making us the only IRA provider with an operations center dedicated to serving precious metals investors and dealers.**



When Conducting Precious Metals Due Diligence, Be Sure To:

- ◆ Verify that the depository is a regulated, insured facility that stores precious metals.
- ◆ Ask if the depository has a storage agreement with your IRA administrator. Do not take physical possession of the IRA-owned physical metal. This violates IRS rules.

When Choosing a Precious Metals Dealer, ask:

- ✓ What commission does the dealer receive about the spot price?
- ✓ Are there additional shipping fees? If yes, how much?
- ✓ What is the typical delivery time for orders?

When Choosing a Precious Metals Depository, ask:

- ✓ How are the metals stored: allocated or segregated by owner?
- ✓ What are the annual storage fees?
- ✓ Where are the vaults located?

Precious Metals Allowed in Self-Directed IRAs

Gold

- American Eagle coins⁽⁴⁾
- American Buffalo coins⁽⁵⁾
- Australian Kangaroo/Nugget coins
- Austrian Philharmonic coins
- Canadian Maple Leaf coins
- Bars and rounds produced by a refiner/assayer/manufacturer accredited by NYMEX/COMEX, NYSE/Liffe, LME, LBMA, ISO 9000, or national government mint and meeting minimum fineness requirements⁽⁶⁾⁽⁷⁾

Silver

- American Eagle bullion and proof coins⁽⁴⁾
- Australian Kookaburra coins
- Austrian Philharmonic coins
- Canadian Maple Leaf coins
- Mexican Libertad coins
- Bars and rounds produced by a refiner/assayer/manufacturer accredited by NYMEX/COMEX, NYSE/Liffe, LME, LBMA, ISO 9000, or national government mint and meeting minimum fineness requirements⁽⁶⁾⁽⁷⁾

Platinum

- American Eagle bullion and proof coins⁽⁴⁾
- Australian Koala coins
- Canadian Maple Leaf coins
- Isle of Man Noble coins
- Bars and rounds produced by a refiner/assayer/manufacturer accredited by NYMEX/COMEX, NYSE/Liffe, LME, LBMA, ISO 9000, or national government mint and meeting minimum fineness requirements⁽⁶⁾⁽⁷⁾

Palladium

- Bars and rounds produced by a refiner/assayer/manufacturer accredited by NYMEX/COMEX, NYSE/Liffe, LME, LBMA, ISO 9000, or national government mint and meeting minimum fineness requirements⁽⁶⁾⁽⁷⁾

Private Placements

Private placements are investments in privately held entities, such as companies or small businesses. Owners and founders of these companies frequently have a hard time getting traditional financing from banks. As a result, they often look to individual investors for development capital. Obtaining capital from a self-directed IRA owner can be simpler and faster than going through an institutional lender's loan process. For self-directed IRA owners, this type of lending has the potential to bring higher returns than the stock market or CDs.

The Security & Exchange Commission (SEC) once limited private placements to people who qualified as "accredited investors." Now, those rules have been relaxed and the whole concept of crowdfunding has changed the private placement landscape. However, because private placements are not offered to the general public and do not have to be registered with the SEC, investors should take particular care with their due diligence before investing. It is very important that you understand what you are investing in and whether you qualify for the investment. Find out as much as possible about the company and the investment.

Investment Opportunities:

- Private placements
- Pooled investment funds
- Land trusts
- Secured and unsecured notes
- LLCs (limited liability corporations)
- C corporations
- Private stock
- Partnerships

When Conducting Private Placements Due Diligence, Be Sure to:

