

Self-directed Retirement Accounts

**Invest your
Retirement Account
in Non-Traditional Assets**

Security Trust Company

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Contents

- Facts and History
- Benefits and Guidelines
- Security Trust Company
- Investment examples
- Q & A

Retirement Plan Facts

- More than \$14 trillion invested in retirement accounts
- Only 2% of retirement assets are invested in real estate
- 44% of U.S. individual wealth is in real estate
- Growing by \$200 billion per year
- 4,000 rollovers to IRAs each day
- First Baby Boomers reached retirement age in 2005
- Boomer rollovers will add trillions more to IRAs

Industry Facts

- What is a self-directed retirement plan?
 - **Self-directed** means that the retirement account owner chooses their retirement plan's investments
 - (For example, choosing to invest in **non-traditional** assets like Real Estate, Mortgages/Notes, Private Businesses)
 - **Self-directed** means **YOU** manage your retirement investments
- Did you know?
 - The word is getting out
 - Self-directed industry is growing at 40% annually

Retirement Plans

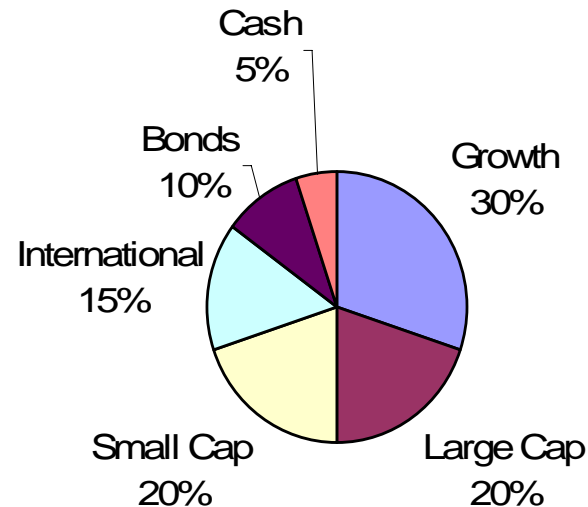
- Traditional IRA
- Roth IRA
- SEP/SARSEP/SIMPLE
- 401 k – former employer
- 403 b – former employer
- TSA – former employer
- TSP – former employer
- Keogh
- Solo 401 (k)
- 401(k)

History

- Is this legal?
 - Employee Retirement Income Security Act
 - ERISA enacted in 1974
 - Created retirement plans and investment parameters
 - Self-direction allowed from the beginning
- Why haven't I heard about this before?
 - Brokerage community & mutual funds
 - 98% of all retirement assets in Wall Street products
 - Bull market

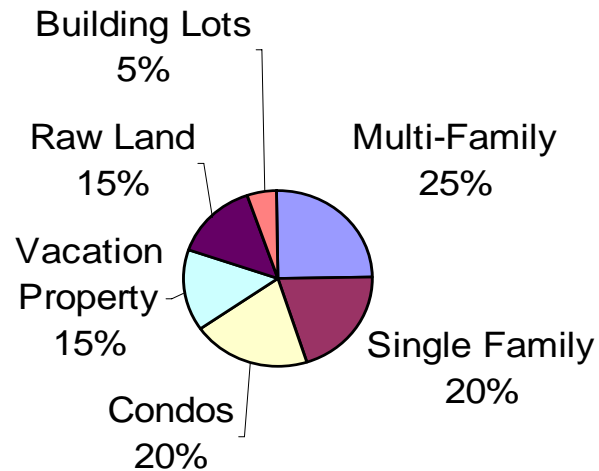
Typical Brokerage Allocation

Brokerage Portfolio Allocation



How About This?

Why Not This Allocation?

