Alt Investment Talk – Episode 1 (About Midland IRA, Ft Dave Owens, Kelsey Dineen)

Moderator:

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Matt:

Welcome and thank you for tuning in to Alternative Investment Talks with Midland IRA where we talk [everything] alternative investments.

I'm Matt Almaguer Midland IRA and today I'm joined by my colleague Kelsey Dineen. Today we'll be speaking with the President of Midland IRA, Mr. Dave Owens to get his take on the alternative investments markets: past, present and future.

Dave thanks for joining us today, why don't you tell us a little bit about yourself and ultimately what brought you to the self-directed IRA industry?

Dave: Good morning Matt and Kelsey, thank you very much for inviting me today, really it's kind of interesting story, I was actually, fifteen (15) years ago I got into this [space] by, I had a CPA Practice and I had clients continually asking me about self-direction with their IRAs and specifically Real Estate so we determined how to do it and we opened up a separate business, today that business along with our 1031 business, Midland IRA is going strong so it was kind of a unique way to get into it but it was a easy task for us because IRAs administration is very similar to accounting so I was, there was a perfect fit for us to get into this business.

Kelsey: Now Dave you mentioned the 1031 business was kind of your, your springboard into the IRAs, would you say given that 1031's deals with [tax referrals] for real estate investors who are selling, investment real estate [they own]. Has Real

Estate always historically been how people start self-directing their retirement funds or is it just a natural flow into that idea?

Dave: Well for us it was a natural flow because we had an expertise in 1031s and Real Estate Taxation so for us it worked perfect when we got into the self-directed IRA business and specifically we targeted Real Estate and investors and our clients, it really, it really took off from the start because we had that niche in the business but Real Estate has always been the bread and butter and I would say the bulk of our self-directed business in one way or another, either directly or indirectly: the, an entity a note or a LLC.

Matt: Touching on kind of the nicheness of self-direction, I know you mentioned there's a number of ways people can and really use retirement dollars for those types of investments but have people I guess historically always held different types of investments and accounts and a [through] your experience of being an administrator or has the Real Estate led to other kind of investment classes or have those investment classes always kind of been part of that same [realm]?

Dave: Well I would say that there's always been consistency of Real Estate notes, private LLCs, precious metals, private stocks that have always been the kind of the bread and butter of the self-directed business. So from there each class has its own specialty involved and there's all different kinds of things you can do, for example notes, it could be, with Real Estate there're secured notes, there are mortgages attached to the note and or it could be an unsecured note. We see quite a few unsecured notes where it's individuals, business colleagues doing [loans] to each other or it could be some kind of Reg D offering that's structured as an unsecured note.

Kelsey: So it sounds like they're pretty flexible as far as the range of different investments that you can have in the IRA and there's opportunity for diversification depending on what the client's interested in doing.

Have you seen a natural evolution, have you seen the market a place for alternative investment change since you started in the self-directed industry?

How have you seen it evolve over time?

Dave: It has changed, it's really grown, there's more products than ever that are available or packaged or sold buy a third party vender than ever, it's like I said those assets

I listed before have been incredibly consistent but we're always seeing a new investment come into the market all the time. Just because the economy changes, technology changes, wherever there's an opportunity someone's looking for it so we've seen all kinds of different things come into the market. The [future's] market has always been incredibly consistent, a lot of managed futures accounts, we seen the hedge fund industry continue to grow so it's like a never ending supply of investments.

Matt: Definitely, I mean I've been with the company for, for five (5) years now and just the different type of [deal close] that I've seen over my five (5) year experience is, is been tremendous. I mean the growth alone has been tremendous, I think that there's a lot of people that are looking for that type of diversification in their retirement accounts but before we kind of get into that I'd like to go back to kind of the beginning so obviously starting in on the CPA side of things and specializing kind of in tax strategies for real estate investors and things like that. Back then was it more trust companies that were really kind of doing this kind of one off holding?

Was there any kind of specialized companies back then that were really holding these or was it kind of a specialized thing that not many people knew was there, I feel like nowadays it's becoming more prevalent but I think ten, fifteen (10, 15) years ago it was probably even harder to find than it is today.

Dave: Well I think with anything the internet's tremendously helped the self-directed IRA business. A few years ago I would say this business has grown, there are more players in it but some of the big guys that were here fifteen (15) years ago, twenty (20) years ago are still in business. There's been some consolidation the last five (5) years but a lot of the businesses are still here so, I would say it's probably two-thirds (2/3s) trust companies, one-third (1/3) administrators that we've seen. I would say that there's more of a lean to go towards the trust company route so but that doesn't mean the administrators can't do it so, but so the business has changed but it's grown with, it's grown with retirement dollars. You see the statistics today of how much money is available in retirement funds and it just continues to grow and grow and how much is in IRA so I think clients are looking for opportunities so it helps this business and it help the investor to get the, get additional opportunities that they didn't have before when they were just in the market.

