

FINRA Review letter **FR2008-0103-0031/E** January 9, 2008

How to Make Alternative Investments in Your IRA

Per the reviewer's comments, the following disclosure has been added:

Note that alternative investment offerings may carry significant risks, including high volatility and lack of diversification.

How to make “Alternative” Investments in your IRA

Most IRA trustees handle only typical IRA investments such as mutual funds, stocks and bonds, certificates of deposits, etc. They're leery of other investment types for fear of violating IRS rules¹ on prohibited investments and transactions. Such violations will cause you to lose your IRA tax benefits and trigger penalties.

But alternative investments may interest you. If you wish to follow your interests, here are some facts and issues to consider. **Note that alternative investment offerings may carry significant risks, including high volatility and lack of diversification.**

About the only investments prohibited for IRAs are life insurance policies and certain collectibles, such as works of art, rugs, antiques, metals, gems, stamps, coins and alcoholic beverages. However, you can buy certain gold and silver coins minted by the U.S. or by U.S. states.

So what's allowed?

A sample of alternative investments include: stock from an initial public offering, closely held stock, real estate, options to buy real estate, oil and gas royalty interests, stock options, mortgages or other loans to be held for investment.

You can see, some of these options are inherently illiquid, which can cause problems. If you have too much of your account balance tied up in illiquid investments, you may not be able to dip into your IRA for cash anytime you please or easily make your annual MDR².

You need to find the right trustee to handle your investment

Some IRA trustees specialize in alternative investments. You can locate some trustees by searching the Internet using the key words "self-directed IRA." Do your due diligence to find who's reputable and then check their fee schedules. Alternative investments inevitably cost more than the garden-variety investments.

Know the prohibited transaction rules

When investing in alternative investments, you need to avoid the "prohibited transaction rules". These rules are intended to prevent using your IRA account for "self dealing". You can't use your IRA

- To buy stock or other assets from you or sell them to you,
- To lease assets from you or to you,
- To buy stock in a corporation in which you have a controlling interest.
- To lend to you or borrow from you.
- To engage in transactions with certain related parties and/or family members.

Avoid "Unrelated Business Taxable Income" (UBTI)

Certain types of income (not including investment income) are prohibited in IRAs. The UBTI rules are intended to prevent IRAs from investing in income-producing businesses via direct ownership or via ownership of a partnership or LLC interest. An example might include using an IRA to buy an interest in a cattle-breeding partnership.

Give us a call or fill out the card so we can help you find and overcome the hurdles of alternative investments in IRAs that are suited to you.

¹ IRS Pub 590 – outlines the banned investments and prohibited transactions

² Minimum Distribution Requirements due annually after reaching age 70 ½

January 9, 2008

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Reference: **FR2008-0103-0031/E**

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REVIEW LETTER

1. How to make Alternative Investments in your IRA

Rule: 2210

1 page

Fee: \$100

Total Fee: \$100

Attention: James Williams

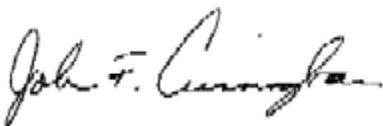
Please be advised that it remains your firm's responsibility to ensure the accuracy of the statement "About the only investments prohibited for IRA's are life insurance policies and collectibles, such as works of art, rugs, antiques, metals, gems, stamps, coins and alcoholic beverages."

A revision is necessary for the material submitted to be consistent with applicable standards.

Pursuant to the standards set forth in Rule 2210(d)(1)(A), the discussion of alternative investments must state that such offerings may carry significant risks, including high volatility and lack of diversification. This additional information is necessary to provide a fair and balanced presentation.

Although the material has been reviewed by the undersigned, Derek Ashworth remains your regularly assigned analyst.

Sincerely,



John F. Cunningham
Supervising Analyst



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***NOTE:** As a FINRA member, you are responsible for determining whether any communication with the public, including material filed with the Department, complies with all applicable requirements. The views expressed herein are solely advisory and do not constitute findings of compliance with, or violations of FINRA or SEC rules. It is assumed that the material does not omit material facts, contain statements that are not factual, or offer opinions that do not have a reasonable basis.*