- ◆ Beware of promises of high returns. If it sounds too good to be true, it probably is.
- ◆ Investigate the background of the broker and company principals. Meet the representative in person. Visit his or her office, if possible.
- ◆ Keep detailed notes on all conversations you have with company officials seeking your investment.
- ◆ Ask for copies of written materials before making any investments.
- ◆ Research the risks and how you might liquidate your private placement securities.
- ◆ Review the private placement memorandum and consult with a financial advisor.
- ◆ Research whether the private placement is being sold on a conditional basis, for example, a specific dollar amount. An offering without a minimum level of investment amount and other conditions such as deadlines could be a red flag.
- ◆ Research the return policy should the private placement not fund.
- ◆ Do not complete a Subscription Agreement or Accredited Investor Questionnaire unless you understand it and agree with the entire document.
- ◆ Do not invest if the seller can't satisfactorily answer your questions about the company, its business model, and its executives' experience.
- ◆ If you are close to age 70 ½, make sure that you will be able to take your required minimum distributions from the investment.
- ◆ Say no and decline the investment if you are asked to falsify any financial information to qualify as an accredited investor.

Summary

Since the early 1970s, self-directed retirement accounts have allowed investors to seek alternatives to traditional holdings in their portfolios. Whether you're just starting out or are an experienced investor, it's to your advantage to stay current on your role and responsibilities associated with self-directed retirement accounts.

A self-directed retirement account is a vehicle for alternative investments that offers expanded investment options beyond stocks and CDs. You are not locked into the limited types of investments offered by banks and brokerage firms. You have a choice of where to grow your retirement funds among a myriad of permitted investments, such as real estate, precious metals, LLCs, promissory notes, and so many others.

When Considering A Self-Directed Investment It Is Essential That You:

Understand The Investor Role

- ◆ The investor bears sole responsibility for choosing investments.
- ◆ The investor is responsible for conducting due diligence.
- ◆ The investor is responsible for any losses pertaining to the investment.

Complete Thorough Due Diligence

- ◆ Ask detailed questions.
- ◆ Use research tools (i.e., Google, the Better Business Bureau, government resources).
- ◆ Fully understand the investment and the risk it entails.
- ◆ Seek professional advice from attorneys and financial professionals when needed.

The Entrust Group has provided this information for use in developing an investment strategy and to increase awareness of the responsibilities entailed in self-directed retirement investing. Our goal is to foster a more educated and informed investor.

It's Your Future, Direct It

Common Resources For Due Diligence

American Association of Individual Investors	aaii.com
EDGAR	sec.gov/edgar.shtml
Financial Industry Regulator Authority	finra.org
Financial Literacy and Education Commission	mymoney.gov
Investor Protection Trust	investorprotection.org
Investor.gov	investor.gov
Internal Revenue Service	irs.gov
North American Securities Administrators Association	nasaa.org
Precious Metals Center	entrustpmc.com
Securities and Exchange Commission	sec.gov
The Entrust Group	theentrustgroup.com

End Notes

1. "The Role of IRAs in U.S. Households' Saving for Retirement, 2014." ICI Research Perspective, Jan. 2015, Vol. 21, No. 1, www.ici.org
2. "Investor Alert: Self-Directed IRAs and the Risk of Fraud." SEC. Sept. 2011. U.S. Securities and Exchange Commission. 1 Sept. 2012 <<http://www.sec.gov/investor/alerts/sdira.pdf>>.
3. "Financial Literacy And Education Commission Launches New MyMoney Web Site." FLEC. 27 Apr. 2012. Financial Literacy & Education Commission. 11 Sept. 2012. <<http://www.mymoney.gov/docs/mymoney%20redesign%20press%20release%20FINAL%2004%2027%2010.pdf>>.
4. Numismatic and American Eagle coins that have undergone "certification" (also know as "slabbed" coins) are not acceptable in IRAs at this time.
5. Only uncirculated type American Buffalo coins are allowed (i.e. no Proof coins are allowed).
6. Minimum Fineness Required: Gold .995+ Silver .999+ Platinum .9995+ Palladium .9995+
7. Small bullion bars (i.e. bars other than 400-ounce gold, 100-ounce gold, 1000-ounce silver, 50-ounce platinum, and 100-ounce palladium bars) must be manufactured to exact weight specifications.



About The Entrust Group

Entrust strives to provide personal, professional services and education that empower clients to control their investment choices. You can rely on The Entrust Group for up-to-date plans and investor education about self-directed retirement. [Visit our Learning Center](#) for more reports like this one!



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