How a Self-Directed Solo 401(k) Plan Works and How to Set One Up

A Solo 401(k) may be one of the best ways you can invest if you have self-employment income — but will you go for a standard plan or a self-directed plan? Most people think retirement accounts are limited to stocks, bonds, and mutual funds. But what if you could invest your retirement savings in real estate, private equity, precious metals, or even cryptocurrency? That's exactly what a self-directed Solo 401(k) allows you to do.

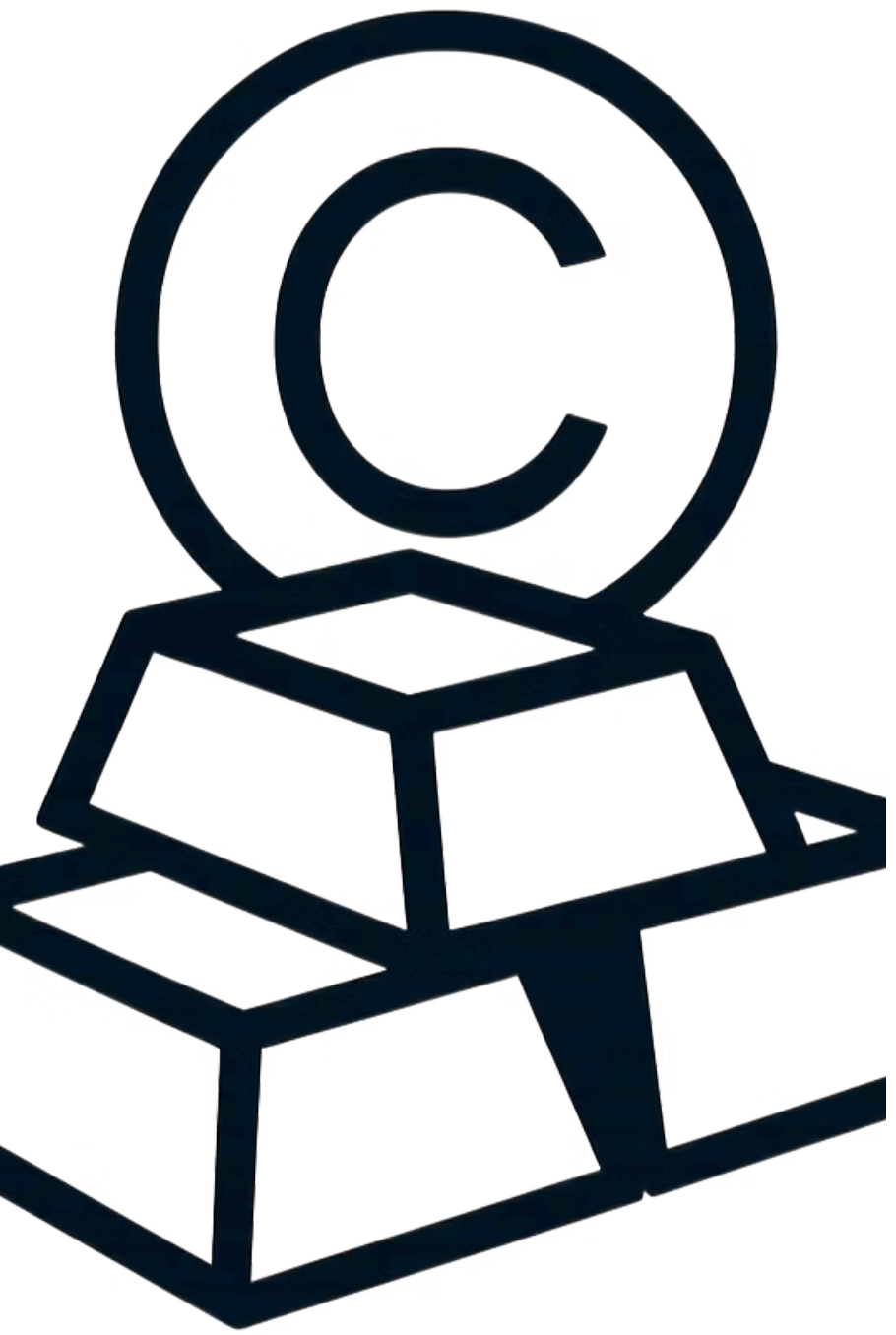
What is a Self-Directed Solo 401(k)?

A self-directed Solo 401(k) is a retirement plan that gives you **complete control over your investment choices**. Unlike traditional 401(k) plans that limit you to a menu of mutual funds, a self-directed plan allows you to invest in virtually any asset class permitted by the IRS.

