

Self-Directed IRA Due Diligence Guide

How to Evaluate New Opportunities, Recognize Red Flags, and Build Confidence in Your Portfolio







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Due diligence is a critical aspect of self-directed investing.

As a self-directed IRA (SDIRA) holder, you have the freedom to explore a vast array of alternative assets, including real estate, precious metals, private equity, and more. However, this investment freedom also comes with the responsibility to be an informed and prudent investor.

Conducting thorough due diligence helps you navigate the complexities of various investment options, safeguarding your retirement funds from potential scams and undue risk exposure.

What's in the Guide?

In this guide, we will delve into the essential aspects of conducting due diligence for self-directed investments in your IRA.





The Importance of Due Diligence

In the first quarter of 2023, IRAs held over \$12 trillion.

For a sense of scale, that's equivalent to about half of the national GDP.



Across 60 million individual retirement accounts, there is ample opportunity for fraud. In fact, the Federal Trade Commission reported that consumers lost nearly \$9 billion to scams in 2022 alone.

It's vital to properly vet assets held in all types of accounts, but especially so with the retirement funds in your SDIRA.

Most IRA providers don't have the bandwidth or expertise to administer investments in

alternative assets; SDIRA providers do. With these powerful investment vehicles, SDIRA holders are able to invest their retirement funds in assets they believe in.

The potential upside is significant. You may be able to achieve greater diversification and take on higher-risk assets for a higher rate of return.

However, there are significant risks as well. Many sellers of alternative assets combine high-pressure sales tactics with limited transparency, hoping to lock you into assets with substantial downsides.

This is where due diligence becomes paramount. If you establish careful and comprehensive vetting practices, you may be able to safeguard your SDIRA from fraudulent schemes and spot red flags before it's too late.





What SDIRA Providers Do and Don't Do

It's called "self-directed" investing for a reason. You're the one calling the shots.

A reliable SDIRA provider like The Entrust Group does not vet investments or complete a risk assessment for any opportunities you're considering. It's in our disclaimer:

Entrust does not endorse, recommend, or advise on any investment product or service. Rather, we provide the administration, information, and tools to make self-direction straightforward and compliant.

It's not complex legalese. It's a clear-as-day statement that the ball is in your court.

A Legitimate Provider Does Not...

- Offer products or recommend investments
- Endorse any product or company
- Provide legal or financial guidance
- Provide guaranteed returns on a non-regulated investment
- Promise you will get rich overnight

If an IRA administrator or custodian offers any of these services, it is a red flag.





General Due Diligence Tips

To properly vet a prospective investment, you will need a systematic process of research, analysis, and assessment. This will enable you to gather relevant information and make informed decisions about an investment or business opportunity.

Later on in this guide, we will provide instructions specific to assets like real estate, precious metals, and private equity.

Now, here's a step-by-step guide on how to conduct due diligence:

1. Assemble a Due Diligence Team

Depending on the complexity of the investment, you should consider consulting trusted professionals. This could include financial advisors, legal experts, accountants, and industry specialists, among others. Their expertise will help you comprehensively assess all aspects of the opportunity.

2. Conduct Market and Industry Analysis

Research market trends, competition, growth potential, and market dynamics. Understand the industry landscape and how the opportunity fits into it.

3. Gather Information

Collect all relevant documents and information related to the investment. This could include financial statements, contracts, legal agreements, operational reports, and more.

4. Legal and Regulatory Compliance

Verify licenses, permits, and registrations. Ensure that the opportunity complies with applicable laws and regulations. Assess any potential legal risks.





5. Analyze Financial Statements

Analyze balance sheets, income statements, and cash flow statements. Calculate key financial ratios to evaluate the asset's current profitability and liquidity.

6. Conduct Risk Assessment

Identify and assess potential risks associated with the investment. This could include financial risks, operational risks, market risks, regulatory risks, and more. Evaluate the potential impact of these risks on your investment.

7. Evaluate the Management Team

Assess the leadership team's experience, skills, and track record. Evaluate their strategic vision and their ability to execute the business plan.

8. Keep Detailed Notes

Maintaining meticulous records will not only keep you organized but may offer protection in case of a disagreement down the line.

