



# SELF-DIRECTED IRAs

Tax-advantaged investing, custodial requirements, and much more.



# Self-Directed IRAs

All eyes are on IRAs right now, for a myriad of reasons. IRAs have been used over the years to both supplement workplace savings plans and receive rollovers of retirement savings when workers change jobs or retire. But IRAs have quietly taken center stage on the retirement savings scene—not only because of the amount of wealth they now hold (almost twice that of 401(k) plan assets) but because of the range of tax advantages and investment options available with self-directed IRAs (SDIRAs).

As more investors are looking to diversify from publicly traded mutual funds, an SDIRA is a powerful, multipurpose, tax-advantaged investment tool investors can leverage to capitalize on the significant shifts happening in a challenging macroeconomic environment.

## IRA MARKET & ALTs

IRAs are an undeniable force in the U.S. financial and retirement savings market.

In the first quarter of 2025, IRAs held Nearly \$17 trillion in retirement savings.<sup>1</sup> According to the Investment Company Institute (ICI) Quarterly Retirement Market Data Report, retirement assets accounted for 39% of all household financial assets in the United States at the end of March 2025.

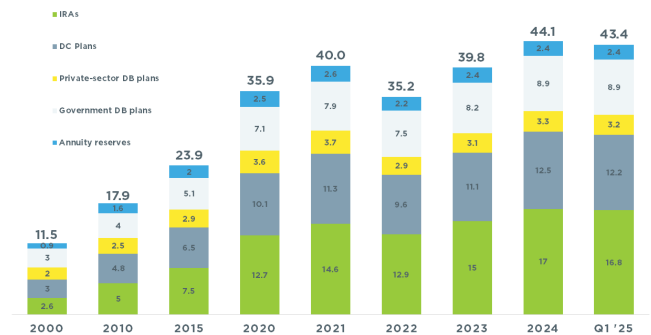
Of the \$16.8 trillion invested in IRAs, ICI detailed \$6.4 trillion invested into mutual funds and \$10.4 trillion (61%) invested in other investments. Equity funds are the most common, but a healthy mixture of hybrid funds made up "other" investment categories.

### ALTs REMAIN RESILIENT

In the last few years, macroeconomic factors such as economic uncertainty, geopolitical unrest, stock market volatility, and hedge fund schemes have directly impacted investor sentiment and portfolio strategies. Through the chaos, alternative investments (alts) remained resilient and even thrived in periods of high inflation, which typically slows down private market activity.

### U.S. Total Retirement Market Assets

Trillions of dollars, end-of period, selected periods



Source: Investment Company Institute. *Quarterly Retirement Market Data, First Quarter 2025.*<sup>1</sup>

According to Prequin, global alternatives assets under management (AUM) will hit \$23.3 trillion by 2027, up from \$13.7 trillion registered at the end of 2021.<sup>2</sup> The largest category is private equity (combined with venture capital), which would be almost twice the size of the hedge fund industry's \$5.4 trillion AUM in anticipated growth forecasted to hit in 2026.

A few driving forces helping fuel IRAs and private markets are the expanding ability to hold a wide array of private investments in tax-advantaged accounts, wealth strategies that include a renewed focus on uncorrelated investments, and legislative changes that broaden private market opportunities for individual investors.

<sup>1</sup> Investment Company Institute, *Quarterly Retirement Market Data, First Quarter 2025*, [https://www.ici.org/statistical-report/ret\\_25\\_q1](https://www.ici.org/statistical-report/ret_25_q1)

<sup>2</sup> Prequin, *Global Report 2023: Alternative Assets*, January 18, 2023, <https://www.prequin.com/insights/research/reports/prequin-global-report-2023-alternative-assets>



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## WHAT IS A SELF-DIRECTED IRA?

The Employee Retirement Security Act, or ERISA, was passed in 1974 and created the individual retirement account (IRA). By 1975, individuals had the ability to set up self-directed IRAs. Technically, a self-directed IRA is an IRA, governed by the same tax laws as a “regular” IRA established at a bank or brokerage firm; it can be established as either a Traditional IRA or Roth IRA (or even a SEP or SIMPLE IRA), with the same tax benefits associated with those types of IRAs.

