Ep #161: Self-Directing Your Future Wealth Building and Financial Freedom with Quincy Long

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Ep #161: Self-Directing Your Future Wealth Building and Financial Freedom with Quincy Long

H. Quincy Long: The IRS says they do not tell you what you can invest in-

David Phelps: The IRA.

H. Quincy Long: They only tell you what you cannot invest in your IRA and that's a very short list. Everything else is acceptable as long as you have an administrator or custodian willing to hold those alternative investments, so that's what we do.

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David Phelps: Good day everyone, this is Doctor David Phelps of the Freedom Founders Mastermind community and the Dentist Freedom Blueprint Podcast.

Got a great interview today for you with a good friend of mine. We've been colleagues and co-investors and do all kinds of fun stuff together, trips and all. My good friend today is Mr. H. Quincy Long of Quest IRA Incorporated, based out of Houston, Texas but also with offices in Dallas, Austin and Madison, Wisconsin.

Quincy, how you doing today sir?

H. Quincy Long: Doing great, except for we don't have Madison, Wisconsin, but that's okay.

David Phelps: Madison is out? Okay. We're Texas-based but that doesn't matter because you serve clients from all over the nation, correct?

H. Quincy Long: All over the nation, yes sir.

David Phelps: All over the nation.

Well first, let me tell people a little bit about you. Quincy, you come from a career, a profession in law, you've done a lot of things in law as an attorney. You've practiced obviously in real estate, bankruptcy, family law, contracts, litigation and probably, prior to owning and developing Quest IRA, you were a fee title attorney with one of the large title companies, real estate title companies.

H. Quincy Long: Right.

David Phelps: So my point is, you come with a heavy degree of experience and you know, actual licensed professional knowledge in areas of law, which I think is very apropos and important because there's lots of rules and regulations, there's do's and don'ts and best practices in any type of investing. And particularly when we get into what we're going to talk about today a little bit and that's alternative investments, and that is what you and your great team at Quest IRA are all about. In fact, I think your mission statement, correct me I don't have it in front of me but, it's about helping people build a financial future through investing in things, assets, that they actually understand. Is that part of it?

H. Quincy Long: Yeah so basically, as you say, when you say alternative investments, what I want to be clear about is, the alternative for IRAs, they're not really alternative investments. I mean, obviously investing in real estate and things like that are very common, but it's not really common to have that done in IRA.

So basically what we do at Quest IRA is we go ahead and allow our clients to invest in whatever they know best and, for many of them, that's real estate or notes or perhaps some privately held entities such as limited partnerships and private corporate stock and things like that.

But that's what we do, we hold those assets where they're perfectly legal and acceptable for IRS investment purposes, they're not very common because the administrative burdens inherent in handling alternative investments. So that's what we specialize in.

David Phelps: So Quest IRA is, and correct me if I'm incorrectly naming this, but you're a self-directed IRA administrator. Is that correct terminology?

H. Quincy Long: That's right. Basically it's no different. It doesn't make a whole lot of difference to the clients whether we are a third-party administrator, where they are the face of a custodian, if you will. It's the same thing as going to any restaurant, you don't know if it's owned individually or whether it's representing a bigger corporation, either way the food tastes the same.

David Phelps: Gotcha.

So I think most people, the majority of the population has heard of IRAs. Many people have IRAs. But I think a lot of the population had opened IRAs or had them opened for them and, quite conventionally or more traditionally maybe, people will have them opened at a local bank or maybe one of the investment houses like Fidelity, Vanguard, Charles Schwab. There's many places where one can open an IRA but the difference between what we're talking about with what you do at Quest in allowing people to invest in an alternative investments, I think the alternatives, and again different people may have different definitions, for me alternative means, outside of Wall Street, which is-

H. Quincy Long: Exactly.

David Phelps: People think about, well I can put my money- I've got a 401k or I've got an IRA and I've a broker or I have one of these accounts at one of these investment houses and I could buy mutual funds and stocks and bonds and someone can help me buy annuities. To me, that's kind of traditional. And the alternative side would certainly be what you and I and people that we hang out together, we love the real estate side, and you said, the precious metals and there's other things that you can invest in. So do you want to take that a little bit further and just make sure people understand why they cannot actually invest through, in real estate, investment vehicles through those other kind of traditional investment houses with their IRAs?

