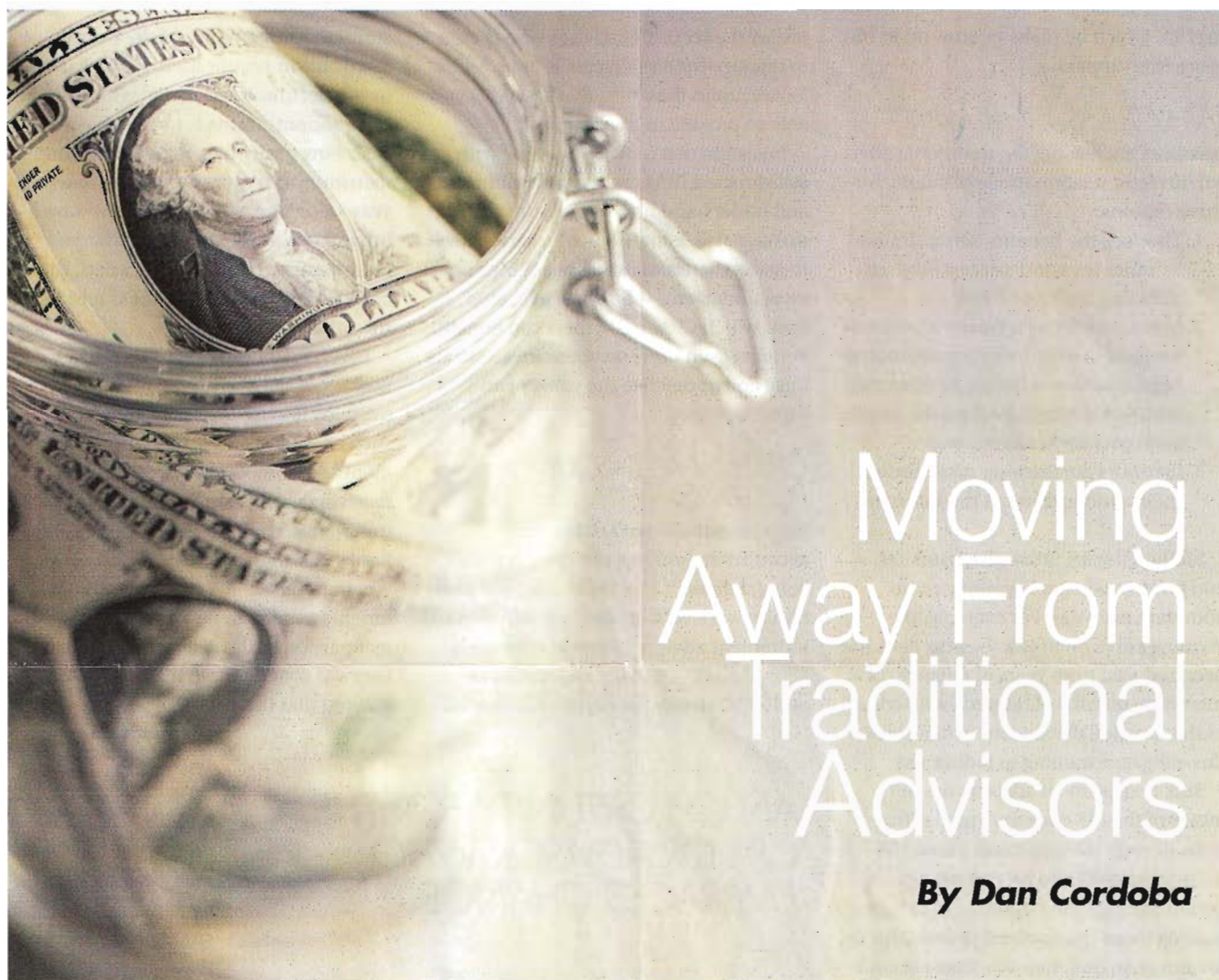


## INVESTMENT OPPORTUNITIES



# Moving Away From Traditional Advisors

**By Dan Cordoba**

Photo: Brand X

*Most people would agree* that the performance of the stock market in the past five years has been disappointing at best. As a result, a growing number of investors are taking matters into their own hands. The most common direction many are considering, if not already embarking on, is “self-directed retirement accounts,” or investing in non-traditional assets, like real estate, businesses, notes, etc., with their IRAs. These investors generally range in the 40s to 50s and have moderate to extensive, investment experience. Most will do about three months of due diligence, with maintaining control of their asset(s) as the major objective.

