

**THE
GOOD
THE
BAD
AND THE
UGLY**

**OF DIGITAL
CURRENCY
INVESTING**



THE START

This article is intended to shine a light on all the bullshit out there about digital currency investments in your self-directed IRA.

The views and opinions contained in this whitepaper belong to their author, Carrie Cook, and do not necessarily reflect the views and opinions of Preferred Trust Company, its' affiliates or its' employees.

SAFETY

Exchange Platforms versus Self-Custody through a Self-Direct IRA (SDIRA)

Although the exchange platforms have implemented a high degree of security, malicious attacks still occur. You cannot ignore the headlines as digital currency is a popular target for organized cyber criminals, whether they are stealing it outright or demanding it as an extortion payment in ransomware attacks. The modern-day bank robberies continue to occur with exchange/trading platforms.



These headlines are the reason that the digital currency landscape is being threatened by criminal investigations and sanctions.

In February 2022, the U.S. Department of Justice made a record seizure of digital currency (\$4.5 billion) and announced that it had arrested a New York couple for their role in laundering funds stolen from a digital currency exchange. This takedown illustrated that law enforcement can follow the digital currency when it comes to investigating cybercriminals. Although Bitcoin and other cryptocurrencies offer some anonymizing features, they are still in fact, traceable. Investigators have demonstrated how to use the visible and immutable ledger of decentralized blockchains to trace illegal transactions and recover digital currency.

Cryptocurrencies are digital networks whose accounts are privately controlled, but whose transactions are publicly and veritably recorded in a visible ledger or blockchain. Although public account addresses are anonymized, the owner of a given account or wallet can remain anonymous only as long as their real identity cannot be tied to it. Once their identity is associated with a public address, however, it is unbelievably easy to identify their transactions.

The next time you go to create a free account to purchase digital currency on an exchange platform, consider the fact that you are providing your name, email address, physical address, and social security number that will be tied to your account or sub account ledger used by the exchange platform. When the exchange platforms are hacked, so is your personal information and the potential loss of your digital currency.

Insurance Smoke and Mirrors

Investors who own conventional securities like stocks, bonds and mutual funds can rely on protective regulations and insurance backing, either through U.S. government or private policies. Investors in digital currency, however, do not have the same level of protections.

While there is demand for digital currency insurance to cover everything from deposits to theft, the primary concern is underwriting risks and whether the policy will ever pay out a claim. Major insurance companies struggle to accurately assess risk factors due to the lack of rules and regulations in the digital currency industry.

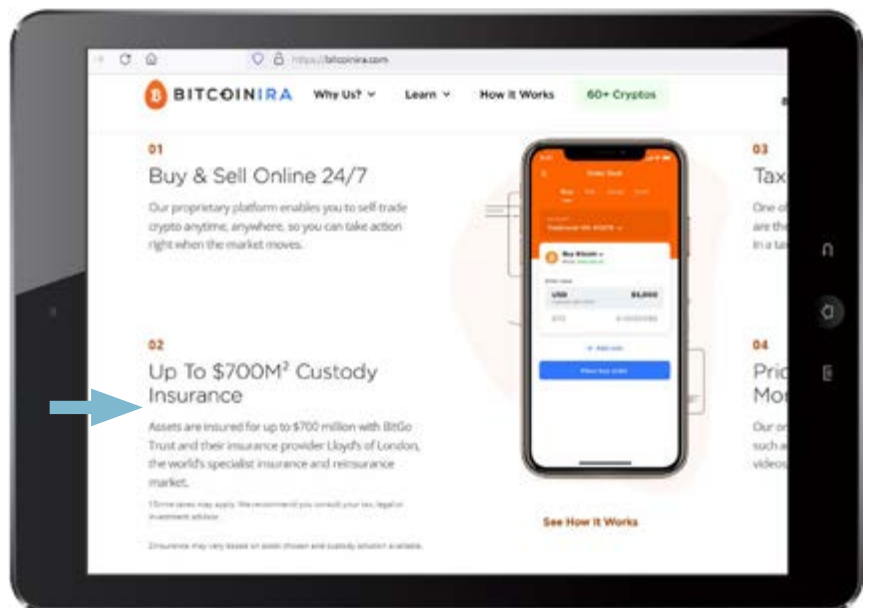
Given this level of unpredictability in a developing industry, how do you know if your digital currency is safeguarded?

Let's take BitcoinIRA as an example. They brag on their website as having 100,000+ active users on their crypto IRA platform and as you click through the site you will find their insurance disclosure. Up to \$700 million in custody insurance (can you also see, "that amount could vary" which is in tiny 6 point font). So now, let's do the math. If they have 100,000 users (and keep in mind they had a plus sign after the 100,000 users) and each user had 1 bitcoin at \$40,000 in value that would equate to \$4,000,000,000 in insurance coverage needed. \$4 trillion and they have \$700 million. In most instances a breach in security affects the majority, not the minority. That would be like having full auto insurance coverage on your Tesla valued at \$90,000 and you receive \$15,750 from the insurance company in replacement value.

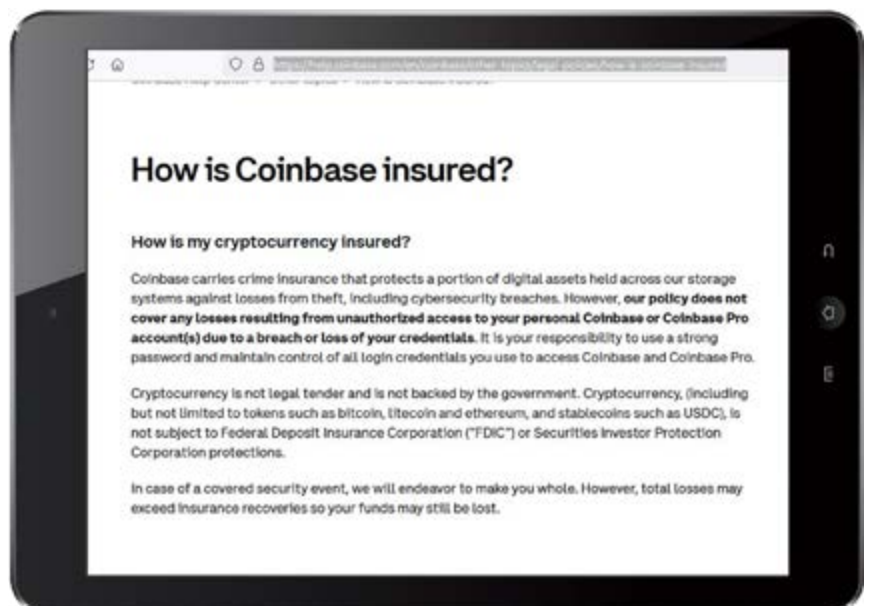
Yes, private insurance exists for digital currency but it is extremely limited. The type of private digital currency insurance that exists today is not purchased by exchange platforms. The coverage includes crime and theft, custodial insurance coverage, business insurance, and more types in development for decentralized finance (DeFi) that would provide coverage for loss of funds due to lost private keys.

