

IRA & 401(k) Insights

The Leading Industry Newsletter on Self-Directed Retirement Plans and Investments

About: IRA & 401(k) Insights

IRA & 401(k) Insights is a monthly publication for anyone interested in self-directing their retirement funds and investing in nontraditional assets.

Nothing in this publication is intended as tax, legal or investment advice. Entrust does not sell securities or other investment products. The deadline for article consideration is the 15th of each month. To subscribe, call (888) 340-8977 or email: editor@TheEntrustGroup.com

Letter from the Editor

Welcome to the February edition of the IRA Insights Newsletter. Our newsletter is just one of the educational resources available from Entrust to help you control your self-directed retirement investments.

Entrust is the only self-directed IRA administrator that serves you right in your community. Entrust affiliate offices are staffed with experts in law, finance and business, all with first-hand experience in self-directed accounts.

Entrust's local offices also provide educational seminars on self-direction to help clients and professionals understand the broad spectrum of investment options and the benefits of self-direction. Explore all of the educational opportunities by visiting our web site www.TheEntrustGroup.com.

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New Perspectives on Your Investments: Self-Directed Style

By: Glen Mather

Greetings from the 2009 conference of the National Association of Personal Financial Advisors here in sunny Orlando, Florida.

Unlike the weather outside, many of the attendees and some of the conference speakers forecast continued unsettled conditions into 2011, with a slogging stock market, higher unemployment, and continued choppiness in the bond markets. Indeed, the theme of the gathering is "New Perspectives," based on the realization that many of the group's long-held ideas and market viewpoints might no longer be valid.

It is interesting that the advisors that clients rely on are as equally befuddled as the consumers. No help is forthcoming from the Federal Reserve as it vacillates between holding down interest rates and vowing eternal diligence against the specter of runaway inflation.

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What possible choices does an ordinary individual desiring a reasonable retirement have? Actually, with a self-directed IRA, the investor has the best of all worlds.

Concerned about protecting capital? It is only through a self-directed IRA that you are able to access the best money market and CD rates because you are not tied to any institution. With a simple buy direction letter, a self-directed client can move an IRA to a bank that offers a 3% introductory rate for new clients, and when that expires, quickly move to another institution with attractive yields—all FDIC insured. Without the flexibility of having an administrator that can deal with the full menu of investments (everything that the IRS does not prohibit), many of the choices are not available.

Want to take advantage of depressed markets? In Orlando, investment real estate is now rebounding, thanks to a halving of median prices. Despite a soft rental market, IRA holders are moving back into the “dirt” asset arena, with cash flow returns that have not been seen in recent years. Unlike stock, which is often touted as “on-sale” when the price is depressed, real estate deals can be found that are significant, under even the lower appraised values.

Tax liens can be a tremendous way to expose your IRA portfolio to the real estate market, without the issues of landlord responsibilities. According to tax lien experts, when real estate prices are reduced, yields from tax liens normally rise. During a recent auction in central Florida, millions of dollars of tax liens went unclaimed, even at a 18% yield. During a subsequent re-bid, these investments were largely gobbled up by institutional investors when they became aware of the opportunity.

Need strong cash flow? Private lending is the choice of many who recognize the advantages of a banking environment that is unable to service even the most qualified applicants. Strong collateral, due diligence on the borrower, and in the case of investment real estate, solid cash flow all should be part of the underwriting process.

With a self-directed IRA, the client completely controls the process. Entrust clients are earning up to 18% on their loans, many with points at loan origination as well as early pay-off penalties.

Concerned about inflation? I recently attended the AARP annual convention. No, I'm not a member (although I qualify). I met a precious metal dealer who is seeing his business skyrocket, primarily through baby-boomers wanting to invest their IRAs in precious metals. These investors see this as an important hedge against inflation. Based on the long lines at his exhibit, the interest was intense because many people believe that the increasing government deficits and world conflicts make gold and other metals a great asset to hold for retirement.