H. Quincy Long: Sure, I mean basically the other investment houses are just simply not set up to handle the administrative burdens inherent with alternative investments as you've listed there. So, for example there's valuation issues that have to be done. With a stock or a mutual fund you just look at the price at the end of the day and you know what the value is for example.

And there is prohibited transactions. You don't have to worry about that too much with stocks, bonds and mutual funds, but when you get into alternative investments, you've really got to know who the disqualified persons are and what the prohibited transactions are. So they're just basically, the IRS says they do not tell you what you can invest in-

David Phelps: The IRA.

H. Quincy Long: They only tell you what you cannot invest in, in your IRA and that's a very short list. Everything else is acceptable as long as you have an administrator or custodian willing to hold those alternative investments. So that's what we do.

David Phelps: Perfect.

So self-direction, Quincy, takes some work, takes some responsibility. You don't just open up an account, say with Quest IRA, and roll over some funds or open an account and contribute funds and then walk away and Quest IRA does not take over and manage the investments, correct?

H. Quincy Long: That's correct.

Self-directed means just what it sounds like. The 'self' is not Quest IRA, the 'self' is you, the IRA owner, or the account owner that's makes all the decisions about what types of investments to make and when to make them and how to structure them.

David Phelps: So people that are typically your best or ideal clients who have opened accounts with you of the various different types of qualified plans that can be self-directed, what's kind of their profile would you say? I mean the majority. I know there's always some who maybe are not taking a lot of action, but what have they had to learn, what have they had to do to actually become kind of somewhat competent and self-directing? What do they need to know?

H. Quincy Long: Yeah, there's a couple of different flavors. There are people that are going ahead and opening self-directed accounts and they have some type of advisor or some type of person training them like you do at Freedom Founders for example, and they can get some guidance there. Or they're just knowledgeable investors that want to diversify away from Wall Street and into things that they know and understand. There are people, even dentists believe it or not, there are people that are active investors and they want to put some of their portfolio, or some of them want to put all of their portfolio in real estate or notes or something that they understand and can control the risk on much better that way.

But you're right, it isn't Quest IRA providing the investments or the investment advice, it's the clients making their own decisions which is both the best thing and the worst thing about a self-directed IRA.

David Phelps: Exactly. Well-said, well-said. I think what we see is that once people understand the opportunity involved in self-directing and obviously becoming-

H. Quincy Long: Right.

David Phelps: Knowledgeable, competent, understanding the rules, and then we'll talk a little bit more about relationships in a few minutes, about how that works in order to have access to the right potential investments for each person. But it can actually become kind of addicting, I mean once people get started - It gets addicting, doesn't it?

H. Quincy Long: It is. I don't care how much money I have, I'm always going to be doing deals because addiction is a bad thing in many cases, it's not a bad thing in this case. It's just fun.

David Phelps: Yeah, instead of going to Vegas and playing Blackjack or playing the slots, I mean we actually have more fun and we have more control and certainly I think much better outcomes than people that go to Vegas and get their dopamine hits from that kind of thing. I mean you and I and the rest of us, we believe in protecting our principal and then getting return on principal and it takes learning and effort but the opportunities are definitely there for those who will avail themselves of it.

I want to point out also to people that are listening to this podcast, Quincy and Quest IRA put on many educational events both live in some of the major cities and you travel around the country and you speak at many conferences Quincy, but also your website, questira-

H. Quincy Long: .com.

David Phelps: Is it questira.com? I think it's-

H. Quincy Long: Right.

David Phelps: Questira.com. I mean you've got a plethora of information on your website: articles and webinars and all kinds of great information. So people that are listening that are just kind of getting their appetite whetted a little bit by this podcast, we can't go deep today, but it's great place to go just to learn more about what self-directed investing is all about. So I just wanted to encourage people to not think that this is all there is to it in 30 minutes today. Dig a little deeper if it's something that you know excites you a little bit and says you know maybe this is something I should look into. I would encourage people to look into and just, as I said, great information on your website.

Quincy, most people on this podcast know that I have a real bias towards real estate. I know you do too because again, that's kind of the world you grew up in and we have a lot of fun investing in real estate through our various self-directed accounts. So let's talk a little bit more about some of those specific opportunities in real estate.

The first one that maybe most people would think about conventionally in real estate might be you know owning and managing a real estate, single-family house. You know buying a house-

H. Quincy Long: Sure.

David Phelps: And having it as a rental.