### WHO BENEFITS?

Investors who are looking for ways to diversify their portfolio or achieve specific investment objectives, while also growing their savings on a tax-advantaged basis, can benefit from a self-directed IRA.

### INVESTMENT FREEDOM

Besides being a vessel for consolidating retirement savings and allowing tax-deferred investment growth, self-directed IRAs can offer investors the freedom to choose from an almost unlimited array of investment options. In addition to private equity investments, the Taxpayer Relief Act of 1997 broadened the types of precious metals that could be added

to IRAs and permitted other alternative assets such as real estate, loans, and private debt to be held in self-directed IRAs. These allow investors to diversify with uncorrelated investments.

### COMMON ALTERNATIVE INVESTMENTS OPTIONS



**Private Equity** – Private start-up company stock, bank capital raise, acquisition of an entity, hedge fund investments, oil and gas, or energy ventures



**Private Debt** – Mortgage notes and trust deeds, promissory notes, timber deeds, private corporate debentures



**Real Estate** – Residential property, commercial property, REO properties, apartment buildings and condominiums, raw land, improved land



**Crowdfunding** – Access to many different asset types. Funds typically require a small amount of capital from a large number of investors



**Precious Metals** – Gold, silver, platinum and palladium bullions or coins



**Public Investments** – Publicly registered limited partnerships, limited liability companies, REITs



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## CUSTODIAL REQUIREMENTS

IRS regulations require all IRAs to be held for investors by a custodian. The main difference from a regular IRA is that a self-directed IRA provides individuals more investment options. This is possible because of the entity acting as custodian for a self-directed IRA. When banks, credit unions, brokerage firms, and other entities eligible to act as an IRA trustee or custodian offer IRAs, the investment options are typically limited to certificates of deposit and publicly traded mutual funds, stocks, and bonds. Only a custodian with the specialized policies, procedures, and expertise in holding specific types of assets can offer self-directed IRAs that permit alternative IRA investments, like real estate or private equity funds. Except for a few discrete items specifically prohibited by federal law (like collectibles and life insurance contracts), the investment possibilities within a self-directed IRA are limited only by the custodian's policies and terms.

## INVESTOR KNOWLEDGE

The term “self-directed” is used to describe certain IRAs because the IRA owner is responsible for directing the investments of the IRA (unless engaging with a discretionary investment fiduciary). This includes conducting the due diligence to determine risk/reward potential. Self-directed IRA custodians do not determine the potential risks or merits of an

investment or an investment issuer, nor do they provide any investment or financial advice. If investors need help picking or managing investments, it is recommended to work with a financial professional well versed in alternatives.

## BEYOND WALL STREET

Many investors are drawn to the types of investments possible in a self-directed IRA because these investments can often provide additional diversification opportunities beyond what is achievable through conventional publicly traded investments. In addition to the basic constraint of limiting one's investment options to just mutual funds, many IRA owners and plan participants are further limited in their investment options by providers or plan sponsors who only provide access to a narrow list of “preferred” providers.

As was demonstrated by the extreme market volatility that resulted from the COVID-19 pandemic in 2020, the hedge fund fiascos of 2021, and NASDAQ dropping 33% in 2022 (its worst performance since 2008), the stock market can readily fall prey to extreme economic forces, both natural and contrived. With the use of self-directed IRAs, investors can further diversify their investment portfolio with uncorrelated investments (those that have a low or negative correlation to traditional asset classes including stocks and bonds), protect wealth against market volatility, and seek greater returns—all on a tax-advantaged basis.



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## PERSONAL VALUE INVESTING

Savvy investors are turning to alternative investments not only to mitigate the typical investment risks inherent in stock market investing but also to leverage their retirement savings to achieve more meaningful, holistic investment objectives. In doing so, individuals with specialized knowledge can leverage their unique expertise to make impactful, profitable investments in areas near and dear to them.

For example, an investor with specialized knowledge about the real estate market in a particular geographic area might use his or her expertise to invest in a small condominium development that is not on the radar of big investment firms. Likewise, an investor who is passionate about the “eat local” trend may identify a local investment opportunity focused on connecting the dots between area farmers and area restaurants. Self-directed IRA owners could use their savings to invest in start-up companies, for angel investing, or to help a local company raise capital for expansion in order to create jobs.