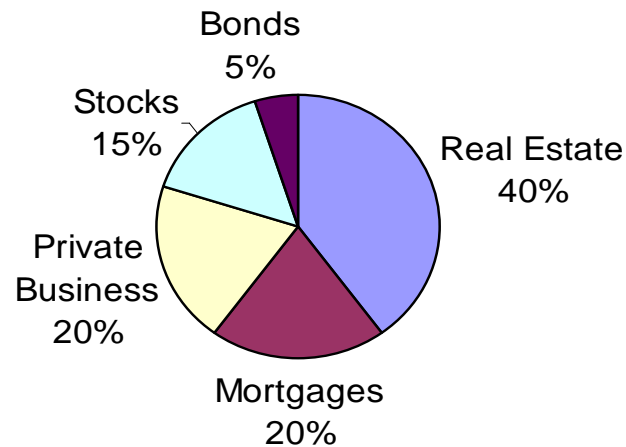


Diversification

- Diversification is NOT investing in multiple versions of the same asset type
- True Diversification allows you to invest in different assets such as:
 - Real Estate
 - Mortgages & Notes
 - Private Businesses
 - Brokerage Account

Truly Diversified Portfolio

Truly Diversified Portfolio



Benefits - Diversification

- **Real Estate**

- Excellent long-term investment
- Combines income with appreciation
- Potential for increased returns using non-recourse loan leverage
- Contrarian asset; real estate not correlated with the stock market



Benefits – Increase your Buying Power

- Leverage your retirement account
 - **Increase buying power** through non-recourse loans

Example:

- Property rehabilitation and sale
 - Purchase price \$250,000
 - \$125,000 cash, \$125,000 financed
 - \$50,000 cash paid to contractor for renovation costs
 - Net \$100,000 on sale in 9 months
 - 57% return in 9 months, 76% annualized return

Benefits - Diversification

- **Mortgages/Notes**

- Offers steady stream of income
- Secured by collateral that you choose
- You dictate the terms of loan (rate, time, LTV, amortization, etc.)
- Good investment for smaller retirement accounts



Benefits - Diversification

- **Private Business**

- Develop your own aggressive equity portfolio by funding small and start-up businesses
- Participate in private placements
- Pool money with other investors to launch a business
- Increased risk, but potential for increased returns

- **Brokerage Account**

- Retirement Account LLC can open its own brokerage account
- Increased investing flexibility (futures, options, commodities, currencies)

Benefits - Control

- In real estate deals YOU:
 - Examine a neighborhood, find an attractive deal, set your price, decide to renovate/sell or rent, decide what improvements will increase value, interview tenants, set rental rates, set selling price
- With a mortgage YOU:
 - Evaluate the collateral, check credit history, set an interest rate, determine the loan structure
- For private business investments YOU:
 - Analyze the market, trends, and economic conditions, interview management, evaluate cash flow
- These are decisions you make that directly impact the value of your portfolio, **YOU HAVE CONTROL.**

Recap Self-Directed Benefits

- True Diversification - allows you to include non-traditional assets such as real estate, mortgages/notes, and private business
- You choose and control the investments and transactions
- Increase your buying power through leverage
- You may be able to experience a higher return on your investment

Guidelines

- Administrative requirements
 - Annual valuation of account
 - Annual report to IRS (5498)
 - Books and records
 - State filings
 - Tax returns



Guidelines

- Prohibited assets
 - Life insurance contracts
 - Collectibles (rugs, works of art, stamps, coins)
- Prohibited transactions
 - Retirement accounts are meant to provide benefit only at retirement
 - Can't borrow from retirement account
 - Can't pledge retirement assets to secure loan
 - Can't utilize credit or guarantee to obtain loan for account
 - Can't benefit any disqualified person

Guidelines

- Disqualified person
 - “You”
 - Family members
 - Ascendants
 - Descendants
 - Siblings OK
 - An existing company if you are a majority shareholder
 - An existing company if you are an officer, director, HCE

