MONEY-MAKING IDEAS

for Your IRA or Solo 401(k)

15 Ways to Increase Returns, Reduce Risk, and Save on Taxes!

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A MESSAGE FROM
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Don't let our company name fool you: in addition to Self Directed IRAs, The IRA Club also provides Self Directed Solo 401(k)s, Self Directed HSAs, and more, to investors looking for tax-advantaged investments.

The topic of IRA accounts is enough to put anyone to sleep. However, the reality is that IRAs are a gift to you from Congress. Most people think of an IRA account as an afterthought; an unimportant little account they started years ago and don't pay much attention to. Sometimes, an IRA account goes up and sometimes it goes down, rarely making any significant progress. These same people generally don't pay attention to their IRA because the amount of money in their account is not enough to be meaningful to them—that's a big mistake.

However, another approximately 3.5 million IRA holders see their accounts for what they are: a government-crafted engine for building a fortune. These smart investors have $1 million, $3 million, and $5 million in their IRAs.

If you are still in the first group—those who consider an IRA an "unimportant little account"—I want you to know that people just like you are turning their IRAs from a "little account that underperforms" to a *high-functioning tool that builds real wealth*.

A Self Directed IRA (or Solo 401(k), or HSA) can make investments for your future—yes, there are a few restrictions, but just a few. In general, if you find an investment for your future, it's an investment that can likely be made inside a Self Directed IRA. These investments include real estate, lending, mobile and manufactured homes, pre-IPO Stocks, and many others.

At The IRA Club several years back, when we were reviewing thousands of client files for completeness and accuracy, we started to notice accounts could be grouped by their reoccurring levels of success. Within each group we began to see reliable patterns that served as predictors that could forecast the future success of that account:

- Group A: These IRAs appeared to do well year after year, no matter the market and no matter the economy. They just kept growing, and some accounts were able to produce exceptional growth that kept driving the account values to higher and higher levels.

- Group B: These IRAs just limped along. Their results seemed akin to a driver in a strange city without a road map or GPS. They would turn in one direction, then another, rarely making progress, or they never made any turns and just kept driving until they were so far past the city limits, they forgot where they originally were headed.

- Group C: These IRAs seem to end up with repeated disappointments caused by simple rookie mistakes that could have easily been avoided.

While most IRA companies perform just the minimum required Account File Review (i.e., they check for the completeness of the file), we wanted to learn more. The IRA Club wanted to know what the people in each of the three categories were doing and find out if the success of Group A could be replicated by others.

We quickly learned to focus on Groups A and C, the people who were most successful and least successful. While Group B was the largest group by number of people, it was not necessarily the largest group by dollar value. Group B was made up of people who mistakenly believe an IRA or Solo 401(k) is just "set it and forget it." Years ago, they parked their retirement account at a brokerage firm with the hope that the brokerage company would make them wealthy. Instead, many of these accounts ended up underperforming due to hidden costs and fees charged by the brokerage and a lack of attention from their account owners.

We found repeatedly that with Group A accounts, the IRA owner had taken control of their investment choices. Repeatedly, the people in this group used the same two simple guideposts when investing their IRA or 401(k):

1. Is this investment a steppingstone on the path to building wealth?

2. Is this an investment I am comfortable making because I understand it?

Think about it: *If an investment did not fit these two criteria, why would anyone risk their money on it?*

Let's put the pieces together:

1. A Self Directed Traditional IRA is a fine vehicle to use when making an investment, as the income tax

on all the earnings and appreciation is deferred, thus allowing for much faster compounding.

2. A Self Directed Roth IRA is a *great* vehicle to use when making an investment in, as the income is now and forever free from income taxes.

   Note: Of course, there are other investments where income is free from income taxes such as municipal bonds. However, as of this writing, high-grade munis were paying about 2.5% to 2.9%. Many of the investments we saw in Income Tax-Free Roth IRAs were earning 10% to 12% and in some cases, even more.

Welcome to *Money-Making Ideas for Your IRA or Solo 401(k)*. We want you to discover and master the simple strategies used by the most successful IRAs and Solo 401(k)s.

Why? Because your future depends on it.

This book provides you with 15 ideas. All, a few, or none of these ideas may be right for you. Don't be discouraged! While we list just 15 ideas as your introduction to the concept, there are thousands of different opportunities that will work.

Dennis

LET'S INVEST!

Get Started and Make Money

Your Self Directed IRA is now open and funded (or will be soon): We are poised and ready to start making investments that can make a meaningful difference in your future. What follows is an overview of popular high-profit potential investments your Self Directed IRA can make.

This book is written with the assumption that you already have a basic understanding of one very important fact: Since 1974, Congress has allowed you to invest your IRA or Solo 401(k) in almost any investment you like. Your investment mix need not be fenced into just stocks, mutual funds, and ETFs. Your IRA and Solo 401(k) may be invested in exactly the investments you believe will offer the best return or most growth for you and your family.

To say this another way: Congress *expects* you to invest in the opportunities that you believe are best for you. As

Warren Buffet said, the best investments are those that you can make in what "you know and understand."

Let's say you're a stock market genius or guru; in that case, the stock market may be the right place to invest. However, what happens if you're not a stock market mastermind?

What if you understand something else, such as the value of owning income-producing real estate? In this case, wisdom might suggest investing at least a part of your IRA or Solo 401(k) in income-producing real estate.

What if real estate is not your thing? No problem! Congress took this into consideration over 45 years ago when they designed the IRA and Solo 401(k).

Today, millions of IRA and Solo 401(k) owners are already investing their accounts in alternative investments that best fit their growth plans. Some examples include the following:

Real Estate	Single family, multi family, commercial. Buy and hold for cash flow. Buy-fix-flip for quick appreciation, etc.
Lending	Like a bank, an IRA can make loans and collect the interest on those loans. The loans can be secured by real estate or other assets.
Mobile and Manufactured Homes	Low cost of entry and they can produce good returns.
Partnerships	Your IRA can invest in a portion of a larger opportunity.
Agricultural Land	This can be a very good investment for those who have a background in agriculture or cattle.
Undeveloped Land	No tenants or maintenance.
Airbnbs	A good location can be very profitable.
Group Housing	There is a giant need in every community.
Cell Phone Towers	5G will require thousands of additional towers.
Life Settlement Contracts	The payout can be guaranteed by a life insurance company.

This is a sampling; there are many more.

Your choice is clear: you can invest your IRA or Solo 401(k) in what Wall Street wants you to invest in—or you can invest in what you want to invest in. Choosing investments yourself will allow you to select the best (and in many cases the safest) returns for your IRA or Solo 401(k).

We already know what Wall Street wants you to invest in. Wall Street firms will almost always drive you toward the investments that make them the most money. Don't you believe it's time you invested where *you* can make the most money?!

BONUS

This book contains more than 25 exclusive tips to help you earn more on your investments and avoid the errors that could cost you money. Take control of your future and earn more.

He who does not control his money cannot control his destiny.

—AN OLD SAYING

Why do we suggest you make your *best investment* opportunities with the money in your IRA or Solo 401(k)? It's simple: the earnings inside these accounts are not taxable income at the time they are earned, and if you use a Roth IRA, the profits will never be a victim of income taxes—not during your lifetime or that of your heirs.

There are many other investment options. If you have an investment idea not listed in this book, contact The IRA Club and we will be glad to let you know if your investment idea would be allowable inside an IRA.

ONE

Basics for Every Beginner

There are over two million IRAs and retirement accounts from former employers that have grown to $1 million. Many have reached between $3 million and $10 million, or more. The people who own these accounts are just like you. The methods they are using to grow their accounts are simple and available to everyone, including you.

Anyone can build their own multimillion-dollar IRA (or other retirement account) by making steady contributions to their plan and following the rules that were designed by Congress in 1974 to benefit all of us, including those who hold IRAs and retirement plans. It doesn't matter if you have an *IRA* or a *retirement plan from a former employer*, such as:

401(k)
403(b)

457(b)

State or local retirement plan

Federal employee retirement plan (i.e., a TSP plan).

What we will cover in this book can work for anyone. However, there are also some recommendations we won't make:

- We will not suggest you invest 100 percent of the money in your IRA or employer retirement plan (from a former employer) in the stock market. The market can put you on a lifelong, heart-wrenching roller-coaster ride. There is nothing wrong with stock market investing if you are an expert. However, if you are not an expert, you may want to consider lessening your stock market exposure.

- Investing in annuities, as many of these have sky-high "hidden" fees.

- Investing in offshore projects, as these can be difficult to track and many use questionable accounting methods.

- Investing in foreign currency trading, because of its wild ups and downs.

- Investing in gold, because it never pays a dividend, interest, or rent. In addition, investing in gold has a carrying cost.

Here are recommendations we will make:

- Invest only in things you know and understand.
- Invest only with people you trust.

When considering a potentially profitable investment opportunity, check to see if that investment can be made *by* your IRA or other income tax-preferred account. If the investment is allowed in a tax-preferred account such as a Self Directed IRA, you could enjoy both profits *and* significant tax savings.

When you make a successful investment inside a Self Directed IRA you will be able to postpone or, depending on the specifics of your account, never pay income tax on your profits.

Important Information if You Have Recently Left—or Will Soon Be Leaving—Your Current Employer

If you are about to leave, or have recently left your employer, you may receive a letter from the plan administrator asking you to check a box. That letter will ask what you want to do with your company retirement plan. What the letter may not make clear is that on the day you terminate your employment, all the money and assets in that plan belong to you, and that you may do whatever you wish with the cash and assets. These letters generally offer you three choices:

- Leave the money and assets in your former (or soon-to-be former) employer's 401(k) Plan.
- Buy an annuity from an insurance company selected by your former employer.
- Take a lump sum distribution (on which you may have to pay taxes).