Kelsey: And Dave you brought up a really good point that trust company versus administrators, I think a lot of people who are new to this industry kind of groups them in the same bucket.

For people who are listening who are not familiar with the differences, obviously Midland is a trust company since we're Midland Trust, could you just summarize real fast the difference between administer versus a trust company and what the pros are essentially between using a trust company versus just an administrator.

Dave: Well the difference between the two (2) of them is a trust company is a chartered entity that a State has issued a charter to them and they are regulated by that State. An administrator is different because they do have the power to open an IRA account by themselves so they basically hired a bank or trust company to work through to open the account. The nice part with the trust company is there's rules and regulations and procedures that are required and audited by the State that they are licensed in so that's always a plus. With an administrator I don't think there's anything wrong with an administrator, I think you just need to make sure that they have the, how are they regulated, what, how are their audits handled, what are their policies and procedures, what's the security behind your money. So I think those are the important things to note in that arena.

Matt: Absolutely I think that those are all great things that I think a lot of our, our listeners would appreciate knowing when they're doing kind of their due diligence on the different service providers. As you mentioned it's definitely growing over time, this, this entire kind of niche segment of the alternative investments market is gaining a lot of exposure and a lot more visibility kind of in the different segments of the alternative investment marketplace. Statistics are showing that that alts are growing at two to three (2 – 3) times faster than the traditional investments, what do you think is really driving that, is that political, is it economical, is it everything kind of all together? I mean what's your take on that?

Dave: Well I do think the Real Estate bust, 2007, 2008 really made people look at their investment portfolio and what's going on, what are my options here and so it forced them to go into alternative investments cause they couldn't get those returns that they wanted in the stock market so alternative investment gives the client not just the control and the opportunity for a higher return but a lot of times the people that are investing in these alternative investments no matter what they are have an understanding or have an expertise in that so they feel good about investing in it. So I do think it was economic, it helped quite a bit, looking for returns so I think that was a big, big push that really increased. And I also think as 401ks continue to grow and people leave jobs, [the baby boomers,] they're rolling those 401ks into an IRA account so that has really increased the amount of money people are living under so they're looking for better returns.

Kelsey: And people always preach diversification, that can be diversified in various stocks but you're still in the stock market so I feel like a lot of advisors when they're looking at alternatives they're hoping to get more stable returns by diversifying clients portfolios. Now speaking about advisors specifically, what's your opinion as far as how advisors are viewing the alternative space and some of the regulations that are being discussed specifically in regards to advisors and how they're interacting with alternative investments? Do you think people are going to continue to start, continue seeking that diversification or do you think the regulations that are being discussed are going to create some fear in regards to the diversification into all? What's your take on that?

Dave: Well just a one comment on, with diversification and advisors, the advisors just so people know are clients, they, they are typical clients that's got a financial plan isn't putting all his money in alternative assets [again the city's] diversifying, he's putting twenty percent, thirty percent (20%, 30%) in it.

So that's money in the stock market so we are just, we're a niche player for their portfolio, in regards to the advisors specifically taking about [DOL] ruling for an advisor, a registered financial advisor, for the most part it doesn't affect them on selling because they're going to continue to do what they're doing today and giving sound financial advice to their client. As we, the next few months we're going to find out what the government's actually going to do with this [DOL] ruling, I am sure there's going to be some change in it, right now it think it's just too early to find out. The government has finally gotten time to sit down and figure this out with the new administration so they're going to make some comments on the

[DOL] ruling, right now what's in question is, they're saying that everyone who sells a product has to be a financial advisor or registered and that's not true today. So I think the current guys that are registered are going, are fine, not much is going to change for them but know the hedge funds and things like that they're trying to figure out what's going to happen because if the [DOL] doesn't change it everything they sell might have to go through a registered investment advisor so they're, they're working out the kinks right now and I think and I don't think [anybody] knows, I'm sure that there's some people that know a little bit here and there and we'll get some [drips and drabs] what's gonna change in that law but it's gonna take, I think three or four (3 or 4) months more months till we figure this out.

