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Due to market fluctuations, interest rates are subject to change at any time and without notice and are subject to credit and property approval based on underwriting guidelines. The rates and APRs shown are based on the purchase of an owner-occupied, single-family residence, for our best-qualified customers. Your individual rate may vary.

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In “Demystifying RMDs” on page 6, we stated that RMDs must be calculated separately for each retirement account but can be taken from any account. While that is true for IRAs, RMDs for qualified employer-sponsored retirement plans, such as 401(k)s, must be withdrawn from each account separately. We also stated that if you are 70½ or older and still working and contributing to an employer-sponsored retirement plan, you can delay your first RMD until after you retire. This is only true for your current employer-sponsored account. Standard RMD rules still apply for all other retirement accounts you hold.

In “Investing for Income and Growth With Dividend-Paying Stocks” on page 37, we incorrectly identified Procter & Gamble as Proctor & Gamble.
In Search of Higher Yields

We can help you understand the impact of fixed income alternatives on your portfolio.

If you’ve been frustrated by low yields from your fixed income investments, you’re not alone. For those who rely on bonds to generate a steady stream of income, low rates are most unwelcome. In some cases, low rates might even tempt investors to seek returns elsewhere—for better or worse.

In this issue of Onward, we look into a few of the alternatives to which yield-seeking investors have turned. Some of them, such as real estate investment trusts (REITs), while more risky than bonds, could potentially still help shoulder some of the burden of generating income as part of a diversified portfolio. Others, such as nontraditional fixed income mutual funds, may deliver returns that are too small to justify the larger risks involved.

As with any investing strategy, the hunt for higher yield should be conducted with great care and due diligence—there are no one-size-fits-all solutions. For example, swapping out bond investments for equity-income investments might work for investors who can tolerate the increased risk associated with equities, but that approach isn’t for everyone.

Bondholders should also be aware that, as rates begin to rise and prices correspondingly begin to decline, it may become more challenging to sell the fixed income investments they already hold in their portfolios without incurring significant losses.

However you address your situation, a low-yield environment doesn’t mean you should lower your standards when it comes to making investment decisions. Our experienced fixed income professionals can help guide you through the bond market as you consider yield-generating ideas.

With bond yields likely to rise in the coming years, we will make sure you have all of the information necessary—in the transparent Schwab way—to help you achieve your financial goals.

Sincerely,

WALT BETTINGER
President & CEO

See page 2 for important information.
(1114-4702)
Over the years, several adages based on supposed seasonal patterns in stock market returns have taken hold. Some investors treat these sayings as established wisdom and use them to make important decisions about when to get in or out of the market. But should a saying take the place of a strategy?

Here we take a closer look at a few of these adages, examining their accuracy over a 64-year period.


See page 2 for important information.
Past performance is no guarantee of future results.

(1114-6019)
Staying in the market over the long term can help ensure you benefit when big trading days come along. Some adages might seem like conventional wisdom, but they shouldn’t guide your investing decisions or distract you from your long-term investing strategy.

**Sell in May and Go Away**
This adage suggests that the stock market will see losses for the period between Memorial Day and Labor Day, so it’s better to pull out of the market altogether during the summer months. However, our research shows that this was only true in 22 of the 64 years studied.

**Santa Claus Rally**
This refers to the idea that stocks tend to surge at the end of the year, partly as a result of tax considerations. In fact, the market rallied in 49 of the 64 years studied, and a positive December preceded a positive January two-thirds of the time.

Although some adages have proved more reliable than others over the years, the market can surge at any time. The chart below shows the 10 biggest single-day stock market gains in each of the past five years. As you can see, trying to time the market would have meant missing out on major single-day gains in some years.

**Next Steps**
Find more of Schwab’s market research and commentary at schwab.com/Ommarketinsight.
Taxes: 4 Things to Check This Year
Optimize your tax situation before 2015.

With the end of the year approaching, now is a great time to give your finances an annual tax checkup. Here are four items to consider.

✓ Check your withholding. If you’ve had any changes to your finances that could affect your tax situation—such as a new job, extra income from a side business, or a new or refinanced mortgage—it’s a good idea to review and, if necessary, adjust your tax withholding before the end of the year. Doing so helps position you for a more tax-efficient 2015.

✓ Reduce your capital gains. If you have losing investments, you may want to sell them before the end of the year and write off the losses. Selling now allows you to reposition your portfolio allocations and helps offset any realized capital gains. And if your capital losses exceed your capital gains by more than $3,000, you can carry forward those losses to future tax years.

