15-Minute Guide to Building Your Wealth
with Self-Directed Investing

REIMAGINE YOUR RETIREMENT™

Contents

PART I:
What is Self-Directed Investing?

Could You Grow Your Financial Future by Investing in What You Know Best?

Many investors are surprised to learn they are not limited to stocks, bonds, and mutual funds when it comes to retirement investing.

It is possible to use self-directed IRAs and other self-directed accounts to invest in a variety of assets, including real estate, tax liens, promissory notes, private entities (such as an LLC), cryptocurrency, and more.

Investors who open self-directed accounts often do so to diversify their portfolios with alternative investments, within a tax-advantaged environment.

Some investors have never heard of self-directed investing, although the concept is not new. Since IRAs were introduced in 1974, the IRS has only listed a handful of items that are not permitted in an IRA, listed in IRS Publication 590.

Why Invest with a Self-Directed IRA?

SHOULD YOU CONSIDER AN IRA?

The government established the IRA to help you save for your future in a tax-advantaged environment.

THREE WAYS AN IRA COULD BENEFIT YOU

Potential Tax Benefits

Certain IRAs allow you to reduce your taxable income today, while saving for your future. For example, if you contribute $2,000 to a Traditional IRA during the year, you are eligible for a tax deduction of that same amount ($2,000) when filing your tax return for that same year (provided you meet all the requirements outlined by the IRS). In addition, profits in an IRA are not subject to short-term or long-term capital gains taxes.

Compound Interest

This occurs when you not only earn interest on your original investment amount, but also on the interest earned on the original amount. The effect is multiplied when in a tax-advantaged environment such as an IRA, where your profits are tax-deferred or tax-free.

Wealth that Stays with You

While earned income is required to open an IRA, the account is not tied to your employer. If you decide to change jobs, you don’t have to worry about moving an account from your former workplace to your new one with an IRA.

An IRA can also be transferred to your beneficiaries, providing your wealth to future generations. Certain IRAs allow the passing of assets to beneficiaries after death without incurring taxes.

Your Investment Options

INVESTING IN WHAT YOU KNOW BEST

A self-directed IRA broadens your investing possibilities. Here are just some of the many investment possibilities available to you in a self-directed account.

Real Estate

- Residential Property
- Commercial Property
- Developed Land
- Undeveloped Land
- Foreclosures
- Mobile Homes
- Rehabs

Tax Liens/Tax Deeds
Promissory Notes/Private Debt

- Mortgages/Deeds of Trust
- Secured Notes
- Unsecured Notes
- Car Paper
- Commercial Paper

Entities

- Private Placements
- Limited Liability Companies (LLC)
- Limited Partnerships

Traditional Assets

- Stocks
- Bonds
- Mutual Funds

Other

- Foreign Exchange Currency (Forex)
- Digital Currency (Cryptocurrency)
- Oil and Gas Investments
- Equipment Leasing
- Accounts Receivables

How Self-Directed IRAs Work

Wondering how the investing process works when using an IRA? At Equity Trust, it's easy to invest once you have your account established.

Here are the steps:

1. **Open an Equity Trust Account**

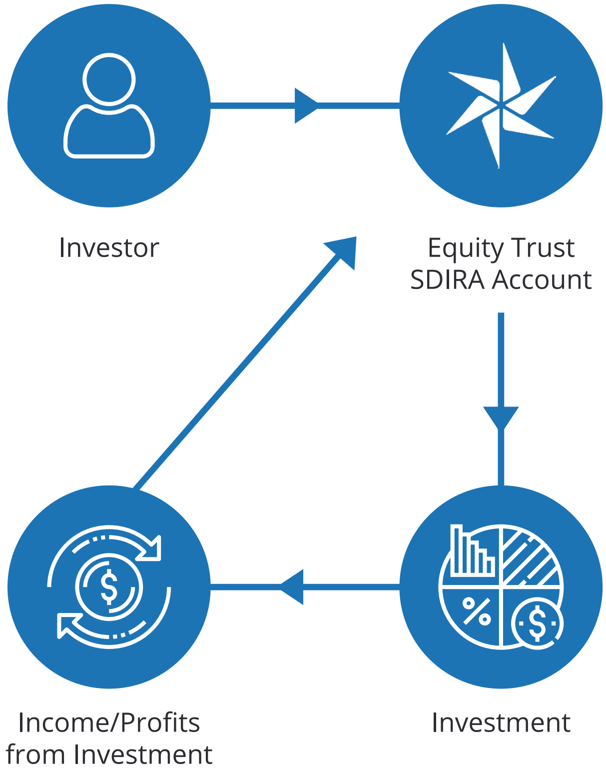
   One of our specialized counselors will walk you through the process, or you can do it online at myEQUITY.

