Investorly

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The Investorly™ Guide to Self-Directed IRAs

A Practical Guide to Investing with a Self-Directed IRA



What is a Self-Directed IRA?

A **Self-Directed IRA (SDIRA)** is a type of individual retirement account that gives you the ability to invest in a wider range of assets—beyond just stocks, bonds, and mutual funds.

While it follows the same tax rules as a Traditional or Roth IRA, the key difference is control. With a self-directed IRA, you—not a brokerage—choose the investments, which can include real estate, private equity, energy, crypto, and more.

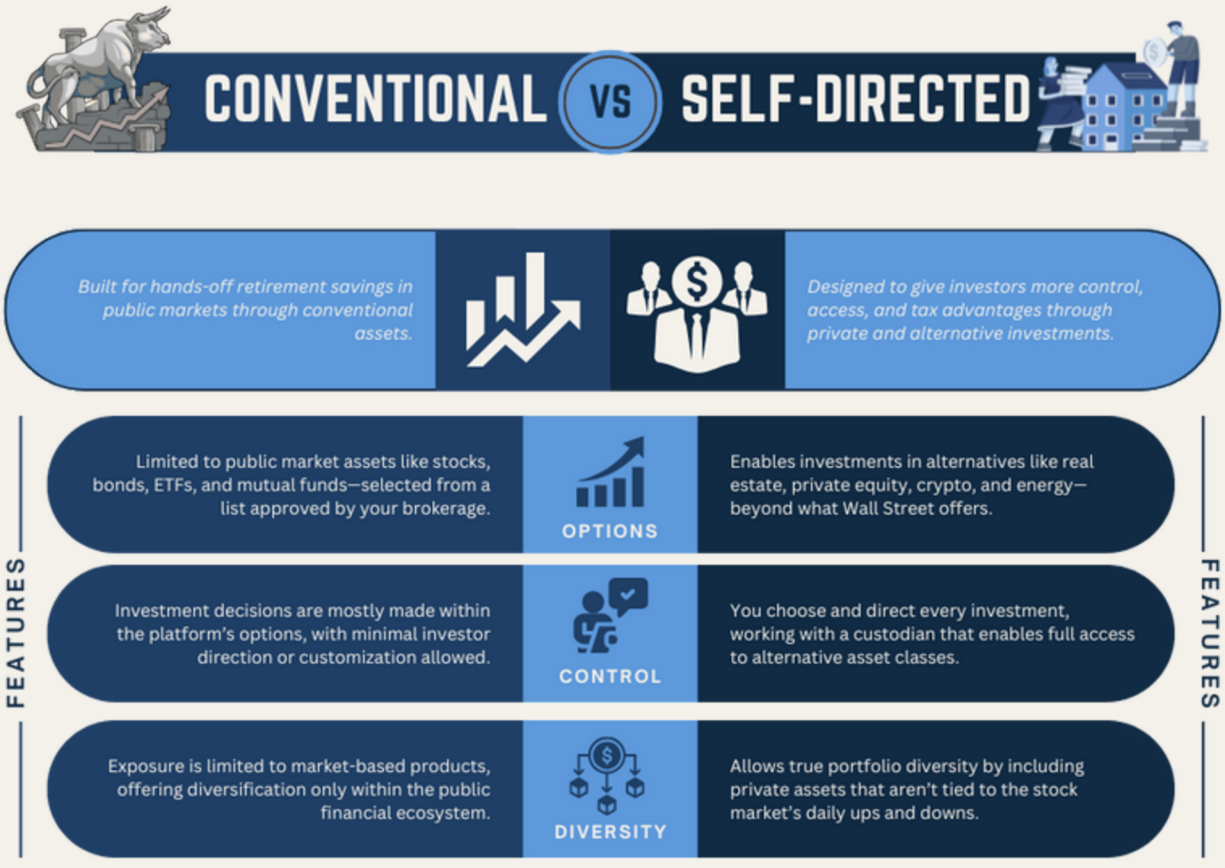
To set one up, you'll work with a specialized custodian that allows these types of alternative assets. The structure is the same, but the flexibility is much greater.

For investors looking to diversify their retirement portfolio and tap into opportunities outside of Wall Street, an SDIRA can be a powerful tool—when used correctly.