The way you answer this question could affect your financial life forever. Let's take a look at each scenario.

Leave the money and assets in your former (or soon-to-be former) employer's 401(k) Plan. This may not be the best choice for many of us. Remember, you can no longer make contributions to the plan and your former employer will stop making contributions to the plan. However, all those 401(k) fees will continue. In many cases, the result will be no growth or very poor growth for as long as your account stays there.

Buy an annuity from an insurance company selected by your former employer. This becomes a long shot (in favor of the insurance company). Basically, you would be turning over all the money in your retirement account to an insurance company so they can give your money back to you a little bit at a time. The insurance company will keep sending you money for life regardless of how long you live. However, the reality is that the insurance company calculates the odds before they draft the plan and usually comes out ahead. Translation: The Insurance Company usually "WINS."

Take a lump sum distribution (on which you may have to pay taxes). If you elect this option, you face the very real possibility that you will have to pay income taxes on that distribution, plus a penalty if you are under the age of 59.5 of 10 percent or more.

What is often left out is a fourth option: *transferring the funds in your retirement account to any qualified IRA administrator you wish*. A transfer is not a taxable event and does not cause any IRS penalties. This is a process known as a *trustee-to-trustee* transfer. And you can keep that money growing by investing in the opportunities you like.

Trustee-to-Trustee Transfers

Trustee-to-trustee transfers are easy to complete. Simply select an IRA trustee and make the transfer. By opting for the right IRA trustee, you will be able to:

- Invest your tax-deferred or tax-free dollars in exactly the things you know and understand.
- Have complete control over your investment choices.
- Enjoy no maximum limit on the value of your IRA.

Yes, there are a small number of restrictions to what a Self Directed IRA may invest in, but only a few and easy to avoid. A good Self Directed trustee will happily review any investment you are contemplating for your account and let you know if it's one of the few prohibited transactions.

The steps you take with your 401(k) (or other plans) from a previous employer can be critical to your future and the future of your family. Hundreds of thousands of dollars could be riding on the actions you take. To be hundreds of thousands of dollars ahead only requires that you have the information to help you make the right choices now.

Getting Started

This is a participatory sport.

Many people never learn a simple fact: *Making money is a participatory sport.* Instead, they wait for someone else to make everything right for them. They wait for the mutual fund company to have explosive growth with no stock market downturns. They hope Social Security will significantly boost its monthly distribution rates. Some even daydream they will win the lottery.

In the coming pages, we will share ideas that many successful investors are using every day to quietly build their own little "money machine." A machine that can churn out wealth for themselves and their family for decades to come. They are doing this with no fanfare, no hoopla, and in many cases paying no income taxes on the earnings.

If you have an IRA that has underperformed, this book has ideas and suggestions you can start using tomorrow morning.

If you recently have left or are about to leave your employer, you may have questions about how to grow your previous employer-sponsored retirement plan. This book has useful suggestions that you can use. One of the best things you will learn is that leaving your employer is not the end of growing your retirement wealth. It can be just the beginning. When we think about the future, we know that we'll have ample money ready and waiting for us. The money may have come from being a good saver and regularly contributing to our IRA or from a retirement plan we had at work.

You may have found yourself thinking, "I'm proud of my planning skills; by the time I need the money, I'll have [pick your number] saved up. I'll draw down [pick an amount] from that pile of money once each month. I'll just add that to my other sources of income, including Social Security, and I'll be just fine."

Unfortunately, this euphoric state vanishes as soon as we realize our pile of money will be exhausted in just five to 10 years. That's when reality strikes. We have a body built to run 90 or 95 years, but we only have 75 years of financial gas in our tank.

This is when you come to realize that you need more than a stagnant pile of dollars: instead, you need a plan that *makes money and keeps making money with investments that will generate a continuous flow of income.* You need to develop a method that keeps churning out new dollars for the rest of your life that is *both passive (you don't have to look for another job) and income tax-deferred or income tax-free so it leaves the most money for you.*

How to Turn Underperforming Tax-Preferred Dollars into a "Money Machine" that Can Keep Producing More Dollars

Start at the logical beginning by looking at the money you already have in an IRA or retirement plan from a former employer. These funds are already *income tax-preferred*, the wisest way to earn money.

I understand some people are reluctant to tamper with what they have been told is "sacred money." However, in many cases, the very people who told you how sacred your retirement money is may be the very people who boxed your nest egg into a corner, where your money is sitting at the crossroads of three ticking time bombs:

Time Bomb 1. Many IRAs and retirement accounts are invested solely in the stock market. At any time, a downturn in the stock market could crush your hard-earned savings. It happened in 2002, it happened in 2009, and it will happen again.

Time Bomb 2. Many IRAs and retirement accounts are still traditional and were never converted to Roth accounts. That means that all the money in your retirement plan will be taxable income when you take your withdrawals.

Time Bomb 3. To make the income tax time bomb even worse, it's a natural assumption that taxes will increase in the future. In fact, some experts say the risk of the cost of higher tax rates in the future may be a greater risk than stock market fluctuation.

Making the Right Financial Choices with Your IRA or 401(k) from a Previous Employer

The fact is most people are making second-rate choices that will provide them with third-rate results because they make their financial decisions without having all the facts. Not surprisingly, the people in this group make their decisions based on the recommendations made to them by the very financial companies that will benefit most if the client makes a second-rate choice of how to invest their money.

Relying on a company that sells investments to be your sole source of financial advice is like asking a lion if he's hungry and then holding out your arm: eventually, your arm could disappear.

Why do otherwise intelligent people make poor choices with something as important as a retirement account that has taken them a lifetime to build?

Most people never learn that there's an almost unlimited number of ways to grow an IRA or a 401(k) from a previous employer. Most people don't know where to go to find unbiased information.

As a result, too many people end up making a string of unsatisfactory financial moves that result in everyone making money on their nest egg, except them.

Passive Income Is Not Really Passive

Passive income requires that you become involved and make a decision; it involves checking in on your investments to see that people are doing what they said they would do with your money and looking at opportunities and comparing their value. Getting rich is not a game of invest it and forget it. Successful passive income is never totally passive.

Start with What *You* Want

Make a list of what *you* want—not what the mutual fund, brokerage, or insurance company wants. The list should include what you want from your income tax-preferred account in order to achieve the growth you want. To help get your list started, here's an example to inspire you:

1. The ability to grow the money without limits: no caps and no excessive fees holding back growth.
2. Taking advantage of your own experiences:
   - If your entire career was spent with a forestry company estimating the value of timber land, isn't it likely you would be able to identify a stand of timber that's undervalued and that has significant upside potential? If so, you want a plan that will allow you to make investments in timber land.
   - If your family was in farming, you probably know something about agricultural land and how to make money investing in it without ever touching a tractor, a box of seeds, or a load of fertilizer. If so, find a plan that will allow you to make that investment.
   - If you were a loan officer at a bank, you probably know a lot about making profitable loans. If so, you want a plan that will allow you to make loans and allow your IRA to earn the interest on those loans, just like the bank.

You get the idea: no matter who you are, you have a lifetime of experience and knowledge. We all know a lot about something, so why not have a plan that lets you invest in exactly what you know and understand instead of letting a customer service rep at the other end of a toll-free number just plop your life savings into a generic mutual fund?

3. A plan that keeps all the profits earned in your account. There are ways to invest where the profits from the investment go directly to your retirement account and are not diluted because a percentage of each dollar in your account is siphoned off by the fees and costs charged by a mutual fund company.
4. A plan that offers continuous income tax advantages.
5. Not being locked into the account. If someday you choose to close the account because you want to move your dollars to another opportunity, you want to be able to do so without the investment company imposing restrictions.

As you may have guessed, the account described above is available every day from The IRA Club. In 1999, when I was in a position to design an account for The IRA Club, I designed the account I wanted for myself.

Self Directed IRA accounts can be very profitable; in fact, some old-line institutional companies have begun to slap the words "Self Directed" on their accounts without offering any of the benefits of a true Self Directed IRA. This deception is not limited to a few little hole-in-the-wall companies but instead by some of the largest investment companies in the U.S.

How to Tell if the Company You Are Speaking with Is a True Self Directed IRA Company

True Self Directed IRA companies do not offer or sell investments. Real Self Directed IRA companies (including The IRA Club) are completely unbiased. To determine if you're speaking with someone at a true Self-Directed IRA company, ask the person you are talking with the following question: "Can you suggest or recommend an investment?" If the answer is "no," they are likely a true Self Directed IRA Company. If the answer is "yes," then they are not, and you will be stuck choosing from a list they provide—a list that is most likely made up of products designed to generate the maximum amount of revenue for the company.

Starting a Self Directed IRA

If you don't already have a Self Directed IRA, it's as easy as 1,2,3:

1. *Get Started.* You can set up a Self Directed IRA account in about 10 minutes. The steps to opening an account are simple and listed in Appendix 2 of this book, along with the names of Self Directed companies you can call.

2. *Fund Your Self-Directed IRA.* After the account is opened, it needs to be funded. The most common ways to fund a new Self Directed IRA are:
   - *Transfer funds from a current IRA*: The transfer can be all or part of your account. A transfer from a current IRA is not a taxable event and there are no IRS penalties.

   - *Transfer funds from an Employer Retirement Plan*: Generally, these funds will come from an account you had with a former employer. Typically, a retirement account with a current employer is locked in, until you terminate your employment with that firm.

Transferring from a retirement account held at a former employer is not a taxable event and there are no IRS penalties.