H. Quincy Long: Sure.

David Phelps: Now that's something one can do in a qualified, self-directed account correct?

H. Quincy Long: It's clear that the IRS even says on their websites, you can offer, you can buy real estate on your IRA but the custodians are not required to own that asset because of the administrative burdens inherent with doing so. So yes, absolutely, you can hold rental property and many people just have the rent sent directly to their IRA, other people hire non-disqualified third party property managers to handle all the bills and just send the net rents to Quest IRA. Either way is okay with us.

David Phelps: And it's even possible for people to acquire or invest in say rental properties or even have them financed by an institutional financing institution as long as they're what we call non-recourse loans correct?

H. Quincy Long: Yeah, that's correct. You can buy debt-financed property either directly or indirectly through a partnership or whatever and your IRA or other self-directed account. But of course, as you know David, that has some tax implications, not for you individually but for your IRAs. So you have to be aware of the tax implications for the IRA when you do invest in debt-financed properties. But there are definitely several banks that do the IRA lending nationwide, so you can buy debt-financed property in your IRAs as well as seller-financed properties or privately-financed properties you can get besides getting bank financing as well.

David Phelps: Good. And I think you mentioned earlier at the top of the podcast today Quincy that one can also invest in private entities, private placements-

H. Quincy Long: Right.

David Phelps: That kind of thing.

H. Quincy Long: Right.

David Phelps: Same thing, correct? That's available with the qualified, self-directed plans?

H. Quincy Long: By private entity David, we mean things that are not traded on Wall Street such as limited partnerships, LLCs, privately-held corporate stock, those are the kinds of trusts. That's what we mean by private entities, when we say that.

David Phelps: And then another favorite that I know you do quite a bit of and I know I do as well is actually using the RIRA accounts to act as the bank or be a lender with security against specific real estate collateral that we believe is sold, we've done some due diligence. That's another mode of investment, correct?

H. Quincy Long: Yeah, it's one of my favorites. I continue to do that to this day.

David Phelps: So, let's just remind people that maybe are not aware of the effect of what we call interim taxation on our ability to build wealth. Anybody who is gainfully employed or works and makes money is going to pay tax at some level and for a lot of the people on this podcast who are business owners, professional practice owners, probably at or certainly near the top marginal tax rates which, with state and local and federal can push those tax rates up well above 40 and even into 50% range. And we've done some studies and demonstrated at Freedom Founders for example, that interim taxation, how much it wipes away of the compounding effect that you know-

H. Quincy Long: That's right.

David Phelps: Yeah, just wipes it away, even at the lower tax rates, but you push it up at 28 or 39.6%, which is the federal tax rates that we have today-

H. Quincy Long: Plus the Obama Care.

David Phelps: Plus the Obama Care, 3.8, right so your way up there and so the ability for people to build wealth with that taxation it's very difficult, let's put it that way. It's very difficult and so the opportunity that really every one of us has that has any form of active income, is to find where the better accounts available through Quest, get account opened or maybe you already have accounts open in other investments houses that you can turn into self-directed, and realize that the tax deferral that virtually every IRA account offers, and then some of those specialty accounts I'll call them, offer not only tax deferral but even tax-free distribution on the back end, the effect of that to mitigate that taxation or to move it all together is huge is it not?

H. Quincy Long: Oh it is enormous. And you know, you have some great examples of that when you talk about the subject as I do as well, about the tax cost. Because what people don't realize David is I think, that they haven't thought about is that when I say tax costs, there's two parts to that. One, there is the actual tax you pay, which as you suggested is 39.6% plus Obama Care supplement plus state tax and it can get up there to 40, 45, 50% or more. But there's also an opportunity cost because if you have to pay 45% say of your earnings and take those out of the play, you have that much less money to invest in for the next round. So there's both opportunity cost and the dollar amount you pay in taxes.

David Phelps: Yeah, well-said, well pointed out.