## TAX ADVANTAGES

Tax-smart investing is always important, but it is likely to take on even greater significance for high-net-worth clients in the coming years as tax rates are projected to increase to address the rising national debt. The tax benefits associated with Traditional and



Roth IRAs make the self-directed IRA a tax-smart investment tool:

- Tax deduction for Traditional IRA contributions
- Tax-free distributions from Roth IRAs
- Option to convert pre-tax retirement savings to after-tax assets in a Roth IRA
- Option to recharacterize the tax status of current-year IRA contributions
- Ability to transfer ownership of IRAs directly to beneficiaries outside of probate



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One of the primary benefits of investing in an IRA is the deferral of taxes on investment gains while the investment is held in an IRA. And if assets are held in a Roth IRA, the tax liability on investment growth can be eliminated. When considering alternative investments for a self-directed IRA, investors should consider whether an investment is expected to have frequent short-term gains that might otherwise be taxable or long-term capital gains, and then assess the potential tax consequences for holding that investment in a tax-deferred IRA or a taxable account.

## IS A SELF-DIRECTED IRA RIGHT FOR YOU?

Although anyone can own a self-directed IRA, the best fit may be for investors who are able to:

- Understand the rewards related to nontraditional investments, and
- Weigh the risks against the value of the potential for higher returns.

Investors should be able to conduct the due diligence necessary to evaluate the merits of an investment and investment providers or work with financial, tax, or legal professionals who can assist with this analysis.

Tenured investors are typically more likely

to have accumulated significant retirement assets to invest, but self-directed IRAs are not just for retirees with large account balances. In fact, younger individuals have more time to benefit from long-term growth potential, and withdrawal activity is lower among younger investors.

Regardless of age, many investors' portfolios are at risk due to lack of diversity. Those with a workplace retirement plan or who work with

### CHARACTERISTICS

Personal characteristics of investors who are looking for the opportunity for more control and investment freedom with their retirement savings might include:

- Extensive investment experience or business savvy
- Expertise in a particular field (e.g., real estate)
- Skills to conduct research or investigate opportunities
- Visionaries capable of appreciating long-term outcomes/benefits
- Passion for a specific initiative (e.g., environmental or socially responsible investing)
- Creative thinkers



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a brokerage firm likely only have exposure to publicly traded stocks, ETFs, and bonds. These investors may want to consider further diversifying their retirement portfolios with a self-directed IRA. If an investor does not yet have a sizeable account balance to invest or is not yet able to roll over money from an employer plan, they may be able to pool their self-directed IRA assets with other investors to access the alternative investment they want.

Many investors just need to be educated about the possibilities available within a self-directed IRA to begin thinking about investing beyond Wall Street.

## CONSIDERATIONS

With the ability to tailor IRA investments to an investor's personal interests comes the potential to violate the *prohibited transaction* rules. These rules are designed to ensure that IRA owners (and certain others associated with them) are not receiving an additional, personal benefit from the investment in the IRA. To avoid the tax consequences of a disqualified IRA, financial advisors and investors must understand the prohibited transaction rules and avoid investment scenarios that could be perceived by the IRS as improper. For example, an IRA owner, their family members, and fiduciaries to the IRA cannot:

- Sell property to the IRA or purchase assets directly from the IRA,
- Borrow money from or lend money to the IRA,
- Provide materials or services to the IRA investment, or
- Otherwise use or benefit personally from the IRA investment.

Additionally, under certain circumstances, an IRA may have to pay taxes if investments within the IRA generate unrelated business taxable income (UBTI) or unrelated debt-financed income (UDFI). This occurs when a retirement account earns active business income, which is considered unrelated to the tax-exempt status of the IRA (including Roth IRAs) under federal tax law, and the income is subject to its own tax.

