



ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

SEC Warning Investor Alert: Self-Directed IRAs and the Risk of Fraud

In September 2011, the Securities and Exchange Commission (SEC) issued an "Investor Alert" warning investors to be wary of fraudulent promoters targeting self-directed IRA funds.

The Alert began with a brief overview of IRAs and self-directed IRAs and pointed out some of the key differences between "normal" IRAs and self-directed accounts. One key difference pointed out in the alert is that while "most IRA custodians are banks and broker-dealers that limit the holdings in an IRA..." self-directed IRAs can offer investors the opportunity to invest their "retirement funds in other types of assets such as real estate, promissory notes, tax lien certificates, and private placement securities."

The opening further points out that while self-directed IRAs have the potential to offer owners otherwise unavailable investment opportunities, they can also come with unique risks, such as "a lack of disclosure and liquidity – as well as the risk of fraud."

Although the majority of IRA owners are content with the more traditional investment options offered by most conventional IRA trustees, self-directed IRAs still account for a sizable portion of IRA savings. According to the alert, self-directed IRAs currently account for roughly two percent, or \$94 billion, of all IRA funds. It's possible, however, that the recent volatility and uncertainty surrounding the markets could help foster an increased "grass is greener" attitude with some clients, prompting additional funds to be allocated to self-directed accounts.

SEC:
Promoters of fraudulent investments may seek to target self-directed IRAs.

How Fraud Promoters May Target Self-Directed IRAs

The SEC Investor Alert explains that promoters of fraudulent investments may

seek to target self-directed IRAs in many ways. One way is to misrepresent the custodian's responsibilities. Often times, these promoters will suggest, or even out-and-out state, that a self-directed IRA custodian has done some level of due diligence on their investment to

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Guest IRA Expert

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Westin Jersey City New York City Metropolitan Area April 23-24, 2012

