Entrust Group

July 2007 Issue

IRA & 401(k) Insights

Message From the Editor

Welcome to the July issue of the IRA Insights.

In this issue you will explore the many choices of Building Wealth using Options with Quincy Long, of Entrust Retirement Services. The ease of land banking is reviewed with Raymond Yu, Chief Executive Officer for Entrust Administration Inc. Knowing you want financial security in retirement, and knowing what plan is best for you is examined with J.P. Dahdah of Entrust Retirement Plan Administration, LLC. Getting started on page seven is as easy as 1, 2, 3 and I hope you enjoy discovering the upside of raw land with Patrick Hagen of Entrust Golf Coast. All of these articles have been written for you by Entrust franchise professionals. Our local offices are made up of experts in the law, financial planning, real estate and accounting fields, providing you with a wealth of information and experience to draw from, for all of your self-directed investments. We love to hear from our readers, our goal is to write articles that educate you in all the benefits of self-directed retirement plans. If you have a topic you would like to see in an upcoming issue please let me know.

Roxanne DeCarlo
Editor, IRA & 401(k) Insights

Wealth Building Options for Your IRA

By: H. Quincy Long

In my last article on Option Strategies for Your IRA (published in the March, 2007 issue), I discussed option basics. In this article I will expand on the uses of options and how these strategies might be used to turn small amounts of cash into tremendous wealth in your IRA.

Simple Options. The most basic type of option is simply to have an option to purchase a piece of property for a specified price within a certain period of time. This is much better than a loan because it is similar to zero percent interest financing. For example, if a Health Savings Account (HSA) has a five year option to buy a piece of property for $50,000.00, then the HSA does not owe any more for the property at the end of the five years than it did at the beginning, yet the HSA effectively controls the property. This amounts to a five year, zero percent interest loan, but with no unrelated business income tax (UBIT)! You could even structure the option to have monthly or yearly renewal fees, so that it feels similar to a regular seller-financed loan for the property owner. With options all the burdens of owning the property, such as property taxes, insurance, and maintenance, continue to be on the property owner, thereby reducing your IRA's risk!

(Wealth Building, Continued on page two)

About: *IRA & 401(k) Insights*

IRA & 401(k) Insights is a monthly publication. This publication is for anyone interested in self-directing their retirement funds and investing in nontraditional assets. Entrust does not give investment advice. Nothing in this publication is intended as tax, legal or investment advice. Entrust does not sell securities or other investments products.

Deadline for article consideration is the 15th of each month. To subscribe to *IRA & 401(k) Insights*, call 888-340-8977 or email:

editor@theentrustgroup.com

Inside This Issue:

Fix Up and Sell Options. Many investors are familiar with the typical buy, rehab and resell strategy for real estate. Suppose you created a deal in your Roth IRA where the repairs to be done are the consideration for the option? You and the property owner would agree on a specific list of repairs to be done, and the money for the repairs would come from your IRA. The option price would be based on the value of the property in its current condition. When the repairs are done the value of the property will have substantially increased, but your IRA has an option to purchase the property at the lower price. The value of your Roth IRA's option is equal to the difference between the current, after repair fair market value and the original option price. As discussed in the prior article, your Roth IRA may, among other choices, 1) exercise its option and purchase the property, 2) assign the option for a fee to a retail buyer and let him purchase the property directly from the property owner, or 3) allow the property owner to sell directly to a retail buyer at a higher price while *paying your Roth IRA a substantial fee to cancel the option!*

Options on Ugly Property. What do you do if you locate a property that you think could probably be sold for a profit, but it is such a trashy piece of property or has so little equity that you are nervous about your IRA taking title to it? The solution is simple: have your IRA purchase an option from the property owner, stick a sign on the property, and try to find a buyer for the property which will give your IRA a profit. Options under these circumstances can often be purchased with very little money from your IRA. Even if your IRA ends up not exercising its option sometimes, overall this can be an incredibly powerful wealth building strategy.

Options on Partial Interests. What if there were several heirs owning a property you wanted your IRA to buy, but the heirs did not get along or did not agree to a certain price? Rather than giving up, have your IRA buy an option to purchase each heir's interest separately. The price would not have to be equal to each heir. Once you have negotiated options with all the heirs, you could add up the price and see if your IRA could market the property for a profit.

