The Self-Directed IRA: Know the facts. Get a second opinion.

A self-directed IRA (SDIRA) allows investors to invest in securities that are not typically offered by a broker-dealer or investment companies, such as real estate, private tax liens, promissory notes and even commodities. Such flexibility, however, can lead to increased risk in your portfolio and likelihood that you could be defrauded. Before you decide to move your IRA to a SDIRA, consider whether it fits within your retirement goals, and if it could possibly be an investment scheme.

Most of us are familiar with a traditional IRA: it provides investors with certain tax benefits and is typically held by banks, investment companies, or broker-dealers who act as a custodian or trustee over the IRA's assets. The investments are limited to stock, bonds, CDs or mutual funds, and the account custodian offers guidance on whether a particular investment is suitable and meets your financial objectives, known as discretionary authority.

With a self-directed IRA, *you* decide whether a particular investment is suitable or meets your financial objectives. The custodian is a third party that is not affiliated with a bank, investment company, or a broker-dealer, and merely holds and administers the assets in the SDIRA. **It does not evaluate whether an investment is suitable, complies with the applicable tax laws, or is free from fraud.**

If you are offered an investment where a SDIRA is necessary, get a second opinion from a trusted source. And consider whether you can afford to lose money. Two Oregon-licensed investment advisers were convicted and sentenced to state prison for persuading their longtime clients to withdraw savings from their IRAs and place it in a SDIRA to invest in a speculative real estate scheme to build houses. No houses were built, instead most of the money went to pay off the debts of a real estate developer. Nineteen clients lost more than $3 million in the scheme.

Other Facts about Self Directed IRAs

- Even though an account statement provided by a custodian may show an increase in the value of the investments in an account, the custodian does not verify the accuracy.
- Even though the custodian is a regulated trust company approved by the IRS, its sole obligation is to track and report to the IRS the contributions to, and distributions from, the account in order to maintain the tax deferred status of the SDIRA or qualified plan.
- Fraudsters can misrepresent the actual responsibilities of SDIRA custodians to deceive investors into believing that their investments are legitimate or protected against losses.
- The custodian merely holds the funds in the account and bills the investor for its record keeping services.

The Bottom Line

It pays to do your homework before you invest in any investment opportunity, especially one where it is suggested you roll over an existing pension or IRA into a SDIRA. Get a second opinion from someone who is objective, and always work with an investment professional who is properly licensed to offer and sell securities, or investments.