

Ready For M&As? Ask The Right Qs

MANAGING FOR SUCCESS / A10

Be The Boss — You Won't Be Fired

IBD/TIPP POLL / A18

Cut And Run In Iraq? Most Say No

INDUSTRY SNAPSHOT / A20

Fine-Tuning A Safer, Faster Internet

THE IBD 100 / B1-3

MGM Mirage Makes Some Big Bets

INVESTOR'S BUSINESS DAILY

IBD

MONDAY SPECIAL

S&P 500 INDEX

1203.03
+13.14 (+1.1%)Home builder stocks
keep adding to gains

NASDAQ

2086.66
+29.02 (+1.4%)Chips among day's
top-gaining groups

DOLLAR-YEN (on ¥)

104.04
-0.40 (-0.4%)Greenspan remarks
give dollar strength

DOW JONES IND.

10,716.13
+123.03 (+1.2%)Blue chip index rises
to one-month high

NASDAQ VOL. (mil)

1,942
-57 (-2.9%)Slightly lighter trade
despite index's rise

EURO

1.2871
-0.0100 (-0.8%)Euro at lowest levels
in almost three mos.

NYSE VOL. (mil)

1,643
+87 (+5.6%)Altria jumps 5% on
appeals court ruling

10-YEAR T-NOTE

4.08%
-0.09 (-2.2%)Prices rally on weak
job-creation number

CRB FUTURES

281.26
-0.35 (-0.1%)Coffee hits 4 1/2-yr.
highs; soybean falls

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Should You Put Real Estate In An IRA?

Tactic's Use Growing

Investors are learning to use a new strategy in retirement accounts

BY PAUL KATZEFF
INVESTOR'S BUSINESS DAILY

Direct investment of IRA assets in real estate is a hot trend.

"Its growth is explosive," said Tom Anderson, chief executive and president of Pensco, a retirement plan custodian and trust company based in New Hampshire and San Francisco.

Less than 1% of the \$2.45 trillion that the Investment Company Institute says was in individual retirement account assets in 2002 was in real estate, estimates Patrick Rice, author of IRA Wealth.

Now just over 2% of the \$3.01 trillion in IRA assets is estimated to be in real estate.

One benefit of direct real estate investment can be high returns.

During 1972-2004, real estate investment trusts had the third best average annual return among major asset classes. Their 13.44% average yearly gain trails only mid-cap stocks' 14.49% and small caps' 13.57%, says Ibbotson Associates.

More benefits: pleasure of doing your own investment research and tax-deferred growth until withdrawal, except in Roth IRAs.

But realty investing has risks, warns Marco Caporale, president of Independent Executive Management in Tampa, Fla.

If you put all of your IRA assets

into one or only a few properties, you lack diversification. If those investments perform poorly, your account holds little or nothing else to cushion the blow.

And if you default after borrowing money to help finance an acquisition, you risk losing the property.

Also, if you don't abide by strict tax rules, you can incur severe financial penalties from the IRS.

Still, one key reason for the growth in IRA real estate investing is that real estate does not move in synch with the stock market. This makes it a hedge against downturns in stocks and stock funds.

The stock category it performs most similarly to is mid cap. But their annual returns match only 68% of the time, Ibbotson says. It matches gold only 3% of the time.

And the ongoing mutual fund industry scandals makes some shareholders seek alternatives to funds, says John Beater, vice president of special assets for Pensco.

Like A Secret

Many individual investors believe they're not allowed to invest in real estate via an IRA.

But it's been permitted since IRAs were created in 1974.

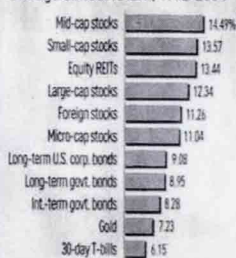
Typically, you need to use a self-directed IRA — one that lets you choose your investment.

"That's part of why so few people know about using IRAs," Anderson said. "Banks, insurance companies and brokerages can help you set up an IRA. But they limit your investment options to products they sell.

There's no incentive for them to market real estate IRAs."

Asset Class Returns

Real estate had the third best average annual return, 1972-2004



Source: Ibbotson Associates

A custodian like Pensco helps you create your IRA, but it typically does not give investment advice.

At first glance, fees commonly appear much higher than, say, mutual fund annual fees, which may be \$10 to \$30.

Pensco, for one, charges up to \$400 for an account as small as \$100,000. The rate falls to \$2,000 for an account of at least \$1 million.

But stock investors via self-directed IRAs get hit with transaction fees. Mutual stock-fund shareholders pay a yearly average of \$1,250 per \$100,000 in assets, says the ICI.

The easiest way to conform with tax rules is by buying real estate from an unrelated person, paying cash and not using it yourself, Caporale says.

And you can buy anything from raw land to commercial property or residential rental property.

But a major no-no is buying real estate from a so-called disqualified

person. That includes:

■ Yourself, your spouse, offspring or parent.

■ Son- or daughter-in-law.

■ Your IRA trustee or custodian.

■ An entity, like a partnership, that's at least 50% owned by any combination of disqualified people like you and your spouse.

■ A 10% owner, officer, director or highly paid employee of such an entity.