Given this uncharted territory, it will be interesting to see if this type of insurance policy will ever payout on a claim filed given the provability factor. Then there is the factor that only certain coins in certain states qualify for these coverages. Let's just say there are a lot of fine print disclosures associated with these insurance policies and even more exemptions.

With that being said, there are some exchange platforms that are now offering the purchase of an insurance-backed digital currency protection plan for lost or stolen funds at a cost to the consumer. Again, read the fine print as the coverage may vary by coin, state you reside, and limitations of payout.



Sourced from Bitcoin Ira website <https://bitcoinira.com/?AID=1175>



Sourced from Coinbase website <https://help.coinbase.com/en/coinbase/other-topics/legal-policies/how-is-coinbase-insured>

The moral of the story here is that the insurance claims being made come with fine print so the protection may be limited. Coinbase says it best, “total losses may exceed insurance recoveries so your funds may still be lost” and they do not put it in fine print.

Let us stop here for a moment. Regulators, law enforcement, insurance companies, and exchange/trading platforms realize they need some oversight or governance to further the digital currency industry making it more mainstream. This is ironic considering the concept of decentralization and the purpose behind the digital currency blockchain technology movement was to decentralize. Now they realize that government involvement is inevitable.

What is happening with potential regulations surrounding digital currency?

March 10, 2022, the Department of Labor announced Compliance Assistance Release (CAR) 2022-01 which relates to 401(k) plan investments in cryptocurrencies.

The Department of Labor (DOL) also issued a [press release](#). The nuts and crux of CAR 2022-01 is to inform plan fiduciaries of 401(k) plans to exercise “extreme care” in considering cryptocurrencies as part of a 401(k) plan investment option for plan participants. This press release came one day after the White House released an [executive order](#) on digital currency.

THE KEY TAKEAWAYS

Investigations are coming. DOL states that it “expects to conduct an investigative program aimed at plans that offer participant investments in cryptocurrencies and related products, and to take appropriate action to protect the interests of plan participants and beneficiaries with respect to these investments.”

401(k) plan menus may have fiduciary risk. CAR seems primarily focused on cryptocurrencies as part of the “menu” of a 401(k) plan, but at the end of the release the DOL states that plan fiduciaries that offer them as investment options or allowing them through brokerage windows should expect to be questioned about how they determined to offer this option with prudence. The DOL does not explain how they view the oversight. Presumably the DOL views the menu options of investments to make available as a fiduciary function.

IRAs are not mentioned. Cryptocurrencies are primarily held in IRAs, not 401(k) plans. IRAs are not in the DOL’s jurisdiction, so it comes as no surprise that IRAs were not mentioned. Self-directed IRA custodians, however, should monitor the custodial risks and valuations of guidance to be imposed.

No distinction made on type of cryptocurrencies. DOL makes no distinction among assets such as stable coins or non-fungible tokens (NFTs). It is not clear to the extent of the guidance if it will apply to registered investments, such as mutual funds and electronic funds transfers (EFTs) that have exposure to cryptocurrencies or crypto service providers.

The DOL lays out the following concerns with digital currency plans:

Speculative – These investments are highly speculative and subject to extreme price volatility.

Difficult to make decisions – It is challenging for participants to make informed investment decisions because digital currency can attract inexperienced plan participants with lofty expectations of high returns without appreciating [the risks](#).

Implicit stamp of approval – Putting digital currency in a 401(k) plan is effectively telling participants that knowledgeable investment experts have approved the digital currency option.

Custodial risks – Because of the way cryptocurrencies are held, they are vulnerable to hackers and theft.

Valuation – Concern about reliability and accuracy of digital currency valuations.

Regulation is evolving – As there is increasing use of cryptocurrencies for illegal activities, the regulatory environment is also changing. To what degree or extent regulation will be implemented is still unknown.

Overall, the DOL is trying to discourage the use of digital currency in 401(k) plans for the near future, including the use by registered independent advisors (RIAs).

CONTROL

Taking Self-Custody to a Self-Directed IRA (SDIRA) – “Old School Style”

This brings us to the why fight them, join them mentality.

What is the meaning of decentralization?

The transfer of authority and responsibility for public functions from central government to subordinate or quasi-independent government organizations and/or the private sector.

This may be a different spin on things but the article started with the concept of a Decentralized IRA and why not invest in digital currency and **never pay taxes** on the increased value of the digital currency. Yes, people in the United States and abroad are seeking cryptocurrencies as a means to protect their funds from government oversight, but the reality in the United States is the Internal Revenue Service (IRS) is going to get their cut one way or another. Or, are they?

Decentralization is the transfer of authority from central government to independent government organizations. The government encourages this through the use of a Roth IRA. And given the fact that digital currency can be held in **a self-directed IRA (SDIRA)** and the investor is making the decision without the influence of a plan fiduciary, this would imply the government is fostering the use of a SDIRA for digital currency investments. And they are providing a way to invest that would remove their ability to earn any taxes from Roth IRAs less than \$10 million (as proposed by legislation in the Build Back Better Act). This proves there is more than one way to go about decentralization.



