

Ep #33: Say Good Bye to Taxes...Wealth Building for the Astute Investor with H. Quincy Long



Full Episode Transcript

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Dr. David Phelps and Evan Harris

[Dentist Freedom Blueprint](http://www.DentistFreedomBlueprint.com) with Dr. David Phelps and Evan Harris

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You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps and Evan Harris. Navigating you through the uncharted waters of a turbulent economy with straight-forward advice to, transform your practice into a self-sufficient cash machine, compound your net worth assets, and multiply, multiply, multiply your passive cash flow streams.

David: Well hello everyone, this is Dr. David Phelps with the Freedom Founder's Mastermind Community. I'm here back with you again with another one of our expert interview calls. Today I have with me a good friend, a mentor, someone I enjoy being around, also doing business with, and that is Mr. H. Quincy Long. Quincy, how are you doing today?

Quincy: I'm doing great, David. Thank you for having me.

David: Well, thanks so much for taking time, Quincy. I particularly like to talk to you because you, to me, you're like the encyclopedia of real estate investing and particularly your special expertise in self-directed IRA and other retirement accounts.

But I want to tell our listeners a little bit more about you. So, briefly, you are the president of Quest IRA. You work out of your Houston corporate office. You've been a licensed Texas attorney since 1991, specializing in real estate, and you were a fee attorney for American Title Company. In 1990, you got your J.D. from University of Houston. You got your Masters of Law in 1997. You also are currently also certified as a Certified IRA Service Professional, a designation that is top of the line in your specialized field and a number of your key employee staff members are also certified at Quest IRA, is that correct?

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Quincy: That's right. We have quite a field. We take our education here seriously.

David: I know you do. You're also the author of a number of articles and books and if anybody needs more information about Quincy or what Quest IRA does, the website is full of great information and webinars and articles. That's QuestIRA.com. So I refer people there for more information about Quincy and Quest but basically, Quincy, let's talk about why your company, Quest IRA, exists. That kind of starts with the general topic today, which is IRAs. Maybe let's just start basics so everybody's on the same page. Really what is an IRA, Quincy? Why do we have IRAs?

Quincy: Well, an IRA is an Individual Retirement Account and the way that we do them and basically, of course, the purpose of the IRA is to save for retirement in a tax-free method. So you don't pay any taxes while the IRA, generally, you don't pay taxes while the IRA is accumulating as well. Then depending on the type of account, you may pay taxes when they are distributed or you may not. Like in a Roth IRA, you do not have to as long as it's a qualified distribution. So it's a matter of a saving vehicle in a tax-free environment, is basically what it is.

David: So the Traditional IRA has been around for quite a few years, I think back in the 70s, if I'm not mistaken.

Quincy: Correct.

David: Okay. So most people that know about an IRA, I think the majority of people still today, Quincy, though, seem to think of IRAs in terms of stocks and bonds, annuities, mutual funds. They think that's typically where you have to go to invest. We

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know that that's not true. Tell us a little bit about what people can do if they understand the world of self-directing one's IRA or retirement account.

Quincy: Yeah, it is interesting. There is certainly a place in the investing world for stocks, bonds, mutual funds, or annuities. But it's a lot broader than that. We like to say that you don't have to think outside the box, you just have to realize the box is bigger than you think. By that we mean, you can invest in a whole lot more than just those items that we mentioned: stocks, bonds, and mutual funds. So they would include, of course, real estate, that's probably why you have me on the line here, and also notes, both secured by real estate, secured by something other than real estate, and even unsecured if you're kind of crazy. That includes private placements such as privately-owned stock as opposed to publicly-traded stock. I own some bank stock, for example. It also includes LLCs, limited partnerships, trusts, just about anything you can imagine and beyond in a self-directed IRA.

David: So today with an environment where the economy, the marketplace, particularly in terms of Wall Street in general, there's quite a bit of turbulence, ups and downs. A lot of gyration, right?

Quincy: Yeah, that would be an understatement.

David: [Laughs] So with that in mind, I think we both see that every time there's some kind of a market correction, people, or at least the media, tends to flail their arms and say, "Oh, woe is us. What do we do? What do we do?"

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So, again, for most people that don't understand the ability to self-direct, either they stay in and ride the roller-coaster up and down and just hope for the best or maybe they pull their money out and go to cash. But that's not a good long-term strategy. But again, the reason that your firm exists is for people like me and so many other people that invest through the services that Quest provides.

