

***5 Essential Factors to Consider  
When Choosing a Self-Directed  
IRA Custodian***



# Choosing a Self-Directed IRA Custodian

## What is a Self-Directed IRA Custodian?

Investing in alternative investments inside a retirement account (IRA, Roth IRA, SEP IRA, SIMPLE IRA or 401k) is a new experience for most people. Anyone who has ever bought a traditional investment (a stock, bond, or mutual fund) has most likely already used a custodian for these investments. Although traditional custodians are frequently referred to as brokerage firms by investors, there is a difference between the two definitions.

- **Brokerage firm** - more accurately known as a *broker dealer*, is a firm which is in the business of either buying or selling securities for its clients (broker) or buying or selling securities for itself (dealer). This means it makes its revenues from transacting securities for clients, or the trading securities for itself.
- **Custodian** - an institution which is responsible for records management and safe-keeping of the assets within the client accounts. This type of firm typically generates revenues from its custody duties.

While the difference between a custodian and a brokerage firm is quite distinct, in many cases a firm may control both entities and seamlessly brand them as one entity. Many larger brokerage firms tend to have this setup. This can be confusing for many of the firm's clients due to this obfuscation of terms, and lack of education generally available. If you are going to work with one of these type of firms, you should have a clear understanding of what services it can and will provide to you. It is preferable to work with a firm that has a clear specialization in one area, so that it is clear what the risks, roles and responsibilities are with the firm.

## IRA Custodian vs. Self-Directed IRA Custodian?

The terms "*IRA custodian*" and "*self-directed IRA custodian*" technically mean the same thing. There is no definition of a "self-directed" IRA, since all IRA accounts are self-directed by their definition. The difference in terms was most likely created as a marketing campaign to convince people that they should take control of their IRA by "self-directing" it. Regardless of the origins, the term "self-directed" helps to define what is quickly becoming a familiar term to describe an IRA which invests in alternative investments.



One of the requirements in the Internal Revenue Code (IRC) is that all IRA assets are held at a custodian. An IRA custodian can be split into two different specializations. The first type is the IRA custodian which specializes in publicly traded securities. This type is more commonly known due to the high percentage of the population which invests in stocks bonds and mutual funds. The second type is the IRA custodian which specializes in alternative investments, also known as a self-directed IRA custodian. This type is less commonly known due to the much smaller percentage of the population which invests in alternative investments with their IRA. *Our firm uses both types of IRA custodians since we do not discriminate between asset types. This helps improve portfolio risk management by finding lower correlation assets.*

## **Choosing a Self-Directed IRA Custodian**

Choosing a self-directed IRA custodian is an important task. The choice can have an impact on your investments, the amount of time spent managing them, and performance. It is important to research a number of self-directed IRA custodians. It is important to do this not only make sure that the self-directed IRA custodian is the right fit for you, but also to make sure it meets all the IRS requirements to be a legitimate IRA custodian.

While there are many factors to consider when choosing a self-directed IRA custodian, here are some of the more important ones.

### **Specialization:**

While some IRA custodians specialize in traditional investments (stocks, bonds, and mutual funds), other custodians specialize in alternative investments (real estate, private mortgages, tax liens, livestock, physical gold and silver, private company stock, or other non-traded security). There are even a few IRA Custodians who will attempt to custody both types of investments. An IRA custodian who specializes in traditional investments, typically will not be the best one to also custody your alternative investments. The reverse holds true as well. When you work with an IRA custodian, you want to work with one whose specialty matches up with your needs. We have thoroughly reviewed virtually all of the self-directed IRA custodians and while it is possible that one exists who is capable of handling both categories of assets well, we have not found one yet. It is important to know the strengths of your IRA custodian, and to utilize them for those strengths.

### **Fees:**

Every IRA custodian charges a fee for their services. In general, there are two models that are followed by IRA custodians, either a transaction fee model or an asset-based fee model. Make sure the custodian's fee schedule aligns with your investment strategy. Your choice of IRA custodian is important because it will



impact the total returns of your IRA. While some fees are negotiable, it typically only applies for larger accounts.

### **Number of Transactions:**

This factor is very important since portfolio performance can be significantly impaired if the transactional expectations are not assessed properly and accounted for in the self-directed IRA custodian decision making process. Automated services and a quick turnaround time at the IRA custodian are also important. While one account may have investments which are bought and held for long period of time (years), another may have multiple transactions on any given week. If the IRA custodian is not prepared to properly handle multiple transactions in a timely manner, then it could affect the IRA's investments. Some custodians offer services which can provide automation for repetitive transactions, or scheduled transactional activity.