What if I do not have a Roth IRA? Well then get one or convert some or all of a Traditional IRA to a Roth IRA. Check out this blog on **5 reasons to consider a Roth IRA conversion.**

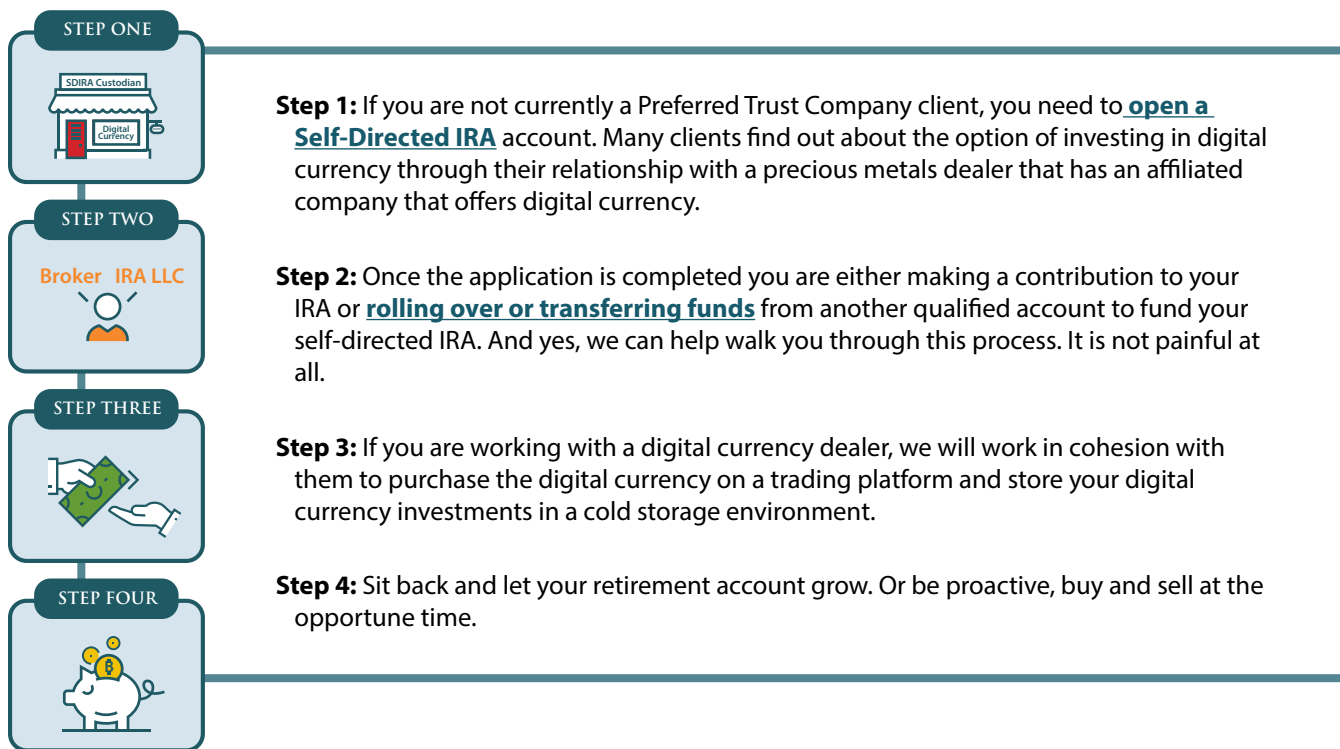
“A decentralized life equals financial freedom, and financial freedom is tax free income.”
- Carrie Cook

Ninety percent of custodians are holding custody of digital currency on an exchange platform. Not **Preferred Trust Company**. We stand by our “old school” approach to a more secure environment with cold storage that will not involve the governance of government by removing the possibility of government dictating the use and storage of personal information on an exchange platform model. We were the second custodian in the country to hold custody of digital currency and our motto has not changed regardless of the peer pressure to move to an exchange platform, which is hands down the easy way out. Call us crazy, but our clients believe that the safety of their digital currency is more important than the fancy apps and unsegregated custody approach to their hard earned money.

This may not be wildly popular with digital currency junkies, but your retirement account is not meant to be manhandled on a daily basis either. If you do not like the idea of not being able to buy and sell your digital currency held in your retirement account everyday, then get an **IRA LLC** that is owned by your IRA and go for it. We are not here to hold you back from doing anything, we just believe in the safety of the retirement account.

If you are new to the concept of digital currency being held as an investment in your IRA, let’s back up and talk about it.

Digital currency is an **alternative investment** that many consider as a hedge against inflation, much like precious metals, and for its diversification from the conventional market. Self-Directed IRA (SDIRA) custodians, like Preferred Trust Company, are licensed to custody the investment. Below are the **steps required to invest:**



Described above is the hands-off or the “set it and forget it” approach to investing in digital currency.

Now for all those digital currency junkies out there that want to manhandle their retirement account, let’s discuss an alternative option, because we know you do not like to play nice in the sandbox.

The IRA LLC is a unique Limited Liability Company (LLC) created with specific language to meet the Internal Revenue Service (IRS) and Department of Labor’s stringent requirements to ensure the integrity of the IRA. An IRA owned LLC is established to achieve “checkbook control” over the self-directed IRA account. The IRA owner is the Manager of the IRA LLC, giving them complete authority over the account as well as direct access to the qualified funds via the IRA LLC’s bank account. This essentially removes the self-directed IRA custodian as the intermediary for processing investments only.

Advantages of IRA LLCs:

Increased speed of investment: Complete signing authority and direct access to qualified funds means that the IRA owner can move in-and-out of investments more quickly. For example, this can be pivotal for investments in digital currency, where the price of the asset is dependent on the ability to purchase and sell at a certain time.

Personal asset protection: LLCs in general provide personal asset protection by keeping your retirement assets and your personal finances separate.

Fewer fees: Since the IRA LLC investment activities are independent of the custodian, investment transaction fees do not apply. However, the custodian is still responsible for administrative activities, such as reporting to the IRS, processing contributions and distributions, etc., which means that administrative fees will still apply.

Invest in both alternative and publicly traded assets: An IRA LLC gives you the flexibility to invest in alternative assets and publicly traded assets without having to rollover or transfer qualified funds between two different accounts.

Disadvantages of IRA LLCs:

Formation and ongoing expenses of having an LLC.

Increased responsibility: This autonomy places greater responsibility on the IRA owner to ensure that the IRA LLC's activities remain compliant with IRS rules and regulations. Familiarizing yourself with the IRS prohibited investments and transactions will be pivotal to ensuring that your account does not lose its qualified tax-protected IRA status.

If you are interested in establishing an IRA LLC to achieve checkbook control over your IRA investments, Preferred Trust Company can provide this service. To learn more about the process [click here](#). You may wish to seek professional legal and/or tax advice and guidance to ensure the IRA LLC is properly established and operated.