Also, your IRA can't buy real estate and then let a disqualified person use it. That means you can't take a vacation in a rental property in a resort owned by your IRA.

Taking A Mortgage

It's OK for your IRA to buy property with help from a lender. But tax deferral applies only to the portion your IRA pays cash for, Rice says.

On the financed portion, income from, say, rent gets taxed at a top rate of 35%. You can exempt an initial \$1,000 annually of net income.

Any capital gain would be taxed at 15% max. The \$1,000 can be applied if it hasn't been taken on net income.

You can invest in property via your IRA alone. Or your IRA can join a partnership such as a limited liability corporation.

In case of default, a lender can repossess property from an IRA. But it can't seek the account owner's assets.

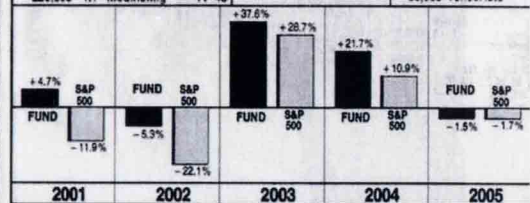
That's why lenders generally prefer dealing with a partnership, Rice says. They can't go after assets held by participating IRAs or owners. But they can repossess the property as well as attack assets owned by the partnership's manager.

Stock Funds Leading The Market

These S&P 500-beaters are among the top 15% of stock funds the past year

GABELLI SMALL CAP GROWTH (GABSX)		36 Month Performance Rating A	
Obj: SMALL CAP VALUE	12/2004 T/O Rate: 10.0%	Yield: 0.0%	Avg. P/E 2x
Median Mkt Cap. \$595.8 Mil.	Assets 12/2004 \$703 Mil	Volatility 4%	
PH (800)422-3554	Avg. EPS Rating 60	# of stocks 412	2 worst drops (5 yrs) 27%, 20%
Mgr. Mario J. Gabelli since 1991	Alpha: 0.07	Beta: 0.64	
Min. Investment: 1000	Cash 12/2004: 0.02%	5 yr after tax return of \$10,000 = \$17,228	

10 LARGEST U.S. HOLDINGS		TOP NEW BUYS		TOP SELLS	
575,000	2.0% CabEvansS	25	84	110,000	Morguard Cor/SARC
213,000	1.7% Clarcor	85	69	69,400	Adesse
296,000	1.6% ThomasIndus	40	69	103,000	CA Mc/Dvc
300,000	1.4% ThomasBett	80	60	50,000	Borland
183,900	1.2% Liberty Corp	61	16	40,000	WPTEnt
178,000	1.2% FrnkInEtc	74	80	20,000	Marcus
130,000	1.2% NaimMarB	85	12	17,500	Falcornt
180,100	1.1% Greif A	77	93	10,000	TridnMer
120,300	1.1% Chemed	79	81	10,000	Astronic
220,000	1.1% ModineMfg	77	43	40,000	Federal - mog/DMLO
				80,000	Sequa B
				127,500	A G C O
				45,500	Catalus
				50,000	Cesars
				35,000	Riggs Natl
				30,000	Schimm A
				20,000	BalderElec
				15,000	YngrenDntl
				80,000	SixFlngs
				20,000	WestarEarp
				30,000	TencoAuto



FORWARD HOOVER SMALL CAP EQ (FFSCX)		36 Month Performance Rating B	
Obj: SMALL CAP GROWTH	12/2004 T/O Rate: 190.0%	Yield: 0.0%	Avg. P/E 29
Median Mkt Cap. \$1.06 Bil.	Assets 12/2004 \$187 Mil	Volatility 4%	
PH (800)999-6809	Avg. EPS Rating 73	# of stocks 98	2 worst drops (5 yrs) 32%, 14%
Mgr. Irene Hoover since 1998	Alpha: 0.04	Beta: 0.76	
Min. Investment: 2500	Cash 12/2004: 0%	5 yr after tax return of \$10,000 = \$16,413	

10 LARGEST U.S. HOLDINGS		TOP NEW BUYS		TOP SELLS	
80,500	2.2% SouthWestE	98	95	101,800	eFunds
78,100	1.7% AmerCar	85	68	235,500	AspenTech
123,500	1.7% GrantPrco	79	80	78,600	NaraBcp
44,100	1.6% StandPac	96	93	45,800	I D E X
63,800	1.6% LoneStarTch	90	83	76,400	ABM Ind
56,200	1.4% SteeDynn	97	85	60,100	PlacerSR
42,800	1.4% UltraPrt	89	88	31,700	Montipr
63,500	1.3% Stratasys	91	88	57,500	Omn/WaTc
101,000	1.2% eFunds	88	77	82,000	FndryNtwk
60,750	1.2% Tetra Tech	38	48	45,100	Insight Ent
				73,400	Mykrolis
				45,800	GenProbe
				47,900	CellGardn
				38,500	UnidSgeol
				82,500	CooperV&R
				88,700	Pep Boys
				37,400	TractorSupl
				41,100	Gardn/Den
				65,900	CS&System
				61,700	Dendrite
				25,700	PhrmPdtDv
				66,400	Andrew