Tell us a little bit about, again, what Quest does as a third-party administrator. Why we need you to be the intermediary between our investment monies in our accounts and where we want to get that money invested.

Quincy: Okay, so basically the function of a company like Quest IRA is to hold the alternative assets on behalf of the IRA because obviously, you're not permitted to hold your own IRA funds. So you need to have a custodian to handle the assets of your IRA until you're ready to take the amount of distribution.

Well if you go to Fidelity or Schwab, and there is nothing at all wrong with those companies, but if you go to them and say, "Gee, I'd like to buy a promissory note in my IRA" they tell you no, you can't do that. It wouldn't be because it was illegal, it'd be because they don't have the infrastructure and the systems set up to handle alternative assets. So Quest IRA does, and that's what we do. We hold the assets on behalf of the IRA and do the necessary reporting for the fair market value of the IRA, contributions, and distributions to the IRA. That's our function. Plus, of course, we give a lot of great education but not tax, legal, or investment advice.

David: Exactly. So, Quincy, again for people that maybe have heard the term Traditional IRA and then maybe more recently, people

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have been talking more about Roth IRAs, what's the essential difference between those two types of accounts?

Quincy: That one is pretty easy. In a Traditional IRA, typically the money you put in you have not paid taxes on. In other words, you get a tax deduction for making a contribution or you have deferred money in your employer plan and then when you leave that employer you move it into a Traditional IRA. So for the most part, and there's some limited exceptions, the money in a Traditional IRA has never been taxed and the growth is tax free until you take it out and then you pay taxes.

But the Roth IRA is kind of the opposite. You get no tax deduction for putting money in the Roth IRA at all and you get the same tax-free growth but the benefit is when you are ready to take qualified distribution from that Roth IRA, you get to take them tax free. So it's either pay the taxes on the way in or pay the taxes on the way out. Somehow you're not going to have to pay taxes on something.

David: Right. Now are there any limitations or exceptions to one's ability to have a Roth IRA versus a Traditional?

Quincy: Well, ironically, just about everybody can have a Roth IRA although not everybody can directly contribute to a Roth IRA. Sometimes if you make over the income limits, for example, \$193,000 for a married couple filing jointly for this year, then you may not directly contribute to the Roth IRA but what you can do is you can convert money in your Traditional IRA into the Roth. Therefore, just about anybody that has either an employer plan or a Traditional IRA or qualifies to contribute to a Traditional IRA can end up with a Roth. That's called a backdoor Roth, sometimes people use that term.

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David: Some of the other types of retirement accounts that people may be not so familiar with but are equally as beneficial, depending upon a person's situation would be, say the Coverdell Education Savings Accounts and also the HSAs, the Health Savings Accounts. Could you just touch briefly on those other two types of accounts?

Quincy: Sure, absolutely. The Coverdell Education Savings Account is one of my favorites currently. Mainly because I just have a daughter that entered Southern Methodist University there in Dallas so I'm looking for ways to fund her education tax free. The way it works is basically you get no tax deduction for putting any money into the account and it's only \$2,000 a year. That might not sound like much but to guys like us, we can make that work, can't we, David?

David: Well we can and I think that's what people are interested in finding out and we'll talk a little bit more about some general strategies. But you're right, I know that's a major investment account for you right now because of the college situation.

Quincy: But anyway, so you put the money in. You don't get any tax deduction for putting the money in. On the other hand, what you can make into a very nice account and any money you pull out for qualified education expenses is tax free. The beauty of that is that could be anything from kindergarten, certain expenses, between kindergarten and college. So it's very flexible as to what you can spend the money on once you learn how to make it with your fine guidance. So that's the Coverdell.

Now, the HSA, the Health Savings Account, is actually my personal favorite and is always the very first one that I fund. The reason for that is it's the only account that you get a tax

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deduction for putting the money in no matter what your income levels. But the higher your income level, the more beneficial an HSA is and you also get to pull it out tax free. So it's the only account that goes in tax free and comes out tax free. That's a double dipping and I just love that concept.

David: [Laughing] Me too. I think it is the best. What about 401ks? I know that's kind of a big, broad-based term but people that have a business and have a 401k or people that work for a company that have a 401k, what are some of the ins and outs about the ability or inability to self-direct those types of accounts?