### **Miscellaneous Fees:**

While this factor is important when using any IRA custodian, it is typically more relevant for self-directed IRA custodians. Many alternative investments require these services as part of the investment strategy; and almost all of the IRA custodians charge fees for these miscellaneous services. These services include activities such as: Fed Funds wires, notarizing documents, document storage, account setup fees, statement fees, transfer fees, account termination fees, and servicing fees such as check writing, processing documents, etc. Some custodians include these services in their custody fees, others itemize the fees and charge them separately. It is helpful to understand why the miscellaneous fees are being charged by the self-directed IRA custodian. The miscellaneous fees can be either pass-through or revenue generators for the self-directed IRA custodian. The pass-through fees are fees incurred by the custodian which they then pass along to the IRA account (for example: fed funds wires, or postage). Revenue generator fees are a way for the IRA custodian to generate revenues for their services (for example: notarizing documents, document storage fees, or account termination fees). Regardless of the reason for charging the fees, the bottom line is that all fees affect the portfolio's net performance. Make sure the expected return on your investment takes into account all these miscellaneous fees.

### **Service:**

This qualitative metric is one of the most overlooked areas in the due diligence process. This is a "wisdom through experience" process. Service is made up of important components such as: custodian depth of knowledge, timeliness of response, precision, consistency of a process, quick resolution to an issue, and willingness to adapt to an ever-changing environment. Self-directed IRA



custodians require a high level of service due to the documentation requirements. For example, investing in a piece of real estate inside an IRA at a self-directed IRA custodian requires the custodian to process all documentation associated with the property (e.g. paying taxes, expenses, insurance, maintenance personnel, or other expenses). If the service team at the custodian is not very experienced in this type of transaction, or are slow in their response time, or are sloppy with their documentation processing, the investment could be negatively impacted. It is very important that this process is highly efficient.

## **How Innovative Advisory Group (IAG) can provide value to your investment portfolio.**

IAG is a wealth management firm with a niche expertise in alternative investments inside IRAs and other retirement accounts. We act as fiduciaries to our client, which requires that we use a high level of care with all our services.

When we manage alternative investments, we analyze each component of an investment transaction from start to finish. Our firm is focused on the process as much as the investment itself. One of the components of the process is the risk management analysis of the self-directed IRA custodian. Our firm conducts extensive due diligence on each self-directed IRA custodian we consider for our clients. This is part of our firm's risk management process to ensure that the highest quality IRA custodians are used, and the custodian is the right fit for the client's investment strategy. If you are interested in learning more about how we can help you with your investments, you can [contact us](#).

Our research team has compiled a complete list of all self-directed IRA custodians that provide services to investors who want to invest in alternative investments with their IRA. If you would like a free copy of this list, you can [visit our website](#).

We also have available, a due diligence report for each of these custodians. While our clients get our research as part of our services, if you are looking to do your own due diligence, you can [find these reports here](#).

If you an investment advisor who is considering which custodian to choose for a self-directed IRA and you would like guidance, we are available for [consulting projects](#) to help you determine this choice.

### **One Final Note:**

*Passive custodians, generally are not allowed to provide advice, so investors should not rely on them exclusively to educate themselves on whether they are creating prohibited transactions, or whether the investment itself makes sense. Our firm provides investment advisory services such as, investment due diligence, investment planning and implementation, risk management, and more. We can help guide investors through this complex process so they can meet their investment needs. If you are interested in our advisory services, [contact us](#) to find out more*



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**About Innovative Advisory Group:** Innovative Advisory Group, LLC (IAG), an independent Registered Investment Advisory Firm, is bringing innovation to the wealth management industry by combining both traditional and alternative investments. IAG is unique in that they have an extensive understanding of the regulatory and financial considerations involved with self directed IRAs and other retirement accounts. IAG advises clients on traditional investments, such as stocks, bonds, and mutual funds, as well as advising clients on alternative investments—something most banks, brokerage firms and other IRA sponsors won't permit you to do. IAG has a value-oriented approach to investing, which integrates specialized investment experience with extensive resources.

For more information you can visit [www.innovativewealth.com](http://www.innovativewealth.com)

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