SELF-DIRECTED IRA EDUCATION GUIDE

A Plain-English Introduction to Using Alternative Assets Inside a Tax-Advantaged Retirement Structure

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WHAT'S INSIDE

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A note before you begin

This guide is designed to educate, not to sell. A Self-Directed IRA is a powerful tool — but it is not right for everyone. By the time you finish reading, you will know whether it deserves a place in your financial plan and exactly what the next step looks like if it does.

SECTION 01

What Is a Self-Directed IRA?

A Self-Directed IRA (SDIRA) is a type of Individual Retirement Account that gives the account holder control over a significantly expanded menu of investment choices — far beyond the stocks, bonds, and mutual funds offered by conventional brokerage-based IRAs.

The word "self-directed" is the key. It means you direct the investments. You decide where the capital goes. The custodian holds and administers the account, but the investment decisions are yours.

The One-Sentence Definition

A Self-Directed IRA is a tax-advantaged retirement account that allows you to invest in alternative assets — like real estate, private lending, and precious metals — using the same tax benefits you already have in a traditional retirement account.

Why This Matters for Wealth Building

Most Americans are told their retirement options are limited to what their employer's 401(k) offers or what a brokerage makes available. That is not a law — it is a product limitation built by financial institutions that benefit from keeping your assets in their ecosystem.

An SDIRA breaks that limitation. It allows the same tax-deferred or tax-free growth that a traditional IRA provides — applied to asset classes that have historically built significant wealth for families who understood how to use them.

SECTION 02

How It Differs From a Traditional IRA

The structure of an SDIRA is identical to a traditional IRA in the ways that matter legally and for tax purposes. The difference is in what you can hold inside it.

Feature	Traditional / Brokerage IRA	Self-Directed IRA
Investment options	Stocks, bonds, ETFs, mutual funds	All of the above PLUS real estate, private notes, precious metals, private equity, and more
Who controls investments	Brokerage / fund manager	You — with custodian holding the assets
Custodian type	Bank or brokerage firm	Specialized SDIRA custodian (e.g. Equity Trust)
Tax treatment	Traditional or Roth tax rules apply	Same Traditional or Roth rules apply
Contribution limits	IRS annual limits apply	Same IRS annual limits apply
Complexity	Low — hands-off investing	Moderate to high — requires active management
Due diligence required	Minimal — regulated products	Significant — you evaluate each investment

Key Takeaway

An SDIRA does not change the tax rules. It changes the investment universe. You still get the same deductions, the same deferred growth, and the same distribution rules — applied to assets you actually choose and understand.

SECTION 03

What Can You Invest In?

The IRS defines what is NOT allowed in an SDIRA. Everything else is generally permitted. This creates a remarkably broad investment menu that most investors have never been told about.

Allowed Asset Classes

- Residential and commercial real estate
- Raw land and development property
- Real estate notes and mortgages (private lending)
- Private equity and LLC interests
- Private business investments
- Precious metals (IRS-approved gold, silver, platinum, palladium)
- Tax lien certificates
- Cryptocurrency (through select custodians)
- Equipment leasing
- Accounts receivable / factoring

Not Permitted

- Life insurance contracts
- Collectibles (art, antiques, wine, gems, most coins)
- S-Corporation stock
- Any transaction with a disqualified person (see Section 08)
- Personal-use property owned by the account

Real estate is the most common SDIRA investment for ESFS clients. It combines familiar asset mechanics with meaningful tax advantages — rental income grows tax-deferred inside the account, and on sale, capital gains are sheltered as well.

SECTION 04

The Custodian's Role

Every IRA — including an SDIRA — must be held by a qualified custodian. The custodian does not advise you on investments. They hold, record, and administer the assets per IRS rules. Your decisions drive the account; the custodian executes them.

Our Custodian Partner: Equity Trust Company

Equity Trust is one of the largest and most established SDIRA custodians in the country, with over $34 billion in assets under custody and more than 50 years of experience. Equity Stream Financial Services works with Equity Trust as our preferred custodian partner for SDIRA setup and administration.

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What the Custodian Does

- Holds legal title to the SDIRA assets on your behalf
- Processes buy and sell transactions at your direction
- Maintains IRS-required records and annual reports
- Issues required IRS forms (Form 5498, Form 1099-R)
- Ensures the account structure remains IRS-compliant
- Collects and distributes income (rent, interest, dividends) into the account

What the Custodian Does NOT Do

- Evaluate or advise on investment quality or suitability
- Perform due diligence on properties, borrowers, or businesses
- Protect you from prohibited transactions or poor investment decisions
- Provide legal or tax advice

ESFS Advisory Note

Because the custodian does not advise, the quality of your investment decisions and your compliance with IRS rules are entirely your responsibility — and ours as your consulting advisor. This is one of the primary reasons we begin every SDIRA engagement with a thorough education and suitability review.