No matter what your viewpoint, whether you seek the reward through risk or the ultimate safety, a self-directed IRA may very well provide the best path to a more wealthy retirement. As you save and invest for your retirement, you need the most skilled players on your team: tax professionals, CPAs, as well as investment advisors. Educate yourself on your options, choose good investments, and constantly monitor the results—your retirement is ultimately up to you.

Glen Mather is President of Entrust Administration Services, Inc., a member of The Entrust Group, the nation's largest network of self-directed IRA administrators and record keepers. He can be reached at (407) 367-3472 or gmather@entrustfl.com.



The 2010 Solution

By: Dyches Boddiford

Many successful investors have long lamented that they have not been able to take advantage of the Roth IRA. Many are sitting on significant traditional IRA funds that they have built up over the years or acquired as a rollover from a previous employer's pension plan. They are frustrated that these funds will be taxed when they withdraw them.

Ever since the Roth IRA became available in the late 1990s, there has been a \$100,000 adjusted gross income (AGI) limit on converting traditional IRAs to Roth IRAs. That limit applied to both single and joint filers. For those wanting to make annual contributions to the Roth, their AGI had to be less than \$120,000 (2009) if filing as single or \$176,000 (2009) filing jointly to make any kind of contribution. These rules mean that many investors are denied Roth IRA accounts altogether.

Well, that's changing. Back in 2006, Congress modified the law so that beginning in 2010 the \$100,000 limit will be eliminated for converting a traditional IRA or other pension plan to a Roth IRA. That means even if your AGI is \$5 million, you can convert your traditional IRA to a Roth IRA beginning in 2010! And the conversion rules are not limited to just traditional IRAs. If you have old 401(k)s or other retirement plans from a previous employer, those can be converted as well.

If you opt to take advantage of the new rules, you don't have to convert all your existing traditional IRA funds to a Roth. There are no limits on how much or little you can convert. Rather, you must decide how much you are willing to pay the taxes on, because whatever you convert is added to your ordinary income for income taxes.

Another BIG benefit of converting in 2010 is that for that one year, the income tax due on the conversion does not need to be paid until your 2011 and 2012 tax returns! That's right: You can add 50% of your 2010 conversion amount to your 2011 income and 50% to your 2012 income for taxes. This benefit is only available for 2010 conversions. In other years, you will have to pay the taxes for the year that the conversion takes place.

Many of you that did not qualify to deduct traditional IRAs wisely contributed to nondeductible IRAs over the years. Those can be converted without any tax on the initial, nondeductible contributions—you just pay tax on any earnings. This is what I have been doing since 2006 when this new law was passed.

Even if you don't qualify to make Roth IRA contributions or traditional IRA



contributions on a before-tax basis, you can still make after-tax contributions to a traditional IRA for 2009. You can then convert the IRA to a Roth IRA in 2010. And don't forget that you can also fund a nonworking spouse's IRA up to the \$5,000 limit (\$6,000 if age 50 or over).

Let's look at some examples and the taxes owed. Remember, you only need to pay federal income taxes on the portion of the conversion that you haven't already paid taxes on.

Example 1: For the past four years, you've contributed \$4,000 in nondeductible contributions to a traditional IRA. In 2010, you've got \$20,000 in your account—\$16,000 in nondeductible contributions plus \$4,000 is earnings.

In this case, you would only pay income taxes on the \$4,000 in earnings when you convert to a Roth IRA. That is the bad news. The good news is that you'll never have to pay income taxes on this account again.

Example 2: Since 2006, you have made deductible contributions to a traditional IRA.

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Because you were able to deduct your contributions from your taxes, when you convert the funds to a Roth IRA, you will owe income tax on the entire account balance: your contributions and earnings.

Example 3: You have a traditional IRA totaling \$75,000 funded with tax-deductible contributions as well as \$25,000 in an IRA consisting of nondeductible contributions. You want to convert \$20,000 to a Roth IRA.