2. **Fund Your New Tax-Advantaged Account**

   You can fund your account via rollover, transfer, or out-of-pocket contribution.

3. **Select Your Investment**

   myEQUITY investment wizards walk you through the investment process online at your convenience. We have liaisons ready to help if you need it.



Understanding Self-Directed IRA Rules

While a self-directed IRA provides the freedom to invest in a wide variety of assets, it's important to understand the IRS rules and guidelines for investing with self-directed retirement accounts before getting started.

For example, the IRS does not permit your IRA to invest in life insurance or collectibles. Some examples of collectibles include:

- Artwork
- Rugs
- Antiques
- Stamps
- Metals (with exceptions for certain kinds of bullion)
- Coins (with exceptions for certain coins)
- Gems

PROHIBITED TRANSACTIONS

Generally, a prohibited transaction is any improper use of your IRA or annuity by you, your beneficiary, or any disqualified person. For example, your IRA cannot buy, sell, lend money, furnish goods, services or facilities or otherwise engage in a transaction with yourself or other disqualified persons.

DISQUALIFIED PERSONS

According to IRS Publication 590, disqualified persons may include:

- You
- Your spouse
- Your parents (and their spouses if re-married)
- Your grandparents (and their spouses if re-married)
- Your children (and their spouses)
- Your fiduciary, which may include a stockbroker, financial planner, tax professional, tax attorney, etc.
- An entity in which you or a disqualified person are a managing member or have at least 50% direct or indirect ownership
- An entity in which you or a disqualified person are a 10-percent or more shareholder or earn 10-percent or more of the yearly wages

For more information regarding prohibited transactions, visit www.IRS.gov to read IRS Publication 590 and reference Internal Revenue Code 4975.

ARM'S-LENGTH INVESTING AND INDIRECT BENEFITS

IRS rules state that you and the investment must be at arm's length and you cannot directly benefit from an asset owned by the IRA.

Remember, the IRA is built to provide for your retirement and is not intended to benefit you now. It's considered an "indirect benefit" if your IRA is engaged in transactions that, in some way, can benefit you personally. This is strictly prohibited.

Some examples include:

- **Personally using an IRA Property:** Using real estate purchased through your IRA as a personal residence, vacation home, retirement home, or office space is not allowed.
- **Receiving Personal Benefits from Your IRA:** You cannot lend yourself or any other disqualified person money from your IRA. Additionally, you cannot pay yourself, a company that you own, or any other disqualified person to do work on an investment owned by your IRA.

MANAGING REVENUE AND EXPENSES

Since your retirement account is a separate entity, it's important to remember that your account is what holds the investment, not you personally. This is what provides the potential tax advantages, since the investment is held by your tax-advantaged account. Therefore, all expenses related to an investment are paid from the IRA and all profits are returned to the IRA. For example, if your IRA owns a rental property, all rent (revenue) should be returned directly to the IRA; all maintenance and taxes (expenses), should be paid directly from the IRA.

Your specific investment circumstances should always be reviewed with a qualified professional to determine which investment(s) may be best suited for your needs. You may also want to review Internal Revenue Code 4975 for information related to self-directed investing.

Investing with an Equity Trust Self-Directed Account

SOME IMPORTANT ITEMS TO KEEP IN MIND WHEN INVESTING WITH A SELF-DIRECTED IRA:

Ensure that your self-directed account is funded with enough money to fulfill your investment request (including any fees, if applicable. Visit www.TrustETC.com to view the Fee Schedule.)

- Ensure that you are allowing your custodian enough time to review your request prior to your funding deadline.
- Ensure that all investment documentation contains proper IRA titling:

  Equity Trust Company Custodian FBO [Your Name] [Account Type (IRA, CESA, HSA, etc.)]

- Certain investment requests may require a verbal confirmation of the funding amount prior to completion.
- Equity Trust Company will need to sign recordable documents— any other investment documentation can be signed by you*, on behalf of your self-directed account (see the Education menu under the Resources tab in myEQUITY for more details.)

*Signing requirements may vary depending upon the asset sponsor you are working with.

WHAT ARE THE RULES RELATED TO PURCHASING AND MAINTAINING ASSETS IN MY SELF-DIRECTED ACCOUNT?

- You are unable to:
  - Purchase assets from a disqualified individual
  - Sell an asset held in your account to a disqualified individual
- Disqualified individuals are not able to live, rent or work on assets owned by your account
- Any income earned from the asset must be returned to your account
- All expenses related to maintenance and servicing for the asset must be paid from your account

Case Study

BEGINNER EARNS 41-PERCENT RETURNS IN 16 MONTHS WITH TWO SELF-DIRECTED INVESTMENTS

Until recently, Mark of North Carolina had all of his retirement savings in stocks, bonds, and mutual funds.