SECTION 05

Traditional vs. Roth SDIRA

An SDIRA can be structured as either a Traditional or a Roth account. The tax mechanics are identical to their brokerage counterparts — but the impact of each choice is amplified when alternative assets with high growth potential are involved.

	Traditional SDIRA	Roth SDIRA
Contributions	Pre-tax (may be deductible)	After-tax (no deduction)
Growth	Tax-deferred	Tax-free
Distributions	Taxed as ordinary income at withdrawal	Tax-free after age 59½ (5-yr rule)
RMDs	Required starting at age 73	No RMDs during owner's lifetime
Income limits	None for contribution; deductibility varies	Phase-out applies above certain income
Best for	Lower income now, expect lower income in retirement	Higher income now, expect higher income in retirement OR want tax-free legacy
SDIRA advantage	Defer taxes on rental income and capital gains	Shelter ALL alternative asset gains permanently — including large real estate profits

The Roth SDIRA Advantage for Real Estate

If a Roth SDIRA purchases a property for $150,000 that later sells for $380,000 inside the account, the $230,000 gain is sheltered permanently. No capital gains tax. No ordinary income tax. This is one of the most powerful tax advantages available to real estate investors — and one of the least discussed.

SECTION 06

The Real Pros and Cons

An SDIRA is a sophisticated tool. Like any sophisticated tool, it works extremely well in the right hands and in the right situation — and can create significant problems if misused. Here is an honest assessment of both sides.

Advantages

• True portfolio diversification beyond public markets

• Tax-deferred or tax-free growth on alternative assets

• Real estate rental income sheltered inside the account

• Potential for higher returns than index funds in the right assets

• Private lending at yields of 6–12% or more, tax-advantaged

• Generational wealth transfer via Roth SDIRA

• Greater control over investment decisions

• Hedge against stock market volatility

Risks & Considerations

• More complex than traditional IRAs — requires active management

• Custodian fees in addition to investment costs

• Prohibited transaction rules are strict — violations are costly

• Illiquid assets can create RMD complications at age 73

• All investment expenses must be paid from the IRA, not personally

• Unrelated Business Taxable Income (UBTI) can apply to leveraged real estate

• Due diligence is entirely your responsibility

• Not suitable for all investors or all situations

ESFS Perspective

We do not recommend SDIRAs to every client. The advantages are real — but so are the risks. Our role is to help you determine whether this tool fits your situation, your risk tolerance, and your existing financial structure before any decisions are made.

SECTION 07

Who Is a Good Candidate?

An SDIRA is not a fit for everyone. Based on our client experience and the requirements of managing alternative assets responsibly, here is the profile we look for.

1

Strong financial foundation first

The client has adequate emergency reserves, appropriate life insurance coverage, and no high-interest debt. An SDIRA is a wealth-building layer — not a substitute for foundational planning.

2

Experience with alternative assets

The client already understands real estate or private lending and can perform meaningful due diligence without relying on the custodian or advisor to evaluate the investment.

3

Long investment horizon

SDIRA investments are typically illiquid. The client has a time horizon of 7+ years and will not need this capital for near-term expenses or emergencies.

4

Sufficient IRA capital

Most real estate and private lending transactions inside an SDIRA require $50,000 or more in available IRA capital. Sub-threshold accounts have limited options.

5

Tax-driven motivation

The client is generating meaningful rental income or investment gains that they want to shelter from current taxation. The SDIRA provides the shelter.

6

Compliance awareness

The client understands the prohibited transaction rules and is committed to following them carefully. One violation can disqualify the entire account.

SECTION 08

Prohibited Transactions — What to Avoid

The IRS places strict rules on who can benefit from SDIRA assets and what transactions are permitted. Violating these rules — even accidentally — can result in the entire IRA being treated as distributed, triggering immediate taxes and penalties on the full account value.

Disqualified Persons

These individuals cannot personally benefit from or transact with the SDIRA:

- You (the account owner)
- Your spouse
- Your lineal ascendants and descendants (parents, children, grandchildren)
- Spouses of lineal descendants
- Any entity in which a disqualified person has 50% or more ownership or control
- Fiduciaries of the plan (custodians, advisors, managers)

Common Prohibited Transactions

Transaction	Why It Is Prohibited
Buying property you (or family) already own	Self-dealing — disqualified person benefits directly
Living in or using a property owned by your SDIRA	Personal benefit from IRA assets is prohibited
Lending SDIRA funds to yourself or family	Disqualified person receives benefit from IRA
Guaranteeing a loan with personal assets for SDIRA deal	Indirect benefit to the IRA from personal assets
Performing personal labor on SDIRA real estate	Sweat equity = personal benefit from IRA assets
Paying SDIRA expenses from personal funds	All costs must be paid from within the IRA

The Penalty for Violations

If a prohibited transaction occurs, the IRS treats the entire IRA as distributed as of January 1 of the year the violation occurred. The full account value becomes taxable income, plus a 10% early withdrawal penalty if the account holder is under 59½. This is not a correctable mistake — it is a permanent loss of the account's tax-advantaged status.