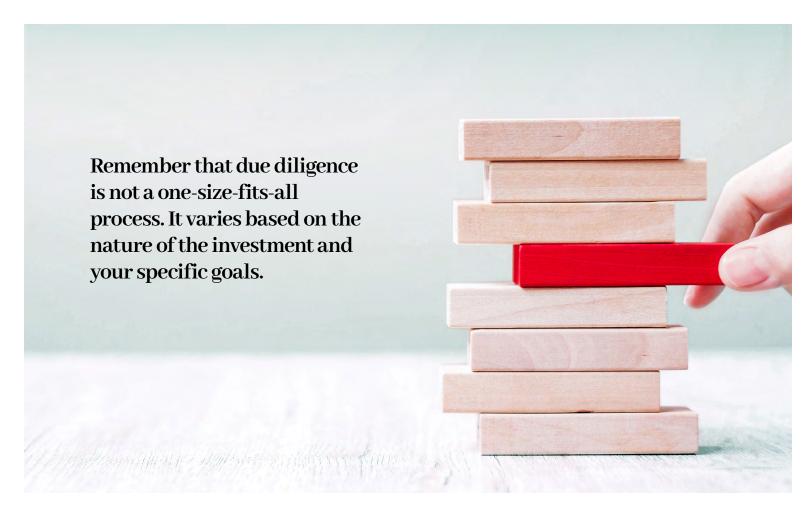
9. Review Investment Structure and Terms

Review agreements, contracts, and any legal documentation. Ensure that the terms align with your objectives and expectations.

10. Conduct Site Visits and Interviews

If applicable, conduct site visits and interviews with key personnel to gain firsthand insights into the operations and culture of the company.





11. Make an Informed Decision

Using all of your data up to this point, decide whether to proceed with the investment or opportunity. Consider the potential rewards and the identified risks.

12. Monitor the Investment

Due diligence does not end once the papers are signed. Once the asset is in your portfolio, closely monitor its performance and keep track of any evolving risks. Regularly assess how the investment aligns with your objectives and whether adjustments are necessary.

Now that we've covered a broad overview of due diligence questions to ask, let's dive a bit deeper. We've compiled a due diligence checklist and warning signs to look out for with three of the most popular SDIRA investments.

However, these resources are anything but exhaustive. They represent the tip of the iceberg.

As you develop more investing experience, you should coordinate with trusted professionals to refine your vetting process to suit your financial goals, individual skillset, and risk tolerance. Additionally, consult investor education materials from trusted authorities like the Securities and Exchange Commission (SEC).





Conducting Due Diligence for Real Estate Opportunities

Real estate investments can offer significant benefits, such as rental income, property appreciation, and portfolio diversification.

However, these investments also come with many potential risks, including lengthy holding periods, legal and title issues, and the necessity for expensive repairs.

Before making any real estate investment decisions, here are some questions you should consider about the prospective investment.





For more information on investing in real estate, download our guide, 5 Steps to Investing in Real Estate with an SDIRA



Due Diligence Checklist for Real Estate Investments

Property Details and Ownership	Zoning and Land Use
☐ Who is the current owner, and what is their motivation for selling?	What is the property's current zoning classification, and what are the permitted uses?
☐ Are there any existing liens, mortgages, or encumbrances on the property's title?	Are there any zoning restrictions or land use regulations that could affect your intended use of the property?
Physical Condition and Inspections	
☐ Has a recent property inspection been conducted? What were the findings?	Market and Location
Are there any significant structural issues, water damage, or pest infestations?	☐ How is the local real estate market performing? Are property values increasing or decreasing?
What is the overall condition of the roof, plumbing, electrical systems, and HVAC?	☐ What is the neighborhood's crime rate, and is it considered safe for residents?
Rental Income and Expenses (for Rental Properties)	Are there any planned developments or infrastructure projects that could impact the property's value?
☐ What is the current rental income, and are there reliable rent rolls?	Property Management
What are the typical vacancy rates for similar properties in the area?	 Will you manage the property yourself, or will you hire a property management
☐ What are the annual operating expenses,	company?
including property management fees, utilities, maintenance, and taxes?	☐ If using a property manager, what are their fees, experience, and track record?
Logal and Pogulatory Compliance	Figure in a surf Conta
Legal and Regulatory Compliance	Financing and Costs
Are there any ongoing legal disputes or pending litigation related to the property?	How do the financing terms (interest rates, down payment, loan duration)
☐ Does the property comply with local	impact your cash flow and returns?
building codes and regulations? Are there any outstanding code violations?	What are the closing costs and associated fees for purchasing the property?





Real estate investments offer great potential, but they also come with risks. To ensure you're making informed decisions and avoiding potential scams or unfavorable deals, here are some warning signs to watch out for when evaluating real estate investments.

If you encounter multiple warning signs or anything that raises your suspicions, it's best to walk away and explore more transparent and secure investment opportunities. Always consider seeking guidance from professionals, such as real estate agents, inspectors, and legal experts, to ensure a thorough assessment of the investment opportunity.



Real Estate Investment Warning Signs

Poor Property Condition

A property with significant deferred maintenance or structural issues might lead to unexpected repair costs and lower returns.