So Quincy, I think, as I said earlier, I think what makes you unique for those of us who get to be around you and learn from you, is you know your background as an attorney but also as really one of us. You're an investor. As much as you're a business owner, like many of our listeners today you are a business owner, you've got very rapidly growing business through Quest IRA which I guess you've been involved in well, well over a decade probably going on closer to two decades now, and that business grows very quickly, but you're also an investor. And you've got a real passion as we all do, for building up those accounts, tax-deferred and or tax-free-

H. Quincy Long: Right.

David Phelps: As a busy business owner, but also an investor like every one of us, what works best for you? Now there's a lot of people that are more active because maybe they've got more time or they've got maybe a certain passion for kind of getting their hands in the mix and dealing with development and contractors and rehabs and that sort of thing, what works for you in trying to balance you know your time and where you're time and efforts are best leveraged? How's it work for you in general?

H. Quincy Long: Well, in general I mean I do a mix of things. First of all, I have long term, short term and medium term investments as you might expect. So, the short term, I will do a hard money loan and do the due diligence and make the money on the hard money loan and churn the account a little bit. But as you suggest, I am fairly busy and so what I like to do personally is try to make either joint ventures or invest through limited partnerships or trusts where I've got somebody else that does all the heavy lifting and what I do is just provide the money and just sit back and watch the dollars grow in my account. That's my favorite method of doing it, I tried not to do any of those naughty four-letter things like W-O-R-K, I'm much more focused on P-L-A-Y than W-O-R-K, you know what I mean?

David Phelps: I totally know what you mean.

Okay so people that are listening to that are thinking well gosh that makes a lot of sense, so what does one have to have Quincy, in order to be able to do joint ventures or invest in limited partnerships? And I mean, do you just go out on the internet and look up and see who's-

H. Quincy Long: Oh no. No, no, no.

David Phelps: How does one do that?

H. Quincy Long: You know, I think it's been said and I don't even know who originally said it, but I think it's been said many times that your network is your net worth. And by that simply we mean that, what you need if you have a busy business owner like myself, what you need is people who have deals, where you have the funds to help make those deals happen. And so you need a network of individuals that are catalysts, deal makers, that are willing to use OPI or OPM, other people's IRAs or other people's money to make the deal work and then split the deal in some specified way with their money partner. So I mean you need a network of people and those network of people includes other people with money, but more importantly other people with access to deals that are more active as you suggest.

David Phelps: And where might somebody begin to find those kind of people, the deal makers?

H. Quincy Long: Well, I mean, you've got to go where the real estate people hang out so Freedom Founders is an excellent example of a group where you do not only training but networking. Obviously you would know, but I would mention the FinancialFriendsNetwork.com which is Walter Wofford and I have that little group and we go on trips and cruises and do a teaching and networking on that. But there are also, even in your local real estate club, although it probably follows the 90/10 rule where 90% of the people do nothing and 10% do deals and do something. That still means there's 10% of the people, even in local real estate clubs, that are actually doing deals. And you've got to just figure it out, where those people are and then start not only making the network happen, but also nurturing the network. You can't just leave it alone. You have to you know pick up the phone and say, hey, how you doing? You got any deals? Could go to lunch? You know, you've got to nurture that network.

David Phelps: Yeah, very well-said.

What's one of the best deals that you've ever done Quincy?

H. Quincy Long: You know, I think, I get question a lot, and it's really hard to answer because it depends on what you view as the best.

In terms of effort to return ratio, as my friend Mary Hart describes it, ERR, effort to return ratio, that to me is the most important aspect. So if I make an investment and do nothing other than the due diligence and make a really nice return, I consider that a home run. So the two that would come to mind is one, it's already done and the other that's in progress. They were both limited partnership deals where, as I mentioned I don't like to do any work, so I find groups of successful people that have made successful investments and we did a deal where we bought three acres north of Dallas, in a little town called Melissa, Texas, you may be familiar with it.

David Phelps: Yes.

H. Quincy Long: At the intersection of two freeways, we bought the three acres at that intersection for $500,000 cash. It had a little prop- rent house on it, which paid the taxes on the property for the most part. And less than four years later we sold it for 2.5 million and so that was a very fine return and all I virtually ever did with that was do the initial due diligence and just cross my fingers and wait for it to come to fruition.

A similar investment that I think is going to work out really well, we bought - for cash, $900,000 in cash- we bought 196 acres on Maui from the bankruptcy estate. And before we even closed on it, we had an offer for 2.5 million, which we turned down. We think the property could be worth $10 million or more. And whenever that happens, whether that's five years from now or 10, I'm likely to make five to 10-fold return on my investment with, again, very little effort.

Now there are other things that I have made really good money on don't get me wrong, but I term that the best because for the hours I put in, for the profit made, it was a very profitable investment.