Quincy: Well typically if you're with a big employer and you're not self-employed and with no employees, then you typically have got to leave the employment, and there are exceptions, of course. But you typically have to leave the employment to get access to the money and then you would roll it into a Traditional IRA or if you had a Roth 401k, that part would go into the Roth IRA. So that's kind of the way that works.

But if you're self-employed and have no common law employees, that is, non-owner employees, then you can actually start your own 401k. So a common example would be a realtor, for example, that had worked but didn't have any employees. They just had their own business. Then they can have their own 401k and there are some pretty substantial benefits to doing that and also some disadvantages as you can imagine.

David: Okay, let's talk a little bit about ... because I did bring you on this call not only because you're a good friend and I know you know what you're doing, you're also one of us. Meaning that

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you, as you already alluded to, you're very active working your own investment accounts but as you also said with IRAs and retirement accounts, we can't self-deal. There's prohibitive transaction rules, disqualified parties, which means we can't be involved in our own deals. Again, I know it's a murky subject to some degree but can you define that a little bit for our listeners so they understand why we need to be in a community of other people with whom we can kind of cross pollinate?

Quincy: Sure. Well, like you said, you asked a very broad question but essentially the IRS has the theory, and well-founded I think, that your retirement account is well, for your retirement. It's not an individual "now" account, it's an individual retirement account. So to prevent you from self-dealing and trying to get a current benefit, other than as the beneficiary taking distributions from the IRA, they set up these rules to prevent you from doing that.

So first thing you got to know is that there are, as you said, disqualified persons. There are nine different classes but the most common and most important ones to remember are you are at the top of the list as a fiduciary or a caretaker for your IRA. Your duty is to exclusively benefit the IRA and not yourself now or any other disqualified person. Your wife or husband, depending, is also disqualified. Your parents are disqualified. Your grandparents are disqualified. Your kids and grandkids and their spouses are all disqualified from doing business or benefiting from your IRA. And any corporation, partnership, trust, or estate owned 50 percent or more by any of those people is also disqualified.

That gives you some flavor of the people that they don't want to get a current advantage or something like that from doing the transaction. As far as what you cannot do with those

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disqualified persons, it's kind of common sense in part of it. You can't buy, sell, or exchange an asset between one of those persons and their IRA. You can't extend credit between those persons and the IRA. You can't provide goods, services, or facilities between those people. You can't, then here it gets a little bit ... those are not too hard to understand ... but then it gets a little bit murky.

You can't have any direct or indirect benefit from the use of those IRA funds. So for example, David, if you wanted to buy a beach house in South Padre Island and use that as a rental income and when it was vacant you wanted to stay there, that would be a prohibited transaction because you are not allowed to make any current use out of the IRA's assets. I don't know if that was what you were looking for but that's about as quick as I can do it there.

David: Yeah, yeah. No, that was good. I think that gave some good definitions. So I know that I hear people quite often, I'm sure you do too that say, "Well, I have a private property. I'd like to get that property into my IRA." If they already own the property, have any interest individually in that property, there's really not a way to get that property into their IRA. That again would be self-dealing, correct?

Quincy: That's right.

David: Or if I had money in one of my retirement accounts, I couldn't make a loan out of that retirement account to my father for example, correct? That would be a prohibited transaction.

Quincy: That's right and that would blow up your entire IRA if you did that.

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David: Right. So instead of staying close to the vest, meaning close to your own family, inner circle, which is what's going to cause the problems, we need to go outside and you talk about using OPI. Could you describe a little bit for us what you mean by OPI to make these things happen in a real way?

Quincy: Absolutely. Investing, or the most successful investing, is a team sport. I think you know that, David, and so basically OPI is Other People's IRAs. Just because you can't use your IRA to your advantage doesn't mean you can't use other people's IRAs to your advantage to feed yourself right now and do the deals you want to do.

"Well, how am I to be able to use other people's IRAs?" Well, there's any number of ways to do it. One way is that you could borrow other people's IRA money to do your deals. And of course, we would expect you to secure it with a lien against real estate and all that kind of stuff. But you can actually borrow other people's IRAs. You can also be a partner with other people's IRAs. I mean, I've done any number of deals where I have provided the money for a deal and my partner has provided the deal and the sweat equity and then dealt with the tenants and toilets and then we split the income while the property is owned by my partner, my sweat equity partner. We split the income and then at the end I get my money back first and then the rest is split between us. So my partner has half a property for no money out of his pocket and I have a hassle-free deal that I don't have to do anything but wait and watch the checks come in. So that's another way you can do it.