- *Transfer an Inherited IRA*: You can transfer an inherited IRA account to a Self Directed IRA. If you inherited an IRA, you may decide you want to self direct the investments to increase the size of the account. As the beneficiary, you have the right to transfer to a Self Directed IRA Company.

- *Start-up Accounts*: In this case, you have nothing to transfer—no existing IRA or employer retirement plan. Start-ups are less common as there is a yearly limit on the contribution amount to new accounts. As a result, start-up Self Directed accounts have a harder time investing because they have not had time to accumulate assets.

- For more information on funding see Appendix 1 of this book.

TWO

Starting an Account with a Self Directed IRA Company

Opening a Self Directed IRA account is a snap—all you need is a Social Security number and a government-issued photo ID (such as your driver's license).

Many companies let you complete the application online. The IRA Club offers an online option as well, but we suggest that you call our office to open the account. Talking with a real person has three advantages:

1. A knowledgeable person can answer all your questions on the spot.

2. It can be quicker, as we are familiar with the forms needed to set up the account.

3. Within a few minutes of completing the call, The IRA Club will send you an application electronically,

with much of the information completed based on what you tell us during the call. Take your time when reviewing the application. When you are ready, scroll to the bottom of the application to complete the electronic signature section.

Your Self Directed IRA can be opened within one or two hours.

Once your application is completed and signed, you need to fund your Self Directed IRA so it can start making the investments you select.

Funding Your Self Directed IRA Account

The majority of Self Directed IRA accounts are funded by a transfer from an existing IRA or a retirement plan from a former employer. There are a couple of ways to do this:

Transfer money from an IRA that you own. This is referred to as a trustee to trustee transfer and is NOT a taxable event. These transfers are so easy to complete that we (the new IRA company) will contact your former IRA company and complete the processing for you. You simply give us permission to contact the former IRA company on your behalf. When the funds arrive in your new Self Directed IRA account you will be notified that your account is ready to start investing.

Transfer money from a 401(k) or other retirement plan with a former employer. In the case of a 401(k) transfer there is an extra step as you will need to contact the 401(k) trustee of the former employer. When it is time to transfer from the plan of a former employer, an IRA Club professional will explain step-by-step how to complete the process.

TIP #1

If your funds are invested (i.e., in stocks or mutual funds) you will want to liquidate to cash before starting the transfer process. This is because you want to transfer cash and not mutual fund shares.

TIP #2

You do not have to transfer everything at once. You can transfer the amount you will need to make the investment(s) you want to make. We advise adding a small cushion just in case something unexpected comes up.

TIP #3

Trustee-to-trustee transfers are unlimited in number and size, so you can make as many transfers as you like, whenever you like.

And don't forget: when you transfer funds into a Self Directed IRA, those transfers are not considered taxable events by the IRS.

THREE

Making an Investment with a Self Directed IRA Account

Selecting a Self Directed IRA company that provides a high level of personal contact can provide you with the assurance that someone is always there to answer your questions and walk you through your transactions. Once you become comfortable with the process, investing from your Self Directed IRA is easy.

> *Step 1.* Select the investment *you* believe will be best for *you*, whether that investment is in real estate, lending money, mobile homes, or something else. If you have a concern that this investment may not be allowed in your Self Directed IRA, contact The IRA Club—we are here to answer your questions. The vast majority of the time the answer will be "yes," but it never hurts to ask.

Step 2. Direct your IRA to make the investment. You can call our office or go to our web site and download an *Investment Direction* form. Because the Self Directed IRA will be the buyer, The IRA Club may require certain documents be kept on file so we can expedite transactions. Samples of documents include:

- If your IRA is making a loan, we want you to have the original signed promissory note in your IRA file to show the borrower has promised to repay your IRA account.
- If your IRA is investing in a syndication, we want your files to hold the *offering document* of that syndication.
- Having these forms in your file will improve the security of the transaction.

Once we have the Investment Direction form from you and any of the few required supporting documents, we will review them and disburse the funds. In many cases, this process can occur in as little as two business days.

What Investments "Can" My IRA Make?

What Investments "Should" my IRA Make?

The best investment decision you can make is to invest only in what you know and understand. If you don't understand the investment you are about to make, don't make it.

Here's an easy way to test yourself:

- *An investment to consider:* You can explain the investment to your neighbor while standing in your driveway.
- *An investment to avoid:* If, while describing the investment to someone, you use a phrase like this—*My IRA invests money and then a bunch of things happen that I don't really understand*—maybe this is not the right investment for you.

For example, if you understand the idea of buying a single-family home, renting it out, collecting the monthly rent, and holding the real estate as it (hopefully) appreciates in value, then this may be an investment to consider.

If you have a background in oil and gas exploration, that may be a good investment for you because you will know what questions to ask the provider of that investment. You are not relying only on what a salesperson is telling you.

Personally, I don't have even a basic understanding of the oil and gas exploration industry. I would not know what questions to ask or if the plan being offered is reasonable. So, for me (and people like me) oil and gas exploration would be a poor choice.

However, I do understand buying a house, renting it out, and collecting rent. So, for me single-family homes can be a good investment. In fact, I also like to look for neighborhoods that have appreciation potential, including the addition of new businesses, rehabbed houses, and other improvements (i.e., parks, schools, and hospitals).

FOUR

Money-making Idea 1:

Real Estate

Real Estate investing inside an IRA account is very popular:

- The earnings (from rent income and the proceeds from a sale of the real estate) belong to the IRA and thus are not included in your taxable income.
- You and your Self Directed IRA are separate entities (from each other). In other words, what the IRA owns is separate from what you own. This creates a high level of asset protection for you and for your IRA.
- Most people have a basic understanding of buying a house, renting out that house, and collecting the rent. In addition, the results of a real estate investment are easy to track. For example:

- The rent was received (or wasn't received).
- The property tax bill came in (or didn't come in).

With real estate you always know where you stand.

The differences between buying the rental property with your personal dollars versus buying with your IRA dollars are:

- When using your personal dollars (or borrowed dollars) all the income appears on your income tax return. The resulting accounting fees and taxes can be a heavy burden on your growth.

- If your IRA (instead of you) buys a property, the IRA (not you) shows the rental income plus all the proceeds from any sale. This means 100 percent of the earning goes straight to your IRA, not decreased by income tax, and is available for your next investment, project, or transaction. This simple feature greatly increases your rate of compounding.

Cash Flow Real Estate Owned by Your IRA

This is a very popular investment in a Self Directed IRA. The IRA account can receive rental income every month.

It's important to remember that in many cases the *rental income* from just one month of owning a rental property will be greater than the *dividend income* for a whole year from a like amount invested in some mutual funds.

Appreciation

In addition to the rental income, many houses will appreciate in value. If the potential for a steady stream of income from rent, plus appreciation in value, sounds better than the roller-coaster ride of the stock market, then cash flow real estate is worth considering.

Another point to consider: As of this writing, and for the past several years, housing prices have been escalating faster than household incomes. This will result in fewer people being able to (or even having a desire to) own their own homes. The result will be a nation of far more renters than in the past. An IRA that owns a few (or maybe several) houses will be in a position to capitalize on a growing need for residential rental properties.

TIP #4

There are two common ways to invest your IRA in cash flow residential houses—the hard way or the easy way. (Note: We did not say right or wrong way; we said hard or easy way).

The hard way: You find the property, manage the rehab, rent the property, etc. This can be very profitable, but it can also be time-consuming and worse, full of unforeseen pitfalls and costs.

The easy way: Seek a reputable, experienced company that offers turn-key properties.

You could make more doing it the hard way; however, you could also lose more. We suggest you visit a turn-key provider and decide which method best fits your needs, your experience, ability, willingness to accept risk, and time you have to put into the project. All investors are different; you can pick the method that fits you and your needs.

TIP #5

There's no restriction as to where the investment property is located (it does not need to be in your state of residence). This can be an important benefit. If you live in a market where the return on rental property is low, it may be wise to consider investing in a market that offers a higher rate of return to the property owner. We frequently see this with people who live on the East or West coast. The East and West coasts have been great for appreciation; however, the monthly return can be lower due to the high cost of entry. Many investors who find themselves living in an area with inflated housing costs seek and find better returns in the heartland. Be willing to consider a wider geographic range of locations when selecting your investments.

TIP #6

Because real estate investing can have two earning sources (rent income and appreciation), remember to look at both of them before making a decision to buy, sell, or hold. Sometimes we see people who become frustrated with their real estate investment because after property taxes and insurance, the annual cash flow is not what they were hoping. Sometimes, these investors just want to pull the plug and get out of what they perceive as an underperforming asset. We can understand that.

However, many times, these people forget to check the appreciation on their properties. Be sure to take a moment to look how neighborhood values are appreciating. It may change your mind. Here's an example from our files:

Due to outside circumstances, this year a property generated a very low cash flow. However, because of new employers moving in, a planned light rail line, and a suddenly flourishing restaurant and night life scene, the neighborhood was appreciating at a dizzying

> *15 percent to 17 percent a year and it looks like this will continue. This investor has already owned the property for six years. He decided to not hit the sell button and ride the appreciation escalator. Be sure you take all the information available into account. In this investor's case, doing so helped him avoid selling too soon.*

Buy-Fix-Flip with Your IRA or Former Employer Retirement Plan

We all know this one. You have probably watched one of those TV shows about the happy couple who just found the terrible house in the great neighborhood. Suddenly, some nice-looking guy (or gal) shows up and says let's just:

- Knock down this wall.
- Move the bathroom.
- Enlarge the kitchen.
- Remodel the fireplace.
- Install a sauna.