NOTE: If you plan to reinvest in a losing position, watch out for the “wash sale” rule, which prohibits you from claiming a loss if you replace the losing security with the same or a “substantially identical” investment within 30 days before or after the sale.

✓ Take required minimum distributions (RMDs) on time—or face a steep penalty. The IRS requires investors who are age 70½ or older to take annual distributions from most retirement accounts by the end of the year. If you don’t withdraw the required sum on time, you may face a penalty amounting to 50% of any funds you should have withdrawn.

NOTE: If you turned 70½ in 2014, you have until April 1, 2015, to take your first RMD. However, if you delay until then, you will still have to take your next withdrawal by December 31, 2015, meaning you would be taking two RMDs in 2015, potentially increasing your income and tax burden for the year.

✓ Make your giving tax efficient. Gifts to qualified charities must be made before the end of the year to qualify for a tax deduction. Save receipts for donations of $250 or more. You may also want to consider donating appreciated securities. Doing so allows you to claim the full market value of the donated securities as a deduction while avoiding capital gains taxes. But don’t donate depreciated securities—you’re better off selling those, taking the tax benefit and then donating the cash.

See page 2 for important information.
(1114-4541)

ARE TECHNOLOGY STOCKS GETTING A REBOOT?
Several factors suggest the potential for outperformance in the IT sector.

Earlier this year, the tech-heavy NASDAQ Composite Index® shed roughly 8% over a few weeks as investors suddenly cashed out of fast-growing technology and social media stocks. The ensuing talk of a slump in tech stocks may have overshadowed some attractive possibilities in the sector.

For one thing, we may be at the beginning of an information technology (IT) investment cycle that could boost sales for tech companies, says Brad Sorensen, Director of Market and Sector Analysis at the Schwab Center for Financial Research.

“Businesses that delayed IT investments in the wake of the 2008–2009 financial crisis are long overdue for upgrades,” he says. IT research firm Gartner expects businesses in mature markets to replace roughly 60 million personal computers by the end of 2014.1

Brad also says some established tech companies have been introducing or boosting dividends in recent years, potentially making IT stocks appropriate for investors focused on equity income. According to S&P Capital IQ data, 44 stocks in the S&P 500® Index’s IT sector paid dividends in 2013, yielding an average 1.63%. This is a significant change from 2010, when the sector had an average dividend yield of 0.94%.2

“A few of the high-flying technology companies from the late 1990s are now some of the most stable, income-generating stocks in the market,” Brad says.

Did the Research
Review Schwab’s top-rated technology stocks by logging in to schwab.com/OMStocks and clicking the Schwab Stock Lists™ tab.

Next Steps
For more tax help and to access year-end tax documents, visit schwab.com/OMtax or call your Schwab Consultant.

See page 2 for important information.
(1114-4543)


Check your withholding. If you’ve had any changes to your finances that could affect your tax situation—such as a new job, extra income from a side business, or a new or refinanced mortgage—it’s a good idea to review and, if necessary, adjust your tax withholding before the end of the year. Doing so helps position you for a more tax-efficient 2015.
A Day in the Life of a Schwab Portfolio Consultant

Portfolio Consultants are committed to guiding clients through all aspects of financial planning.
lindsey Underwood wakes at 5 a.m. each morning with two things on her mind: getting her family ready for the day and digesting the day's financial news. As a Senior Portfolio Consultant with Schwab Private Client®, Lindsey is always on the lookout for developments that could impact her clients' investment goals—whether it's a Supreme Court ruling that affects retirement plans, an indication that the Federal Reserve might adjust interest rates or a proposed law that could impact taxes.

Such vigilance is at the heart of the personalized investment advice and total wealth management services available through Schwab Private Client. For Lindsey, each day is a new opportunity to refine the specially tailored investment plans she has developed with her clients.

Cross-generational education
As soon as she arrives at the Schwab office in Phoenix, Lindsey begins preparing for her upcoming meeting with client Bill, 70, his daughter, Sara, and his Schwab Financial Consultant. Lindsey is creating a tailored investment plan for Bill and monitoring his portfolio, as well as collaborating with Bill's Financial Consultant on his total financial picture. The purpose of the meeting is to bring Sara up to speed on Bill's plans for transferring his wealth to his family during and after his lifetime.