Low Ball Offers and the Right to Cancel. Suppose you want to make a low ball offer on a piece of property. The seller wants too much for the property, and you think he won't get his price. On the other hand, he has to sell by a certain date for whatever reason (foreclosure, closing on a new house, moving out of town, etc.). Tell the seller this: "If you sell my daughter's Coverdell Education Savings Account (ESA) an option to purchase the property for my price, I will give you the right to cancel the option within the next 30 days if you return the option fee plus $2,500.00. That way, if you find someone to pay you more than you would get from me, who can close quickly enough, you can sell the property to them and cancel the option, but you know you have a guaranteed sale if you can't sell it to someone else on time." How's that for overcoming objections to a low ball offer? Your daughter's ESA either gets the property at a bargain price or the seller *pays her ESA not to buy!*

Long Term Options. Long term options can be particularly powerful within an IRA, especially if your retirement is not imminent. Although many options used by IRAs are for shorter time periods, a long term option can turn out to be a fantastic investment. For example, in Houston, Texas there is an area called the Heights. This is close to downtown and many urban professionals are purchasing property in the area to avoid the horrible commute. Old properties are being purchased by individuals and developers who knock the houses down and build new homes on the lots. It is an area in transition. Prices have skyrocketed. Wouldn't it be great if your IRA had 5 or 10 year options on several pieces of property in a redeveloping area such as the Heights or in the growth path of a city? Even if the option was to purchase the property for full fair market value or higher in today's market, the longer term of the option may allow for a natural increase in the fair market value of the property

QUESTION OF THE MONTH

Question:

When you don't have enough IRA funds for the entire purchase how hard is it to find a lender for the balance of the purchase price? How much down payment is typically required?

Answer:

You do have many options when it comes to financing a transaction if you're short of funds. You may partner with someone else, partner with your personal money or partner with another persons retirement assets. You may also find a "Hard Money" lender through a non-recourse loan. Check with your local Entrust office for additional options.

Rights of First Refusal. Another technique that can be used either alone or in conjunction with an option is a right of first refusal. A right of first refusal by itself is not an option to buy. It only means that the seller agrees not to sell the property to anyone else before first offering it to the holder of the right of first refusal. This is commonly used in business transactions, and can be used in real estate as well. Sales price and other terms are not typically negotiated in a pure right of first refusal, since it is only the right to buy the property at whatever price and on whatever terms the owner wants to sell.

When combined with a long term option, this strategy can pay off even if the option price is as high or higher than the current fair market value. For example, what if your IRA has an option to purchase a property in a growth path area for $100,000.00, and the option has a right of first refusal clause in it. In other words, any time the property owner wants to sell the property to a third party he would have to offer it to your IRA under the same terms. If the property owner wants to sell the property to a third party for $80,000.00, your IRA will also have the option to purchase it for that price because your IRA's option has a right of first refusal clause. But suppose $80,000 is at or near the current fair market price and so exercising the option is not a good deal for your IRA. Assuming your option agreement is structured in a way that the option does not expire merely because of a transfer of ownership, the new owner of the property will have to take the property subject to that option. This of course limits his ability to sell the property in the future for more than your option price. Also, if a notice of option is filed in the real property records the buyer's lender may require that the option be released. What is the value of your option under these circumstances, even though it is at a higher price than the current fair market value? *The answer is however much the owner and buyer are willing to pay your IRA to cancel the option if that's what you want!*

Options and Shared Appreciation Mortgages. Has your IRA ever made a hard money loan and you thought, "I'd sure like my IRA to have a piece of that property! What a great deal!" Here is an interesting concept: loan the money to the investor at a low interest rate in exchange for an option to purchase a certain percentage of the property at the initial purchase price. One investor I know was able to use this method to purchase a property at a discount with a tenant in the property. Because the tenant was already in the property with a long term lease, he could not make the deal work using regular hard money rates. His solution was to borrow the money for the purchase and rehab from a friend's IRA. The IRA received 6% interest plus an option to purchase a 50% interest in the property at one-half original purchase price. The investor walked away from closing with $3,000 in his pocket, a rental property with cash flow, and 50% of the future appreciation! Another possible structure is a loan with an option to convert from debt to equity.

Options on Personal Property. Options are most commonly discussed in terms of real estate. However, there is nothing which says you cannot purchase an option on personal property. For example, in many states the beneficial interest in a land trust is considered to be personal property. You may want to have your IRA purchase an option on a discounted note to see if it can be sold for a profit. I have even heard of people having an option in their IRA on automobiles being purchased by an investor at car auctions.