Now let's get back to those that are **not** manhandling their retirement accounts.

How is the digital currency stored or controlled?

The digital currency under custody with Preferred Trust Company is stored on a secure hardware device through private keys (critical piece of information used to authorize outgoing transactions on the blockchain network). The main principle behind hardware wallets is to provide full isolation with private keys to significantly reduce hacking crimes.

When you own digital currency, what you own is a private key. Your digital currency is associated with public/private keys. Your digital currency does not physically exist on any device – not even your hardware wallet. Hardware wallets store and safekeep your private keys, so that you can be the custodian of your own money. Or, in the case of Preferred Trust Company, they are the custodian of your qualified funds through a hardware wallet assigned to your IRA solely.

When you invest through an IRA LLC, it is up to you to store your asset in a secure location, whether it be hot or cold storage through a third-party (it cannot be held by you personally). So here we are preaching cold storage and now you are telling me I personally cannot do that, but Preferred Trust Company can. Yes, that is what we are saying. This is where the government sticks their nose in and sets the rules and regulations that must be followed to not disqualify your IRA. As a licensed and regulated custodian, we can perform the task of holding custody. You however, as the IRA account owner cannot. It is called **self-dealing**, and it is prohibited under IRS law. Though the IRS has not made a ruling specifically targeting the self storage of digital assets in an IRA LLC, we can take a page from their book as it relates to the self storage of precious metals in an IRA LLC. Self storage is a clear violation of Internal Revenue Code Section 408(m). The McNulty ruling would seem to suggest that the self storage of digital assets by the IRA owner in an IRA LLC environment could trigger a taxable distribution as the IRA owner would have “unfettered control” over the IRA owned cryptocurrencies.

You can hold your crypto assets through a crypto exchange, i.e. a hot wallet, however, we've already discussed those security challenges.

Follow the rules and you will never have a problem. Choose not to follow the rules, then do not blame us when your IRA is distributed to you, and you end up paying the tax penalties and fees.

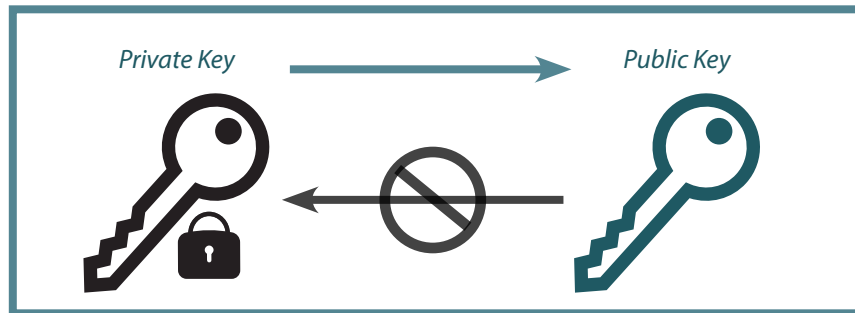
Private and Public Keys

The location of the cryptocurrencies, or what you own is secured by private keys. Your private key is comparable to an actual key. A private key unlocks the right to buy, sell and exchange cryptocurrencies. Your private key should be just that, private. In the same fashion that you would not share the key to your safe at home, you would not share your private key to your digital currency. If anyone asks you to, then you are likely being defrauded.

In addition to a private key, there is a public key. There is a cryptographic link between the public key and the private key. It is possible to recover the public key if you own the private key. It is impossible to find the private key using only the public key.

When you save a picture on your phone there is a file stored in the phone's memory. When you use Microsoft Outlook, there is a local copy of your emails on your computer. Your digital currency is not physically present anywhere. There is no physical entity representing your digital currency.

Instead, there is a relation between the public key and the associated crypto. Blockchain technology makes it possible to know the balances associated with the public key. This technology also allows for the movement of digital currency through swapping or selling your crypto. This information is distributed and replicated across the blockchain network.



The blockchain is transparent, verifiable, immutable record of all transactions made within a system which no one single person or group has control, making it fundamentally decentralized. Keep in mind that because of the way the blockchain works you may experience moments of panic as the balance of your digital currency may at times seems lost or stolen, when in fact a change wallet address may be associated with the transaction performed. Blockchain technology allows for this.

What digital currencies can I invest in?

If you invest with an IRA LLC, you can invest in whatever currencies are available to purchase on the digital platform you choose to purchase through. If you invest through a [digital currency dealer](#) with transactions directed by you through Preferred Trust Company, the list below are the digital currencies that Preferred Trust Company will custody on behalf of your SDIRA:

Bitcoin	Litecoin	Ethereum Classic	ZCash
Bitcoin Cash	Ethereum	Stellar	

Ask your cryptodealer if you have a specific digital currency you are interested in investing as the trading platform may offer for additional digital currency types.

What should I consider before investing in digital currency with my SDIRA?

- You need to be willing to look at the investment in digital currency as a long-term hold strategy. That is not to say you cannot buy and sell at opportune times. If you are a manhandler, manhandle. Chances are you live and breathe digital currency. If not, do not play Russian roulette.
- You cannot use the digital currency to purchase goods or services. Again, these are your retirement funds intended not be touched until you retire.
- Your investment risk tolerance. Do not put all your eggs in one basket. Perform due diligence on the digital currency and expand your knowledge before you jump in.

For more education, you can review [IRS Notice 2014-21](#) which describes how existing general tax principles apply to transactions using virtual currency. The notice provides guidance in the form of answers to frequently asked questions by consumers.

SERVICE

The word “service” is a loaded statement. Of course everyone will say they provide exceptional customer service, but test their statement and read the reviews, this will help you read between the lines. All the money in the world does not buy service. Illustrating that you are heavily capitalized through a superbowl commercial does not buy service, although it may get you some clients. As a custodian that offers digital currency we do our own secret shopping of [other custodians](#) that offer custody of this type of investment. We have not found another cold storage custodian, just for the record. Even if they say they do, they do not in 99% of the cases. We know this because they have all the digital currency dropping into one wallet when we process an in-kind transfer of digital currency, not in a segregated wallet. The one non-segregated wallet approach is a recipe for disaster as the custodian has no verifiable means to determine the digital currency that belongs to you or anyone else like a segregated wallet does, which is how Preferred Trust Company holds your digital currency.