SDIRA vs. Conventional IRA

At a glance, a **Self-Directed IRA (SDIRA)** and a conventional IRA follow the same tax rules and contribution limits—but they differ in what you can invest in. A conventional IRA, typically held at a brokerage like Fidelity or Schwab, limits you to publicly traded assets: stocks, bonds, mutual funds, and ETFs. An SDIRA, on the other hand, allows you to invest in a broader range of alternative assets—such as real estate, private funds, crypto, and more. The structure is the same, but the flexibility and responsibilities are not. With an SDIRA, you take on more control—and more due diligence.



Who’s Holding Your IRA? Here's What to Know

Every IRA, including a self-directed one, must be held by a qualified custodian. Their job is to administer the account, maintain compliance with IRS regulations, and handle asset custody and reporting. However, most traditional banks and brokerages only support conventional investments—like stocks and mutual funds—because they’re easy to package, regulate, and scale. Alternative assets like real estate or private equity require more complex documentation, manual oversight, and regulatory nuance. That’s why SDIRA custodians are specialized firms focused solely on enabling and supporting these non-traditional investment options.



ASSET CUSTODY

Holds and safeguards the alternative assets inside your IRA, from real estate to private equity.

IRS COMPLIANCE

Ensures your account follows IRS rules and handles required tax reporting (like Form 5498 & 1099-R).

TRANSACTION PROCESSING

Facilitates buy/sell orders, processes contributions and distributions, and records asset transfers.

RECORDKEEPING

Maintains accurate records of your account’s activity, balances, and valuations for annual reporting.

Who Can Open a Self-Directed IRA?



Good news: almost anyone with earned income can open a self-directed IRA.
If you're eligible to contribute to a Traditional or Roth IRA, you're eligible to open a self-directed version. The key difference isn't who you are—it's what you want to invest in.

You may qualify if:

- You earn income from a job or self-employment
- You're under the annual IRS contribution limits
- You want more control over where your retirement dollars go
- You're willing to learn the rules or work with professionals who understand them

Self-directed IRAs aren't just for the wealthy—they're for anyone looking to move beyond Wall Street and into real estate, private equity, energy, crypto, and other alternatives.

GETTING STARTED IN 4 SIMPLE STEPS



CHOOSE A CUSTODIAN

Not all custodians allow alternative investments. Look for one that specializes in self-directed IRAs and supports the specific assets you want to invest in (real estate, private equity, crypto, etc.).

OPEN YOUR ACCOUNT

Just like a regular IRA, you'll complete a simple application—either Traditional or Roth, depending on your tax strategy. Your custodian will guide you through the paperwork.





FUND YOUR ACCOUNT

You can fund your SDIRA by:

- Making a new annual contribution
- Transferring funds from an existing IRA
- Rolling over a 401(k) from a previous employer

DIRECT YOUR INVESTMENT

Once funded, you—not the custodian—choose the investment. You'll submit instructions to your custodian to execute the deal, ensuring it complies with IRS rules.



What Can You Invest In With Your SDIRA?



Real Estate - One of the most popular SDIRA asset classes. Investors can purchase residential, commercial, or undeveloped property within their IRA—so long as the property is for investment purposes only. You can't live in it, work on it, or rent it to family members.



Private Placements / Private Equity - SDIRAs can invest in private companies, funds, or startups not traded on public markets. These are often accessed through private placement offerings—ideal for investors seeking growth potential outside of Wall Street.



Oil & Gas / Energy - Investments in mineral rights, energy partnerships, or drilling ventures can be held in a self-directed IRA. These assets often offer unique income potential and tax advantages —but come with elevated risk and complexity.



Crypto & Digital Assets - Many SDIRA custodians now support digital currencies like Bitcoin and Ethereum. These investments offer potential upside—but require careful custody and a clear understanding of volatility and IRS tax treatment.



Promissory Notes / Private Lending - You can use your SDIRA to lend money and earn interest through secured or unsecured promissory notes. It's a way to generate predictable returns—if the terms are clearly defined and the borrower is properly vetted.