Income tax rules require that a conversion is done on a pro-rata basis. The taxable portion of your conversion is calculated by first pooling all traditional, SEP, and SIMPLE contributions, and then calculating the overall percentage of tax-deferred funds. You pay taxes on that portion of your conversion as opposed to being able to designate that it's just your nondeductible contributions that you're rolling over. So if you convert \$20,000 to a Roth, you would owe taxes on \$15,000, because the pro-rata share of your nondeductible contributions is \$5,000 ($\$20,000 \times \$25,000 / \$100,000$).

So, in this case, it's not enough to set up a separate traditional IRA to hold your nondeductible contributions until you can make the conversion. You could convert just that one account, but for tax reporting, any other non-Roth IRAs you have must be factored in when calculating the taxable amount of the conversion.

Okay, some of you want to know if there is a workaround. Well, yes, there is. You can roll your non-Roth IRAs into a non-IRA employer plan. However, you must first check with your current employer about doing this with your 401(k). Be aware that many plans don't allow it (it was a recent change in the law that allowed this), and they cannot accept any nondeductible IRAs. Also, tying up these funds in your company's 401(k) can significantly reduce your flexibility in their use.

Another, and better, approach if you have your own business is to open a Solo 401(k) and then roll your traditional IRAs into it. But not the nondeductible contributions—these you will want to convert into the Roth account. Going forward, there just might be another strategy here. Consider the person with an annual income of \$200,000. This individual can't make a regular contribution to a Roth IRA because of income limits. But he or she can contribute to a nondeductible traditional IRA and then convert to a Roth under the new rules. Currently, there doesn't appear to be any reason this cannot be done.

Dyches Boddiford is a full-time real estate investor who, along with Peter Fortunato, will be teaching a class on February 20 and 21, 2010 on using self-directed IRAs to invest in real estate. This weekend class will not only cover using your IRA but other people's IRAs to invest in real estate using basic to advanced concepts.

Tip of the Month

Timberland, Wind, and Water in Your IRA? Yes, You Can!

By: Lisa Moren Bromma

Did you know that there are over 10 million individual- and family-owned forest owners in the U.S.? Seventy-two percent of these forest owners are located in the eastern part of the country where productive timberland is produced.

According to the American Wind Energy Association, by 2030, 20% of the nation's electricity could come from wind. States with the most wind power include Texas, Iowa, California, Minnesota, and Oregon.

And what about water? The business of water rights is alive and well in states such as Colorado.

These alternative investments are allowable in a self-directed IRA. If this interests you, visit www.theentrustgroup.com to learn how you can self-direct your IRA to acquire investments that are important to you!

Lisa Moren Bromma has been a real estate investor since 1978, a note investor since 1998 and has worked with some of the top private mortgage institutional buyers. She is an advisor to The Entrust Group, the nation's largest network of self-directed IRA administrators, and the author of Real Estate Investing for the Utterly Confused, and Wise Women Invest in Real Estate. Visit her web sites at www.wisewomeninvestor.com or www.theentrustgroup.com.

Hard Money Loans

By: Monte Smith

The Wall Street Journal recently reported that stocks on the NYSE have lost an average of 0.5% per year over the last decade. This statistic makes you think that you might have been better off hiding your cash under the mattress. If the stock market has been your only vehicle for retirement, it's time to take control and diversify your portfolio.

Determining which areas to explore can be tough in an even tougher economic climate. Clients of Entrust Georgia, LLC, have been investing in different forms of real estate, foreign exchange markets, annuity settlements, and even within the filmmaking industry. Another investment vehicle that is gaining popularity is hard money lending from an IRA.

In general terms, a hard money loan involves real estate, is not dependant on the borrower's credit score (because the collateral is the real estate itself), and typically draws a higher interest rate (10%–21%) than a conventional loan. The loan is often structured with a low loan-to-value amount to protect the lender in the case of default and could include costly fees to the borrower for doing so.

