MB Capital Group

Roth IRAs offer tax-free withdrawals at retirement, making them a solid choice for investors who think they'll be in a higher income tax bracket when they retire.

To gain the most return out of your IRA, you need to be savvy enough to know which investments to pick. Although a Roth IRA may be more limited than a self-directed IRA, there are still several high-return assets you can invest your Roth IRA in to become wealthy at retirement.

In this article, we provided you with five assets you should invest your Roth IRA in and also five alternative investments you can only access with a self-directed IRA.

5 Best Investments for Roth IRA

1. Stocks

Stocks are one of the most common assets for retirement investors to get their feet wet.

Sold in units known as "shares," stocks represent a percentage of the company's ownership.

Roth IRA owners can purchase, sell or trade publicly or privately traded stocks on almost any exchange using their retirement funds.

Stocks are a popular compound interest investment because they tend to deliver great returns over time. According to one study by Schwab, people who invested at the peak of the S&P 500 over the past 20 years still earned 50% higher returns than investors who didn't invest in stocks at all.

Of course, if retirees want an even safer and more sure investment, the bond market can be a good idea.

2. Bonds

Most people are familiar with stocks and bonds, but they represent two entirely different types of investment assets.

In its most basic form, a bond represents a loan between an investor and an organization, such as a company or government. There are three primary types of bonds: government, corporate and municipal bonds.

You can purchase bonds directly from the organization or through the government, a broker, or an exchange-traded fund (ETF). When you buy a bond, the organization agrees to repay the bond in full, plus interest. In the context of an IRA, that interest allows for account growth.

Bonds can be tricky investments because returns have to outpace inflation, which is a tall task in today's economy. Furthermore, as interest rates rise across the board, bond prices tend to fall to adjust to new interest rates.

Retirees can make money on bonds by selling them at a higher face value than what they purchased, presuming the market conditions are right and the value of the bond has increased. For instance, if you bought a bond two years ago for $5,000 and its current value is $7,000, you could sell it for a $2,000 profit.

However, knowing when to pull the trigger on this decision can be difficult, and in today's market climate, mutual funds and ETFs may offer a higher return on your investment.

3. Mutual Funds

Mutual funds are a collection of capital raised by money managers and invested in a portfolio of assets on behalf of the manager's investors. The mutual fund company or money manager supervises the portfolio, allowing investors to invest passively.

There are two primary advantages of mutual funds. First, mutual funds typically invest in a wide portfolio of assets, helping to diversify your personal holdings and shield you from risk.

Secondly, mutual funds are managed by investors with greater knowledge and trust from their advisors, meaning that your money is most likely in better hands if you are not a savvy investor. However, the downside is that you don't have any control over where your money is invested, and it is not guaranteed that your mutual fund will perform better than any other asset.

4. ETFs

Exchange-traded funds (ETFs) are very similar to mutual funds: your funds are pooled together with the funds of other investors to purchase a portfolio of assets. There are a few key differences, however.

Mutual funds are usually traded at the close of the daily market. Everyone who invested in a mutual fund that day pays the same price. ETFs, like the S&P 500 or Vanguard Mega Cap Growth ETF, can be traded throughout the day, meaning someone who invested in one in the morning may pay a different price than someone who invested in the afternoon. This opens the window for speculation and highly-timed investments.

Mutual funds are usually actively managed, meaning a financial expert "actively" oversees portfolio composition, trading, etc. On the other hand, EFTs, which are commonly based on a specific index, industry/sector, or commodity, are also managed passively. As such, the fees to invest in a mutual fund are often higher than EFTs.

5. REITs

A real estate investment trust (REIT) refers to a financial organization that owns, finances, or otherwise oversees real estate that generates income, like apartments, commercial facilities, and warehouses.

Operationally, REITs are similar to mutual funds in that investor funds are pooled together and used to purchase real estate. This makes them an attractive option to individuals who want to invest in real estate without the complexities or responsibilities of purchasing and managing properties. It's also a good option for someone who may not have the liquidity to finance an entire property but still wants to reap the benefits of a steady income stream for their retirement account.

Most importantly, it's a way for retirees restricted by their investment options with a Roth IRA to invest in the real estate market.