Bill's assets are titled in the name of his trust, and Lindsey recommended involving Sara to prepare her for her role as trustee and executor. The meeting will also give Lindsey and Bill's Financial Consultant a chance to start educating Sara about investing.

“When an unexpected event occurs that forces an adult child to become a trustee for a parent who is unable to make financial decisions, it's not uncommon for that child to feel overwhelmed,” Lindsey says. “Educating Sara ahead of time will help enable her to focus her energy on her family, and not on the finances.”

Proactive retirement planning
Lindsey's next meeting of the day is with Miranda, 60, who plans to retire in about a year. Lindsey and Miranda have collaborated on a strategy for the transition.

When she first met Lindsey a few years ago, Miranda didn't know when she would be able to retire and was concerned about outliving her assets.

“She had spent her entire working life saving but wasn't sure if she had accumulated enough to cover her retirement needs,” says Lindsey. Miranda's Financial Consultant had already helped her create a retirement plan, so Lindsey's first step was to better understand Miranda's goals, feelings and family dynamics to determine if other areas needed to be considered in her analysis.

“When I met Miranda, she was enjoying a successful career and had done a great job saving, but had never really considered how
her retirement would affect other aspects of her finances, like taxes and estate planning. So, that’s where we started.”

After uncovering Miranda’s vision for retirement—including everything from where she wanted to live to whether she would need long-term care insurance—Lindsey created a customized strategy for generating income from Miranda’s portfolio.

“I introduced her to the Schwab Center for Financial Research’s philosophy on income generation,” Lindsey says. (For more, see Rob Williams’ article, “Funding Your Retirement,” on page 10.) “Based on her accumulated savings and time horizon, we were able to develop a plan that sought to preserve her capital while still allowing her to live off of her portfolio until her Social Security benefits kicked in later in retirement.”

Lindsey asked Schwab’s wealth strategies group to run a Social Security optimization analysis for Miranda. Because she had saved so aggressively and had accumulated a nice nest egg, Miranda’s analysis showed that she would have more than enough to cover her expenses in retirement, and could delay collecting Social Security until age 70, when she would be eligible for the maximum benefit amount.

Big-picture thinking
After wrapping up with Miranda, Lindsey checks in on the markets and begins planning for upcoming client meetings. “I work with clients on all phases of their financial lives—from the early stages of accumulation to distribution and wealth management,” she says. “I’m always thinking about their long-term goals, like retirement and estate planning, while also paying close attention to market moves that could impact their portfolios in the short term.”

She spends the remainder of her day reviewing a new client’s existing positions and researching potential alternatives. “I love what I do because it allows me to meet new people and tackle new challenges nearly every day,” Lindsey says.

See page 2 for important information.

The information provided here is for general purposes only and should not be considered an individualized recommendation or personalized investment advice. The types of securities and strategies mentioned may not be suitable for everyone. Each investor needs to review a security transaction and investment strategy for his or her own particular situation.

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(1114-5640)
Funding Your Retirement

How to live off your nest egg.

BY ROB WILLIAMS

When many investors think about retirement, they focus on socking away cash and then investing it wisely to grow their nest egg. But there's another critical—and often overlooked—piece of retirement planning: devising a strategy for withdrawing those carefully tended savings.

When it's time to tap their savings, many retirees either spend too much and risk not having enough money to fund their entire retirement, or they spend too little and leave more behind than desired.

In previous issues of Onward, we discussed the first two steps in our three-step approach to retirement income. The first article in the series covered planning your retirement. The second article discussed your portfolio's allocation, or choosing the right mix of investments to help you reach your goals once your plan is in place.

That brings us to the final step of retirement planning—distribution. As with the planning and allocation steps, each person's circumstances are unique. We all have different portfolios, and our needs and goals are our own. That said, some general principles apply to any retirement withdrawal strategy. It's just a matter of drawing up a budget reflecting all of your income and spending expectations, and then devising a suitable distribution strategy.

Cover essentials with predictable income sources

Social Security, pension payments, annuities, interest income, or even cash or short-term bonds kept in reserve are among the predictable sources of income you can use to cover essential expenses. Many retirees fall into the trap of tapping their more volatile investment assets to cover regular costs—such as housing, car loans, food and utilities—when they could be using income from more predictable sources. Paying for essentials with predictable income may help you avoid selling investment assets to cover your bills, which can be particularly costly when the market is down.