Let’s get on the soapbox for a minute and talk about service as it relates to two custodians that are heavily marketing to consumers how easy it is open a SDIRA and buy and sell at the touch of a button.

iTrust Capital came out of nowhere in the market and they are obviously very heavily capitalized, hence the super bowl commercial. They use the [cover of being a custodian](#) through an assumed ownership of M2 Trust Services with a DBA of iTrust Custodial Services. They of course only use this DBA when it suits them because M2 Trust Services has its own website and forms, which all appear to be very amateur in stature. Then there is the fact that the banking relationship is with Vectra Bank of Colorado. Not to knock the bank, as they are apart of a larger conglomerate with their association with Zion Bancorporation, but they are a small fish in a big sea.

iTrust Capital has changed their affiliations with their exchange platforms multiple times until they landed on Coinbase. Remember that is the group with limitation in insurance. And you cannot look past the fact that iTrust Capital resides in a WeWork building in Long Beach, CA which basically means they are 100% not a bricks and mortar operation, which might explain why when you call (866) 308-7878 the outgoing message states they’ve removed the ability for you to leave a message in order to provide better customer service and instead, they tell you to schedule a call on their portal. Then when you go to the portal, they tell you it could be a week or more before someone will be in touch with you. Finally, when you do get a call with them it is in 10 minute increments and at the end of the 10 minutes even if you have more questions they tell you that you will have to request another 10 minute call. Yet consumers continue to flock to them. This is your retirement account people!

Next up, Equity Trust Company. Just look at the reviews and then ask yourself, “why would anyone ever use this custodian?” When you try and call them be prepared to set aside a minimum of 2 to 4 hours because that is how long you will be on hold. They are however claiming cold storage. The interesting part about their cold storage story is that they are also claiming the client will be able to buy and sell their digital currency through an app. That is interesting considering the client does not have access to the unique keys necessary to buy and sell the digital currency held in cold storage. It is our guess that this implies that they are enforcing the investment of digital currency through an IRA LLC and offering an exchange platform. The other crazy part about Equity Trust Company claiming cold storage is that when they request an in-kind transfer from another custodian they do not provide a unique wallet address for the digital currency to be sent. In fact, they do not provide a wallet address at all. They request the sending custodian to provide the wallet address the digital currency is coming from. You read that correctly. They are so backwards and should not be holding digital currency at all.

Now, let’s talk about service and cold storage that is not smoke and mirrors. If you are a person seeking a custodian that will answer the phone and that **does** actually offer cold storage of digital currency then you need to check out Preferred Trust Company. We have exceptional [reviews](#) that do not come from paid actors or robot induced.

Does cold storage require more work on your part? Yes. All good things take work. If everything was easy as everyone says then you should be questioning the protection of your hard-earned retirement funds. You know the saying, “if it’s too good to be true, then it is”.

So, here is the process at Preferred Trust Company. You are going to have to [open a SDIRA](#) just like with any custodian, so I will leave that piece off the table. Once your account is open, you are going to have to give direction to the custodian to make the initial purchase. In this scenario, Preferred Trust Company requires that you are working with a [digital currency dealer](#) for the initial purchase. The reason why Preferred Trust Company and every SDIRA custodian should require this is because SDIRA custodians do not sell investments. The only way around utilizing a digital currency dealer is to open an [IRA LLC](#) to provide you the freedom of foregoing the digital currency dealer purchase fee, although it may be more time consuming, costly and burdensome in the long run.

Let's get back to the labor involved on your part.

STEP ONE



Open a SDIRA account with PTC (hopefully a Roth IRA).

STEP TWO



Identify a digital currency dealer. And we suggest you do your due diligence and choose wisely as this is not a one size fits all.

Digital currency dealers do have some clever tactics to drive the purchases of digital currency. Buyer beware, some digital currency dealers represent themselves as being a custodian, going as far as using IRA in the company name and representing that they offer a Bitcoin IRA. Some would say that the company name should not matter, but it does if the sale to follow is deceitful or misleading

in nature.

For the record, there is no such thing as a Bitcoin IRA. There are two types of IRAs as defined by the IRS, a Traditional IRA and Roth IRA. Yes, there are **SEP** and SIMPLE IRAs, but they are treated as a Traditional IRA, as a tax-deferred vehicle. Nowhere in the IRS publications are you going to find a Bitcoin IRA. The saying "your reputation is everything" is how Preferred Trust Company has been able to weed through the deceitful or misleading digital currency brokers in the industry. We do this by requiring an in-take call with all clients to ensure that clients are aware of the roles of the digital currency dealer and the self-directed custodian and to also delineate between the fees charged by the digital currency dealer and the fees associated with the custody of the IRA.

STEP THREE



Complete an Investment Authorization and Direction Form.

The digital currency trading platform of where the digital currency is purchased and sold should be important to you if you do not like losing money. Preferred Trust Company strongly encourages clients to conduct their due diligence with every investment prior to the funding of the investment from their IRA. This statement also applies to the selection of the trading platform company that will be the conduit between the digital currency dealer buying the digital currency

and the transmittal of IRA client funds to complete the purchase and sale transactions. The trading platform's reliability and regulation is of the utmost importance as the IRA client's funds will be sent to and from the trading platform to purchase and sell the digital currency. Not all custodians handle digital currency transactions with a digital currency dealer the same way.