The Pros and Cons of Using a Self-Directed IRA

A Self-Directed IRA can be a powerful tool for investors looking to move beyond Wall Street and take greater control of their retirement strategy. The ability to invest in alternative assets—like real estate, private equity, or crypto—opens the door to opportunities that traditional IRAs can't access. But with that flexibility comes more responsibility. SDIRAs require a solid understanding of IRS rules, careful due diligence, and active decision-making. Below are some key benefits and potential drawbacks so you can decide if an SDIRA aligns with your goals and risk tolerance.



Traditional vs. Roth: What's the Difference?

When opening a self-directed IRA, one of the first decisions you'll make is whether to structure it as a Traditional or Roth account. Both offer powerful tax advantages—but the difference lies in when you get the benefit. Traditional IRAs let you deduct contributions now and defer taxes until retirement. Roth IRAs flip the script: you pay taxes up front, but your investments grow—and can be withdrawn—100% tax-free later. Choosing the right option depends on your income, goals, and long-term strategy.

TRADITIONAL VS ROTH

TRADITIONAL

1. 

TAX-DEDUCTIBLE CONTRIBUTIONS

Most contributions are tax-deductible in the year they're made, helping reduce your current taxable income—especially useful if you're in a higher tax bracket today.

2. 

TAX-DEFERRED GROWTH

All gains and income generated inside the account grow tax-deferred, meaning you won't pay taxes until you withdraw funds in retirement.

3. 

TAXES UPON WITHDRAWAL

Distributions taken in retirement are taxed as ordinary income, regardless of how the money was earned or how long it was invested.

4. 

REQUIRED DISTRIBUTIONS

Starting at age 73, you're required to begin taking minimum distributions—even if you don't need the income—per IRS rules.

ROTH

1. 

AFTER-TAX CONTRIBUTIONS

You contribute with money that's already been taxed. There's no deduction now, but the long-term benefit is substantial if the account grows.

2. 

TAX-FREE GROWTH

All interest, dividends, and capital gains grow tax-free—and can be withdrawn tax-free in retirement, assuming you meet IRS rules.

3. 

NO TAXES LATER

Qualified withdrawals in retirement come out 100% tax-free, which can provide greater flexibility in managing your tax burden later in life.

4. 

NO REQUIRED MINIMUM DISTRIBUTIONS

You're never required to take distributions from a Roth IRA during your lifetime, allowing your investments to compound even longer.

The Seed or the Crop?

Picture a farmer standing at the edge of his field. The soil is tilled, the sun is rising, and in his hand, he holds a bag of seeds—small, ordinary, full of promise. He's preparing for the season ahead, ready to plant something he hopes will feed his family for years to come.

Now imagine someone approaches him with a choice.

He can either pay a small toll today—a fee on the seeds—and never owe another cent on anything he grows. Every crop, every harvest, every bushel he pulls from the earth will be entirely his. No taxes, no obligations. What grows belongs to him.

Or, he can skip the toll. No cost up front. He plants freely, tends the soil, waters each row, protects it from storms and drought. He does the hard work—waits, sacrifices, nurtures. And when harvest time finally comes... he finds someone waiting at the edge of the field. Not to help, but to take a portion of the crop. A portion of everything he's grown.
It's not theft—it was the deal.

The difference between a Roth IRA and a Traditional IRA is this simple but powerful choice:

Do you want to pay taxes on the seed—or on the crop?

The Roth investor pays on the front end. Quietly, without fanfare, with faith that what they plant will grow into something far greater.

The Traditional investor chooses to defer. To push the cost down the road, and pay only once the results of their labor are visible.

There's no perfect answer. But it's a question worth asking.

Because after decades of growing your wealth, you'll remember what it felt like to hand over a share of your harvest—or walk away knowing every bit of it was yours.

Understanding Self-Dealing and Disqualified Persons



When using a self-directed IRA, one of the most important rules to understand is the restriction against self-dealing. This occurs when you—or someone closely tied to you—personally benefits from an IRA-owned investment. The IRS prohibits any transactions between your IRA and "**disqualified persons**," which includes you, your spouse, your **lineal family members** (parents, grandparents, children, grandchildren), and any **entities they control**. Your IRA can't buy from, sell to, loan to, or receive services from anyone in this group—and you can't use the asset yourself.