Of course, once you know that real estate can be purchased by an IRA, if you have a piece of real estate to sell you can educate people on that process and their IRAs can buy real

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estate. So it's also a source of capital not only for your sales, and any assets you have in notes or real estate that your IRA ... or that you own personally and want to sell to other people's IRAs.

It's also good source of raising capital. So for example, one of the banks that I'm invested in told me that 42 percent of their startup capital came from OPI, Other People's IRAs. So those are a few ways that you can use self-directed IRAs to benefit yourself right now. You just can't use your own or your certain family members' IRAs to do that. You need to work and build your network. You know, we both know that your network is your net worth. Hopefully that came through clear on the recording because it's really important to understand that the most important thing you have and the most important asset you have is not money. It's deals and network.

David: Well, you're so right. And Quincy, it took me quite a few years to really understand that concept. I was all about working hard, which a lot of people do. I work hard, I took the education, but I try to create wealth doing it all myself and that works if you have a lot of time but time is not an infinite commodity that we all have.

So to make things happen more quickly, to use leverage in the way you've described, you've got to be within a network of people where you have the relationships and the commerce. That is the ability to lend money to buy assets and move things around, particularly with your IRA funds so you can do so that meets the requirements of legally doing business with your IRA investments but allows you to enhance the investment opportunity and the returns thereof.

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Quincy: Yeah, I mean I wish I had learned that. I wish I had joined groups like your group, David, many years before I did. I'd be a whole lot further along and I'm a lot further along than most people are.

David: Well, it's the same for me. All right. So Quincy, what are, and again, this is not just for IRA investing, but some tips or some risks or caveats you make when people are talking about, "Now I'm going to self-direct my money," what kind of caveats would you advise people to utilize before they jump in and make any particular investment with their IRA funds?

Quincy: Well I think besides knowing the basic prohibitive transaction rules or finding the education of where you can talk to professionals that do know those rules, the biggest hint I can leave is that you do need to do your own due diligence. Or "do the due," as I call it. Due diligence means that you don't just meet somebody and go, "Oh, wow, you seem like a nice guy. Let me write you a \$100,000 check from my IRA and I hope you do good with it and return the money."

You've got to learn how to be a real estate investor and being a real estate investor means you learn how to protect yourself by things like securing a loan that you make with real estate. You want to check out the people that you're dealing with and try to make sure that they're upfront and honest people. I've had some negative experiences with not having checked the people. I thought that it was only the asset that counted and I learned that that was a mistake. But basically, do your due diligence.

And another hint that I would offer, David, is to go with what you know or what you have absolute faith in somebody who's

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helping you with, because if you don't go with what you know, that's where you start to make mistakes. I always say the best and most wonderful benefit of a self-directed IRA is it's self-directed, which means you get to pick your investments and invest in what you know best, right? The worst thing about a self-directed IRA is it's self-directed and you have to pick your own investments and if you're poor at picking investments, then you may not have a satisfactory result on your self-directed IRA.

The other thing, the final thing I guess I'll say, is that going back to this networking opportunity, you really, really have to find a good network. That's where groups like yours, David, come in to play. Where you can deal with people that you believe to be honorable people. But keep in mind that I'm not saying you don't do your due diligence, but you need to shortcut all the years that you and I, David, learned while trying to do it all ourselves. You can shortcut it by finding a great network.

David: Very, very true, Quincy. I'll throw a little plug out for what you and our good friend, Walter Wofford, have put together now, I think this is the fifth year, but the IRA Fun Cruise, www.IRAFunCruise.com. The cruise this year will be going out of Puerto Rico and that kicks off October 31st. So if you want to find a group that Quincy is talking about, whether it's great education, great people, great opportunity to network, and find out more about how to get your investments working and cooperate with other people that are like-minded, that's a great place to go.

Well, H. Quincy Long, president of Quest IRA, QuestIRA.com, thank you so much for your time today. Always appreciate your insights. Thanks for being a good friend, a participant, and

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someone who brings so much to our various groups. We couldn't do it without you, I'll tell you that.

Quincy: Thanks, David, and I look forward to seeing you on the cruise and also in your event in October.

David: Very good, thanks, Quincy.

Quincy: Okay, bye-bye.

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