David Phelps: Quincy with profitable investments like you just described, why wouldn't the catalysts, the deal makers just go to the bank and borrow money at the low rates we have today and just cut out people like us who like to invest in joint ventures or limited partnerships? Why wouldn't they just cut us out and just go to the bank and borrow cheap?

H. Quincy Long: Well you know some of them do that or try to. Of course, investing with a bank, I mean borrowing money from the bank, has its dangers because the bank can get too thick with real estate investments, say oh no, I know you've been paying faithfully for years, but we'd like you to pay it off in the next 30 days. And that does happen.

But sometimes the speed with which the deal has to happen is one factor. Whereas, if you call me up David and you say Quincy I've got a really good deal, I need

100,000 tomorrow, I could actually accommodate you on that. And you just can't do that with a bank.

Some deals also that we do David are very creative in nature and a bank wouldn't even come close to understanding the investment, let alone get it funded on time.

So those are some of the factors, but mostly the people that do this, like you and I do, are basically valued the ease of capital more than the profit, but if they can do more deals more quickly and more easily.

David Phelps: Right. And then for you, for me, for other people that are in our network that want to invest in kind of the, in play versus work, the way we make that happen is by networking, like you said, building those relationships, nurturing those relationships. When people recognize and know who you are Quincy or our good friend Walter or myself or other people, that we will play ball so to speak, as long as the deal's right-

H. Quincy Long: Right.

David Phelps: And it meets our criteria, that they can call. And that's how these opportunities come your way correct? Because you're out there and many people know hey, I'm active, an active investor, show me a good deal and I'll probably be in there with you.

H. Quincy Long: Exactly right.

David Phelps: Excellent, excellent.

Any thoughts about, and this is a little bit outside the spectrum of being in real estate, but just want to get your thoughts about what's going to happen in our country in terms of debt and debt spending? Do you feel like there's a danger down the road at some point under some administration or some effect where our retirement accounts are going to be means tested or changes made? I know that's a wide open question but a lot of people you know are worried about that, that it seems like there's no constraints on spending and you know, there's so much money in retirement accounts today. It's kind of like the low hanging fruit. What are your wild thoughts? I know it's a guess.

H. Quincy Long: You know, first of all, let's be clear, the Congress can change the law anytime it wants to pretty much. But here's part of the consideration, one, retirement accounts are a huge part of our economy. The houses like Fidelity and Schwab and TBO Price, they have enormous stakes in the retirement industry. So there's tremendous pressure, lobbying efforts, that go on continuously in that. So, based on that not based on the fact that it can't do it, because they can, but based on that I doubt sincerely that they'll wholesale sweep them away and make them all government controlled social security-type accounts. I think that's just scare tactics, spread by people who are conspiracy theorists. I don't think that's going to happen. There's too much lobbying on the other side. Could they make changes? Sure, Could they make means-tested? They can do all kinds of things. But there's always going to be that pressure that's going to hold them back from a whole scale confiscation of retirement accounts that is what I hear big people being very fearful of.

What it might end up doing? I don't know. They could eliminate the stretch for example and the inherited Roth IRA, they could easily do that. They could re-impose the income tax limits for putting money into a tax-free account Roth IRA. I mean yeah, they could any of that stuff. But wholescale doing away with it? I don't think so.

David Phelps: Yeah, I'm with you.

H. Quincy Long: Again.

David Phelps: Yeah, there's a lot of politics and a lot of lobbying with a lot of money, as you said, a lot of self-interest that will always have a major factor in the economics and the political environment that we are dealing with.

All right, well Quincy well once again, thank you for being with us today. It's questira.com, Mr. H. Quincy Long and Quincy's one of our trusted advisors at Freedom Founders. Ashe said also, there's the Financial Friends Network, I love being a part of that group, so many places for people to get out and start getting involved with learning the ropes, the inside information about how to put together great real estate investment deals and how to do that successfully, the right way through the self-direction that available to virtually everybody today on different levels. We touched just on a few of the pieces today, but I encourage people to get some information, to make connection, network and see how this could work for you and provide security and peace of mind for your family for long term wealth building and legacy.

H. Quincy Long: So thank you David for having me today and you have a great week, I'll see you in a little while here.

David Phelps: Excellent, thank you Quincy.

H. Quincy Long: Bye bye.

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