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Understanding **Self-Directed IRAs**

VS.

Traditional Investment Institutions

Retirement planning is no longer a one-size-fits-all strategy. As economic conditions evolve and investment opportunities expand, investors are seeking new ways to diversify and protect their retirement assets. One increasingly popular solution is the Self-Directed Individual Retirement Account (SDIRA). This is an investment vehicle that provides significantly greater investment flexibility compared to traditional retirement accounts at institutions like Charles Schwab or Fidelity.

This white paper explores how SDIRAs differ from IRAs at a traditional investment institution. We will cover the structure of fees, the types of investment options available, the critical distinction between custodians and administrators, and the important considerations investors must be aware of when choosing the best structure for their financial future.

What is a Self-Directed IRA (SDIRA)?



A Self-Directed IRA is a type of retirement account that allows investors to diversify beyond traditional public market investments like stocks, bonds, and mutual funds. SDIRAs enable account holders to invest in a wide array of alternative assets, such as real estate, private equity, promissory notes, precious metals, cryptocurrency, and more, all within a tax-advantaged retirement structure.

While a traditional IRA typically limits you to a curated menu of investments pre-selected by a brokerage, an SDIRA offers true control and choice, allowing you to invest in opportunities that align with your knowledge, interests, and risk tolerance.

How Traditional Investment Institutions Operate

Companies like Charles Schwab and Fidelity primarily offer retirement accounts that invest in publicly traded securities. These institutions act as both custodian and investment advisors in many cases, often advising investors to select from a range of mutual funds, ETFs, or managed portfolios designed to fit certain risk profiles.



These platforms typically:

- Charge fees based on the amount of assets under management (AUM).
- Offer limited investment choices tied to public markets.
- Provide built-in advisory services (often for an additional fee or bundled into AUM charges).

While these traditional institutions offer convenience and simplicity, they can restrict investors seeking broader diversification or higher return potential through alternative investments.

Key Differences: SDIRAs vs. Traditional Institutions

FEATURE	SELF-DIRECTED IRA	TRADITIONAL INVESTMENT INSTITUTION
Investment Options	Real estate, private equity, precious metals, crypto, promissory notes, etc.	Stocks, bonds, mutual funds, ETFs
Custodian Role	Holds alternative assets, processes transactions, ensures IRS compliance	Holds public market assets, offers pre-selected investment choices
Fee Structure	Typically, flat annual fees + transaction fees	Asset-based fees (% of AUM) + transaction fees
Investor Control	Full discretion over investment choices	Limited selection of pre-approved assets
Advisory Services	None – investor driven	Often bundled, but may carry extra fees



Understanding Fees: A Deeper Dive

When choosing between an SDIRA and a traditional institution, understanding the way fees are charged is critical to evaluating your true net returns.

Self-Directed IRA Fee Structures

Preferred Trust Company, like most SDIRA custodians, generally operates on a flat-fee model.

Investors pay an annual custodial fee based on account activity and holdings.

Transactional fees may apply for asset purchases, sales, or special services (e.g., expedited processing or research)



[Click here](#) to see Preferred Trust's Fee Schedule or go to the Preferred Trust website.

Traditional Financial Institution Fee Structures

Traditional providers often use a percentage-of-assets model.

Management fees typically range from 0.25% to 3% of AUM, charged annually.

In addition to management fees, you may incur transaction fees on trades, commissions for certain products, and expense ratios for mutual funds.



Example:

	Self-Directed	Traditional
Investment Amount	\$40,000	\$40,000
Annual Fee	\$300	3%
Return on Investment	12%	5%
Earnings on Investment	\$4,500	\$800

\$3,700 difference
Alternative Investment Return

Know the Difference

Administrator vs. Custodian:



When choosing between an SDIRA and a traditional institution, understanding the way fees are charged is critical to evaluating your true net returns.

In the world of SDIRAs, it's important to distinguish between administrators and custodians:

- **A custodian** is an IRS-approved financial institution that is legally required to hold and safeguard retirement assets, ensure IRS compliance, and report required tax documentation (such as Forms 5498 and 1099-R).
- **An administrator** is not authorized by the IRS to custody assets. Instead, administrators often serve as intermediaries, helping with paperwork and promoting investment platforms. They must partner with a separate custodian to hold and custody assets.

AUDITED

NOT AUDITED

How to Tell the Difference

If you're unsure whether a company is a true custodian or simply an administrator, look for the following signs:

IRS Approval Disclosure

A legitimate custodian will clearly state that they are an IRS-approved non-bank custodian on their website or in their disclosures. If this statement is missing, it's a red flag.



Presence of a Third-Party Custodian

If a company refers to another firm as the actual "custodian," they are acting as an administrator. Look for language like "custodial services provided by [another company]."



Why it matters: Working with a true custodian like Preferred Trust protects your retirement account's legal standing and ensures IRS compliance. This is critical when dealing with alternative investments that have strict rules.



Potential Pitfalls to Watch For

No investment vehicle is without risks. Whether you opt for a traditional institution or an SDIRA, here are key considerations:

SDIRAs:

- **Due diligence is essential:** You are responsible for vetting investments, not the custodian. Not all opportunities are legitimate or appropriately priced.
- **Prohibited transactions:** The IRS prohibits certain transactions, such as self-dealing. Custodians provide guidance, but the investor must stay informed.

Traditional Institutions:

- **Limited diversification:** Heavy reliance on the stock market can expose portfolios to higher systemic risk.
- **Hidden fees:** Expense ratios, account fees, and trading commissions can erode returns over time, even in a seemingly "low-cost" portfolio.

Final Thoughts: Diversification is Key



Regardless of which path you choose, a well-diversified portfolio remains the foundation of smart investing. Relying exclusively on public markets or alternative assets can expose your retirement plan to unnecessary risk. The most resilient portfolios often include a blend of publicly traded securities and private market alternatives, balancing liquidity, growth, and protection.

A Self-Directed IRA with Preferred Trust can be a powerful tool in achieving this balance - offering you the flexibility to invest beyond Wall Street while still maintaining the tax-advantaged benefits of an IRA.

Ready to Take Control of Your Retirement Investing?

Preferred Trust is here to guide you every step of the way. If you're interested in learning how a Self-Directed IRA can unlock new opportunities for your retirement future, contact us today. Our knowledgeable team is ready to answer your questions and help you design a strategy that aligns with your unique investment goals.



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