> Think of it as a regular Solo 401(k) with superpowers. You get all the same benefits — high contribution limits, tax advantages, loan provisions — plus the freedom to invest in alternative assets.

Key Advantages at a Glance

- High contribution limits
- Significant tax advantages
- Loan provisions available
- Freedom to invest in alternative assets
- Full control over investment decisions



What Can You Invest In?

With a self-directed Solo 401(k), your investment options expand dramatically across four major categories:

Real Estate

- Rental properties
- Commercial real estate
- Raw land
- Real estate notes & mortgages
- Tax liens and deeds

Private Investments

- Private company stock
- Startup equity
- Private placements
- Hedge funds
- Private equity funds

Alternative Assets

- Precious metals (gold, silver, platinum)
- Cryptocurrency
- Promissory notes
- Oil and gas investments
- Foreign currency

Traditional Investments

- Stocks and bonds
- Mutual funds and ETFs
- Options and futures
- Certificates of deposit

What You CANNOT Invest In

The IRS prohibits certain investments and transactions to prevent self-dealing. Understanding these restrictions is critical to keeping your plan compliant.

🚫 Life Insurance

Life insurance policies cannot be held within a 401(k) plan under any circumstances.

🚫 Collectibles

Art, antiques, gems, stamps, and alcoholic beverages are prohibited — with limited exceptions for certain IRS-approved precious metals.

🚫 Self-Dealing Transactions

You cannot buy property you currently own, sell property to yourself, or otherwise benefit personally from plan assets.

🚫 Disqualified Persons

Transactions with certain family members (spouse, lineal descendants) or business partners are strictly prohibited by the IRS.

⊗ Violating prohibited transaction rules can result in your entire plan being disqualified — triggering immediate taxes and penalties on all plan assets.

Key Benefits of a Self-Directed Solo 401(k)



Investment Diversification

Don't put all your eggs in the stock market basket. Diversify into real estate, precious metals, and other assets that may perform differently than traditional securities — reducing overall portfolio risk.



Leverage Your Expertise

If you're a real estate professional, why not use your expertise to invest your retirement funds in what you know best? The same applies to any industry where you have specialized knowledge.



Higher Potential Returns

Alternative investments can offer returns that outpace traditional stock market investments, though they also come with their own unique risks that require careful evaluation.