Many hard money loans are desired by investors who are purchasing houses in need of repair. They purchase the properties, make the repairs, and turn around and sell the houses for a profit. If these investors lack the capital to do so on their own, they find a hard money lender they can borrow from. The loan amount is based on the quick-sale value of the property and includes the amount needed for repairs, but that overage is held in escrow and withdrawn only as repairs are made. For example, an investor has found a \$40,000 house that needs \$15,000 in repairs, but he has no money. He approaches you, and you look at the property and decide it is a good investment for your IRA. You negotiate the terms of the loan and move forward. Your IRA transfers \$55,000 to the closing attorney, who handles the purchase of the house and holds



\$15,000 in escrow for repairs. The attorney will disburse the funds from that escrow account as the repairs are completed.

If you decide that becoming a hard money lender is for you, there are a few key rules to follow when determining which loans to make. First, make sure that the property collateralizing the loan is one that you want your IRA to own if there is a foreclosure. Ask yourself, "Does this property have the potential to repay my IRA after it's sold?" Also, remember that secured loans are permissible within an IRA as long as they are not made to a disqualified person or entity. Disqualified persons include the IRA owner and his or her spouse, lineal ascendants (parents, grandparents, and so on), and lineal descendants (children and spouses of children, grandchildren, and so on). A disqualified entity includes a business that you or a disqualified person has more than 50% ownership of, is manager or owner of, or has a controlling interest in. The best way to ensure that your borrower is qualified is to consult a tax attorney or ask your local Entrust office to explain the guidelines.

You can negotiate the terms of hard money loans in many ways, which

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Interesting Insight

Building Your Safety Net

By: Lisa Moren Bromma

Welcome to 2010, the year of the revised Roth conversion rules, and the time to examine your retirement plans to make sure that you feel comfortable with your time horizon, asset allocations, and risk level of your retirement plan.

Experts have called the five years before you quit the workforce the most dangerous to your retirement plan. The only way to guarantee growth, whether you have five or twenty years until retirement, is to make the maximum contributions to your IRA and to invest in assets that you believe will grow over the long term. In my opinion, this means being responsible for the investments in your IRA.

Many of us depend on third-party advisers to tell us what to do because we think we cannot invest on our own. This is not the case with a self-directed IRA. With a self-directed IRA, you make the decisions, and you can broaden your opportunities beyond what traditional advisers may be able to offer.

For more information on how you can use your IRA, visit www.theentrustgroup.com. Entrust is the nation's largest administrator of self-directed plans with close to 30 years of experience. Entrust offers a wealth of information on its website. You can also contact one of our offices close to you and work with experienced professionals who know and understand your marketplace.

You owe it to yourself to take advantage of the tax-deferred and tax-free possibilities that an IRA can offer.

Lisa Moren Bromma has been a real estate investor since 1978, a note investor since 1998 and has worked with some of the top private mortgage institutional buyers. She is an advisor to The Entrust Group, the nation's largest network of self-directed IRA administrators, and the author of Real Estate Investing for the Utterly Confused, and Wise Women Invest in Real Estate. Visit her web sites at www.wisewomeninvestor.com or www.theentrustgroup.com.

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largely depends on the comfort not only of yourself but also of the borrower. Remember that Entrust does not dictate the terms or conditions of the loan. A good person to consult in this matter is a reputable real estate attorney who can help you navigate property values, fair interest rates, and terms that might be regulated by laws within your state. Use this attorney, or a broker, to transfer the funds and complete the loan process. This is much safer than simply writing a check from your IRA to the borrower, because the attorney will make sure that your IRA is in the first mortgage position. Also, the attorney holds any excess funds that are to be used for repairs in escrow until such time as the repairs are made.

Hard money loans can be an easy way to diversify your portfolio during a time that real estate costs are relatively low compared to years ago. However, with that low cost comes a risk because properties aren't moving as quickly as they used to. Minimize your risk by studying your market and becoming familiar with the ebb and flow of sales in your area. There are brokers out there that can help you find borrowers, or you can find them on your own. But remember: When using your IRA to work better for you, you are taking control of your own retirement. You can't do that without performing quite a bit of due diligence and becoming somewhat of an expert in the field in which you choose to branch out.