Wanting to diversify, he asked the financial institution where he completed stock trades about the possibility of diversifying with a self-directed retirement account. The company told him that he'd need to find a self-directed account custodian to handle this type of investing, referring him to Equity Trust.

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

FIRST INVESTMENT NETS 27-PERCENT RETURN

Mark's first self-directed investment—and first real estate rehab— occurred when he was in his sixties. He learned about the property from a Realtor acquaintance. The first time Mark stepped into the house, it was like entering a time capsule. The previous owners bought the property in the 1970s and had recently passed away. The wallpaper and décor had not been updated in decades.

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

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

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

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

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

SECOND INVESTMENT: 60-PERCENT NOTE ROI

Read about Mark's second investment here.

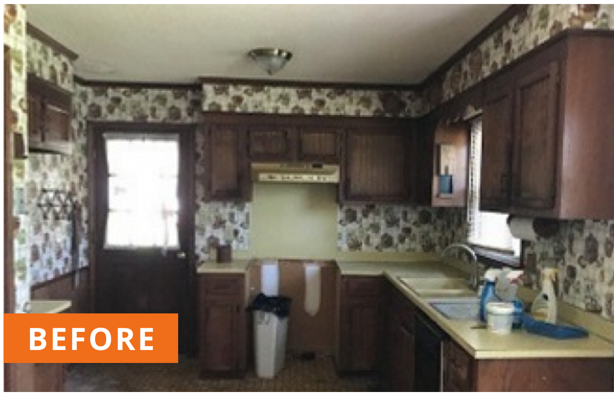
HOW MARK GAINED MOMENTUM

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

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

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

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



SELF-DIRECTED INVESTING: IT TAKES A TEAM

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

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

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

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

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

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

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

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- MARK, REAL ESTATE INVESTOR
North Carolina

Equity Trust Simplifies the Investing Process

Equity Trust helps you invest quickly and easily.

- Purchase and manage your investment all from your tablet, smartphone, or computer, on myEQUITY.
- The investment wizards, eSignature capabilities, and easy upload tools in myEQUITY allow you to invest on your schedule.
- The myEQUITY Online Bill Pay and Expense Pass prepaid card allow you to quickly pay contractors and other third parties.
- If you’re investing in real estate rental or private debt, your renters or borrowers can easily submit payments online, which are then deposited directly into your account.

PART II:

Getting Started with a Self-Directed Account

Self-Directed Accounts Overview

CHOOSING THE RIGHT SELF-DIRECTED RETIREMENT ACCOUNT

It is best to consult with your tax attorney, CPA, or other financial professional to determine which account is best for you. Here are some factors to consider when making your decision.

TRADITIONAL AND ROTH IRAS

Two common accounts for individuals are the Traditional and Roth IRA. Here's a comparison to help you determine if one of these plans is right for you.

	TRADITIONAL	ROTH
Tax Advantages	Account balances compound tax-deferred until funds are withdrawn.	Account balances compound tax-deferred. BUT funds that are withdrawn are tax-free if account is five years old and account owner is over 59½.
Eligibility	Individuals must have earned income*.	Individuals must have earned income* and modified adjusted gross income less than current limits (see www.irs.gov for details).
Tax Deductions on Contributions	Yes	No
Penalties for Early Withdrawal	10-percent penalty for withdrawals before age 59½.	10-percent penalty for withdrawals before 59½ and five year seasoning period. (Note: Roth contributions can be taken out at any time without penalty.)
Exceptions for 10-percent Penalty	Yes	Yes
Cut-off Age for Contributions	No limit	No limit
Required Distributions	Yes. You must take your first required minimum distribution by April 1 of the year after you turn 73	None

*Earned income is defined as the salary or wages you receive as an employee. If you're self-employed, earned income is your net income for personal services performed. Passive income such as interest, dividends, and most rental income are not considered compensation for the purpose of funding an IRA. Consult a financial professional to determine your earned income.

SMALL BUSINESS PLANS

If you own a business, you may be eligible for government-sponsored small business retirement plans such as the SIMPLE, SEP, Solo 401(k), and Roth Solo 401(k).

You should consult with a qualified financial professional before making a decision, but one of the reasons to consider small business plans is that they have higher contribution limits and, if you qualify, potentially larger tax deductions than other retirement accounts.

In addition, it may be possible to have both a self-directed IRA and a self-directed small business plan. You could benefit from the advantages each account offers.