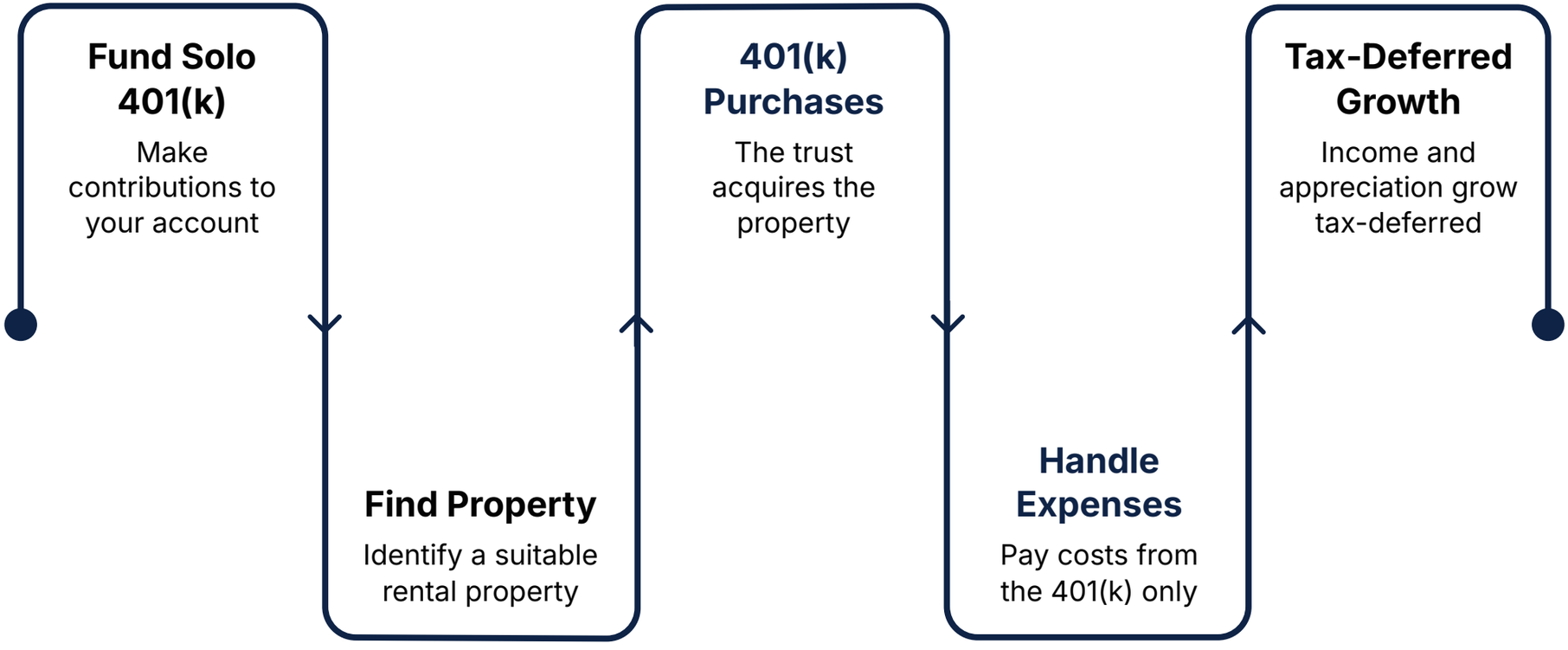


Tax-Advantaged Growth

All earnings from your alternative investments grow tax-deferred — or tax-free with Roth contributions — just like traditional 401(k) investments. Your gains compound without annual tax drag.

How It Works: Real Estate Example

Let's walk through a common scenario — buying rental property with your Solo 401(k). This step-by-step illustration shows how the process flows from contribution to tax-deferred growth.



This cycle allows your retirement account to build real estate wealth entirely within a tax-advantaged wrapper — compounding your returns over time.

⚠ Important: You cannot live in the property, rent it to family members, or use it for any personal benefit until you take a qualified distribution in retirement.

Setting Up Your Self-Directed Solo 401(k): Steps 1–3

1

Verify Eligibility

You must have **self-employment income** and **no full-time employees** other than your spouse to qualify for a Solo 401(k). Confirm your eligibility before proceeding.

2

Choose a Provider

Select a provider that **specializes in self-directed Solo 401(k) plans**. Not all providers offer self-directed options — this is a crucial distinction that will determine your investment flexibility.

3

Establish the Plan

Your provider will help you create the plan documents, including an **adoption agreement** and **trust agreement** that explicitly allows for self-directed investments in alternative assets.



Setting Up Your Self-Directed Solo 401(k): Steps 4–6

Step 4: Open a Bank Account

Open a business checking account in the name of your Solo 401(k) trust. This is where contributions are deposited and from which all investments are made.

Step 5: Fund the Account

Make annual contributions to your Solo 401(k) and/or roll over funds from existing retirement accounts such as IRAs, old 401(k)s, or other qualified plans.

Step 6: Start Investing

Begin making investments according to your strategy. Follow all IRS rules regarding prohibited transactions to keep your plan in good standing.

ⓘ Rolling over funds from existing retirement accounts is a powerful way to quickly build up your Solo 401(k) balance and begin investing in alternative assets sooner.

Important Rules and Considerations

Before diving into self-directed investing, make sure you fully understand these critical compliance areas:



Prohibited Transactions

Avoid all transactions with **disqualified persons** — including yourself, your spouse, lineal descendants, and certain business partners. Violating these rules can disqualify your *entire* plan, triggering immediate taxes and penalties.



UBIT — Unrelated Business Income Tax

If your Solo 401(k) earns income from an active business or uses **leverage (debt)** to purchase property, you may owe Unrelated Business Income Tax (UBIT) on those earnings. Plan accordingly.



Due Diligence

You are solely responsible for researching and vetting all investments. Unlike traditional 401(k) providers, **self-directed custodians do not evaluate or recommend investments** — that responsibility falls entirely on you.



Liquidity Planning

Alternative investments are often **less liquid** than stocks and bonds. Ensure you maintain enough liquid assets to cover required minimum distributions (RMDs) when you reach retirement age.

Is a Self-Directed Solo 401(k) Right for You?

It's a Great Fit If You...

- Have expertise in alternative investments like real estate or private equity
- Want more control over your retirement investments
- Seek diversification beyond traditional securities
- Are comfortable with additional responsibility and due diligence
- Understand and can navigate prohibited transaction rules

It May Not Be Ideal If You...

- Prefer a hands-off investment approach
- Don't have specialized knowledge in alternative investments
- Want professional investment management
- Are uncomfortable with complexity and compliance requirements

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Get Started with Guardian

The Guardian platform supports self-directed Solo 401(k) plans, giving you the freedom to invest in alternative assets without having to manually keep track of compliance and recordkeeping. Reach out on sepirak.com/contact and we will connect you with one of our partners.