- Plant some trees.
- And sell it for a $100,000 profit.

The whole thing will take about two weeks.

Flipping can be very profitable, and all that profit can belong to your IRA. However, flipping can be riskier than cash flow properties.

Do a flip right and you may see a short-term gain of $30,000, $50,000, or more profit for your IRA, and all without paying income tax, if done inside your Self Directed IRA.

Of course, you will also need to consider permits, delays, and unexpected rehab snags that could upset your timetable and calculation of profit. Flips seldom occur without a surprise or two.

TIP #7

If you have never done a fix and flip before, here's a tip. Find an experienced flipper to *joint venture* on the deal. Fixer-uppers and flips can be plagued with interruptions, delays, and other problems you did not foresee. Working with (and learning from) an experienced flipper on your first few deals can be well worth the share of the profits you may give up. In this case, sharing profits may be more profitable than trying to keep 100 percent of the profits for yourself. On your first few deals, don't look at just the potential profit, instead look at the bigger picture. A good learning experience gained from working with an experienced flipper will serve you well in the long run.

FIVE
Money-making Idea 2: **Lending Money**

An often-overlooked way to earn generous returns inside your Self Directed IRA is to use the idle money in the IRA to make *hard money loans* to creditworthy borrowers. In other words, let your IRA be the bank. Is this a good idea?

To help us put this into perspective, here's a fact that you may find interesting: in 2018 American households spent $186 billion on loan interest and loan fees. That's money your IRA could be earning.

Here's how this strategy works:

- Find the borrower (there are plenty of people who need money). (See IRA Club Tip below.)
- Decide on an interest rate you want your IRA to earn (10%, 12%, 14%, 16%, or something else).

- Identify the collateral you want the borrower to provide to secure the loan. Some people will only accept real estate as collateral, while others will accept almost anything. Example: There are lenders in the plains states who gladly accept cattle as collateral while others accept equipment, vehicles, or inventory.
- Have the borrower sign a promissory note that they will repay your IRA by a certain date; repayment includes the original loan amount plus the rate of interest you agreed to.

How to Find All the Borrowers You Will Ever Want

The method is simple, and it always works. Draft a short speech maybe 15 to 20 seconds. Then say it to everyone you meet. For example, you can tell people you meet, "I am a money lender; I make secured loans. I'm looking for creditworthy people who may have a need for short-term funding."

You may want to add the following:

- I make loans up to $XXX.
- I make loans to people buying fixer-uppers or flips.

- I make loans for any good reason.

The more specific you are (in two sentences) the better the referrals you receive.

Did you notice, the entire presentation was less than 15 seconds long.

Say your elevator speech just 50 times and you will most likely have all the borrowers you could ever want.

Here's the surprise, though: the person you're talking to will likely not end up being the borrower. Instead, you're more likely to hear, "I know someone who's looking for money right now; she wants to finish a project, I'll give her your number." Once you have made the first loan, it's likely that same person will call the next time and the next time and…you get the idea.

Lending to a borrower from your IRA compared to loaning from your personal money offers you a *big* advantage. If you loan your personal money, each time the borrower pays you an interest payment, the interest you receive will be taxable to you at your full ordinary income tax rate. (Ouch!) However, if your IRA makes the loan, all the interest income is paid directly to your IRA and is *not* a taxable event.

TIP #8

Don't forget, your IRA can charge points. Points are a fee you add at the beginning of the loan (sometimes called a loan origination fee). Let's say you agree to lend money from your IRA at 14% and you add a Loan Origination fee of 2%. In reality, your IRA will earn 16% the first year of the loan.

TIP #9

If you charge points you are bound to hear, "I'm borrowing money because I need funds. I don't have the money to also pay points." Your answer can be, "OK, I understand, we can just add the points to the amount of the loan." Let's assume the person is borrowing $25,000 and you are charging 2 points to originate the loan. However, the person can't afford to pay the $500 (the 2%). In this case, just write the loan for $25,500. Your IRA gives the person $25,000 but they pay back $25,500 plus interest. Your IRA will earn interest on the points. It's like a double bonus for your IRA. (It's OK, banks have been doing this to borrowers for years.)

TIP #10

Should the loan be secured or unsecured? There is no requirement that you must obtain collateral. Making a loan and not requiring collateral from the borrower is called an *unsecured loan*. People make these all the time, usually to people they know and trust. However, when you make an unsecured loan you could be out of luck if the borrower refuses or cannot repay the debt. Hence, in most cases, you should get collateral to secure the debt (known as a *secured loan*). If the borrower cannot repay you will have a claim on the asset that was pledged.

It's always better to require collateral than not, and the most common form of collateral is real estate, although other types of collateral are acceptable.

TIP #11

When making a loan consider hiring a local real estate attorney (in that county) to draft the document for you. The local attorney will know the laws and requirements of that county. The cost may be $300 or $700, but as a cost of making the loan, you can add it to the amount the borrower must repay. That's right: the borrower will pay the legal costs. (It's OK, banks have been doing this to borrowers for years.)

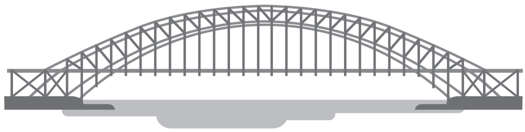
TIP #12

Never make a loan without a *stated maturity date*. Without a stated maturity date, you have no way of knowing when the loan is past due. A specific date (i.e., June 30, 2024) is a stated maturity date.

Too often people will make loans with no stated maturity date. Instead of a specific date, they list an event, such as: The loan is due "when the property is sold." In such a case, you have inadvertently agreed that, if the property is rented and never sold, the loan is never due. Here's an example: "I will borrow $1 million from your IRA, and I pledge to repay the loan with interest when the Chicago Bears win the Super Bowl."

Would you make that loan? The "event" *could* happen. The Bears could win another Super Bowl; however, we have no idea when—maybe not even during our lifetime.

An event such as "when the property is sold" or "when the Chicago Bears win the Super Bowl" is not a stated maturity date. Always include a specific stated maturity "date" in the promissory note. A common phrase in the promissory note regarding a payback time that can achieve your goal is: "The face amount of the loan plus all interest, late fees, and other costs is due in full at the time of the Sale of the Property (123 Green Street, Cleveland Ohio) or July 15, 2024, WHICHEVER COMES FIRST."



SIX

Money-making Idea 3: Bridge Loans

This is similar to what was discussed in the last chapter. Bridge lending can be very profitable. However, making a bridge loan may require more effort.

Let's say you know John, an experienced builder. John has spent his career developing apartment buildings for investors. Now he would like to own his own cash flowing real estate (i.e., a rental property he will hold). His plan is to build a six-plex that he can rent. However, the bank doesn't want to talk with John about a mortgage on a property that's just a set of blueprints and a business plan. John knows the bank will make the loan (and at an attractive interest rate) after construction is complete *and* the building is filled with paying tenants. However, until there is cash flow coming in (from rent) the bank doesn't want to talk to him.

John's dilemma: How does he get from having no building with no tenants to having completed construction and a building full of tenants? The answer is a *bridge loan*. Your IRA could loan John the money he needs during the construction and occupancy period. Your IRA would be giving John the "bridge" he needs to get from start-up to an occupied property.

TIP #13

- Bridge loans almost always charge higher interest rates.
- Bridge loans are for a short period, i.e., nine, 12, or 15 months.

You will want two things from John:

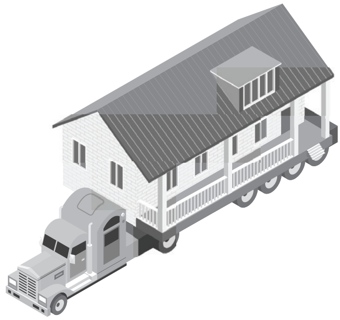
1. *Use of Funds Statement*. You want the borrower to tell you in advance how he/she plans to spend the money your IRA is lending. Having this statement in advance can be helpful:
    - It allows you to review expenditures before they happen.

- If unplanned costs come up, they will be easy for you to identify. This may even call for the note to be amended.
- Having a Use of Funds statement allows you to review the developer's plan in detail. Did the developer leave something out (permit costs, an engineering study, lead paint removal, etc.)? It is better to identify every cost before the project begins.

2. *Timetable with Goal Posts*. For example: The basement will be excavated by [insert date], the foundation will be poured by [insert date], the plumbing completed by [insert date].

You will release the funds to John in stages, as each goal is met.

If John is willing to "plan his work" and "work his plan," a bridge loan can be very profitable for both your IRA and John's future.



SEVEN

Money-making Idea 4:

Manufactured Homes (Mobile Homes)

For years, investors turned up their noses at the idea of investing in a manufactured home. Manufactured homes were seen as a low-brow investment that attracted only the least sophisticated segments of our population. (We even found one article written about 10 years ago that suggested not investing in the mobile home sector because other investors might make fun of you.)

However, while most investors were not looking, the quality of manufactured homes has steadily improved. Many manufactured home parks have become more mainstream. Today, a growing number of smart people are investing a portion of their IRA dollars in this sector—and with good reason. Manufactured homes have a lower cost of entry than a like-sized onsite constructed home, and new residences are easier to find as the stigma of manufactured home living is fading away.

In many cases, the rate of return on investment (ROI) from a manufactured home will be greater than the ROI you can earn on a single-family home.

An interesting benefit to investing in manufactured homes in a trailer park is that most states do not consider a manufactured home in a trailer park to be *real property* but instead *personal property*. This means when buying and selling less paperwork is required.