SECTION 09

The SDIRA Setup Process at ESFS

If after the education session you and your advisor determine that an SDIRA is the right fit, here is how the process works from start to finish.

1

Complimentary Education Session

We review what an SDIRA is, whether it fits your situation, your goals, and your existing financial structure. No fee. No obligation. This session determines if we move forward.

2

Consulting Engagement

If an SDIRA is a fit, we outline the consulting fee structure and you decide whether to proceed. The consulting engagement covers strategy design, asset class selection, custodian setup, and prohibited transaction guidance.

3

Custodian Account Opening

We work with you to open your SDIRA account through Equity Trust. They process the paperwork and provide your account number and access.

4

Fund the Account

Transfer or rollover funds from an existing IRA, 401(k), or other eligible retirement account into your new SDIRA. Equity Trust coordinates the transfer.

5

Identify and Evaluate the Investment

You identify the alternative asset you want to acquire. We review the transaction structure for prohibited transaction compliance. You perform your own investment due diligence.

6

Execute the Transaction

You direct Equity Trust to fund the purchase. All title, contracts, and income flow through the SDIRA — not through you personally.

7

Ongoing Administration

All expenses, income, and management decisions flow through the IRA. We provide ongoing consulting support as needed throughout the life of the investment.

SECTION 10

Frequently Asked Questions

Q: Can I roll over my existing 401(k) or IRA into an SDIRA?

Yes. Most traditional IRAs, Roth IRAs, SEP IRAs, SIMPLE IRAs, and employer-sponsored 401(k) plans can be rolled over or transferred into an SDIRA without triggering taxes or penalties, provided the rollover is executed correctly. Equity Trust handles this process.

Q: Can I use a mortgage to buy real estate inside an SDIRA?

Yes — this is called a non-recourse loan. The loan must be non-recourse, meaning the lender can only claim the property, not your personal assets. Non-recourse loans are available but typically have stricter terms than conventional mortgages. Note: leveraged real estate in an IRA can trigger Unrelated Business Income Tax (UBIT) on the leveraged portion of the income.

Q: What happens to my SDIRA real estate when I reach age 73?

Required Minimum Distributions (RMDs) apply to Traditional SDIRAs beginning at age 73. If your IRA holds illiquid real estate, you may need to either distribute a portion of the property (complex), convert to cash by selling, or take in-kind distributions. Planning for this well in advance is critical.

Q: Can I partner my SDIRA with personal funds on a real estate deal?

Yes — with careful structuring. An SDIRA can hold a fractional ownership interest in a property alongside personal funds or other investors, provided the transaction structure avoids prohibited transaction rules. The SDIRA's share of income and expenses must be strictly proportional to its ownership percentage.

Q: How long does it take to set up an SDIRA?

Account opening with Equity Trust typically takes 5–10 business days once paperwork is submitted. Rollovers from existing accounts can take 2–6 weeks depending on the releasing custodian. Plan accordingly if you have a specific investment timeline.

Q: What does ESFS charge for SDIRA consulting?

We begin with a complimentary education session at no cost. If you choose to proceed with a full SDIRA consulting engagement, we outline a flat fee at that time. The fee reflects the complexity of your situation, the asset class involved, and the scope of consulting support needed. We are transparent about costs before any engagement begins.

Q: Is an SDIRA appropriate if I already have an IBC policy?

Potentially yes — and this is one of the more powerful combinations available to ESFS clients. An IBC whole life policy builds guaranteed, accessible cash value that can serve as a personal financing mechanism. An SDIRA holds alternative assets inside a tax-advantaged structure. Used together with proper planning, they address different financial functions without interfering with each other.

SECTION 11

Your Next Step

You have just covered more ground on Self-Directed IRAs than most people learn in years of having conventional retirement accounts. That knowledge alone puts you in a stronger position — regardless of what you decide next.

The next step is a conversation. Not a pitch. Not a product presentation. A focused, no-pressure education session where we look at your specific situation — your existing retirement accounts, your investment experience, your goals, and your timeline — and determine honestly whether an SDIRA belongs in your plan.

Ready to Find Out If a Self-Directed IRA Fits Your Plan?

Schedule your complimentary SDIRA education session with Ronnie Wright. No obligation, no pressure — just clarity on whether this strategy belongs in your financial future.

Book Your Free Session:

calendly.com/ronnie-equitystreamfinancialservices/30min

Or call (619) 832–6971 | ronnie@equitystreamfinancialservices.com

About Your Advisor

Ronnie Wright is a retired U.S. Navy veteran, federal civil service professional, and the founder of Equity Stream Financial Services. He holds the Federal Retirement Consultant (FRC®) designation and specializes in education-first financial strategies for military families, veterans, federal employees, business owners, and real estate investors.

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