Unclear Ownership or Title Issues

Verify that the property has clear ownership and is free from any legal disputes, liens, or title issues.

Unlicensed Sellers or Agents

Ensure that the seller, real estate agent, or broker involved is properly licensed and has a credible track record.

Lack of Documentation

Incomplete or missing documentation, such as property records, inspection reports, or permits, can indicate a lack of transparency.

Negative Local Market Trends

If the property is located in an area experiencing consistently declining property values or high vacancy rates, it may be a reason to look elsewhere.

Reluctance to Provide References

If the seller is unwilling to provide references or past investor contacts, it's a warning sign.

Unusual Payment Requests

Be cautious if you're asked to make payments directly to an individual's personal account instead of a reputable escrow account.

No Professional Support

Avoid investments where the seller discourages you from seeking advice from professionals like inspectors, appraisers, or legal experts.

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Conducting Due Diligence for Precious Metals Opportunities

Precious metals investments can be attractive for their stability and value preservation, but they can also open the door to scams and fraudulent schemes. You must be on the lookout for potential red flags that could indicate a fraudulent or risky opportunity.

Precious metals can be particularly ripe for fraud.

This market can be complex even for experienced investors, with various types of metals, forms, and storage options available. Investors may lack the expertise to fully understand the nuances of the market, making them vulnerable to deception.

Further, precious metals are often considered safe-haven assets during times of economic uncertainty. Scammers may exploit investors' desire for stability and wealth preservation by offering fraudulent precious metals investments.

Seek advice from reputable financial advisors, and only work with registered and trustworthy precious metals dealers or brokers.

Questions to Ask a Precious Metals Dealer
☐ Are you licensed and registered?
☐ Do you provide certificates of authenticity?
☐ Are you familiar with the specific types of precious metals allowed in a retirement plan?
☐ Do you receive any commission on the spot price?
☐ What is the typical delivery time?
☐ Do you have a relationship with any depositories?
☐ Are there any hidden fees?
Questions to Ask a Precious Metals Depository
☐ Is your depository accredited or certified?
☐ How are the metals stored: allocated or segregated by the owner?
☐ What are the annual storage fees?
☐ Where are the vaults located?

☐ What security measures are in place?

☐ Do you provide any insurance coverage?





Unusual Returns or Promises of High Profits

Precious metals' value tends to be relatively stable, and investments that seem too good to be true may indicate a potential scam.

Pressure to Act Quickly

Any investment opportunity that pressures you to make a quick decision without ample time for due diligence should raise suspicions. Reputable opportunities should give you the time needed to conduct thorough research.

Complex Fee Structures

Beware of complex fee structures that are difficult to understand. Hidden fees or unclear charges could eat into your potential returns.

Lack of Physical Delivery

If the dealer does not facilitate the physical delivery of precious metals to a secure storage facility of your choosing, it may raise concerns about the legitimacy of the investment.

Unreliable Communication

If the provider is difficult to reach, does not respond promptly to inquiries, or avoids answering your questions directly, it's a red flag.

Absence of Independent Audits

Lack of third-party audits or verification of the precious metals' existence and quality should raise some alarm bells. Reputable precious metals investments should have their holdings independently audited to ensure transparency and authenticity.





Conducting Due Diligence for Private Equity Opportunities

Private equity (PE) offers enticing investment opportunities in privately held entities, such as companies or small businesses.

Entrepreneurs and founders of these ventures often face challenges in obtaining traditional financing from banks. Sourcing capital from an SDIRA holder can present a simpler, quicker path to funding.

From the SDIRA holder's perspective, the potential for higher returns than those



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typically observed in the stock market or certificates of deposit (CDs) makes private equity an attractive avenue for diversifying retirement portfolios.

In the past, the SEC limited private equity offerings to accredited investors—individuals meeting specific wealth and income criteria. However, regulatory changes and the emergence of crowdfunding have transformed the PE landscape, broadening access to a more diverse investor base.

Despite these changes, investors must exercise caution. Private equity opportunities are not usually available to the general public and do not require SEC registration.

Additionally, it's essential to give careful consideration to your exit and liquidation strategies. These offerings frequently entail fixed timeframes that may influence your ability to fulfill obligations like a required minimum distribution (RMD).



Private Equity Due Diligence Checklist



Investigate the Broker and Company Principals

□ Research the background and track record of the broker and company principals. Meeting the representative in person and visiting their office, if possible, can provide valuable insights into their credibility and legitimacy.

Document All Communication

Keep detailed notes on all conversations with company officials seeking your investment. This documentation can be essential for future reference and dispute resolution.

Investigate Liquidation Options

 Research how you can liquidate your private equity securities if necessary.
 Understanding the exit strategy is crucial for long-term investment planning.