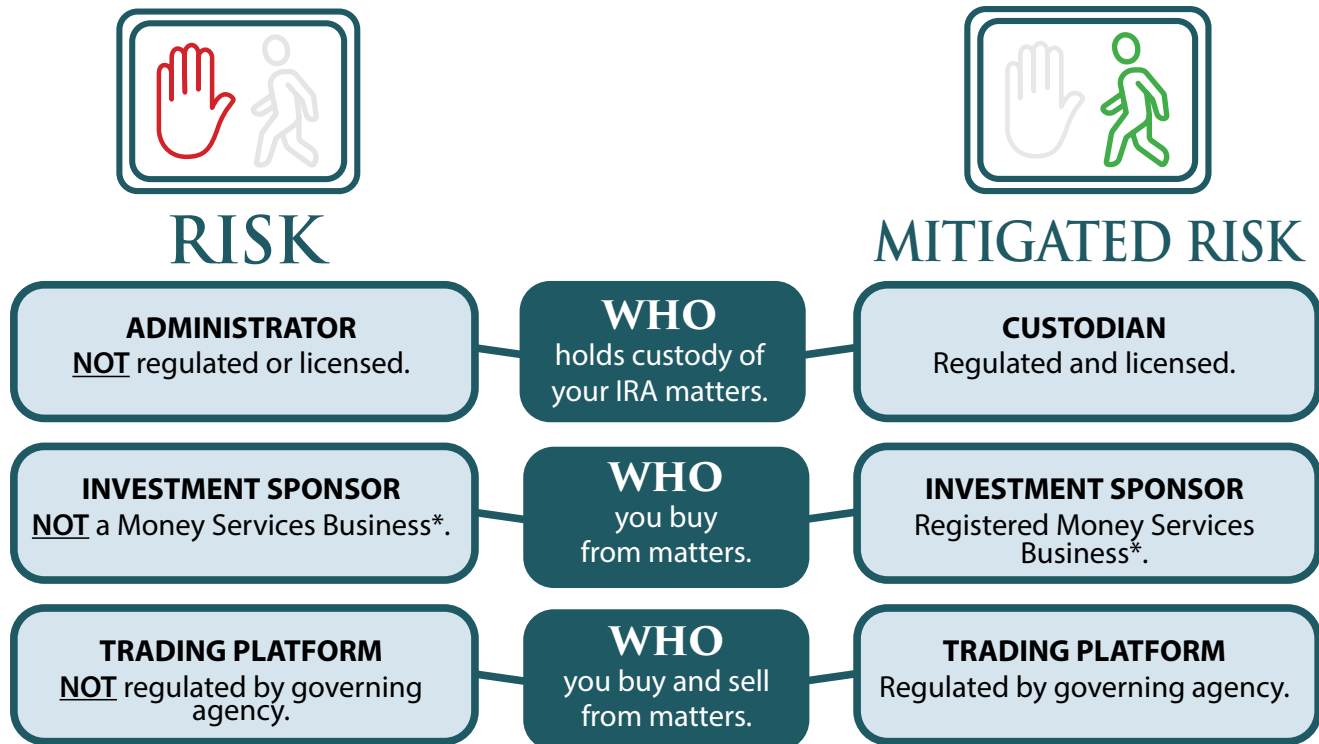
Here is the process at Preferred Trust Company:

1. The digital currency dealer accesses the trading platform approved by Preferred Trust Company online when consummating the purchase of digital currency with the client.
2. The digital currency dealer sends the client a Preferred Trust Company Investment Authorization and Direction Form to be executed as required by the custodian, and then sends the executed form to the custodian.
3. The custodian verifies the purchase and wallet address of digital currency on the trading platform.
4. Preferred Trust sends the funds from the IRA to the Trading platform. Once the funds are received by the trading platform, the trading platform transfers the digital currency to the specified wallet address provided by the custodian.
5. Preferred Trust verifies the digital currency was received by the specified wallet, and then informs the client that the digital currency transaction has been completed.

Since there are hundreds of digital currency trading platform companies cropping up, it makes the selection process that much more important because it can determine whether you actually receive the digital currency your IRA purchased or you receive your cash back upon selling your digital currency.

The goal of Preferred Trust Company is to work with a trading platform that has a lengthy history as an established financial institution and is governed by state and federal regulatory bodies in the United States. The second consideration in the selection process was the trading platforms approach to the allowable digital currency types offered and to lean on the trading platform’s expertise in what types of digital currency they offer based on their risk tolerance.

The final consideration was ease of use and information provided based on the technology from the backend to the user interface on the front-end. The below chart illustrates some of the criteria you should consider when evaluating the risk of who you work with when adding digital currency as an alternative investment in your self-directed IRA:



* A Money Services Business (MSB) is generally any person offering check cashing foreign currency exchange services; or selling money orders, travelers’ checks or pre-paid access (formerly stored value) products; for an amount greater than \$1,000 per person, per day, in one or more transactions. A person who engages as business in the transfer of funds is an MSB as a money transmitter, regardless of the amount of money transmission activity. Every MSB must be registered with FinCEN, the regulating body of MSB’s.

Congratulations you have digital currency in your retirement portfolio!

Now let’s say you want to see what the value of the digital currency is. This is where Preferred Trust Company does not see the value of the fancy app just for your digital currency. In this day and age, most websites are mobile friendly.

- Go to the Preferred Trust Company client portal, which is mobile friendly and login to your account to see the daily value of your digital currency along with all other relevant information pertaining to your IRA.
- Should you want to view your digital currency on the blockchain, Preferred Trust Company provides you with your unique wallet address upon the completion of your purchase. Put the wallet address into the blockchain for further verification of the amount held and the value.

Each Asset/Class value is also reflected as a **Percentage** and will total 100%.

The **Shares** represent the **number of units** of a type of digital currency currently held in the account.

The **Price** column provides the current price of the digital currency per unit as of the close of business from the previous day.

The **Cost** column represents the total amount you paid at the time of the purchase of the digital currency.

The **Market Value** column reflects the number of units of digital currency owned multiplied by the price.

Holdings Report As Of 05/03/2022

All Holdings

Asset/Class	Ticker	Percentage	Shares	Price	Cost	Market Value
Cash Equivalents						
Money Market						
Client Cash Fund		3.43	3,172.8400	1.0000	3,172.84	3,172.84
Other						
Digital Currency						
Bitcoin		73.84	2.0972	32,559.6200	16,114.74	68,283.25
Ethereum		21.21	10.4058	1,884.8600	26,680.00	19,613.43
Digital Currency Sub-total:					42,794.74	87,896.68