More people are using their IRAs to buy and rehab manufactured homes with the expectation of selling the manufactured home with seller financing. When it is time to sell, their IRA can sell the home offering seller financing. Here's the bonus for you when your IRA offers seller financing: Your IRA can sell at a higher price because buyers are drawn toward the convenience that seller financing provides. Hence, if your IRA offers seller financing your IRA is in for a *double benefit*:

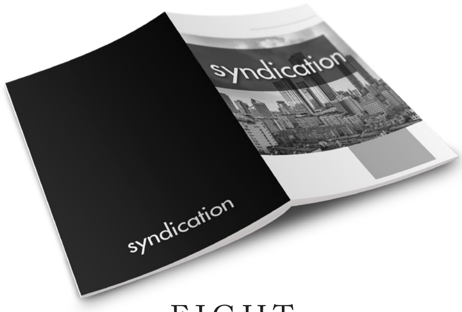
1. Potential for a higher sale price
2. Income from interest on the financing.

The benefit of lower entry costs, two potential sources of income, and the reduced paperwork (when compared to an onsite constructed home) has made manufactured home investments very attractive to many IRA owners.

In some cases, the buy and sell transaction can be completed with one sheet of paper and a trip to the Department of Motor Vehicles (DMV). Instead of a Parcel Number, the manufactured home will have a vehicle identification number (VIN) like your car.

TIP #14

Still don't like the stigma of a "trailer park"? Here's a fact that you may not have been aware of: In 2018, 65 percent of all new manufactured homes were placed on a lot in a neighborhood, and not in a trailer park. Typically, when you place a manufactured home on a private lot you are required to put in a foundation and securely attach the home to the foundation, thus making it real property. When the project is completed, it will look like and feel like a stick-built home but cost 30 percent to 40 percent less to complete.



EIGHT

Money-making Idea 5:

Syndications and Partnerships

There is an endless array of professionally managed investment opportunities available for your Self Directed IRA. Using this type of investment, your IRA simply invests in the syndication or partnership you select and a professional in that field manages the project from start to finish. Common syndications include:

- Office buildings.
- Retail space.
- Warehouses.
- Hotels.
- And more.

Let's say you recently heard that a group of experienced professionals is putting together 15-20 investors to finance a project.

You believe the combination of the experienced professionals and the quality of the project could provide plentiful returns for an investor who gets in on the ground floor.

If you believe the returns will be generous, why not consider making the investment with the dollars in your Self Directed IRA?

As this investment is likely a small group limited to just a few investors, the managers won't want to go through the expense of filing a public offering with the Securities and Exchange Commission (SEC). Instead, this investment may be formed as a *private placement*. A Self-Directed IRA may invest in private placements.

TIP #15

In the case of a private placement or syndication investment, your IRA is not really investing in the underlying asset (i.e., the actual real estate); instead, your IRA is investing in a group or business that will own, manage, or develop the project.

The IRA is really investing in the knowledge, experience, and skill of the syndicators. Because of this, your due diligence may have more to do with reviewing the history, skill, knowledge, and integrity of syndicators (the people) than with the underlying project.

There are syndications that specialize in almost any opportunity conceivable, including real estate. Examples of syndications and (non-real estate) partnerships include:

- Oil and gas exploration.
- Oil and gas storage facilities.
- Clean water.
- Clean energy.
- Cattle programs.
- Health care facilities.

TIP #16

As the underlying investment becomes more specialized—for example, oil and gas exploration is likely to be more complex than building a warehouse—it's a good idea for you to have some knowledge or background regarding that investment type. For example, if you know nothing about oil exploration, you may want to consider a different opportunity, one in which you feel more comfortable. Even though understanding the project is the job of the syndicator, you want to know enough about that investment to ask good questions. You want to be able to determine for yourself if the syndicator really knows what they are doing. You don't want to invest with someone who provides nothing more than a slick presentation.

NINE
Money-making Idea 6:
Agricultural Land

Can agricultural land really be an IRA investment? Yes!

Here is how it works: many farmers do not own the land they farm. Instead, they lease the land from the property owner. A lot of agricultural land is owned in IRA accounts.

The IRA account leases the land to the farmer, who then pays a flat rent (or a share of profits from the sale of the crop) to the landowner (your IRA).

For many years investing in farmland was considered a one-sided investment paying the landowner a good return; however, there was little appreciation in the land's value. The fairly flat prices for farmland were because, for decades, farm productivity kept increasing due to constantly improving farming techniques. That made it possible to grow more and more crops on the same acreage of land. However, the pace of innovation seems to have leveled off, causing land values to start what will very likely be annual increases for the foreseeable future as more and more property will be required to feed our growing population.

If you have some background in the agricultural business agricultural land can be a very rewarding investment for an IRA.

But there is more! Let's look at diet trends. Each year more Americans are reducing their intake of red meat and increasing their intake of healthy plant-based foods. In other words, owning farmland could put your IRA on the path of a strong consumer trend.

America's rich soil could make your IRA rich.

TIP #17

How big is this market? Is it worth my attention? According to the USDA, of the 2.3 billion acres of land that makes up the United States, fully 51 percent is used for agricultural purposes.

TEN

Money-making Idea 7:

Investing in Almost Any Industry

- Do you have knowledge of the timber Industry? Why not use it?
- Do you have knowledge of the aviation Industry? Why not use it?
- Do you have knowledge of another industry? Why not use it?

You can and should use the knowledge, wisdom, and experience you have gained over a lifetime when investing your IRA. Consider the industry where you work (or worked): you are no doubt a virtual encyclopedia of information. Why let all your knowledge and understanding of your industry just sit on a shelf while your money lingers in some nondescript mutual fund? With a Self Directed

IRA you can use your knowledge for tax-deferred or tax-free benefits.

With your years of experience, you will know what questions to ask, how to read the reports, and who the best players in the industry are. Compare that to investing in a mutual fund and hoping the fund manager beats the market.

Remember Warren Buffet's advice: "Invest in what you know and understand."

ELEVEN

Money-making Idea 8:

Undeveloped Land

Investing in undeveloped land has lots of pros and a few cons. If you can find a sweet spot, investing in undeveloped land can be a very attractive investment for your IRA dollars, offering substantial upside potential.

First, let's look at the pros:

- Undeveloped land is the ideal "hands off" investment. No tenants, no plumbing, no screen doors to repair, etc. In most cases, your only concern may be: Is the property suitable for building? And happily, for you, you won't be doing the building—that complexity will go to the person who buys the land from your IRA.
- Undeveloped land is a fraction of the cost of developed land.

- In many cases, the only ongoing cost will be the semiannual property tax bill. As property tax will be computed based on vacant land, the taxes are likely to be low.
- Sellers are generally easy to deal with. By definition, vacant land is never "owner occupied." You are not buying the house where someone raised their kids or where Grandma made apple pies. It's just a piece of land and there is likely nothing for the seller to become sentimental about.
- We have all heard stories where a house went to market only to have a bidding war break out. This is very rare when acquiring vacant land. (There's a reason there's no television show called "Buy This Vacant Land.")

Now, the cons:

- No cash flow in the short term.
- To sell the land for its best and highest use, it could be necessary to rezone the property or obtain permits and approvals.

- It may take a while to sell, so be sure your IRA can manage the cost of property taxes during the holding period.

TIP #18

Before investing in undeveloped land with your IRA, think through your "exit strategy." If your IRA is going to be a short-term owner (one to 24 months), undeveloped land can be a relatively easy and profitable investment.

If this investment has a longer time horizon (for example, you are waiting for the population to move out to where the land is located), there will be holding costs your IRA will need to pay each year such as property taxes and other costs. If the land is not generating cash flow, you will want to plan in advance how the IRA account will be able to pay the carrying costs.

TWELVE

Money-making Idea 9: **Short-Term Rentals**

Short-term rentals have been around for many years. This investment category has long included vacation rentals, executive stay rentals that companies use for employees who may be required to be away from home for more than a few days, etc. Until recently, the short-term rental market was a sleepy but profitable corner of the real estate rental market.

Over the last several years, the market for short-term rentals has grown exponentially due to the proliferation of online services such as Airbnb, VacationRenter, VRBO, FlipKey, HomeAway, TripAdvisor, and onefinestay.

Short-term rentals can be a profitable niche for investors; however, like many niche opportunities that grow fast, it is easy to become temporarily blinded by stories of big returns. As a result, it's also easy to overlook commonsense advice and tips that can help you succeed. With short-term rentals too many first-time investors seem to snatch failure from the jaws of victory. Here are some ideas to help improve your probability of success:

1. A property that might rent for a specified amount from a monthly tenant on an annual lease (for example, $1,000 per month) may rent for two or three times that amount to a series of short-term renters (for example $750 per week).

2. A growing number of travelers are interested in a local and unique experience, and find that a short-term rental provides that more than a chain hotel would.

3. Personally, I am fine staying in a hotel for a short stay of one, two, or three nights. However, if I know I will be in the same city for a week or more, staying in a short-term rental is more comfortable because of the privacy and amenities it provides.

4. Many travelers are willing to seek out a rental that fits their personal needs, such as bringing along their family or extended family.

5. Marketing your short-term rental is now easy with dozens of websites available to list your offering (including those listed above), in exchange for a portion of your rental income.

6. A short-term rental property may appreciate along with the rest of the neighborhood in which it is based. This appreciation provides a second opportunity for earnings (i.e., when it is time to sell).

Sounds like a can't-miss opportunity, doesn't it? Not so fast!

TIP #19

Focus on location. Your short-term rental needs to be close to what people want to access when visiting: the beach, national park, sports stadium, downtown offices, government centers, and more.

