the ABCs *of Self-Directed* IRAs

PENSCO TRUST COMPANY
ALTERNATIVE INVESTMENTS CUSTODIAN

You could trust your retirement savings to

GOLDMAN SACHS *or some*

BILLIONAIRE HEDGEFUND *guy*

or, you can

TAKE CONTROL

of YOUR OWN MONEY *&* YOUR FUTURE

PENSCO can show you how

YOU HAVE READ THE HEADLINES...

You've watched the news. Maybe you've talked about it with your friends, your CPA, your broker.

Still, you're probably hesitant to open the quarterly statements you receive. If you're like most of us, the money in your IRA isn't earning enough to keep up with inflation, much less provide you with a comfortable retirement.

The time for sitting back and letting the market (or the fund manager) do the work for you is over. Like the value of your house and Wall Street's reputation, everything has changed. If you're reading this, you've likely decided that it's time to get serious about your retirement by taking control over your own financial future.

This booklet is the right place to start. In the pages that follow, you'll find a simple, easy to understand approach to taking control over your retirement investments. In addition to the materials on these pages, you'll also find links to other PENSCO booklets that are available for your continued education and inspiration. When you are done reading, we believe that you will be able to confidently invest your IRA funds in alternative assets that can truly diversify your portfolio. This is your opportunity to take control over your retirement savings, but you must take an active role to make it happen.

Small Investors Flee Stocks, Changing Market Dynamics
The Wall Street Journal | July 12, 2010

"Investors talk of a growing disillusionment with big institutions, including corporations, government, banks and political parties—as well as fears about the nation's heavy debt. Some people's confidence in stocks was seriously shaken by the volatility that returned in May. They worry that the May 6 flash crash, when the Dow Jones Industrial Average fell 700 points in eight minutes before rebounding, is a sign that ordinary people are increasingly at the mercy of anonymous companies that trade with powerful computers."

A

is for ALTERNATIVE ASSETS

As of the end of 2009, Americans held $4.2 trillion dollars in their Individual Retirement Accounts (IRAs). The vast majority of that money was held in traditional securities like stocks, bonds and mutual funds, and in the recent financial crisis, all three of these asset types lost value at the same time.

Many individual investors, and even money management professionals, think that it may be quite a while before these financial assets deliver the kind of steady, reliable growth they have in the past. Or it may not happen again in our lifetimes. It's hard to tell.

GETTING SERIOUS ABOUT YOUR RETIREMENT MEANS EXPLORING THE ALTERNATIVES

One thing we know for sure, financial markets tend to boom-and-bust. Which is why many investors seek to diversify their portfolio with "hard" or "alternative" assets like:

Because these assets are not readily tradable in the financial markets, their values will move up or down at different times and to different degrees than the financial markets. So when you put a portion of your portfolio into alternative assets, these investments can help to stabilize your portfolio returns. For example, the value of your stocks and bonds may still decline in an economic downturn, but if the value of your alternative assets is stable or goes up at the same time, that will reduce the impact of the financial markets decline on the value of your portfolio.

How much diversification into alternative assets you want is up to you. Professional money managers, like pension fund managers, are known to allocate between 5% and 20% of their portfolios to alternative assets. This is an indication that from their perspective, that's enough to bring added stability to the portfolio, while still benefitting from possible upside in the traditional financial markets.

Henry Ching

Manager & Research Consultant specializing in alternatives at Towers Watson | The Asset magazine | July 14, 2010

"Institutional investors continue to diversify into the full range of alternative assets, encouraged by the way these strategies have performed. The trend away from equity-focused portfolios to more diversified structures is now well established as investors acknowledge the risks associated with an undiversified approach, particularly in light of ongoing economic uncertainty. According to our research, allocations to alternative assets have continued to rise and now account for 17% of all pension fund assets globally, up from 6% ten years ago."

Traditional assets get lots of media coverage compared to alternative assets. That's why investors who are new to alternative asset investing may wonder where to find information about potential alternative asset investments.

WHERE TO BEGIN TO FIND YOUR CHOICE OF ALTERNATIVE ASSETS

Your personal knowledge and experience can be the best place to start. For example, if you or someone close to you works in any facet of the real estate industry or an adjacent business, you may have gained some unique insights into the real estate market that would enable you to make well informed decisions. If someone you know (who is not your close relation) owns a franchise or local business that you believe could grow larger, open more locations, market more or expand in some other direction, you could become an investor in that business through your IRA.

Similarly, if you have an entrepreneurial mindset and have run a small business, you likely have some special insights into that kind of business that would enable you to make well informed private equity investment decisions.