Review Return Policy

☐ Understand the return policy in case the PE offering does not receive sufficient funding or fails to meet its objectives.

Understand Subscription Agreements

□ Never complete a Subscription Agreement or Accredited Investor Questionnaire unless you fully comprehend and agree with the entire document.

Consider Retirement Distribution Obligations

☐ If you are nearing age 73, ensure that your investment allows you to take an RMD, if necessary.

Reject Falsification Requests

☐ Do not invest if you are asked to provide falsified financial information to qualify as an accredited investor.

Be Willing to Walk Away

☐ Refrain from investing if the seller cannot satisfactorily answer your questions about the company, its business model, and the experience of its executives.







Private Equity Offering Red Flags

Unregistered Offerings

Private equity offerings that are not registered with the appropriate regulatory authorities could be operating outside the bounds of the law. Always verify the registration status of the offering.

Unverifiable Claims

Be cautious of offerings that make unsubstantiated claims about the investment's performance, especially if they cannot provide evidence or documentation to support those claims.



If an investment opportunity sounds too good to be true, it may indicate potential fraud.

Lack of Documentation

If the offering lacks proper documentation, such as a subscription agreement or disclosure statements, it's a troubling signal. These documents provide essential information about the investment.

Unrealistic Promises

If an investment opportunity sounds too good to be true, it may indicate potential fraud.

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Choose Your SDIRA Provider Wisely

Conducting thorough due diligence isn't confined to your investment portfolio. It also applies to your SDIRA provider.

Your SDIRA provider holds your retirement assets. Ensuring the provider is trustworthy is essential to safeguard your hard-earned savings from potential fraud or mismanagement.

Here are a few steps you can follow to ensure you can trust your SDIRA provider.

ASSESS INDUSTRY EXPERIENCE:

Investigate the provider's experience and history in the SDIRA field. A well-established provider with decades of experience is more likely to have the expertise to handle various investment options and address complex investor needs.

VERIFY CREDENTIALS AND CERTIFICATIONS:

Check if the SDIRA provider and its key personnel hold relevant certifications and credentials in the financial or retirement industry. Look for recognized accreditations such as the Certified IRA Services Professional (CISP) designation.

VERIFY SECURITY MEASURES:

Inquire about the security measures the provider has in place to protect your personal and financial information. Ensure they use secure technologies and protocols to safeguard your data.

REGULATED ENTITY:

IRA investments can only be held in custody at a regulated entity. The Internal Revenue Code IRC 408(n) lists those institutions as banks, credit unions, or regulated entities like a trust company. Some trustees with non-bank powers are also allowed. If the organization you are speaking with is not one of the listed institutions, be cautious of engaging with the provider.

TRANSPARENCY OF FEES AND COSTS:

Ensure the provider is transparent about its fee structure and any associated costs. Beware of hidden fees or charges that may impact the overall growth of your retirement funds.

FINISH

START

By following these steps and conducting thorough due diligence, you can confidently select a legitimate and trustworthy SDIRA provider. Remember, your provider should offer the support and security you need to manage your self-directed retirement account effectively.



Safeguard Your Financial Future at Entrust

Conducting thorough due diligence is the bedrock of successful investing. Self-directed accounts offer investors unparalleled freedom to explore a wide array of investment opportunities, from real estate and precious metals to private equity. However, this freedom comes with increased responsibility.

By conducting thorough research, assessing potential risks, and understanding the fundamental attributes of investments, investors can make informed and confident decisions to maximize the growth of their portfolios.

Remember, due diligence is not a one-time task. It's an ongoing commitment to safeguarding your financial well-being. Embrace the responsibility to be an informed investor. Open an SDIRA today to invest in your preferred assets and secure your financial future.

Here are some final tips to enhance your due diligence process:

Stay Educated

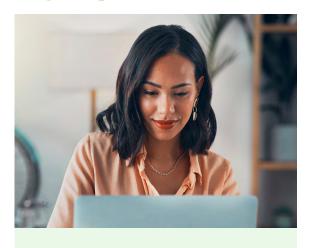
Knowledge empowers you to make agile and informed decisions in a dynamic investment landscape. Subscribe to our monthly newsletter to keep up with the latest trends, regulations, and economic indicators relevant to your chosen investment sectors.

Diversify Wisely

Diversification remains a key principle in building a resilient portfolio. Balance your investments across various asset classes to mitigate risks and capitalize on growth opportunities.

Leverage Professional Expertise

Don't hesitate to seek guidance from experienced financial advisors, attorneys, and tax professionals. Their expertise can provide valuable insights and help you navigate complex investment scenarios.



Questions?

Schedule a consultation with one of our experts.

Get started:

Open an Account