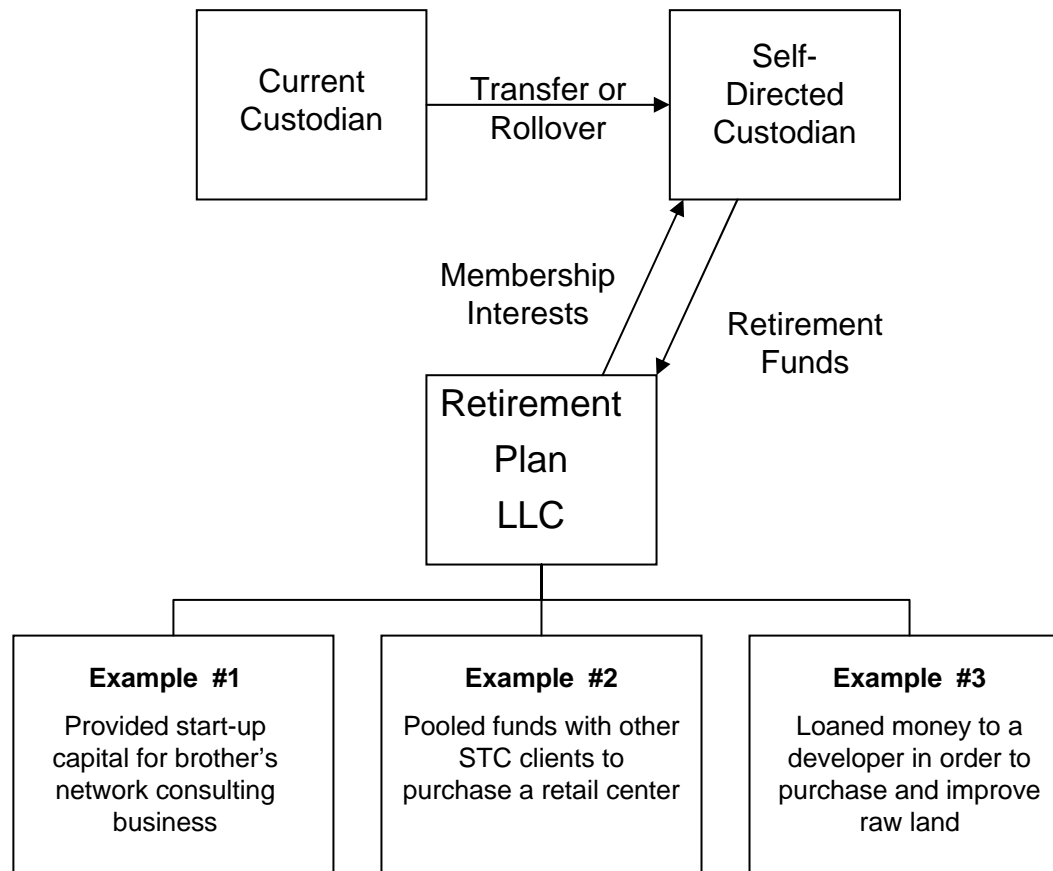
Who is Security Trust Company?

- Full service self-directed retirement administrator
 - Establish self-directed structure
 - Coordinate custodianship of assets
 - Supervise regulatory reporting
 - Oversee annual valuation
 - Maintain LLC financial statements
 - Guidance on transaction compliance
 - CPAs & attorneys to answer technical questions
 - Provide continuing education
- All inclusive administrative fee