I once had someone ask me about using a rental property he owned as a short-term rental. He had read about the high rental incomes these properties could generate and wanted his piece of the pie. When I asked him what the property was near, he thought about it for several minutes and finally said, "It's only three blocks to a Starbucks." Here's the moral to this story: If you are considering short-term rentals, be sure to think carefully about the location before you jump in. A golden location almost always works, whereas a location whose only draw is being three blocks to a coffee shop may not motivate enough travelers to make it worth your while.

TIP #20

Invest in an alarm system for your property. Short-term rentals are almost always vacant more than a full-time residence. The bad guys know this because the property's availability is listed on one or more easy-to-access websites, so it's not too hard to figure out when the property will be empty and ripe for a break-in. (Oops, there goes the flat screen TV!)

TIP #21

Hire a local company to manage your short-term rental, including:

- Welcoming guests, providing the keys, and answering any questions.
- Thoroughly cleaning the property and preparing it for the next guest.

There are companies in every community that will be happy to do this work for your IRA. Assume the cost will be 25-35 percent of gross rent received. The IRA rule is that you cannot do the work yourself (this includes you, a family member, or a company owned by you or a family member).

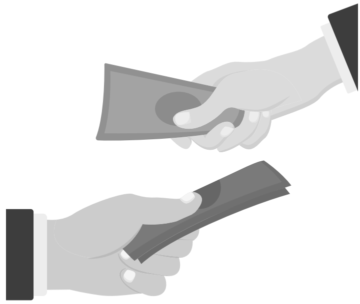
TIP #22

Use low or no-leverage funds to invest. I cannot emphasize this enough, so I'll repeat it: Use low or no-leverage funds (i.e., borrowed money) when investing in this sector. The sad stories that can occur in this highly profitable sector too often come from investors carrying too much long-term debt. We have all seen it before, yet people continue to ignore this simple commonsense guidepost: *Do not take on a long-term debt commitment to finance short-term incomes*. Why? Because a quarter, third, or halfway through paying off the long-term debt, the short-term income stream may be interrupted. Let's look at some examples:

- *Example A.* An investor uses a large 20-year mortgage to buy a lovely lake house that sleeps 12 and is perfect for weekly family vacation rentals. For the first four years the rental income is good, and the owner is happy. However, in the fifth year, the steel plant four miles up the lake accidently discharges a dangerous chemical, causing the water to be contaminated and the lake closed to recreational use. Suddenly, this investor's income on this property is zero. However, the mortgage payments and taxes are still due.

- *Example B.* Another investor uses a 15-year mortgage to pay for 90% of a four-bedroom home near a midsize sports arena. The area's constant stream of swim meets, tennis tournaments, and weight-lifting competitions create a steady stream of eager renters—until the city decides to build a newer, nicer arena nine miles away. As a result, short-term rental income on this property becomes reduced to the point that it no longer covers the expenses on the property, including mortgage payments and taxes.
- *Example C.* There is a sudden and unexpected downturn in the economy and people travel less. As we all know, it has happened before, and it will happen again.

Yes, short-term rental income can be lucrative, but it can also be fickle. The solution to managing the latter is to keep your leverage low. With careful attention to the selection of your location and by keeping an eye on the tips listed above, you will greatly increase your chances of enjoying a profitable experience in short-term rentals.



THIRTEEN

Money-making Idea 10:

Promissory Notes

There is an active market in buying and selling existing *promissory notes*. People and businesses (including banks) sell excess or unwanted promissory notes for many reasons:

- They need to turn the note into cash to facilitate another deal.
- The note is perfectly good, but the holder wants to rebalance his portfolio. For example, the holder has too many construction loans outstanding and wants to cut back on their exposure.

Individuals also will have notes for sale, not just banks and businesses. Here's an example: Mr. Smith sold his home and provided the buyer with seller financing. After a few years, Mr. Smith changed his mind, and instead of receiving monthly payments for years into the future, he wants the cash now. To obtain the cash, Mr. Smith can sell to your IRA the remaining payments due on the note. In this case, your IRA is buying a future stream of payments. The borrower will now make their future payments directly to your IRA.

What makes this an interesting investment is that very often your IRA can buy the note from the current owner at a discount. Buying the note at a discount can substantially increase the percent return.

TIP #23

Almost every community will have at least one note broker. If you are interested in this investment class, a note broker can be a wealth of information. Many will even service the loan (for a fee) after your IRA buys it.

When you talk with the note broker, they will have a list of *performing notes* and *non-performing notes*. If you are new to this area, consider performing notes to start.

After you have gained some experience, you may want to consider investing in non-performing notes.

Buying a non-performing note sounds awful, doesn't it? Don't reject the idea before you know the facts about the note. Non-performing notes can be bought at a large discount. Frequently, lenders (such as banks) don't wish to deal with a non-performing loan so they sell them off at a discount.

TIP #24

Take the time to look at non-performing notes one-by-one because there may be gold hidden in the list. Here are some things to consider:

- How delinquent is the borrower? Some may be only 90 or 120 days delinquent.
- How adequate is the collateral? Is this a $120,000 loan secured by a $300,000 house?
- How is the borrower's credit score? Is this person generally a good payor who just ran into a rough patch such as unexpected medical bills?
- Consider offering the borrower a repayment plan that includes lower monthly payments (for a longer period of time), keeping them in their home and paying your IRA an attractive return.

Once you learn how to select and manage non-performing notes, they can be very profitable. The profit occurs because most non-performing notes are available at a steep discount, which can provide a large net return to your IRA while helping the borrower.

FOURTEEN

Money-making Idea 11: **Structured Settlements**

A subset of buying promissory notes is buying *structured settlements*. There are more structured settlements than we can count. Some examples include:

- Game show prize winners. Game shows don't really give the winnings in one nice fat check. Instead, they hand the contest winner a settlement contract backed by an insurance company (the contract pays out over 15 or 20 years).
- Lottery winners.
- Life annuity holders.

Less obvious but, even more important (because there are so many of them) are court-ordered settlements that are paid out over time.

Sometimes, the holder of these contracts doesn't (or can't) wait for the money and would rather have some or all of the cash now. This is where your IRA can come in. Your IRA can offer to buy now the future payment stream that will come from the structured settlement at a discounted price.

TIP #25

This can be a very secure investment as the flow of payments is typically guaranteed by an insurance company.

TIP #26

If the structured settlement was the result of a court case (for example, the court ordered that the payments be made over time) you will need to seek that court's permission to allow the current owner to sell part or all of their future stream of payments for cash now—the court may have a concern about allowing this person to have too much money at once.

FIFTEEN

Money-making Idea 12:

Group Housing

This is a market that is underserved and experiences a shortage of quality properties, including living facilities for healthy seniors, rehabilitation facilities for individuals following surgery, halfway houses for nonviolent criminals, and more.

For example, police departments across the country are struggling with a shortage of housing for recently released nonviolent criminals. There is a strong need for group living facilities in almost every county in America. In many cases, these facilities can be managed by the local law enforcement agency, providing the property owner (your IRA) the "cash flow" from the property without the headaches of managing the property.

If an agency cannot (or will not) manage the facility, there are other professionals who will. A well-run and well-maintained facility can be a godsend for people in need, while your IRA enjoys years of cash flow.

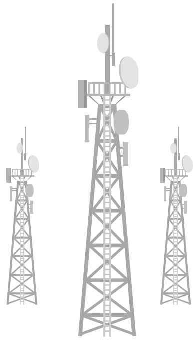
However, there is more to this opportunity. Visit the website of the Kate's House Foundation: https://www.kateshousefoundation.org/. The founders, Frank and Sherri Candelario, understand the needs of this massive market, as well as the opportunities. They are revolutionizing the space by setting the bar of excellence at a level that all others will have to emulate.

If you have a "I want to do well while doing good" desire, take the time to learn what Frank and Sherri have accomplished. In addition, they are open and willing to share their experience regarding the following:

- Nonviolent criminal rehabilitation.
- Battered women's group homes.
- Active senior engagement.
- Post-op recovery.

- Reentering society following drug rehab.
- Support groups.

This is not a quick investment: you will learn about zoning requirements, safety requirements, and more. However, once it is set up and operating, special needs housing can provide a lifetime of cash flow.



SIXTEEN
Money-making Idea 13:
Cell Phone Towers

Cell phone towers are everywhere. As of 2016, there were more than 307,000 towers in the U.S.

Contrary to what you might think, phone companies don't own the towers. In general, each tower is owned by a company which erects the tower and leases space on that tower to the carriers. While many of the towers are owned by large companies like Crown Castle and American Tower, many others are owned by individual investors who turn over the job of leasing and maintenance to a management company.

Why is this an interesting investment?

- Maintenance costs are low. Cell towers are generally leased to a tenant who accepts the obligation to pay maintenance costs.

- Many towers can handle multiple tenants thus providing high margins due to the incremental rent income.

With the replacement of 4G by 5G, the number of towers in America may need to increase by a factor of 10, so hold on: Here comes the next cell tower boom and your IRA can own a part of it.

SEVENTEEN

Money-making Idea 14:

Wind Turbines and Wind Turbine Real Estate

Drive to a rural area and you will find hundreds, if not thousands, of *wind turbines* spinning around and generating electricity. Unlike cell towers, a wind turbine tower is extremely expensive to build and maintain. Because a large 2.5-megawatt turbine can cost $3 million to $4 million, we'll leave building large wind turbines to the public utility companies that have the millions to spend. However, those large turbines need space, and while public utilities have the budget to build giant towers, they don't have the budget (or the desire) to buy all the land needed for those turbines. Consider the following:

- A typical large turbine requires 1.5 to 2 acres of land.
- The best assumption is that a turbine will last 30 or more years.