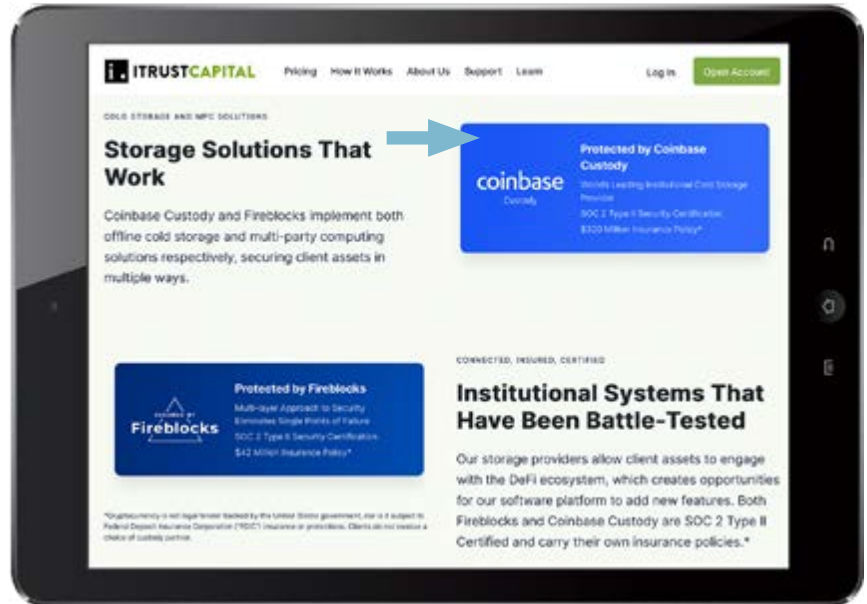
Now let's say you see the cryptocurrencies reaching an all-time high and you are wondering should I sell or hold. Well, we cannot answer that question for you, but Preferred Trust Company can sell your digital currency when you are ready to cash in on your **tax sheltered investment**.

FEES

No one likes to talk about fees, but the reality is no one works for free. Just like we have in everything we have discussed, we have to talk about how others in the industry are charging fees for like-minded cold storage options and the risky exchange platform model.

Let's start with the riskier option because this option is the less labor intensive for the custodian and does not require any involvement from the custodian once the account is opened. So, if you are willing to roll the dice with your retirement account and potentially lose your money invested in digital currency, then this option is 100% for you.

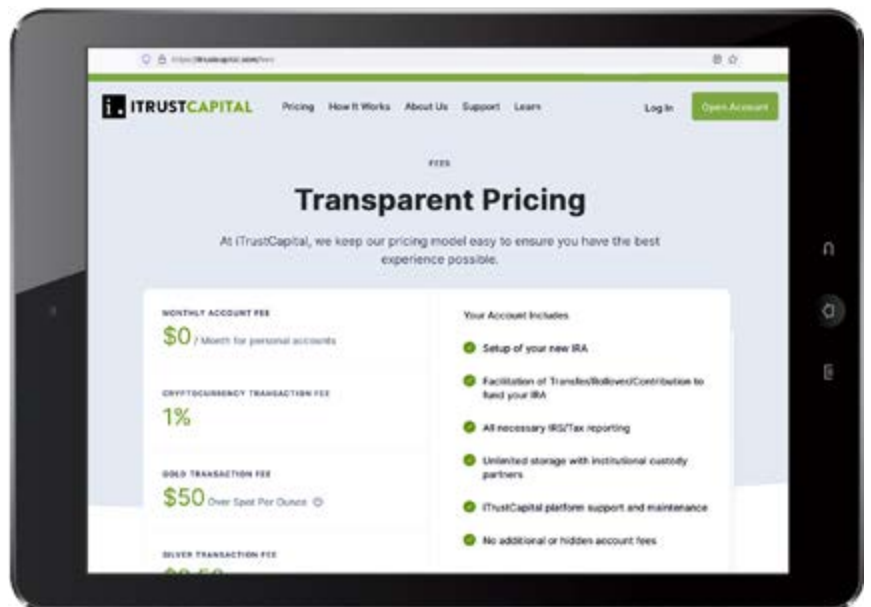
We will stick with iTrust Capital for this illustration as they charge a subscription to use "their platform" which ironically is not even "their platform". Like 99% of custodians using exchange platforms, iTrust is partnered with a third-party provider that they know little about the inner-workings of, yet they are marketing and selling their company based on the hundreds of millions of dollars in insurance the exchange platform has. Well, in the case of iTrust Capital, we sure hope that Coinbase ups the ante on their insurance policy because a mass security breach with the insurance policy they currently have is not going to cover much. Interestingly enough, the website for iTrust Capital appears to have changed as this piece is being formulated. The caption about their institutional grade crypto custody illustrates that Coinbase has a \$320 million insurance policy, which contradicts the information of Coinbase's website. Which is it \$320 million, or \$700 million, with the chance to still lose everything?



Sourced from iTrust Capital website <https://itrustcapital.com/security>

Nevertheless, you will then pay a monthly fee of \$29.95. That sounds like a magazine subscription, not a retirement account. Oh wait a minute, after looking at iTrust Capital website today they are now charging zero monthly fees and are working for free. So, let's look at what these changes are and if they are sustainable, or if this is a game to get as many clients as possible to then sell the company to pass off your retirement account to the next company. People, please pay attention to what is going on here.

The only way left for them to make money is on the transactions, which are seemingly attractive to them at the volume they are processing. They are charging 1% on the movement of your digital currency on an exchange platform managed by another company who is also charging you a fee for the movement. It is ironic that iTrust Capital is charging 1% on the transaction movement because as a custodian (if they indeed are) we are prohibited from making money from the investments held in



Sourced from iTrust Capital website <https://itrustcapital.com/fees>

your IRA. If you do not believe us, read IRS Code [Section 4975 \(c\)\(1\)\(D\)2](#) which defines a prohibited transaction to include any direct or indirect transfer, or use by or for the benefit of, a disqualified person of the income or assets of the plan. **As a custodian you are a disqualified person.** So, is iTrust Capital a custodian or not? If they are, they are disqualifying your IRA.

Either way, it is important to see what all these transactions are costing you in their hidden zero dollar IRA they are marketing. Seeing 1% does not seem like much, so let's spell this out in a way you can truly understand the cost. Incidentally, I could not find any examples on their website.

Dollar Amount of Transaction	1% Cryptocurrency Transaction Fee	Notation
\$100,000.00	\$1,000.00	Initial transfer or purchase
\$50,000.00	\$500.00	Sale of cryptocurrency
\$50,000.00	\$500.00	Purchase different crypto type from sale
	\$2,000.00	This illustration is an IRA account with a \$100,000 value in crypto for one week worth of transactions.

Is it obvious now why they are not charging you for the account? This is the same reason that large financial institutions do not charge you for your IRA. They are making money by investing your cash that you do not have invested, which is a common legal option. The option deployed by iTrust Capital (if they are indeed a custodian as they claim) is disqualifying your IRA. Hopefully someone will read this before opening an account with iTrust Capital and stop the movement of their account from a reputable custodian that follows the rules and regulations bestowed on the custodial industry before the government steps in and iTrust Capital ruins the ability for all Americans to hold digital currency in their IRA.