In more than 20 years of business, we have seen investors leverage a wide variety of personal insights into successful IRA investments. Attorneys, accountants, and other business people have found investment inspiration in their profession, but so too have musicians, farmers and teachers. Think about your knowledge, skills, experiences and network of contacts. What insights might you have that could be turned into a winning investment?

Another great source of inspiration is your environment. Take a walk around town one day, and make a point of paying attention to everything around you. If every commercial building, multi-tenant apartment building, franchise business, or empty lot in your town displayed a sign detailing how they were financed, you would probably be amazed to learn how many were financed at least in part with capital drawn from someone's IRA.

A third great source of inspiration is that very same media whose financial pages seem to focus so much on traditional assets. As you may have guessed by now, most start-up companies are initially funded through private placements, often called "angel" or "A" rounds. Although it may not be apparent, these initial investments may have originated from someone's retirement account.

In fact, some of the giant technology companies that you read about every day, like PayPal, eBay, Google and Facebook, were initially privately financed by angel investors. Because these investments were placed privately, we can't say for sure, but those investments may well have been funded from someone's IRA.

As those companies grew from their very modest beginnings to the giants they are today, these smart investors would have enjoyed that huge appreciation of their investments tax-free. Early stage investments like that have probably financed some very comfortable retirements for some smart folks.

While well established companies like those likely won't be interested in your private placement offering at this stage, some smaller company just starting out to build their business should be thrilled to obtain your investment. Smaller local publications tend to devote more space to smaller local companies, so check out your city's second newspaper, local business journal, or city magazine. These publications often run feature stories

Don't forget what a small world this really is. Your current business network, your friends or church group can also be a source of great leads to find investment opportunities you can research, and people you can reference through your friends and neighbors. It may take a little time and additional research, but please be patient. Ultimately, you should find something that appeals to you intellectually, based on your lifetime of experience and knowledge, and that also meets your personal financial needs, balancing potential return and income relative to investment risk.

If you would prefer to work with a professional to plan your self-directed IRA, here's how Money Magazine (August, 2010) recently answered a reader who asked the question many people have asked, "How do I find a financial adviser I can trust?"

George Mannes

Senior Editor | Money magazine | August, 2010

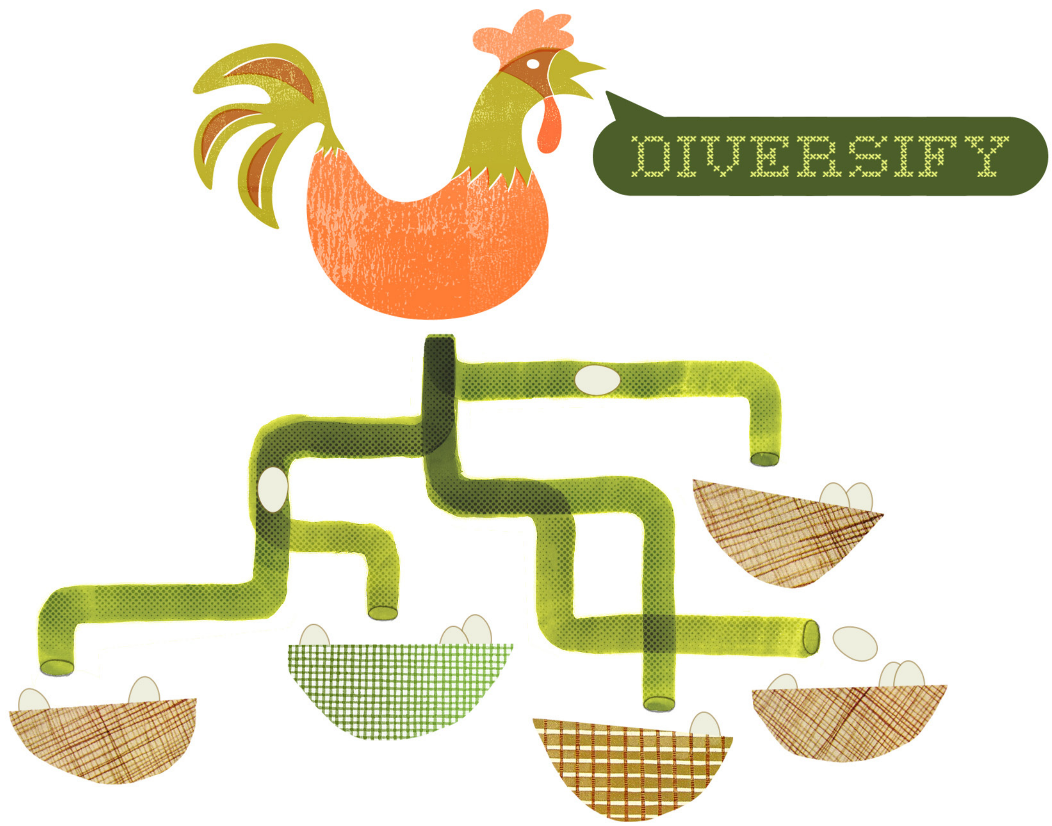
"When people seek a financial adviser, what they're looking for isn't what the industry often gives them: a salesman pushing mutual funds, annuities and the like. You want someone who'll help you not only with your investments but also with other aspects of your finances, including insurance and estate planning. Best bet: Search for a professional (look for the designations CFP or CPA/PFS) through national planner organizations (see napfa.org and fpanet.org).