Options can be purchased in all types of Entrust self-directed accounts, including Roth, Traditional, SEP and SIMPLE IRAs, Individual 401(k)s, Coverdell Education Savings Accounts (ESAs), and even Health Savings Accounts (HSAs). Options are so incredibly powerful and flexible that I cannot discuss all the opportunities in one short article. I hope this article has opened your mind to new possibilities for your IRA. As I always say in the context of self-directed IRAs, "I don't think outside the box, the box is just bigger than you think!"

H. Quincy Long is an attorney and is President of Entrust Retirement Services, Inc., with offices in Houston and San Antonio, Texas. He may be reached by email at QLong@TheEntrustGroup.com. Nothing in this article is intended as tax, legal or investment advice.

INTERESTING INSIGHTS

As summer is here, this is a great time to begin to think about your retirement options as an employer or self-employed individual. October 1 is your cutoff for establishing a SIMPLE for 2007, so to keep all options open to you – SEP, SIMPLE or Individual(k) plan for 2007, now is the time to research and act.

“Beneath it all…..is the land”

By: Raymond Yu

The title of this article is actually the slogan from Mr. Darren K. Proulx, who is the co-founder, president and CEO of Land Resource Investments, Inc. Land Resource investment and other entities like them are involved with ‘Land Banking’ which is yet another asset class, like investment real estate, mortgage notes, deeds, commodities, etc. that one can invest in within their self-directed retirement plans.

Land Banking is literally just that – the process of buying and holding land for future sale or development (for profit). Land can appreciate in many ways but from an economic point of view, it’s simply based on supply and demand. Land appreciation occurs when pressure builds up for land development in any area with a surging population, residentially or commercially. Property values appreciate, including for undeveloped land in the path of growth. Land banking has also been known to outperform stocks as well as outpacing inflation. The whole goal of land banking is to buy undeveloped land that will appreciate in value to the point at which a buyer will come and offer a price that result in a reasonable profit.

But like any investment, land banking carries a significant amount of risk. True land banking involves intense research, due diligence and usually a longer term strategy and time period to profit. It is usually not recommended for investors with shorter investment timetables or looking for a ‘quick flip’. And similar to investing on a residential or commercial unit, the old adage of ‘location, location, location’ rings true for land banking as well, if not more so. Also, like residential or commercial real estate investments, there are responsibilities associated with land banking such as maintaining a good address on the land that’s purchased, paying any and all bills associated with the land fulfilling any and all tax obligations associated with the land.

In our ‘world of choices’ within a self-directed retirement plan, there are many different types of asset classes which one can invest in. Land Banking is just one of them but the notion of actually owning land is something any investor or individual can assimilate with. For more information and education on land banking, visit www.landbanknation.com

As Entrust Administration, Inc.’s Chief Administrative Officer, Raymond provides leadership and a vision to execute Entrusts goal of being the leading provider of self-directed retirement plans. Through building, structuring, and managing, Raymond will lead Entrusts exponential growth. Www.TheEntrustGroup.com

TIP OF THE MONTH

Rule of 72:

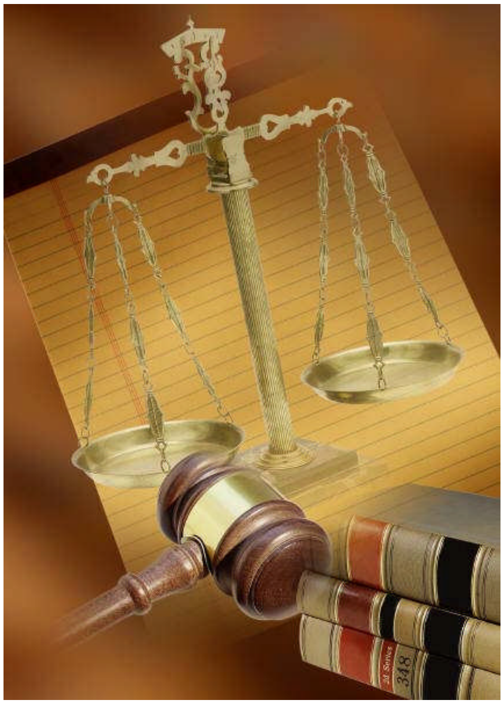
Want to know how long it will take to double your money at a 4% annual rate of return? How about at 10%? How about at 15%? A fairly quick way to make an estimate is to divide the interest rate into 72. At 4% it will take about 18 years to double your money. At 12% you'll double it in six.

Which IRA Is Right For You?