Moving on to Equity Trust Company, and their claim of cold storage. Let's look at their pricing in comparison to Preferred Trust Company. The word "claim" is used because true cold storage can only be accessed by the custodian and not through an app.

Preferred Trust Company

Initial Set-up and Investment	
Value of Account	\$100,000.00
Account Establishment Fee	\$50.00
Wire Fee	\$30.00
Digital Currency Account Set-up Fee	\$500.00
Minimum Account Balance	\$500.00
Digital Currency Dealer Purchase Fee (3.5%) <i>This fee is not charged by PTC.</i>	\$3,462.20
Available to Invest	\$95,457.80

Equity Trust Company

Initial Set-up and Investment	
Value of Account	\$100,000.00
Account Establishment Fee	\$50.00
Wire Fee	\$30.00
Digital Currency Account Set-up Fee	\$500.00
Minimum Account Balance	\$0.00
Digital Currency Dealer Purchase Fee (3.5%) <i>This fee is not charged by ETC.</i>	\$3,479.70
Available to Invest	\$95,940.30

Annual Fees and Transactions This is after initial purchase.	
Digital Currency Annual Depository Fee	\$300.00
Digital Currency Asset Platform Maintenance Fee	Not Applicable
Annual IRA Account Admin Fee	\$500.00
Annual Fees Moving Forward	\$800.00

Annual Fees and Transactions This is after initial purchase.	
Digital Currency Cold Storage Fee (.07% per month)	\$806.00
Digital Currency Asset Platform Maintenance Fee (\$20 per month)	\$240.00
Annual IRA Account Admin Fee	\$500.00
Annual Fees Moving Forward	\$1,546.00

Future Transaction Fees This is after initial purchase.	
Digital Currency Sale Transaction Fee	\$200.00
Digital Currency Secondary Purchase Transaction Fee	\$200.00

Future Transaction Fees This is after initial purchase.	
Digital Currency Sale Transaction Fee (1.0%)	TBD by the value sold
Digital Currency Dealer Purchase Fee (3.5%)	This fee is not charged by ETC.

Based on the information illustrated above, Preferred Trust Company is hands down the most cost effective and secure option for your digital currency held in a self-directed IRA.

Now I bet you are wondering why we are not talking about where our cold storage is stored or the security surrounding the storage of your private keys, or all the insurance policies we carry. The reason you do not talk about this is because you do not talk about where you hide the keys to your safe or the passwords to your bank account, and neither do we.

We were one of the first in the custodial industry to allow the custody of digital currency and we will be here long after all these others are gone or hacked because we have elected to follow the holy grail of the Cryptocurrency Security Standard Compliance (CCSS). Funny you never see anyone mention CCSS do you? Maybe you should ask yourself why?

TAXES

This part is just a bonus section that other custodians do not talk about, but we do because you need to know.

We said there are no taxes, so why are we bringing this up? Unfortunately, we have to address the digital currency manhandlers out there. You must watch out for the forks in the road. Literally, the IRS ruled on this to set the record straight. [IRS Rev. Rule 2019-24](#):

In 2019, the IRS issued IRS Rev. Rule 2019-24 to establish tax implications for when digital currency investors participate in an "airdrop" of new digital currency derived from a "hard fork." Below is a direct excerpt from the ruling:

- (1) A taxpayer does not have gross income under § 61 as a result of a hard fork of cryptocurrency the taxpayer owns if the taxpayer does not receive units of a new cryptocurrency.
- (2) A taxpayer has gross income, ordinary in character, under § 61 as a result of an airdrop of a new digital currency following a hard fork if the taxpayer receives units of new digital currency.

If you participate in digital currency investments with a Self-Directed IRA, you may be thinking that your tax advantaged account will shelter your investment returns from any tax consequences. Unfortunately, this is not an insulated event for an IRA account, and here's why.

What is a hard fork and an airdrop?

If you are not familiar with the terminology, a hard fork is when there is a permanent split in an original blockchain to create a new digital currency on a new blockchain. A widely publicized example that you can refer to is when Bitcoin hard forked to create Bitcoin Cash in 2017. There have been various others since then, but none with as much success as Bitcoin Cash.

An airdrop is the delivery of the new digital currency from the hard fork to holder of the digital currency, typically in equivalent volume to their current holdings. To participate in the airdrop, the digital currency holders must be able to show proof of their current holdings.

What does the IRS ruling mean?

IRS ReV. Rule 2019-24 has determined that in the event of a hard fork, if a digital currency holder participates in an airdrop to receive the new digital currency, the new currency is treated as ordinary gross income which makes this activity a taxable event. If the digital currency holder chooses not to participate in the an airdrop in the event of a hard fork, then there are no tax¹⁵

consequences. This income classification is extremely important to understanding the tax implications for an IRA that chooses to participate in this type of investment activity.

What are the tax implications for an IRA?

Unrelated Business Income Tax (UBIT), per the IRS regulations in a retirement account that receives what is determined to be ordinary income, not passive income, then those earnings will be subject to UBIT. Depending on the amount of income earned, it could be subject to up to 37% in UBIT related taxes. If UBIT applies, the IRA account owner is solely responsible for filing the IRS 990-T tax form.

Can a Preferred Trust Company client participate in a hard fork or airdrop?

As a licensed custodian, Preferred Trust Company reserves the right to facilitate or not facilitate certain investment activities in order to preserve the highest standard of compliance in the custody of IRA assets. For this reason, Preferred Trust Company (as have many other custodians), will not facilitate this investment activity within a client's IRA.

Is there another option for clients that still want to participate in the hard fork or airdrop with assets in their IRA?

There is a method that clients can use to participate in a hard fork or airdrop to avoid subjecting their IRA to UBIT. However, we strongly encourage clients to perform their due diligence on the method and the platforms that they choose to perform the airdrop. Depending on the platform, you could be required to provide the private key to the digital currency for the platform to verify the number of units of the original digital currency held to receive the new digital currency.

THE END

Parting words...

Your retirement account is made up of your hard-earned money during your glory years intended to support you in your golden years. Open your eyes and protect your money and investments against all the bullshit out there.

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