As a result, public utility companies across the country are renting land from investors (such as IRA accounts) and providing the IRA with a 30-year lease so the utility can erect turbines. The lease is guaranteed by the utility.

TIP #27

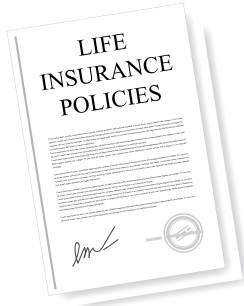
Almost half the states in the U.S. have enacted minimum renewable energy requirements that will phase in over the next 10 years. This means that there will be even more wind turbines and an ever-greater need for land on which to put these towers.

TIP #28

The best places for wind farms are where the wind is strong and reliable:

- Coastal areas.
- The tops of rounded hills.
- Open plains (think of most of the middle of our country).
- Gaps in mountains.

To be worthwhile, you want an average wind speed of around 25 km/h (about 15.5 mile per hour), and ideally proximity to high tension wires to carry away all that voltage.



EIGHTEEN

Money-making Idea 15:
Life Settlements

During our lifetime, most of us buy some life insurance. New parents with a young family want to be sure everyone is taken care of financially in case they are not around to provide for them, or maybe they want to take care of another concern, such as a large debt. All the reasons for buying life insurance are valid at the time it was purchased.

However, things change: The young family grows up. Outside risks diminish. Assets have grown to the point that they are enough to support those we leave behind. All these things are good. If we have planned right (and been a little lucky) each year our financial situation becomes more stable.

Suddenly, the owner of the life Insurance policy wakes up one morning and asks: “Why am I still paying on a life insurance policy I no longer need?”

At this point, one of three things usually takes place:

1. *The owner of the policy simply stops paying their premium.* Insurance companies love when this happens. They have collected premiums for 10, 20, or even 30 years, and because the owner has allowed the policy to lapse, the company will never be obligated to pay a death benefit. Score this scenario as a home run for the insurance company.

2. *The owner of the policy cashes in the policy, taking a cash value settlement.* Insurance companies like this as well. In this case the insured just selected an option that will pay him or her a fraction of the death benefit, saving the insurance company thousands, tens of thousands, or even hundreds of thousands of dollars in death benefit payments.

3. *The owner of the policy sells the policy to an investor who will pay more than the cash value of the policy. In other words, the investor is buying the future life settlement of that policy.*

In scenario 3, the investor (your IRA) pays the existing owner of the policy an amount greater than the cash value.

Hence, the original policy owner receives a greater amount of money for the policy than he would if he accepted a cash value settlement. The buyer (in our example, your IRA) pays all future premium payments as they become due. The original owner has no further obligation.

The benefit is your IRA will make itself the beneficiary of the policy and receive the death benefit. The investment the IRA is making is in the opportunity to receive the policy's future death benefit (also called the *life settlement*).

Why does this work for the original owner of the life insurance policy?

The current owner has already decided they no longer need the policy. They have three options:

- Allow the policy to lapse (and get nothing).
- Accept the insurance company's cash value settlement offer.
- Sell the policy to the highest bidder.

In most cases, the life settlement buyer will pay more for the policy than the cash value amount offered by the insurance company.

Why does this work for the investor?

Even after paying the policy owner to buy the policy and taking on the risk of paying premiums for the rest of the insured's life, receiving the life settlement can provide a respectable profit.

NOTE

Blackstone Investment Group and Warren Buffett are two of the largest holders of life settlements.

Can a Self Directed IRA invest in life settlements?

Yes, your Self Directed IRA can invest in life settlements.

What are the advantages of investing in life settlements in my IRA?

The settlement value (the death benefit) is guaranteed by the life insurance company. Life insurance companies are well-financed and closely regulated by the states in which they operate, so the payouts are very secure. In addition, the return on this investment is not correlated to the stock market, real estate market, or the general economy. Depending on how long or how short a time the insured survives, the returns can be generous. Of course, the longer the insured survives, the lower the rate of return.

What are the disadvantages of owning life settlements in my IRA?

Life settlements do have disadvantages. For example, they do not pay a dividend. All the earnings come at once, after the death of the insured. In a way, this is similar to holding undeveloped land in your IRA and waiting for a buyer to come along. The holding period can be long, depending on the longevity of the insured. Hence, the holding period is out of your control.

Who should consider an IRA investment in Life Settlements?

Life settlements are rarely a first investment in an IRA. First investments are generally those things that return income or cash flow, such as rental property and promissory notes. However, once those investments have been made and the IRA owner is considering longer-term potential growth, life settlement investing provides an interesting option.

Can my IRA invest in life settlements on its own?

Technically, your IRA can invest in life settlements on its own. However, as a practical matter, finding the policy seller, qualifying the policy seller, and dealing with the legalities of buying a life insurance policy is best left to professionals in that field.

In general, it is best to use a life settlement professional or investment advisor to help create a package for you.

NINETEEN
Now What?

By now you get the idea. A Self Directed IRA can make almost any investment for your future. The investments presented in this book are just some samples of the ideas your IRA or 401(k) from a previous employer can make. There are hundreds more. The advantages are clear. An IRA opened at a financial institution such as a brokerage firm or mutual fund company will limit you to the investments where that institution earns the most in fees. Generally, these are investments tied to the stock market, meaning you are accepting the full risk of stock market volatility. We all remember the dark years 2008-2011—a stock market downturn can crush a lifetime of retirement savings in a matter of months.

Investments that are tied to the stock market are fine if you are an expert and the occasional 30 percent to 50 percent selloff would not hamper your plans. However, if you see the rational of investing in what you can control, in real assets backed by real property, using a Self Directed IRA for at least a part of your IRA money may be your best tool to produce growth by allowing you to make exactly those investments that will work best for *you*, not someone else.

Appendix 1

Should I Convert My Traditional IRA to a Roth IRA?

Let's compare the two common types of IRAs: TRADITIONAL and ROTH.

	Traditional Self Directed IRA	Roth Self Directed IRA
May make any investment that is not a prohibited transaction	Yes	Yes
Money In		
Contributions	Income tax-deductible	Not income tax-deductible
To make a new contribution to an IRA	You must have earned income	You must have earned income
Transfers from one IRA account to another IRA account	Unlimited amount and there are no income restrictions	Unlimited amount and there are no income restrictions
Earning limits on contributions	Generally unlimited; earn as much as you want	Generally unlimited; earn as much as you want (using a backdoor Roth)
Money Out		
Qualified distributions	Taxed as ordinary income	Income tax-free
Must take an annual required minimum distribution	Must start at age 72½	No required distributions age
If You Die		
Passes to your beneficiary	As a traditional IRA account	As a Roth IRA account
What income tax treatment will your beneficiary have?	Taxed at ordinary income rates in the year of the distribution	Income tax-free
Can your beneficiary invest the funds in the inherited Roth IRA?	Yes	Yes
Super bonus for all IRAs. Will your IRA be subject to probate?	IRAs do not go through probate if there is a named beneficiary	IRAs do not go through probate if there is a named beneficiary.

What if I want to convert a traditional IRA that I already have to a Roth IRA?

Converting from traditional to Roth may be a very good action to take in order to enjoy the tax-free advantages of owning a Roth IRA. However, keep in mind that a conversion is a taxable event.

The Self Directed IRA company will send you a Form 1099R which will show the value of the conversion from Traditional to Roth. When filing your taxes, you will include that amount with other Form 1099Rs you may have received. The amount will be taxed as ordinary income.

I have always heard I should put off paying taxes as long as I can. It sounds like doing a Roth Conversion requires me to pay now instead of later (when I take the IRA distributions). Why would anyone want to pay the tax sooner?

Even though converting from a traditional IRA to a Roth IRA means you'll be paying taxes sooner, rather than later, there are two good reasons to make the move:

1. You believe the investments you plan to make in your IRA will do well and your IRA will increase in value faster than the rate of inflation. In that case,

you should consider paying the taxes now before the value of the account grows.

2. You can pay income tax on the "seed" or wait until the asset grows in value and pay income tax on the "tree." Paying tax on the "seed" can be a lot less costly. If you believe that in the future your taxes on your income will be higher than today, paying taxes now at the lower rate could save you a lot of money.

Must I decide now if I will do a Roth conversion?

No. Roth conversions are here to stay, so you can convert today, next week, next month, next year, or never—it's your choice.

> **TIP #1**
>
> Many people find the best time to do a Roth conversion is when their income is low (i.e., they are unemployed or between jobs). This will be when your income tax rate is the lowest thus making the conversion less costly.

TIP #2

You do not have to convert your entire account at once. Convert only what you want. Converting in phases will stretch out your income tax hit.

Appendix 2

SEP IRAs

A *SEP IRA* (Simplified Employee Pension) plan provides business owners with a method to contribute large amounts toward retirement. SEP IRAs are simple, low-cost, flexible, and can be Self Directed.

As of 2020, contributions may be up to 20 percent of the business' profits, up to a total of $57,000 per person, per year. In addition, up to an additional $57,000 may be added for a spouse, for a total of $114,000. The IRA Club can provide your exact contribution amount based on your business income. Here's a quick example of how a contribution might work: If your business earned $700,000 of profit, and you and your spouse were the only employees, you would be able to max out the contributions ($57,000 for you and $57,000 for your spouse, for a total of $114,000)—all deductible from that year's earnings.

SEP contributions are 100 percent income tax-deductible. SEPs are low-cost and can be started for less than $200. The IRA Club can complete all the necessary paperwork.

Owning a SEP requires *no* annual tax filing, so there are no 1099s or K-1s to worry about.