Interview a few (if they're brokers, check their records at finra.org/brokercheck). You're looking for relevant experience and good listening skills. A potential adviser should disclose how he'll be paid to work with you and how much; any vagueness signals you'd be unhappy with the complete answer. Worried about a mini-Madoff? One safeguard is to make sure the person managing your money isn't the person holding it and sending you annual statements."

B

is for BENEFITS

of tax protected investing



GETTING SERIOUS ABOUT YOUR RETIREMENT MEANS MAXIMIZING THE BENEFIT OF TAX-PROTECTED INVESTING

Nobody likes to pay the taxman a piece of their earnings, yet every year, millions of Americans forego the opportunity to protect their earnings from Uncle Sam's reach. One thing you should know: No matter how well you invest your savings, you'll have more money left over to live on in retirement, if you make your investments in a tax-deferred account like an IRA.

It's hard to understand why so many people miss the opportunity to protect their investment earnings from taxes, because it's so easy to set up a self-directed IRA account that protects investment earnings from taxes.

STEP 1

Decide whether you qualify for a Roth IRA

If you are just starting out with IRA investing, and meet the criteria set out below, a Roth IRA is likely your best bet, because it enables your investments to appreciate tax-free for life, and these benefits can be passed on to your heirs upon your death. It's such a good deal that Congress had to restrict the number of people who were eligible for these benefits. If you have qualification criteria then all you need to do is go to PENSCO Roth IRA application and fill out an application to set up your Roth IRA.

If you don't meet the Roth IRA criteria, don't worry, there is another good option available to you too, in step 2 below.

STEP 2

Open a Traditional IRA (if you don't qualify for a Roth IRA)

Traditional IRAs are a great deal, too. While they aren't exactly tax-free, you won't have to pay taxes on your IRA earnings until you start taking your money out of your account, typically at retirement, or at age 70.5, whichever is earlier. All you need to do to open a traditional IRA is go to for PENSCO Traditional IRA application and fill out an application.

STEP 3

Fund your new IRA account

Funding your new account is easy too. If you have a "qualified plan" (e.g. 401(K), 403(b), etc.) from a prior employer, you may rollover those funds into your PENSCO IRA by simply filling out this form.

If you don't have a qualified plan from a prior employer, then you may fund your new PENSCO IRA by sending a check according to these instructions.

As you can see, protecting your investment earnings from the taxman by investing within an IRA account is easy. The only thing easier is to open your IRA account at PENSCO today.

C

is for CONFIDENCE

So far, this booklet has explained the benefits of investing in alternative assets, and the benefits of making those investments in your IRA account, so that the earnings are protected from Uncle Sam. What's left?

Well, there's a world of opportunity out there for IRA investors. So much so, that you might think the only limit to your investing potential is your creativity. That's mostly right, but a little education goes a long way in this market. Take the time to educate yourself a bit more about self-directed IRA investments, and you'll be a more confident and capable investor when you make your move.

As you can see, we believe an educated investor is our best customer. We want to help you to get the facts you'll need to become a confident self-directed IRA investor. At this point in the process, we often are asked to share examples of other self-directed IRA investor experiences. So here are a couple of stories about investors who are just getting started in managing a self-directed IRA. For more of these stories, and more complex stories, please check out this page on our website.

GETTING SERIOUS ABOUT YOUR RETIREMENT MEANS EDUCATING YOURSELF SO THAT YOU CAN INVEST WITH CONFIDENCE

CASE STUDY

John wants his IRA to purchase a single-family home from an unrelated seller. He has plenty of money in his IRA to cover the cost of the home purchase, plus likely expenses. So, he calls PENSCO Trust Company, and in the course of his conversation with the PENSCO real estate specialist, explains that he hopes to rent the home to his daughter at market rates. The PENSCO representative explains to him that if the home is owned by his IRA, IRS rules prohibit him from renting the house to his daughter, but that he could rent it to a friend or sibling at market rates. John takes some time to reconsider his plan, and then enlists PENSCO's help to go ahead with the home purchase.