Matt: I agree, I think that there's still a lot of, the dust hasn't settled there, I think there's been a lot of talk about it, I think there's been a lot of interpretation about it but there hasn't been anything that has definitively come out and defined what that ruling would mean and how it would impact so I think you're right in that the next three to four (3 – 4) months we'd probably see a little bit more come out about it and we'd see how it affects the overall alternative investment space from a macro view and then we can kind of take a deeper dive into a micro view. But just going back to working with advisors, it's a great thing that you brought up, the fact that a lot of people will only move over a portion of their retirement account with us at Midland and that's more often than not. A lot of the times we're only seeing a sliver of someone's entire portfolio but they are looking for that exposure to the alternative investment to invest things that they may know and understand a little bit better such as Real Estate or private equity or if they're a future's trader so having that ability is huge for people, the traditional sixty/forty (60/40) split of stocks and bonds isn't necessarily where a lot of people are looking to put their funds nowadays so I think that that's driving the alternative investment marketplace. A lot of people are looking for that different type of exposure in whatever space they have the most interest or expertise in which kind of leads to my next question about crowd funding. So the whole JOBS act brought on this wave of possibility with crowd funding. Basically everyone having access to these different alternative investment [asset classes] whether it's Real Estate or peer to peer lending is big or hedge funds, you name it and a lot of the times now you can find them, the crowd funding portals. So do you think that people are going to be shifting their focus to the online marketplaces instead of maybe speaking with people that have these private offerings directly or do you think people will still raise cattle in the traditional sense?

Dave: Well I think, I think the crowd funding space is still incredibly young and it's figuring things out on how it's gonna grow and promote itself, I think that it's a niche player too for certain investments, I think it works great on the peer to peer lending, I mean you're not seeing, crowd funding it's not made for big investors so I think there will always be space for the larger investor, there'll always be space for the family office that needs to get into a hedge, a large hedge, hedge fund so I think crowd funding has its place right now, I think just like anything it's going to take a few more years to figure out where it exactly fits, what it's good at, what it's not. I do think I've seen the platforms and I think they have some great ideas on how they promote their products and how they put investors together so I think that, that kind of stuff is going to make the investment market place better, even if it's not just for crowd funding it's for other types investment down the road. So I think it's, in a few years we'll see what benefits and where it's good and what it's bad.

Kelsey: And it's, like you said, the technology as a whole is changing over time and with changes in technology you're seeing more options for investment, and different platforms come up for investment sponsors and how to utilize those technologies will really be the interesting thing and I know here at Midland we work with quite a number of those investment sponsors so it nice because Matt and I get front seat to seeing how new innovative technologies are employed by raising capital and [pooling/pulling] investors. Dave from your perspective as far as how things have evolved, what asset class has historically have you seen most growth in over the last let's say ten (10) years? And then if you were to make a prediction for the next ten (10) years do you see that same asset class growing most aggressively or do you think it's going to shift into a different asset class?

Dave: Well I think we will, we talked about for IRA accounts are going to continue to grow so people are, I think it was, total IRAs are just over one trillion dollars

($1,000,000,000,000) and or two trillion dollars ($2,000,000,000,000) excuse me in 2015 they found out, that was the last statistics that came out. So I think there is so much opportunity out there, my pitch is for, would be, my first pitch is for Real Estate, Real Estate is still the most consistent, it will continue to grow just like Real Estate nice and steady, there's so many different opportunities with it so I still see a ton of opportunities in Real Estate. What have I seen grown a lot, grow a lot, I think the hedge fund industry has really got a lot of steam behind it and it's continuing to grow, I think what's gonna happen down the road, I do think some politics is going to come in here and to see how much the Trump administration does what they say, do they back off on regulations, do they open up new markets? I think over the next year we're going to find out how business friendly they're going to be and what that's going to do for us; it's going to take a couple of years for things to get in the pipeline and new opportunities to come up with, so.

I don't know what the opportunity is but as we're talking the [last] point I think technology, there'll be a ton of technology opportunities that will improve our business, improve the investment world that will just continue as we go forward so.

Matt: That's really interesting because Real Estate is such a technical cycle right, there's ups and [downs], there's good years, there's bad years so just touching on, on opportunities, we spoke about, a lot about opportunity that's historically a market that will always have opportunities in both ups, up and down market so I definitely agree with you in the assumption that that market will continue to grow over time, it will be interesting to see over the next ten (10) years, twenty (20) years kind of how the IRA investor diversifies amongst different alternative investment there's, it's really wide open and the thinking that there's really only two (2) investment [asset classes] that you can use retirement dollars for is collectables and life insurance and besides that it's wide open so there may even be some type of investment class that will be made over the, over that time of next ten (10) to twenty (20) years that we don't even know about so definitely exciting times. But going back to kind of how investment professionals can start implementing that two trillion dollars ($2,000,000,000,000) market that you spoke of, that's a lot of capital there. I think a lot of investment professionals may know it's there but don't necessarily know how to access it so what would you say to investment professionals that are looking to attract IRA investors or even make IRA investors?