Fund discretionary expenses with fluctuating income

Stock dividends, distributions from mutual funds or exchange-traded funds, required minimum distributions from your retirement accounts, and proceeds from selling investments are less reliable than the predictable income sources cited above. Then again, they also have more growth potential and tend to keep pace with inflation. This makes such income a good fit when paying for nonessential items, such as vacations or gifts to a charity or grandchild. Fluctuating income from dividends and other distributions also can help supplement Social Security payments and other sources of income outside your portfolio.

Generate cash flow when you rebalance your portfolio

Selling investments as part of the annual rebalancing of your portfolio could provide another opportunity to generate cash flow. Annual portfolio rebalancing is especially important when you're retired, as your allocation should grow more conservative as you age to help preserve your assets. A portfolio that's out of balance can leave you with more risk or less growth potential than you want. These risks can be magnified in volatile markets because retirees have less time than younger investors to recover from the potential losses or lackluster returns caused by a portfolio that has strayed from a chosen asset allocation.

How do portfolios drift away from target allocations? Many investors got a firsthand look in 2013, when major U.S. stock indexes rose more than 25% and left many portfolios overweighted in equities.
To help remedy an imbalance like this one, you could sell from the stock portion of your portfolio to generate needed cash and get your portfolio back on target. (See “Selling investments” at right for more information.) Remember that rebalancing does not protect you against losses or guarantee that you’ll meet your goals.

With these points in mind as you create your own distribution plan, watch for changes in your spending or income to ensure that your expectations are on track. In a prolonged down market, for example, you may need to curb or postpone discretionary spending to avoid drawing down your portfolio too quickly.

Creating income during retirement might sound daunting, but it doesn’t have to be. Three steps—planning, allocating and distributing—can help you simplify the process and lay the groundwork for the kind of retirement you’ve always wanted.

Rob Williams, CFP®, is Managing Director of Income Planning at the Schwab Center for Financial Research.

Let’s Talk

Call your Schwab Consultant to discuss how to best leverage your investments to meet your income needs.

See page 2 for important information.

The Personal Portfolio Review is complimentary, although the implementation of any recommendations made during the consultation may result in trade commissions or other fees, charges or expenses. The Personal Portfolio Review is available only to clients with at least $25,000 in assets at Schwab or prospects with at least $25,000 in assets available to bring to Schwab. Individualized recommendations are available only to Schwab clients and are limited to assets held in a Schwab retail brokerage account. Information provided to prospects, or pertaining to assets held outside of Schwab, as part of a Personal Portfolio Review are examples of the kinds of recommendations available on assets held at Schwab; these examples do not constitute recommendations, solicitations or investment advice.

Winter 2014

SELLING INVESTMENTS

When it comes to selling assets, it’s usually better to part with investments held in taxable accounts before taking money from tax-deferred accounts. Withdrawals from traditional IRAs and 401(k)s are treated as ordinary income—which is typically taxed at a higher rate than long-term capital gains. What’s more, tapping your IRA means losing opportunities for tax-deferred compound growth.

A possible exception is if your IRA balance is very large. If that is the case, you might want to start taking distributions before you reach age 70½, which is when most retirees must start withdrawing a minimum amount from their retirement savings. Otherwise, your mandatory withdrawal amount might bump you up to a higher tax bracket.

One other thing to consider when selling is the need to weed out nonperformers. When you’re rebalancing your portfolio and selling assets from taxable and tax-preferred accounts, sell holdings with the lowest performance or credit ratings to improve the quality of your portfolio.
Inflation Pressure?
What this year's price signals mean for bond investors.

BY KATHY JONES

Economists don’t like to place too much emphasis on any single piece of data, but the Labor Department’s Consumer Price Index report for May certainly grabbed their attention. Consumer prices, as tracked by the index, posted their sharpest gains in more than a year that month, pushing the annual rate of inflation to 2.1%.1 The market’s reaction to the report was swift: Investors sold short-dated government bonds, sending their yields to fresh highs for the year. The perception was that after months of only moderate gains in prices, inflation had bottomed out and was starting to rise—possibly even fast enough for the Federal Reserve to consider raising interest rates before 2015, when the market was expecting the hike. The Fed maintains a 2% target for inflation, and price growth above that level could prompt the central bank to intervene to head off the possibility of the economy overheating.

Just a few months earlier, the situation looked very different to bond investors. At the International Monetary Fund (IMF) meeting in Washington, D.C., in April, finance officials from around the world expressed concern about disinflation—a slowing in the pace of inflation—and wondered whether it was a possible precursor to deflation, a sustained fall in the general price level of goods and services. Disinflation concerns had dragged long-term bond yields lower.

