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Would you like to turbocharge your clients' IRAs, Keoghs and 401(k) plans? These qualified savings plans usually are synonymous with investments in stocks, bonds and mutual funds. But as it turns out, many different kinds of assets -- real estate, businesses, leases, tax liens and gold, for example -- can be held in qualified plans as long as the ownership structure meets ERISA requirements. The small sliver of non-traditional assets now held in qualified retirement accounts -- less than 2 percent of the total \$3.7 trillion pie -- provides an opportunity for brokers, especially those serving high-net-worth investors.

Consider real estate. Under Section 408 of the Internal Revenue Code, individuals may assign to their retirement accounts any investment property as long as it's not for their personal use. The rule, therefore, prohibits retirement accounts from holding an individual's residence, vacation home or office in which their business is located. It also excludes property owned before setting up the IRA. But other than that, everything else is fair game -- so long as the property is held by a recognized custodian, just as a security would be, and the IRA owner uses a third party to manage the investment.

While broker-dealers typically custody financial assets bought through their firms, they don't custody other asset types or those bought outside the firm. But several third-party custodians specialize in this business (see box), and many have developed relationships with brokers and their firms.

A few years ago, **Dan Cordoba**, an independent rep with Money Concepts Capital Corp. in Austin, Tex., was trying to help a client worth \$3 million invest in two private companies. Using Trust Administration Services, a Carlsbad, Calif.-based third-party unit of First Regional Bank that acts as a custodian for self-directed accounts, Cordoba helped the client by placing the investment in an IRA, which saved the investor considerable sums in taxes. Cordoba says he now attracts wealthier clients because he's able to give advice on non-traditional assets and self-directed accounts.

"It sets you apart," said Cordoba, who noted that his clients' portfolios gained

between 10 and 30 percent during the bear market because they included non-traditional assets. "I hardly sell securities any more."

Frank Stevens, who recently left the investment advisory business in Napa, Calif., to start Stevens Wealth Management Services, which helps financial consultants with self-directed retirement accounts, likes using the accounts for real estate investments because of the tax deferral feature. Citing the Rule of 72, the former Dean Witter broker said that an asset that gains 7.2 percent a year in a tax-deferred account doubles in value every 10 years.

If you hold something like that from age 45 to 65, your asset has gone up 400 percent," he said.

Joe Thompson, a Waddell & Reed broker in Atlanta, notes that if real estate is held in a Roth IRA, the full value of any cash flow and gains becomes available tax-free when the holder starts making distributions. "The government is giving us the ability to put more away and have a better retirement than with just general investments," said Thompson. Doctors frequently employ self-directed plans to hold real estate assets, according to Lori Spry, a marketing representative at Trust Administration Services. Spry said she works with a Smith Barney office in Arizona where doctor-clients of several brokers own real estate custodied at her firm.

In a case involving a broker elsewhere, Spry said a group practice of doctors was terminating its \$10 million defined benefit plan and asked the broker to roll it over into an IRA. In addition, the doctors wanted to put another \$3 million worth of real property into the new IRA. If the broker had not been able to handle the transaction, either the physicians were going to keep looking for an advisor who could, or else they would have had to liquidate the property and invest their proceeds. Fortunately for the broker, he advised them to open a self-directed plan. They kept their property and he kept their account. Brokers who recommend self-directed accounts usually concede that the accounts are loss leaders used to gain a foothold with high-net-worth clients. Reps don't earn commissions helping clients to invest in privately held companies or gold coins or real estate. But the offering demonstrates the broker's expertise and knowledge.

Lori Spry tells of a Missouri rep who recently called to ask for assistance with three doctors who wanted to put their real estate holdings into a new 401(k) they were considering. "He won't make money on that portion of the plan," Spry said, "but if he can get their 401(k) and then get the doctors as personal clients, he can become their financial advisor for their other investments."

When dealing with self-directed accounts, the broker in no way manages or influences the investment. The accounts are held at the third-party administrator firm and contributions are made to the administrator, not the rep's broker-dealer. The third-party administrator also handles record-keeping and asset-holding. These firms create the plan documents necessary to custody IRA assets, but since the custody firms themselves don't offer product (such as mutual funds, stocks or bonds), they don't need to have selling agreements with the broker's employer.

A rep would be wise to consult with his retirement accounts department and compliance officers before recommending that clients set up these accounts. Compliance and operations departments also may want to see duplicate account statements from the third-party administrator as well as copies of confirmations of any new investments.

As for costs, the maximum fee for a self-directed account at Pensco Trust Co., for example, is 0.4

When asked to comment about their relationships, if any, with third-party administrators, only one major firm responded. UBS Financial Services confirmed that some of its brokers have clients with assets custodied at third-party administrators. A.G. Edwards chose not to permit one of its brokers, who use third-party administrators, to participate in a scheduled interview. According to the Investment Program Association, the trade group of the direct investment industry, A.G. Edwards is the only member firm of the New York Stock Exchange that sells non-traded REITs, which is one of the non-traditional investment classes that can be used in self-directed accounts.

The third-party administrators who work with self-directed accounts say there are two main reasons brokers know so little about untraditional IRAs. For one, since there are many alternatives among traditional retirement-plan products, many brokers don't bother learning about even more choices. Second, major banks and brokerages have automated IRA creation and transaction processes and don't welcome the complex paperwork necessary to process an IRA investment in real estate, for example.

"You can't minimize the complexity of a real estate transaction," said Tom Anderson, president and CEO of Pensco Trust. "There's the real estate broker, the seller, the buyer, the escrow agent and the IRA custodian. That's not something conducive to most Wall Street infrastructure."

Another drawback: The IRS requires that assets in self-directed accounts be

valued annually. This typically requires professional valuation. For reps who want to gain a better understanding of non-publicly-traded or alternative investments, the Chartered Alternative Investment Analyst Association (www.caia.org/index.htm) offers training and designations that promote adherence to high standards of professional conduct.