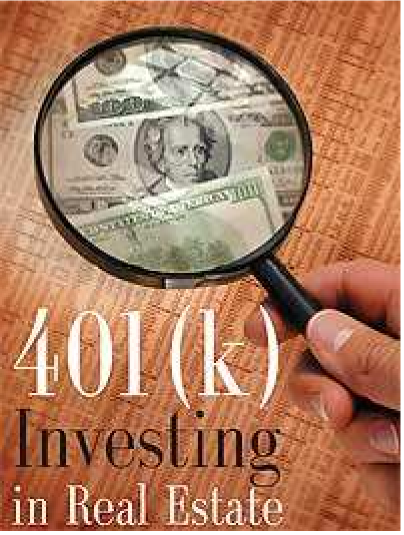

401(k) Investing in Real Estate

Every good investment advisor would agree that any retirement plan should have a properly balanced asset allocation, whether it is a 401(k), Individual IRA, Simple IRA, SEP IRA, Roth IRA or a Coverdell Education Savings Account (ESA).

One key to having a balanced portfolio is to make sure the asset classes you are holding are non-correlating. I find that to make sure their portfolios have non-correlating assets and to maximize their returns, investors now more frequently want greater control over their choices of investment assets held in their retirement plans.

One area often overlooked is real estate. Many investors hold real estate investment trusts (REITs) as an asset class and have done quite well with them, particularly in the past five years. Most institutional investors, such as banks, pension funds and insurance companies, tend to hold their real estate properties in direct real estate over REITs as a better hedge that is not tied to the stock market.

Because these large institutional investors consider it wise to hold some of their real estate holdings directly, why shouldn't we, the public, also consider holding some of our real estate holdings the same way?

In a special 2003 real estate issue of Journal of Portfolio Management, Barry Feldman, PhD, states, "We find that the correlations and returns of direct real estate and REITs are similar and that the two investments are complementary in a portfolio."

The investor's 401(k) or any other retirement plan should accurately reflect his or her choices in investment interests, risk tolerance, time horizon consideration, IRS regulations and other important criteria.

You have every right to be informed of the various investment choices available to you and to know the control you can exercise in your retirement plan investment options. Not only can you invest directly in real estate with your retirement plan, but you can also invest in any of the following ways:

- Rental properties, raw land, your future retirement home;
- Commercial, multi-family and vacation real estate;
- Foreclosures and other investment property;
- Business startups;
- Franchise opportunities;
- Tax liens, subleasing and options;
- Business loans, notes and privately held mortgages;
- Limited partnerships;
- Charitable investing.

Special note: The IRS regulations for this type of investing can be complex. You will need someone who is versed in this type of investing to help facilitate the tax laws and loopholes that will come into play. A simple, even unintentional, mistake could cause all or some of your retirement plan to be considered a full or partial distribution and thus become fully taxable.

Do not be surprised if your advisor has limited knowledge of how to help you in this area. His or her firm may not allow you to directly invest in real estate with your retirement account. The good news is that there are many qualified firms, facilitators and resources that can assist you.

For individuals who are currently in their retirement years and whose monthly income is of great concern to them, these types of investment options should be considered as a way to diversify their monthly income stream. This also can help to structure their retirement account portfolios for maximum income efficiency.

For additional information and a free consultation, contact Steve Turner at stevet@bellsouth.net or (843) 343-7283.