Once the transaction is complete, and the home is owned by John's IRA, John enlists PENSCO's help in depositing the tenant's rent payments into the IRA and making all the various expense payments associated with home ownership from IRA funds, for example, property taxes, homeowner association fees, utilities, contractors used for maintenance/repair, etc. A number of years later, John decides to sell the home that is owned by his IRA. In the years during which John's IRA owned it, the value of the home increased by 20%, net of rental income and expenses. After the home is sold, John's IRA is worth 20% more than it was to start out, and he retains that 20% in his IRA account tax-free, at least until he decides to withdraw money from the account.

CASE STUDY

Susie's friend Sally has decided to start a business. Susie really believes in her friend's business acumen and wants to make an investment in the business to help it get off the ground. So, she calls PENSCO Trust Company, and asks the PENSCO private equity specialist where to start. The representative explains that PENSCO will need to look at some of the documents associated with her friend's business, like the articles of incorporation, financial statements, and other examples , before accepting the investment. After Susie collects these documents and submits them to PENSCO, the investment is reviewed and accepted, and PENSCO processes the necessary paperwork to make sure that the investment is held in the name of Susie's IRA account.

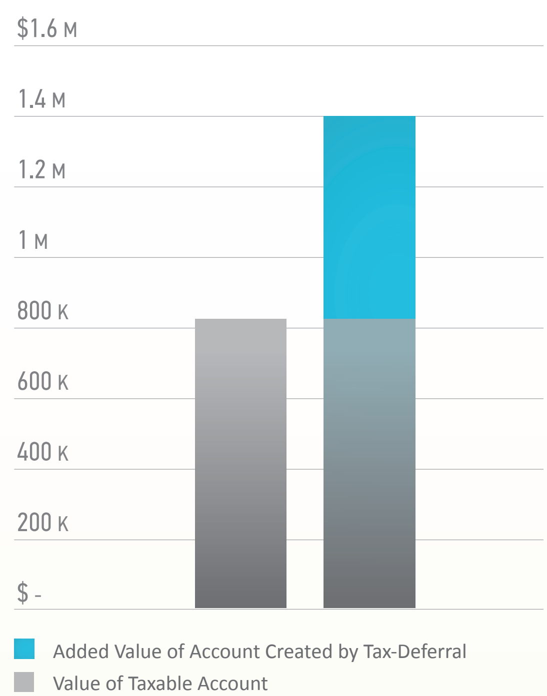
Years later, when Sally's business has grown to the point that it needs additional sources of financing, Susie decides to cash out, and instructs PENSCO to execute the sale transaction. During the time that her IRA has held this private equity investment, the value of the company has increased by 40%. After her private equity is sold, Susie's IRA is worth 40% more than it was to start out, and she retains that 40% in her IRA account tax-free, at least until she decides to withdraw money from the account.

CASE STUDY

This is another kind of example designed to illustrate how your money can grow over time by taking advantage of the tax-deferred savings in your IRA, directly compared to making the same investment from your taxable brokerage account. The following chart takes you through Year 1 & 2, and then all the way to Year 20. We've made a couple of reasonable assumptions, that your gross annual return on this investment would equal a conservative 8%, and that if your return were taxed as income each year, your tax rate would be 35%. Give or take a percentage point or two, the picture here is clear: you'd save a lot more money on your investment in a tax-deferred IRA.

You may have seen charts like this before, but they were probably describing investing in stocks, bonds or mutual funds in your traditional IRA. This is different, because we're talking about diversifying your portfolio as a hedge against the volatility of the stock market by applying some of your tax-deferred IRA funds, and balancing the risk and return of the larger portion of the IRA. This is what professional advisors do for their clients, and now that you've read through this booklet, you should know exactly why.

Tax-Deferral Creates Significant Benefits



Assumes: $100,000 initial investment, 8% per year pre-tax return on investments, a 20-year investment time horizon and 35% combined Federal and State Income taxes.

Getting serious about diversifying

your retirement savings can be

EDUCATIONAL, FUN & GRATIFYING

Now that you've reached this point, we hope you are excited about the opportunities to diversify your retirement savings into alternative investments. Whatever course you choose, you'll feel great to be taking control of your future.

More information is available from PENSCO online at **www.penscotrust.com**

PENSCO Service Center 866.818.4472

Good luck and happy investing

PENSCO TRUST COMPANY
ALTERNATIVE INVESTMENTS CUSTODIAN