If you want to consolidate your traditional IRA and 401(k) from a previous employer into one account, a SEP can accept transfers from both.

To be eligible to make contributions to a SEP IRA you must:

- Own a profitable business, or
- Be an independent contractor (a Form 1099 employee).

You can transfer or roll over an unlimited amount into your SEP IRA from either a traditional IRA account or a previous employer's 401(k).

Appendix 3

Partnering Your IRA

Your IRA can partner with another entity to make an investment. Typically, your IRA account would pay the entire cost of the transaction; however, your IRA may be short of funds.

There are a couple of important points to consider when doing this:

1. Advanced planning is important. Once the investment process has begun, the process of partnering can become very complex or even unfeasible. Decide if your IRA will "partner" before you begin the investment process.

2. When your IRA partners to make an investment, it is recommended that there be an independent third party or management company to collect any rents and pay the bills. This will make collecting revenue, paying bills, and general bookkeeping easier for the partners.

Here's how it works:

1. Open and fund the Self Directed IRA account.

2. Identify the investment property.

3. Your IRA and the partner buy the investment (typically as an undivided interest). Here's an example: John Smith, IRA (28 percent) and Alice Adams, an individual (72 percent), become joint tenants. Your IRA provides the title company with funds from your IRA to acquire 28 percent of the project. The partner provides his/her funds to the title company, in this case, 72 percent of the cost. The title company is instructed that the ownership should reflect the exact percentage of the investment (28 percent and 72 percent.)

As stated above, we suggest you engage a third party or management company to collect the rent and pay the bills, and then instruct the management company to distribute the net earnings to the investors prorated to the amount of their investments (in the above example, 28 percent to John Smith, IRA account and 72 percent to Alice Adams).

Appendix 4

Asset Protection

Some asset protection professionals suggest that a good way to protect an asset if you were to be (personally) sued is to show that you do not have ownership of the asset. To accomplish this, they will suggest that you establish a business (such as an LLC) or a trust to hold your assets. Many people are reluctant to use the trust option because of the expense involved in setting it up. *However, here's the good news: an IRA is a trust and can be set up for about $200.* The assets inside the IRA are inside a trust.

Appendix 5

Prohibited Transactions

A *prohibited transaction* is a transaction that can invalidate an IRA.

The description of prohibited transactions below is intended as a guide and not an in-depth review of the topic. If you desire additional detail regarding prohibited transactions, refer to IRC 4975 (c) (1) and 4975 (e) (1) for the most frequently asked questions. (IRC refers to the Internal Revenue Code of the IRS.)

The prohibited transactions rules are both simple and logical. The regulations apply equally to all types of IRA accounts: Traditional, Roth, SEP, and SIMPLE.

Note: Because the rules apply to so many types of accounts, we will simply refer to these as the IRA prohibited transaction rules instead of repeating the lists of IRA types each time.

The first set of IRA prohibited transaction rules are simple. An IRA may not:

- Invest in insurance contracts (i.e., your IRA cannot pay for life insurance premiums).

- Invest in collectibles (sorry, that 1954 Corvette you have your eye on cannot be an investment inside your IRA).
- Invest in Sub Chapter S Corps. This is not an IRA rule; it is a Sub S requirement.

The next set of rules deals with whom your IRA may transact business. An IRA may not directly or indirectly enter into a transaction with a *disqualified person* or an entity controlled by a disqualified person. In addition, your IRA may not provide goods or services to a disqualified person, and a disqualified person may not provide goods and services to the IRA. Finally, anyone acting as a fiduciary to the owner of the IRA may not transact business with the IRA.

Here are some examples of dealing with a disqualified person:

- Your IRA owns a house, and your daughter needs a house. Your IRA cannot lease the house to your daughter because your IRA cannot have a transaction with a member of your family. In fact, you can't even let your daughter live in the house for free because even that is a prohibited transaction as it involves "goods or services" (see below). An IRA may not provide "goods or services" to a member of your family.

- Your husband's son is starting a new business and you'd like your IRA to invest in the business. Your IRA cannot invest in the business because an IRA cannot enter into a transaction with your spouse's children.

- Your IRA recently bought a fixer-upper, and you'd like to work on the house and have your IRA pay you for the work. This is sometimes known as self-dealing and is a prohibited transaction. Even if you didn't get paid, you cannot provide goods and services to your IRA.

Appendix 6

Investing in a Business

A Self Directed IRA can invest in a business, unless one of the following exists:

The company is a Sub Chapter S Corp. This is not an IRA rule; it is a Sub S regulation.

You or a disqualified person (directly or indirectly) own 50 percent or more of the entity.

You or a disqualified person (directly or indirectly) are an officer, director (or similar), or a highly compensated employee and hold more than a 10 percent interest in the entity.

It is the responsibility of the IRA owner to avoid making a prohibited transaction with their IRA dollars. If you have an account with The IRA Club, we can help you determine if a proposed investment would be considered a prohibited transaction.

Appendix 7

Investable Health Savings Account Secrets

Do you have a *high-deductible health plan* (HDHP)? For many people these plans can be a good idea as HDHPs have significantly lower premiums than a typical health insurance plan. Of course, the downside is you will need to pay a higher deductible amount should you need medical care.

Why would we bring up Health Savings Accounts (HSA) in an IRA book?

Because there is a little secret hidden deep inside the HSA. While money is sitting in your HSA (money that has not yet been spent on medical costs) it can be treated just like the money in a Self Directed IRA: it can be invested. As you will see in the samples below, if you want to be a little aggressive putting money in your HSA but continue paying your "out of pocket" medical expenses on your own you could build up a good amount of investable dollars income tax-free in an HSA.

The money you contribute to an HSA is investable until you decide to use it to pay medical expenses. In fact, *HSAs are triple tax-free*:

- Any contributions you make to a health savings account are deductible from your earnings, reducing your income tax for the year of the contribution.

- During the investment period all the investment growth (regardless of the amount) will not be taxable income. There are a few prohibited transactions which we will not cover here.[1]
- When you take a distribution, the distributions are income tax-free if used to pay medical costs.

	Contributions Deposits to the account	**All Profits** Made by the account	**Distributions**
Traditional IRA	Income Tax Deductible	Income Tax Free	Taxable
Roth IRA	Not Deductible	Income Tax Free	Income Tax Free
Health Savings Account	Income Tax Deductible	Income Tax Free	Income Tax Free

Here are three different scenarios of how people can use their HSA. All are available to you.

1 For more information and details see *Internal Revenue Code (IRC) 26 U.S. Code §4975 also ERISA IRC 408(a) and 408(b).*

Three Ways to Use a Health Savings Account

1 Contribute to the HSA and spend all of it on medical costs.

Contributed to HSA	$3,000
Dad's Medical Expenses	$2,100
Tim's Medical Expenses	$ 900
Medical Expenses Paid from the HSA	$3,000
Income Tax Savings	**$ 750**

(Based on a 25% income tax rate)

2 Contribute a lot to your HSA; however, spend only a portion.

Family HSA Contribution	$6,850
Robert's Medical Expenses	$ 500
Donna's Medical expenses	$1,100
Medical Expenses Paid from the HSA	$1,600
Income Tax Savings	**$1,712**

(Their income tax savings was greater than their medical costs. Plus $5,250 remains in the account to roll into next year OR to invest income tax free for their future.)

3 Just let your HSA build and build by making smart investments

Family HSA Contribution	$6,850
No Medical Expenses	$0

(Note: You are not required to use your HSA to pay medical costs, You can let the money build.)

Income Tax Savings $1,712
Plus, they have $6,850
to invest Income tax free.

Some Final Words

Too many people leave the management of their future up to someone else:

- A customer service rep on the receiving end of a toll-free number
- Someone who could be more interested in the commission they'll earn on your investment than in your future
- Someone who offers retirement accounts as an afterthought or an add-on product or service

Now is the time to take control of the growth of *your* dollars. The people who achieve real success are the people who take control of their money.

Remember: *He who does not control his money cannot control his destiny*.

Companies that Offer Self Directed IRAs

THE IRA CLUB

IRA Club.org

312-795-0988

800-795-7950

MILLENNIUM
TRUST COMPANY

Mtrustcompany.com

630-368-5600

PENSCO TRUST

Pensco.com

415-274-5600

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About the Author

Dennis Blitz is President of The IRA Club and author of several bestselling texts used by investment professionals across the country. He is also the author of *Save Smart, Earn More: The New Rules for Retirement Investing*.

In his role as President of The IRA Club, Dennis has been asked to speak before professional investor groups more than 250 times, in almost every state. In addition, he has had more than 5,000 one-on-one conversations with investors. The questions they asked at these meetings are the basis for this book.

Dennis and his wife, Gayle, live in Chicago.

About The IRA Club

The IRA Club is a highly respected nationwide administrator of Self Directed IRAs, Solo 401(k)s, and HSA plans designed to allow you to invest in the exact opportunities you believe are right for you and your family.

The IRA Club is a “Client Service First” provider. Each call is promptly answered by a knowledgeable IRA Club professional. Answers to your questions are provided in minutes, not days.

The IRA Club efficiently administers hundreds of millions of dollars in investments for thousands of active investors.

- The IRA Club has Polish, Arabic, Cantonese, and Spanish-speaking agents to assist you.
- Free Allowable Transaction Analysis of your investment opportunities to help keep your every transaction IRS-compliant.
- Up-to-date educational resources on IRS regulations.
- Free consultation with your attorney or tax professional to answer every question.
- 10+ years of industry experience.

- Better Business Bureau Rating A+.
- FDIC insured.
- Strong monitoring system to prevent fraud and cybercrime.
- Flat fees and straightforward pricing.

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