The Entrust Group is a unique administrator that can facilitate this type of investment. We have offices across the United States and offer free educational events to help increase your knowledge in diversifying your IRA. To learn more about educational opportunities in your area, visit www.TheEntrustGroup.com and click on *Locations*.

Monte Smith is the Director of Education & Marketing for Entrust Georgia, LLC. You can reach him at MSmith@TheEntrustGroup.com or 800-425-0653 ext 1133.

Dates and Deadlines to Remember

Date	Deadlines	Date	Deadlines
Feb. 1, 2010	<ul style="list-style-type: none"> • Form 941, Employer Payroll Tax Return, for fourth quarter 2009 is due. • Form 940, Annual return of federal unemployment tax (FUTA) is due for 2009. • 2009 W-2 and 1099-type information reports are due to recipients. 	April 15, 2010 (continued)	<p>CORPORATIONS:</p> <ul style="list-style-type: none"> • First installment of 2010 estimated tax is due, Form 8109. <p>PARTNERSHIPS:</p> <ul style="list-style-type: none"> • Due date for 2009 calendar year partnership tax return, Form 1065. • 2009 partnership tax return extension is due, Form 7004. <p>TRUSTS & ESTATES:</p> <ul style="list-style-type: none"> • 2009 Fiduciary income tax return is due, Form 1041. • Last day for filing 2009 trust extension, Form 7004.
Feb. 15, 2010	If you claimed exemption from income tax withholding in 2009 on Form W-4, you must file a new Form W-4 by this date to continue your exemption.	April 30, 2010	<ul style="list-style-type: none"> • Due date of first quarter 2010 employer income and FICA tax reports, Form 941.
March 1, 2010	<ul style="list-style-type: none"> • 2009 Form W-3, Transmittal of Wage Information and Form W-2, Copy A, is due to the Social Security Administration. • Transmittal Form 1096 related to all 1099-series returns is due to the Internal Revenue Service. 	June 15, 2010	<ul style="list-style-type: none"> • Individual's 2nd Quarter 2010 estimated tax installment due, Form 1040-ES. • Calendar year corporation's 2nd Quarter 2010 estimated tax installment due, Form 8109.
March 15, 2010	<ul style="list-style-type: none"> • Due date for calendar-year 2009 corporation income tax returns, Forms 1120, 1120S. • Last date for filing 2009 calendar-year corporation tax return extension, Form 7004. • Last date to file amended income tax return Form 1120X for 2006. • Last date to elect S-corp. status for 2010 calendar year corporation, Form 2553. 	August 2, 2010	<ul style="list-style-type: none"> • Due date of Form 941 to report 2nd Quarter employer income tax and FICA withholding.
April 15, 2010	<p>INDIVIDUAL:</p> <ul style="list-style-type: none"> • 2009 income tax return Form 1040 is due • Last day to submit application for extension of time to file 2009 tax return, Form 4868. • Last day to file amended income tax return Form 1040X for 2006. • First quarter 2010 estimated tax payment due, Form 1040-ES. 	Sept. 15, 2010	<p>INDIVIDUALS:</p> <ul style="list-style-type: none"> • 3rd installment of 2010 estimated income tax is due, Form 1040-ES. <p>CORPORATIONS:</p> <ul style="list-style-type: none"> • Last day to file extended calendar year 2009 income tax return, Form 1120, 1120S. • 3rd installment of 2010 estimated income tax due, Form 8109.
		October 15, 2010	Due date of extended Form 1040 .
		November 1, 2010	Due date of Form 941 to report 3rd Quarter employer income tax and FICA withholding.
		Dec. 15, 2010	Calendar year corporation's 4th Quarter 2010 estimated tax due, Form 8109 .

The information contained herein is general in nature and is not intended as legal, accounting or tax advice or opinion as provided by The Entrust Group or its affiliates. The reader should seek professional guidance prior to taking any action based upon this information. The Entrust Group and its affiliates shall have no obligation to inform the reader of any changes in tax laws or other which may affect the information provided.



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