By: J.P. Dahdah

Sooner or later during your wealth accumulation years, you realize that if your goal is to be financially independent by your chosen retirement age, establishing an Individual Retirement Account is a no-brainer. The challenge then becomes selecting the appropriate type of IRA based on your financial objectives. To simplify your selection process, begin by asking yourself the following question: "Am I an employee or an employer?" If you are an employee, you have a list of two types of IRAs from which to choose from, a Traditional IRA or a Roth IRA. The primary difference amongst these two IRAs is the deductibility feature as it relates to annual contributions and the tax implication upon distributions from the account. I have outlined several key differences between these two types of accounts to help you evaluate the advantages and disadvantages.

Roth IRA



- Tax-Free Earnings Growth: You don't ever pay income taxes on any withdrawal from a Roth IRA provided you hold your Roth IRA for at least five calendar years and you are at least age 591/2, become disabled, purchase a home for the first time, or die.

- Who is Eligible in 2007? If you are single, you can make a full contribution up to $4,000 ($5,000 if you are 50 years old or older) if your modified adjusted gross income (MAGI) is below $99,000. If you earn between $99,000 and $114,000, you can make a partial contribution. If you are married filing jointly and your MAGI is less than $156,000, you and your spouse can each make a full contribution. If your joint income is between $156,000 and $166,000, you can each make a partial contribution.

- No Age Restrictions on Contributions and Distributions: You can continue to make annual contributions to your account after the age of 701/2 as long as you have income within the limits listed above. And you are not required to start taking minimum distributions when you reach age 701/2, as you would with a Traditional IRA.

You must have "earned income," which is essentially income from employment or self-employment.

Traditional IRA

- Tax-Deductibility: Your contributions may be fully or partially tax-deductible, depending on your income level and your participation in an employer's retirement plan. You must have "earned income," which is essentially income from employment or self-employment.

- If you and your spouse work, but do not participate in an employer retirement plan – no matter what your income is, each of you may deduct the full $4,000 amount of your contribution from your taxable income.

- If you are married (filing jointly), but only one spouse is covered by an employer's retirement plan, the spouse not covered can deduct the full contribution if your joint modified adjusted gross income is below $156,000. If your joint modified adjusted gross income is between $156,000 and $166,000, a partial deduction may be taken.

If you participate in an employer's retirement plan, but your goal is to invest in non-traditional assets not offered by your employer, you are still eligible to make a contribution to a Traditional IRA if your modified adjusted gross income is below the IRS limits. For the 2007 tax year, the limit for a full deduction is $52,000 (single) and $83,000 (married, filing jointly).

Both types of accounts offer tremendous wealth building advantages, but the primary objective is to choose the plan that can help you manage the impact of your tax situation today and in the future. As always, we encourage you to meet with your tax advisor who can help you analyze your individual financial situation and retirement goals to determine the best IRA solution for you. Remember, both of these retirement plans allow you to invest in non-traditional investments and are not limited to stock market based financial instruments. Select the one that best fits your needs and begin to Self-Direct your future with The Entrust Group!

J.P.Dahdah is President of Entrust Arizona. Serving the state of Arizona. www.TheEntrustGroup.com

Real Property in your Retirement Plan:

The simplicity of undeveloped land

By: Patrick D. Hagen

Over the past few years, investors have turned to Real Property as a way to diversify their retirement portfolios. Everything from pre-construction condominiums and rental properties………to rehabs and lease options are being held inside of IRAs and 401(k) plans. With larger contribution limits and over $3 trillion currently in retirement plans, investors are now able to look outside the realm of stocks and mutual funds into assets such as real property. Though investors continue to become more sophisticated in their real estate transactions, undeveloped land remains a clear-cut favorite among IRAs and other retirement plans. The simplicity of raw land provides investors with the opportunity to diversify into real estate, without the headaches of upkeep.

(The obvious upside to adding real property to a retirement plan is diversification.)

The obvious upside to adding real property to a retirement plan is diversification. Real estate has long provided investors a way to offset fluctuations in the securities market. Over the years, millions of investors have utilized this diversification strategy in their personal portfolios, yet only recently have they started implementing this method within their retirement plans. One of the reasons why less than 3% of all retirement funds are being invested in real property is the "idea" that managing the asset is difficult. An attractive attribute of land, is its simplicity. Land truly provides investors with opportunity to take part in the real estate market, without the headaches of upkeep and unforeseen expenses.