Small Business Retirement Plans at Equity Trust

- **SIMPLE (Savings Incentive Match Plan for Employees)**
  - » Designed for small businesses with 100 or fewer employees who have earned income of $5,000 or more during the previous calendar year and currently have no other retirement plan.
  - » An employer contributes a percent-based salary (1-3 percent) match to its employees' SIMPLE IRAs, while the employees make elective salary deferrals.
- **SEP (Simplified Employee Pension)**
  - » Allows for contribution amounts of up to 25 percent of your salary.
  - » Enables you to make contributions toward your own retirement without getting involved in a more complex plan. Any type of business or employer (you, if you're self-employed or a sole proprietor) is eligible.
  - » Typically designed for business owners who employ 25 or fewer.
- **Solo 401(k)**
  - » Designed for owner-only businesses and spouses.
  - » Can be established by both incorporated and unincorporated businesses, sole proprietorships, partnerships and corporations. You can contribute annually through salary deferral, plus a profit-sharing portion of 0-25 percent of your salary.
- **Roth Solo 401(k)**
  - » Has the same contribution limits as the Solo 401(k) but you can designate the salary deferral contributions you make as Roth contributions.
  - » The portion you contribute as Roth does not qualify for a tax deduction but the profits from these contributions grow tax free.
  - » All qualified distributions are tax-free.
  - » Profit-sharing portion (0 to 25 percent of your salary) of the Roth Solo 401(k) is just like the standard Solo 401(k) and is tax-deferred.

Visit our website for details on contribution limits and eligibility requirements. You can also speak with an IRA Counselor at (855) 673-4721.

Take Control of Healthcare and Education Costs with Tax-Advantaged Savings

HEALTH SAVINGS ACCOUNT (HSA)

- Contributions are tax-deductible (subject to limitations)
- Withdrawals tax-free when used for qualifying medical expenses
- You must be covered by a High Deductible Health Plan (HDHP) to be eligible
- Unlike other medical savings accounts, the funds can be carried over from year to year
- When self-directed, you can use your contributions to invest in alternatives such as real estate

COVERDELL EDUCATION SAVINGS ACCOUNT (CESA)

- Created for the purpose of paying qualified education expenses for the designated beneficiary of the account
- Can be opened for a beneficiary that is under the age of 18 or someone with special needs
- Earned income is not required to open the account

How to Open and Fund an Equity Trust Account

NEW ACCOUNTS

To open a new account, visit www.trustetc.com/open-account and follow the prompts to establish the account.

ROLLOVERS/TRANSFERS FROM EXISTING RETIREMENT ACCOUNTS

It may be possible to use an existing IRA, 401(k), 403(b), Thrift Savings Plan, or other retirement plan you have from a previous employer/other financial institution to fund a self-directed account at Equity Trust.

Here's how it works:

1. **Open Your IRA** (www.trustetc.com/open-account)
- Begin your application online or call an IRA Counselor at (855) 673-4721
- Indicate the method of funding on your application

2. **Complete Rollover/Transfer Forms**
- If transferring from an account at another financial institution, complete Equity Trust's Account Transfer form or the Transfer Wizard through the online account management system myEQUITY.
- To complete a rollover, contact your current custodian to determine their rollover requirements and complete their paperwork.

3. **Include Other Documentation if Transferring**
- Current account statement (dated within three months)
- Contact your current provider to verify if additional documentation is required

4. **All Forms Signed and Delivered to Transferring Custodian or Previous Employer**
- Rollovers and transfers may take between two and four weeks. After you initiate the request, Equity Trust must receive the needed documentation and funds from your current provider before your new account is active. You can track the progress of your rollover or transfer through the online tracker on myEQUITY.

5. **Funding Sent to Equity Trust and Deposited into your New Account**

Whether you're opening a new account or transferring an existing account, it's easy to get started at Equity Trust.

Working with Equity Trust Company

THE EQUITY TRUST ADVANTAGE

You have your choice of self-directed IRA custodians. So why choose Equity Trust? The difference is clear.

- Nearly limitless investment options include stock, bonds, mutual funds, real estate, private entities, cryptocurrency, and more
- WealthBridge Portal and Investment District online marketplace helps you locate potential investment opportunities
- State-of-the-art online account management system myEQUITY provides easy, around-the-clock account and investment management capabilities from any device
- 50 years of experience in the financial services industry
- Clients from all 50 states have entrusted us to custody over $45 billion in retirement assets (as of 1/1/2024)
- Dedicated representatives provide personal service
- Regular educational and inspirational opportunities include newsletters, webinars, videos, case studies, and more

If you're ready to get started investing in what you know best to build your future, you can begin your application at www.TrustETC.com/open-account.

For more information on self-directed IRAs and how one can be established for you, contact an Equity Trust IRA Counselor at (855) 673-4721.

Equity Trust Company is a directed custodian and does not provide tax, legal, or investment advice. Any information communicated by Equity Trust is for educational purposes only, and should not be construed as tax, legal or investment advice. Whenever making an investment decision, please consult with your tax attorney or financial professional.

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