Fixed income investors might be forgiven for feeling a little seasick, but in times like these, a bit of long-term perspective can help steady the horizon. It’s unwise to draw too many conclusions from one month’s worth of pricing data. Other pricing reports favored by the Fed—such as the Commerce Department’s personal consumption expenditures deflator—recorded inflation of less than 2% in August.2 And in Europe and other parts of the world, disinflation is still a real concern, even if inflation has reached a turning point here at home.

All things considered, it’s probably safe for fixed income investors to assume that, unless growth falters, short-term rates will move higher eventually. (It’s worth noting that Fed Chair Janet Yellen told Congress in July that there have been some “false dawns” over the past few years, so the path to higher interest rates is by no means carved in stone.)

Any further signs of life in the economy would probably mean additional price declines for bonds as investors position themselves for a rate hike. Given these conditions, bond investors may need to consider new strategies for dealing with shifting markets.

Strategies to consider
One alternative for investors who are thinking about making tactical moves in anticipation of rising rates is what’s commonly called a “barbell strategy.” This approach involves concentrating the maturities in a bond portfolio at the shorter and longer ends of the spectrum.

Here’s how it works: Bonds maturing in the short-term portion of the portfolio deliver proceeds that can be reinvested in newly issued short-term securities, giving an investor the flexibility to immediately take advantage of any rise in short-term interest rates. Meanwhile, bonds in the longer-term portion of the portfolio, which tend to offer higher yields, deliver steady income.

The idea is that by constantly rolling over short-maturity bonds while avoiding intermediate-term ones, an investor can manage his or her exposure to the big price swings likely to hit the short- to intermediate-term portion of the yield curve when rates rise.

The barbell strategy is far from a perfect solution, since yields are still low across the yield curve and a rise in rates could have a negative impact on the overall portfolio by pushing down prices, but it does offer a way to limit exposure to shorter-term price volatility.

Long-term investors who don’t take such a tactical approach could consider a laddered
strategy. This involves spreading bond purchases evenly across a variety of maturities and then reinvesting the proceeds from maturing bonds in longer-term ones. To help increase the income from the portfolio as interest rates rise, investors following this strategy may want to extend their portfolio’s average duration—the amount of time it takes for the cash flows from a bond to cover its purchase price. Again, it’s worth remembering that an interest rate increase will affect all parts of a bond portfolio.

Don’t chase yield
Barbell and ladder strategies are preferable to chasing yield by investing in riskier segments of the bond market. Valuations for some of these segments, such as high-yield bonds and bonds from debt-laden European countries, are stretched by historical standards, reflecting the demand for yield. (For more, see “Worth the Risk?” on page 31.) As 2015 and the prospect of a U.S. rate hike get closer, some pullback is likely.

Even though it seems unlikely that short-term rates will rise quickly, just the indication that they’re going to be “unanchored” from zero some time down the road could cause the yield chasers to run for cover. It’s probably best to avoid being caught in the crowd, as that’s the kind of excitement in the bond market that we like to avoid.

Kathy Jones is Vice President, Fixed Income Strategist at the Schwab Center for Financial Research.


See page 2 for important information.
Past performance is no guarantee of future results.
(1114-4735)
A Tax-Smart Approach to Your Cost Basis

Understanding the tax rules may help you keep more of your gain.

BY RANDE SPIEGELMAN

When it comes to calculating your capital gains tax, understanding your cost basis is crucial. Essentially, the cost basis of an investment is what you paid for it. Working out any capital gains when you sell an investment is just a matter of subtracting your cost basis from your sale price. It sounds simple enough, but calculating your cost basis can be complex—and if you do it incorrectly, you could end up paying the wrong amount in taxes.

Adjusting your cost basis
You can adjust your original purchase price for a variety of reasons. When you buy stocks, for example, you typically calculate your initial cost basis by adding commissions and fees to your per-share purchase price. You can also make adjustments to account for events that affect the per-share price of a stock, such as mergers, stock splits and spinoffs.

Your adjusted cost basis should also reflect reinvested dividends or distributions from mutual funds and exchange-traded funds (ETFs). Why? The IRS treats reinvested dividends as if the money had been distributed directly to you, meaning distributions in a taxable account will be reported on a 1099-DIV form and taxed as regular dividend income. Adjusting your cost basis ensures you won’t also pay capital gains taxes on those funds.