Dave: Well it's, it's funny you say that, I had a vendor call me and just ask me, he was looking for some 1031 advice and he had a product that he was selling to 1031 investors and I was like, "Do you ever promote it to IRA investors?" and he goes, "Oh yeah I've heard of that but I don't know much about it."

Really the opportunity is with the IRA money, the 1031s are good but they're not as consistent and there's much more money in the 1030.., the IRA market. Anyone who has a product who's selling to the [end] investor they're missing out if they don't know that the opportunity that's available with IRAs and they really should have a specialty in it and it can really help their portfolio and their selling opportunities.

Kelsey: Pretty ironic cause like you said Dave; I mean he's asking you about a 1031 strategy and you're asking them well have you ever even considered instead of selling to the individual using personal funds, selling to the individual's retirement account.

So I'm sure when you mentioned that and they said, "Yeah, I've heard of it I just don't know the details." Do you think maybe he hasn't gone into that further because it's a lack of knowledge and he doesn't understand it's just a matter of setting up a retirement account that can [invest] with him. I mean do you think that's probably the number one (#1) obstacle to overcome?

Dave: I think it's just lack of knowledge, if, as we've seen, we'll have a client come to us and say, "Hey, I just sold John Smith an [LLC] interest in my partnership that's gonna [rehab houses]," we're like, "Did you ask him if you could use his IRA too?" And they're like, "Oh we never thought about it." Next thing he knows he just picked up from his current client base another ten (10) investors, same investors using their IRAs instead so I just think it's a great opportunity; people are just looking for a place to put their money in good solid investments.

Kelsey: Like you said, he [wish] he could just dig in that capital pool deeper by talking to the same people who invested with him the past and just utilizing retirement money.

Dave: So he's already found people that are interested in his product so it's the easiest sell in the world for him.

Kelsey: He already has them, interested and educated, it's just a matter of using like their retirement money as well.

I think a lot of people like to do alternatives, when they think of alternatives one of the commons arguments is there's less liquid than stocks or bonds and I think a lot of people don't realize retirement money, unless you're retirement age it's going to be sitting in the retirement account until you hit retirement age. So I feel like the liquidity issues are an easier discussion as well because you're talking about using retirement money which is going to stay tax [sheltered] for decades depending on your age so I think that's another big sell for people who are raising capital.

Dave: I think so too.

Matt: I defiantly agree with that, is the liquidity of those funds until you're of retirement age to take them but then at the same time it's another access, it's a pool of capital that, that people don't even realize it's there and when you bring that up to a different investment professionals or investors, I think a lot of the times they find it that people are more willing to participate with some retirement funds in comparison to cutting a check and taking some funds out of their personal savings that they may feel a little bit more immediately in comparison to the retirement dollar so I think awareness is definitely one of the key things that investors or professionals should be, know and be aware of themselves is look at it as another tool in the tool belt. There's a two trillion dollars ($2,000,000,000,000) market that is available to, and you're already speaking to these investors so one of the questions that I get on a lot of the calls that I'm on is, "Well how do I get IRA investors?" And the answer is well, you technically already are talking to them, it's just they don't know they can use they can use their retirement dollars. So bringing it to the table and letting them know that your product or your fund or your LLC is willing and able and set up to take retirement dollars I think is ultimately gonna lead you to that retirement capital stack. I think it's interesting because as time progresses and more and more people are looking for this diversification, historically a lot of these alternative investments sponsors]\

whether it's private equity, hedge funds, commercial real estate; those types of asset classes they've all kind of gone after the big kind of institutional capitol and a lot of the times it's tough for people who are starting out in those spaces to raise money from those institutional investors because they don't have the track record that a lot of them look at there so looking to the future, Dave do you think that mangers will continue to focus on the institutional capital stack or do you think that they they're going to be more willing to go to the [high net worth] or individual investors? And there's a number of ways you can think about that whether that's through technology or however, however this is you like to think about it, I mean do you think that they'll kind of switch the focus to individual investors?

Dave: I think that it depends on the product and what they're selling, a lot of these big institutional investors have so much, what they're selling is so large they need the institutional because they can't get enough money from the individual so I think that anyone who's got these smaller fund that you seen under ten (10) to Fifty million (15,000,000) will always continue to rely on individuals to help them.

Matt: I think so too.

Well hey I, I really appreciate your time today, I think that's about all of the time that we have today but for anyone that's interested we'll have a recap of everything we discussed on our website: midlandira.com/podcast so be on the lookout for that. I really appreciate you listening in. Thank you again Dave for taking some time to provide some insight on the alternative investment market.

Dave: No problem, thanks Matt, thanks Kelsey and we'll talk [real/to you] soon.

Matt: Great, thank you.

Dave: Take care, bye-bye.

Matt:

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