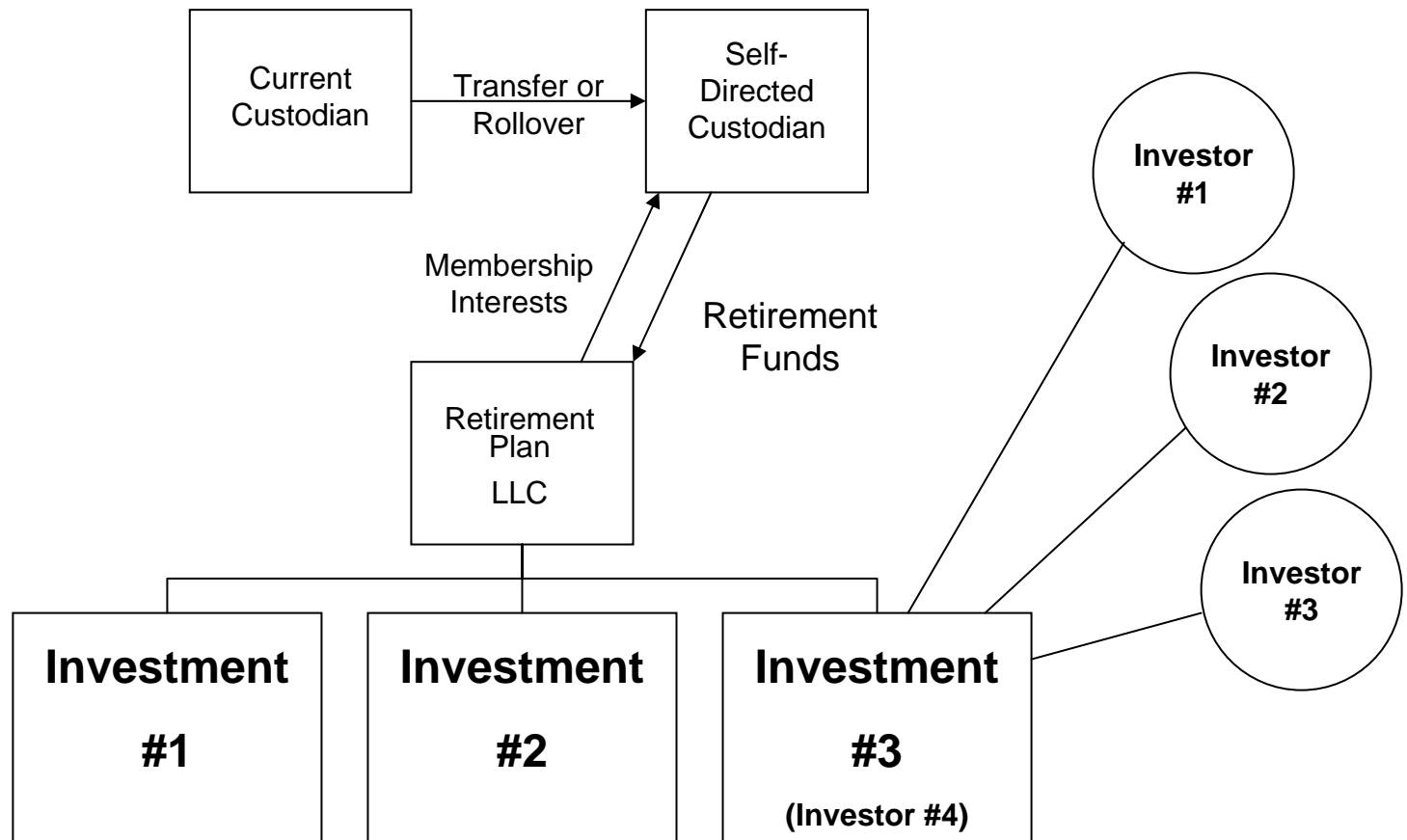
Advantages of LLC Structure

- Structure offers maximum flexibility
- Provides additional asset protection
- ‘Checkbook Control’ over retirement funds
 - Immediate response to investment opportunities
- Simplifies asset titling
- Ease of pooling

IRA LLC Structure



IRA LLC Structure



Review

- Facts and history about the industry
- Types of accounts that can be self-directed
- Benefits of diversification & control
- Administrative requirements
- Prohibited transactions
- Security Trust Company's services
- Benefits of Retirement Plan LLC Setup Structure

Investment Example #1

- Pooling to purchase apartment building
 - Purchase price \$2,000,000; 100% cash
 - \$200,000 each from 10 people
 - Retirement Account money of \$100,000 each
 - Own money of \$100,000 each
 - Form new LLC with 20 members, each member owning 5% of the LLC
 - Rent paid to LLC, expenses paid by LLC, net distributed to members

Investment Example #2

- Loan to cousin to purchase home
 - Recent divorce upsets her financial stability and she can't qualify for a loan. She needs 2 years to get back on track.
 - \$150,000 purchase price
 - 10% down from sale of prior home
 - Neighborhood experiencing good price appreciation
 - Interest only loan at 8.0%, principal due in two years
- Cousin is responsible and has good job prospects
- Nearly \$11,000 in interest per year secured by real estate with good collateral protection

Investment Example #3

- Fund expansion of used furniture business
 - Neighbor has a very profitable store and thinks he can expand in a new market
 - Has good location leased in the new market
 - Needs money for inventory and working capital
 - Invest \$50,000 for 33% profits interest in new store
- Store makes \$100,000 per year providing your retirement account with \$33,000 per year in income
- Sell your interest back to your neighbor in year 5 for \$75,000
 - Earnings of \$190,000 in 5 years
 - Account grows to \$240,000 from \$50,000 in 5 years

How can Security Trust serve you?

Do you...

- **want to open a self-directed retirement plan now?**
- **have clients or colleagues who would be interested in self-direction?**
- **need more information?**

Security Trust Company

- Contact your Security Trust representative
- Website: www.securitytrustcompany.com
- Corporate: 1-866-682-3683