5 Alternative Investments with a Self-Directed Roth IRA

The investment assets above are available to most IRA account holders, but if you want to explore less traditional avenues–often ones that have the potential for higher earnings–you may want to consider a self-directed Roth IRA. With this type of account, you can extend your investment strategy to include assets like those below.

Precious Metals

Although the IRS generally prohibits individuals from using their retirement account to invest in collectibles, like coins or metals, there is an exception. If you open a self-directed IRA account, you can invest in precious metals, including gold, silver, platinum, and palladium.

Adding metals, like gold, to your portfolio can provide some stability and diversity. Plus, metals tend to perform well in inflationary economies based on their intrinsic value, which investors flock to when their currency becomes less valuable.

Real Estate

Real estate is a popular alternative asset for self-directed IRA holders and one that performs well in any economic climate. Self-directed IRAs allow you to purchase real estate–residential or commercial–using your funds directly from your IRA. The property is then rented out or sold to another individual, and the proceeds are returned directly to your IRA account.

Several important rules govern the relationship between your IRA account and the real estate investment. Specifically, you or any other family member (also known as disqualified persons) can not use or benefit from the property.

For instance, you cannot purchase a home and then live in it or use it as office space. The same is true for other family members. Another important rule is that you or a disqualified person cannot perform renovations on the home. This is important if your goal is to purchase and then flip a property. If the property requires physical labor or "sweat equity," you must pay another individual or company to complete the work.

Overall, a self-directed IRA real estate investment offers a safe and high return over long periods of time.

Cryptocurrency

Cryptocurrency is a form of digital money that is mined (created) and exchanged exclusively through online platforms. Unlike the U.S. Dollar or Japanese Yen, cryptocurrencies are decentralized, meaning that no central bank or government oversees their value or exchange.

However, similar to existing currencies, cryptocurrency can be used to purchase regular goods and services as long as the purveyor accepts crypto as payment. There are several types of cryptocurrency, including Bitcoin, Ether, and Solana.

Crypto is notably volatile but has proven to deliver outsized returns in the past. Some might even say this is the perfect time to purchase cryptocurrency before it hits another bull run. Nevertheless, it's important to do due diligence before you invest.

Promissory Notes

A promissory note is a "promise" to pay a debt and the terms and conditions of the repayment agreement, such as the payment schedule, applied interest, and any penalties for non-payment. You can invest in a variety of promissory notes, including mortgages, auto loans, and personal loans.

When you invest in a promissory note, you use your self-directed IRA funds to purchase the note from the individual or organization that currently holds it. After you purchase the note, the debtor makes all payments to you, and your gains are based on repayment and applied interest.

Promissory notes are considered some of the safest and most secure investment vehicles. In most cases, if a business or property owner does not reach repayment in a given period of time, the promissory note owner can legally take ownership of the property. Think of investing your retirement in promissory notes, like using your retirement funds to operate like a bank.

Private Equity

Finally, private equity offers one of the best returns of any investment vehicle available, especially if you invest in a successful startup.

Private equity refers to an investment in a private entity not available on the public stock exchange. Private equity investments can include start-ups or established businesses that need an influx of cash to maintain operations, restructure, or advance in their industry.

To invest in private equity, you must be an "accredited investor," an investor classification defined by the Securities and Exchange Commission (SEC). To be an accredited investor, you must have an annual income of at least $200,000 ($300,000 for married couples), have a valid Series 7, 65, or 83 license, and have a net worth of at least $1 million.

While you can generate lots of wealth with a Roth IRA, self-directed IRAs offer greater opportunities to pursue alternative assets. Most importantly, self-directed IRAs give you access to the same assets you can get with a Roth IRA, plus the freedom to make your own investment decisions.

So if you want to expand your retirement IRA with alternative assets like precious metals, cryptocurrency, real estate, promissory notes, or private equity, you need to roll over your Roth IRA to a self-directed IRA account.

Work with a trusted custodian like Horizon Trust, who can make opening an account easy and even help you get started with some alternative investment ideas. We offer free transactions and a state-of-the-art financial portal to help you keep track of all your investments.

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