Investing your retirement plan into real estate, may not be for everyone. Some recent articles on self directed IRAs talk about the pitfalls and dangers of adding real estate to a retirement portfolio. They focus on the overhead/upkeep of these types of assets and their liquidity. When a retirement plan holds a piece of real property, all the expenses involved must be paid for by the plan. Simply put, if an IRA owns a rental property, then the IRA must pay for all of the repair and upkeep of that unit. Investors who self direct their retirement plans into assets like real estate, will have to be more involved than those who just turn their accounts over to a Brokerage house. Yet, raw land offers a low maintenance way to invest in real estate. Land has only one relatively predictable expense in annual property taxes. Of course you could lease out your land to a farmer or a timber company and there may be additional expenses. But for most parcels of land, property taxes are the only expense. An investor can diversify part of their retirement portfolio into a parcel of a land and not have to worry about any unexpected repairs or cost.

Any economist or financial advisor will tell you appreciation is driven by supply and demand. There is a simple truth when it comes to land….there is only so much. The supply is somewhat fixed. Especially when it comes to desired land around mountains, waterways and growing metropolitan areas. The demand is driven by the large number of Baby Boomers looking for a place to retire and a workforce seeking employment in growing cities. Contrary to popular belief, this growth is not limited to well known hot spots like Florida, Arizona and Texas. Some of the fastest appreciating land in the Country is found in areas like Arkansas, Montana and Idaho.

The goal of a retirement plan is to build up your own nest egg through wise investments. Diversification is the key to any successful portfolio. Understanding all of your investment choices will only make you a smarter investor. When it comes to diversifying into real estate, raw land is about as close to a Mutual fund as you will find. It's an asset that can be purchased and held for the long term, without the worry of unexpected repairs or expenses. Whether it's a lot in a planned development near Destin, Florida or a large track of farm land outside of Topeka, Kansas; land provides a simple way to diversify a stock heavy portfolio.

Patrick Hagen is the manager of Entrust Gulf Coast. The Entrust Group is the largest provider of self-directed retirement plans in the United States. Entrust Gulf Coast serves all of North Central and North West Florida with offices in Gainesville Florida and Gulf Breeze Florida. He may be reached by e-mail at Hagen@TheEntrustGroup.com or by calling the office 800-483-1629.

Getting Started

Real Estate IRA

Invest in Real Estate with your IRA and Realize Tax Advantages

"*One of our first clients was a couple with $11,000 each. They decided to invest in real estate. Their goal was a 20% return for every year they owned the property. Their IRA's first purchase was a piece of raw land they bought for $18,000. They split the cost of the land and converted their Traditional IRAs to Roth IRAs. They sold the property for $35,000 within four months and realized a net profit of 74%, tax-free. We were amazed."*

Average people just like you are investing their IRA funds into real estate. You can do this too - with a self-directed IRA from The Entrust Group.

A ***self-directed IRA gives you the freedom to invest your IRA funds*** into non-traditional assets, such as single-family and multi-unit homes, apartment buildings, co-ops, condominiums, improved or unimproved land (leveraged or unleveraged), or commercial property and more.

If you are ***lacking complete funding*** for your purchase, you may ***finance or leverage any property purchased*** by your plan. The property is used as the collateral for the loan. As the property is an asset of the plan, repayment of the underlying debt can come only from contributions to or income from the property or other assets in the plan.

Purchasing non-traditional assets with ***a self-directed IRA will help you guard your retirement portfolio against economic changes.*** And, the Entrust Learning Center provides clients with tips, articles, rules and information to regarding investment choices.

Why Choose an Entrust Self-Directed IRA?

- **Local service.** Entrust is the only self-directed IRA administrator with a nationwide network of offices across the United States.
- **Easy to understand information.** Entrust taps into the wealth of experience of our local experts to bring you information in an easy to understand format.

Simple processes. Since we do this everyday, we simplified our processes so that you can quickly and easily take care of your transactions.

And, getting started is as easy as 1, 2, 3!

Open an Account – Visit our ***retirement plans*** section and choose the right IRA for you. Once you've decided on a plan, simply fill out our EZ application.

Choose an Investment – With a real estate IRA from Entrust, you have a world of choices. Visit the Entrust Learning Center for educational articles and discover your options.

Make an Investment - Direct Entrust to purchase real estate with your IRA by completing a *Buy Direction Letter for Real Estate*. We'll show you everything, including how to carry the investment in your IRAs name.

That's it! The purchase of real estate through a self-directed plan is a popular investor choice. The professionals ***your local Entrust office*** would be happy to assist you with any questions you may have.

Contact an Entrust professional in one of ***our local offices*** to establish a self-directed IRA or ***open an IRA account*** online.

Entrust Group

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