The rule exists to ensure retirement funds are used for future benefit, not present gain. Violating it can trigger severe penalties, including disqualification of the entire IRA. Knowing these boundaries is essential to protecting both your investment and its tax-advantaged status.

5 Common Self-Dealing Mistakes to Avoid

Even well-meaning investors can accidentally cross the line with their self-directed IRA. These are some of the most frequent missteps that can trigger IRS penalties or disqualify your account—knowing them now can save you later.

1. 

LIVING IN AN IRA-OWNED PROPERTY

You can't stay, vacation, or live in a property owned by your IRA—even temporarily.

2. 

HIRING YOUR OWN BUSINESS

Using your personal company to service or manage IRA assets is prohibited.

3. 

LENDING MONEY TO FAMILY

You can’t loan IRA funds to disqualified persons like your spouse, child, or parent.

4. 

BUYING ASSETS FROM YOURSELF

Your IRA cannot purchase investments you already own or control.

5. 

COVERING EXPENSES PERSONALLY

All property-related expenses must be paid from the IRA—not your personal funds or credit card.

What Happens If You Break the Rules?



Self-directed IRAs give you a lot more freedom—but that freedom comes with rules. If your account crosses a line, like investing in something that benefits you personally or involving a disqualified person, the IRS doesn't look the other way. A single prohibited transaction can cause your entire IRA to lose its tax-advantaged status, turning the full account into a taxable event.

That kind of mistake can be expensive—and it's not always easy to fix. What makes it tricky is that these slip-ups are rarely intentional. Most of the time, they happen because someone didn't realize a deal was structured incorrectly or didn't fully understand what's allowed. That's why it's so important to slow down, ask the right questions, and make sure you're not unintentionally stepping outside the lines. With the right guidance, it's entirely avoidable.

Bonus: More Ways to Grow Tax-Free

While most investors are familiar with Traditional and Roth IRAs, there are other retirement accounts worth knowing—especially if you're self-employed or run a small business. **SEP IRAs, SIMPLE IRAs, and Solo 401(k)s** offer higher contribution limits and unique features that can make them a better fit depending on your income, team size, and long-term goals. Here's how they compare.

Investorly	SOLO 401(K)	SIMPLE IRA	SEP IRA
Incremental Owner Contributions	None	None	None
Tax-Deferred Contributions	Pre/Post Tax Options	Pre-Tax Only	Yes
Employer Contributions	Optional	Required	Required
Loans Allowed	Yes	No	No
Cost	Low	Low	Low
Administration	Easy	Easy	Easy
Employee Exclusions	N/A	No	No
Investment Options	Wide-Range	Wide-Range	Wide-Range

You Don’t Have to Navigate This Alone

You’ve just explored one of the most powerful—yet often misunderstood—tools available to private investors. A self-directed IRA opens the door to real estate, private equity, energy, crypto, and other alternative assets—all with the potential for tax-deferred or even tax-free growth. Along the way, you’ve learned what a self-directed IRA is, how it compares to conventional retirement accounts, what types of investments are allowed, and how to avoid the common pitfalls around prohibited transactions and disqualified persons. We’ve also covered the key differences between Traditional and Roth structures, and introduced additional account types for business owners and self-employed professionals looking to maximize contributions.

If there’s one key takeaway, it’s this: self-directed IRAs are powerful, but they’re not plug-and-play. With more flexibility comes more responsibility. Unlike traditional IRAs that limit you to stocks and mutual funds, an SDIRA puts you in control—which means it’s up to you to evaluate risks, structure deals correctly, and stay compliant with IRS regulations. The upside can be significant, but so can the consequences of getting it wrong.

That’s exactly why **Investorly™** exists. We’re here to help investors like you ask smarter questions, spot red flags early, and invest with clarity and confidence. Whether you’re just getting started or actively reviewing a deal, we’ll help you avoid costly missteps and move forward with a clear, well-informed plan.

If you’re ready to take the next step, we invite you to schedule a 1-on-1 walkthrough with our team. We’ll help you set up your account, fund it properly, and structure your first investment the right way—so you can focus on growing wealth, not guessing your way through it.

Your capital deserves thoughtful direction. Let’s get to work.

Investorly

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