## WHAT TO LOOK FOR IN AN IRA CUSTODIAN

As with conventional IRAs, every self-directed IRA must have an institutional custodian (or trustee). The custodian plays a crucial role by maintaining control of its customer's uninvested cash and holding title to all self-directed IRA investments for the benefit of its customers. Self-directed IRA providers ("IRA administrators") that are not custodians regulated by a state or federal banking authority must contract with a custodian to administer the IRA. Many IRA owners prefer to work directly with an IRA custodian that



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is subject to direct regulatory oversight, taking comfort in the fact that a state or federal regulatory agency is helping to look out for their best interests.

## REGULATORY CONTROLS

Unlike custodial providers, noncustodial IRA administrators are not directly regulated by state or federal banking authorities. Consequently, these entities typically do not have on-site safety and soundness examinations conducted for their operations. In addition, noncustodial administrators do not have the authority to hold customer funds in pooled accounts or hold title to customer assets in their name. Because they do not have the same legal authority and accountability as a regulated custodian, non-custodial administrators that wish to offer self-directed IRAs must contract with a custodian to provide several services, oftentimes blurring the line of which entity is responsible for what.

After the well-publicized failure of an IRA administrator based in Utah in 2014, some states have tightened laws to minimize the inherent risks that come with the noncustodial administrator business model. This is contributing to additional trends being seen within the IRA service provider industry. From 2019 through 2023, there has been an influx of IRA administrators obtaining charters to become custodians in states where they do not operate. One might assume this is to possibly avoid strict regulatory controls and

oversight, although this might not always be the case. With data breaches becoming a regular occurrence, it's important to understand *why* and *how* your potential IRA service provider operates.

Ask the following types of questions to ensure an IRA custodian is regulated by a state or federal authority and has policies and procedures to meet the state and federal rules and regulations.

### *Is the custodian ...*

- Experienced in the custody of a broad range of asset classes?
- Knowledgeable about IRS rules and regulations that impact IRAs?
- Allowed to hold custodial (uninvested) cash?
- Subject to federal or state bank regulator oversight?
- Chartered in the state they operate in? *If not, why?*

### *Does the custodian ...*

- Maintain a comprehensive insurance package?
- Conduct internal and/or external audits?
- Comply with IRS and DOL statutory requirements?
- Comply with federal BSA/AML, CIP, and Patriot Act rules and requirements?



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- ☑ Maintain information security policies to protect its customers?
- ☑ Maintain a disaster recovery/emergency preparedness plan to ensure business continuity?
- ☑ Conduct annual employee training on Bank Secrecy Act/Anti Money Laundering, Customer Identification Program, Information Security, and Disaster Recovery?

## EXTENSIVE EXPERIENCE AND A SERVICE-ORIENTED CULTURE

Besides regulatory requirements, the most important differentiators for IRA custodians are industry experience, asset expertise, and easy-to-use technology.

Not only should the custodian be able to handle your asset custody, titling, and transfer needs—they should also be able to provide a seamless transaction experience, be quick to respond, and be easily accessible.

### *Characteristics of a service-oriented custodian:*

- Breadth of investments under custody
- Reputation for stability and integrity
- Commitment to service and innovation
- Teamwork to provide solutions for financial professionals and other service providers

- Investment in customer-focused technology and online resources

## HOW TO GET STARTED WITH STRATA TRUST COMPANY

With growing concerns about the stock market's vulnerability to economic pressures and fraud, more investors are seeking increased personal control over their retirement savings portfolio. A self-directed IRA with STRATA can help investors achieve increased diversification and peace of mind.

If you are currently working with an investment sponsor that has their investments onboarded with STRATA, reach out to them for a customized onboarding experience. If your investment sponsor does not yet have their investments onboarded, the process is simple and takes just a few minutes to complete. Visit [Investment Hub](#) to get started today, or reach out to one of our [self-directed IRA experts](#) to learn more.