That’s what inspired Dana and Scott Jurak of Plano, Texas. The Juraks, avid scuba divers, made an offer on a one-acre beach-front lot for \$550,000 (what they considered a steal), when they visited St. Croix two years ago, then spent the next few months

figuring out how to pay for it. They and six other family members established a specialized IRS regulation-compliant limited liability company, and used money in eight separate IRAs to buy the land.

Dennis Geraghty, a 59-year-old brand consultant in Monroe Township, N.J., spent six months doing research and ultimately invested \$250,000—half of his IRA—with a real estate developer who is building a 14-unit luxury condominium in Brooklyn, N.Y. He expects his investment will pay off in two years, well before he will need the money at age 70 1/2, when IRA owners must start taking distributions.

Doug Cady, a 51-year-old real-estate agent near Orlando, Fla., plunked down \$35,000 from his IRA as a down payment for a \$206,000, three-bedroom home. His plan: fix it up and sell it for a profit of \$50,000, or so. Any money he makes will then go into

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his IRA, which he plans to draw on to buy more fixer-uppers.

### WHY THEY ARE LEAVING

Investors are leaving the traditional advisor/investor relation mode primarily for three reasons:

1. They see the benefits being attained by other investors successfully self-directing their portfolios,
2. Many traditional advisors are slow or hesitant to offer investors alternative opportunities to invest, beyond their traditional offerings of stocks, bonds, and other investments, and
3. Investors are learning more about their options through the Internet.

Methodologies, strategies, products, and information are becoming more abundant everyday. For example, the learning curve on how to buy tax liens has been reduced from years of reliance on a mentor to months of research with courses that provide the student with effective due-diligence training to reduce risk.

Still, a majority of advisors are not aware of the IRS code and/or clarifications of code through court cases, IRS internal memos and private rulings issued through the Department of Labor, making these transactions permissible or are not changing their models to accommodate these investments fast enough, even though the courts have consistently sided with investors and their rights when it comes right down to self-directed investments.

### CPAS THAT GET IT

This means opportunity for the CPA or advisor who embraces change. In that regard CPAs/advisors that wish to diversify their offering and scope of investment knowledge are more likely to keep clients and gain new ones. And when they work with others specializing in the self-directed IRA field, they are able to position themselves as being on the cutting edge,

just as the securities advisor who is able to manage fund managers is more highly looked upon than the advisor who is only able to provide mutual funds.

Investors that look to investing with self-directed IRAs are generally affluent and understand how to measure and/or manage risk, know how to structure deals to assure better than average return on investment, etc.—the types of clients from which CPAs and others can benefit. Perhaps even more so, these investors are busy and appreciate the value of an expert opinion.

### CPAS IN A UNIQUE POSITION

Because self-directed retirement accounts are unique, complex, and still being defined, CPAs are in a unique position to work with specialized self-directed retirement advisory firms to effectively keep abreast of unique requirements and/or strategies for clients. Additionally,

## AN OPPORTUNITY FOR THE CPA OR ADVISOR WHO EMBRACES CHANGE

they can also use their accounting expertise to provide added value, such as with distribution planning, for example, since many assets in self-directed retirement accounts, like real estate, may not have the liquidity that securities have.

This type of planning was extremely beneficial for the Kelleys, of South Carolina, when both 64, decided to purchase two business condominiums with their self-directed IRAs. Their accumulated assets were sufficient so they did not need to take distributions, nor did they want to, until the age of 70 1/2. In the case of their investment, the cash flow for both of the structures was sub-

stantial. After a study of the minimum distribution requirements as compared to the accumulated rent payments from the condominiums for seven years, the cash flow easily met their minimum distribution requirements for many years after the age of 70 1/2. And by buying two separate units, if larger increments of cash were needed, they could sell off one of the units and keep the other.

CPAs can, additionally, provide a whole new set of skills when it comes to partnerships that involve self-directed IRAs, such as with tax reporting—the requirements are sometimes subtle, and the receiving parties are different than with a traditional structure. In the case of the Juraks and their partners, tax reporting was imperative, and the appropriate documents needed to be directed to the correct parties. In the event that the structure was ever audited, the Juraks could be assured that the structure was in compliance with IRS regulations.

As in all of these real-life examples and others, placing some study and training on developing new strategies and forging the right relationships

can help CPAs not only to keep their current clientele but also to expand their practices to new and exciting paths. Looking to alternative options that self-directed investments provide, CPAs can often obtain greater profit for their firms, as well as for their clients. CPAWP

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