

An introduction to angel investing with a self-directed IRA

Angel investing fuels creative new businesses, turning many powerful ideas into reality. Investing with dollars earmarked for retirement in a self-directed IRA (SDIRA) may offer significant tax advantages.

The term [angel investing comes from](#) the Broadway theater shows that received funding from wealthy patrons during the production phases long before opening night. The benevolence infused a shared belief in the cast and crew: this thing will be a hit. Today, angel investing in private startups is similar. It's pre-seed funding committed to the earliest-stage ventures and can play a crucial role in the startup ecosystem:



It gives startups with little or no track record a chance. Without resources prior to revenue, they could fizzle out.



It provides founders mentorship, expertise, and networking opportunities. Capital is just one of the many ways angel investors can add value.



It can empower ideas to become businesses that can change the world. Many of the products and services that have revolutionized today's work and play came from angel-backed startup ideas.



It provides high-risk and potentially higher-reward assets. For the right investors, angel investing can be a vehicle for enhanced growth potential of retirement funds.

Why are retirement funds in a self-directed IRA a wise choice for alternative investments?

Using retirement funds to invest in alternative assets offers several potential benefits:



Longer time horizon



Historically resilient



Tax benefits

While this illustration is for demonstrative purposes and does not guarantee a specific outcome, consider a capital infusion of \$30,000 into a pre-seed stage idea. In time, say the venture’s founder and team turn the concept into a thriving business, and your allocation grows 3x — or even 10x — in value.

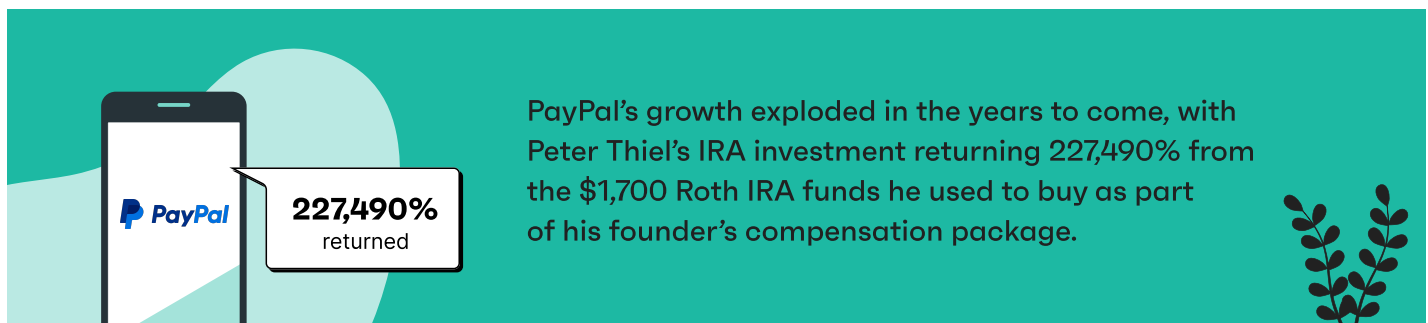
3X ILLUSTRATION	CASH	TRADITIONAL IRA	ROTH IRA
\$30,000 Angel Investment	\$30,000	\$30,000	\$30,000
3x Exit Pre-Tax	\$90,000	\$90,000	\$90,000
Net After Tax (15% Capital Gains Rate)	\$76,500	\$90,000*	\$90,000*
Net After Tax (20% Capital Gains Rate)	\$72,000	\$90,000*	\$90,000*

10X ILLUSTRATION	CASH	TRADITIONAL IRA	ROTH IRA
\$30,000 Angel Investment	\$30,000	\$30,000	\$30,000
10x Exit Pre-Tax	\$300,000	\$300,000	\$300,000
Net After Tax (15% Capital Gains Rate)	\$255,000	\$300,000*	\$300,000*
Net After Tax (20% Capital Gains Rate)	\$240,000	\$300,000*	\$300,000*

Source: [Angel Capital Association \(ACA\)](#)

How one angel investor’s creativity awakened many others to the possibilities of retirement funds in alternative investments with a self-directed IRA

In [1999, Thiel used just \\$1,700 of Roth IRA funds](#) to buy underpriced stock in PayPal as part of his founders’ compensation package. It’s a common scenario: in their early stages, many [startups can offer very little cash](#) to executives and employees, so they offer compensation in the form of company ownership.








PayPal’s growth exploded in the years to come, with Peter Thiel’s IRA investment returning 227,490% from the \$1,700 Roth IRA funds he used to buy as part of his founder’s compensation package.

But Thiel wasn’t done. He had seen the power of his self-directed IRA’s tax benefits and the growth potential of early stage ideas. So, he used his [Roth IRA to buy shares](#) of his new venture, Palantir. The following year, the target was Facebook, where a \$500k investment bought him a [10.2% stake](#), again using Roth IRA funds. He would go on to sell these shares for about [\\$1B](#) in 2012.

Angel investing: what it is and who it's for

Most of the investors highlighted above chose to use a self-directed IRA to fund investments in businesses at the earliest stages, or, angel investments.

In 2023, 19,000 startups received [\\$30 billion worth of angel capital](#). As for the capital provided, startup founders and their co-founders typically deploy those funds to:

 Develop Develop a minimum viable product (MVP) and build a provable case for more funding.	 Set up Set up and incorporate the entity, pay legal fees, and implement technology to operate.	 Experiment Conduct market research, test hypotheses, and experiment with offerings to establish a market fit.	 Form Make early hires of key people who could eventually form an executive team.	 Hire Hire a core operating team; each angel investment creates an average of 3.4 new jobs .
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As a practice, angel investing is on the rise. In the past two years, an estimated [300,000 individuals](#) made angel investments. Stories like Thiel's, the rise of [shows like Shark Tank](#), and even personal anecdotes are making an impact and generating interest. The buzz has created an increase in pre-seed deal value and deal count in the last decade:

With the rise comes widespread societal benefits. Champions of pre-seed deals from the ACA's Desert Angels investment group note that these capital infusions serve as a [21x economic output multiplier](#).

Angel investments led to many of the products and services used today. You may know of the more famous startup success stories like [Uber](#) and [Airbnb](#), but for every unicorn, there are many less newsworthy but still notable examples.

How to begin angel investing with a self-directed IRA

First, you need to find a custodian that can set up and hold your SDIRA. A custodian of self-directed IRAs typically provides account holders full control and ownership, allowing for angel investments, amongst other alternative assets too.



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