**STEP 1** - Open an IRA



**STEP 2** - Fund the account (by transfer, rollover, or contribution)



**STEP 3** - Direct the investment (find checklists and forms for purchasing, transferring, or rolling over different asset types)



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# TRADITIONAL AND ROTH IRA COMPARISON

	TRADITIONAL IRA	ROTH IRA
ELIGIBILITY TO CONTRIBUTE	Anyone with annual earned income may contribute. An IRA can also be funded for a non-wage-earning spouse.	Anyone with earned income (no age requirements) who falls within the Roth Adjusted Gross Income (AGI) limits may contribute.  AGI limits do not apply for Roth conversions in 2010 and later years.
CONTRIBUTION LIMIT	\$7,000 for 2025 + \$1,000 catch-up contribution if age 50 or older.	
TAX ADVANTAGES	<ul style="list-style-type: none"> <li>For individuals who are not active participants in an employer-sponsored retirement plan, IRA contributions are fully deductible at any income level.</li> <li>For individuals participating in an employer-sponsored plan, IRA contributions may be deductible, depending on AGI.</li> </ul>	Contributions are not tax deductible, but earnings grow tax-free.
ROLLOVER OPTIONS	You can roll assets into your Traditional IRA from other Traditional IRAs as well as from 401(k) plans, 403(b) plans, governmental 457(b) plans, and SIMPLE IRAs (after a two-year holding period).	<p>If you have a designated Roth account in a 401(k), 403(b), or 457(b) plan, you may roll it over tax-free to a Roth IRA. You may also roll over your pre-tax money from an employer plan or a Traditional or SIMPLE IRA (after a two-year holding period) to a Roth IRA.</p> <p>This transaction “converts” pre-tax retirement savings to after-tax Roth savings by paying income taxes (but no tax penalties) on the IRA distribution before rolling over to a Roth IRA. The conversion amount is included in taxable income for the year it is rolled over.</p>
TAX TREATMENT OF INVESTMENT EARNINGS	Tax-deferred until withdrawn  (NOTE: UBTI/UDFI may trigger current-year taxation)	Tax-deferred, possibly tax-free  (NOTE: UBTI/UDFI may trigger current-year taxation)
TAX TREATMENT OF WITHDRAWALS	Taxable, except for nondeductible contributions and after-tax rollovers from retirement plans; taxable portion subject to additional 10% early distribution tax	<p>Contributions distributed tax-free at any time; earnings distributed tax-free in a “qualified” distribution</p> <ul style="list-style-type: none"> <li>Have had a Roth IRA for at least five years, and</li> <li>Age 59½ or older, disabled, first-time homebuyer distribution, or a beneficiary distribution</li> </ul> <p>10% early distribution tax applies only to taxable earnings (nonqualified distributions)</p>
REQUIRED MINIMUM DISTRIBUTIONS (RMDs)	RMDs must be taken beginning at age 73 (applies to individuals who attained age 72 after December 31, 2022).	RMDs are not required until the accountholder is deceased.
CANDIDATES	<ul style="list-style-type: none"> <li>Eligible for tax deduction</li> <li>Tax deduction would lower income tax liability</li> <li>Believe they will be in lower tax bracket in retirement</li> <li>Not eligible to contribute to Roth IRA</li> <li>Want to consolidate pre-tax retirement savings and continue deferring taxation</li> </ul>	<ul style="list-style-type: none"> <li>Income within limits to contribute</li> <li>Believe they will be in higher tax bracket in retirement</li> <li>Want tax-free income in retirement</li> <li>May need access to tax and penalty-free assets before retirement</li> <li>Have significant time to accumulate tax-free investment earnings</li> <li>Want to pass tax-free retirement assets to heirs</li> </ul>



## ABOUT US

STRATA Trust Company is a premier national custodian for alternative assets and non-exchange traded investments in self-directed IRAs. STRATA has been serving financial professionals and empowering investors since 2008.

With offices in Waco and Austin, Texas, our team's vast experience in handling the details and complexities that alternative investment transactions require is unrivaled. Our seasoned team's experience in the custody of alternative assets spans over 350 years. With a well-established reputation for honesty and integrity, STRATA is committed to delivering responsive, flexible, and innovative solutions.

At STRATA, we work to ensure that the highest standards for safety and soundness are met. As a subsidiary of Horizon Bank, SSB, STRATA is a Texas-chartered trust company regulated by the Texas Department of Banking, which has long set the benchmark among state banking regulators. Strict controls are in place to ensure the safety of uninvested cash, and independent auditors are retained to conduct regular audits of our operations.



# STRATA

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