Imagine you invest $10,000 in a stock that pays out $200 in taxable dividends, which you automatically reinvest. That gives you an initial cost basis of $10,000 and an adjusted cost basis of $10,200. Now, imagine the value of your stock rises to $10,500 and you sell your holdings.

Using your original cost basis instead of the adjusted one would result in a bigger capital gain—and therefore a higher tax bill.

Know your accounting method
Another complication arises if you’ve purchased the same security on multiple occasions at a variety of prices.
affect the per-share price of a stock, such as mergers, stock splits and spinoffs. Your adjusted cost basis should also reflect reinvested dividends or distributions from mutual funds and exchange-traded funds (ETFs). Why? The IRS treats reinvested dividends as if the money had been distributed directly to you, meaning distributions in a taxable account will be reported on a 1099-DIV form and taxed as regular dividend income. Adjusting your cost basis ensures you won't also pay capital gains taxes on those funds.

Imagine you invest $10,000 in a stock that pays out $200 in taxable dividends, which you automatically reinvest. That gives you an initial cost basis of $10,000 and an adjusted cost basis of $10,200. Now, imagine the value of your stock rises to $10,500 and you sell your holdings. Using your original cost basis instead of the adjusted one would result in a bigger capital gain—and therefore a higher tax bill.

For example, say you buy 100 shares of a stock for $50 each, and a year later buy 100 more at $60 each. By the following year, the stock is trading at $80 and you sell 50 shares. Your capital gain will differ depending on which shares—those purchased for $50 or $60—you sell.

Let's look at two common accounting options for such cases.

- **First in, first out (FIFO):** This is the IRS's default accounting method. For partial sales, the IRS presumes you're selling the oldest shares first, which can lead to a larger capital gain if the oldest shares have appreciated more than those acquired later. In the example above, that would mean selling your $50 shares first, resulting in a capital gain of $30 per share, or $1,500 in total.

- **Specific identification:** This method allows you to identify which shares you're selling at the time of the sale. It is more flexible than FIFO and gives you the opportunity to optimize results. For our hypothetical portfolio, you could choose to sell the $60 shares first, resulting in a capital gain of $20 per share, or $1,000 in total.

There are other accounting methods out there. Investors may want to discuss their options with a tax professional before selling an investment.

### Accounting Options

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There are other accounting methods out there. Investors may want to discuss their options with a tax professional before selling an investment.

### Reporting your cost basis

Your brokerage firm lists the proceeds of sales in your taxable account on Form 1099-B. It may also report your adjusted cost basis, but this will depend on when you bought the asset. Policy reforms introduced after the financial crisis require banks and brokerages to report adjusted cost basis for:

- Stocks bought after 2010
- Mutual funds, ETFs and dividend reinvestment plans bought after 2011
- Other specified securities, including most fixed income securities, acquired after 2013
Tracking your cost basis

You can check the cost basis of your Schwab portfolio on schwab.com. Under the Accounts tab, click on “Positions” and then navigate to the Unrealized Gain/Loss tab. The image below shows a hypothetical portfolio:

When you sell a position, you can determine your cost basis by clicking on “Cost Basis Calculator” at the top right in the image above. Here is an example using one of the holdings in a hypothetical portfolio:

The Cost Basis Calculator allows you to look up a stock’s ticker symbol and price. Corporate actions such as name changes, splits and spinoffs going back to 1950 are automatically reflected in a position’s cost basis. You can also include reinvested dividends going back to 1973 and factor in your tax rate.

When you’re ready to calculate, click the Analyze button to receive a report showing realized gains or losses and applicable taxes.

Examples are hypothetical and not representative of any specific investment or situation. Individual stock positions are for illustrative purposes only and are not a recommendation or solicitation to buy or sell. There is no guarantee that positions would have been or may be profitable.

Rande Spiegelman, CPA, CFP®, is Vice President of Financial Planning at the Schwab Center for Financial Research.

Next Steps

For more information about cost basis reporting, including a schedule of when you can expect to receive your 2014 tax forms from Schwab, log in to schwab.com/OMtax.
Exchange-traded funds (ETFs) occupy a central place in many traders’ portfolios, and for good reason. Because these funds trade much like stocks, they generally offer exceptional liquidity. And although most ETFs track indexes of stocks or bonds, some ETFs can hold assets like commodities. This sheer variety means there’s likely an ETF to suit just about any trading strategy.

As widely used as ETFs have become, though, traders still have questions about them. Here are some of the most common ones.

Q: When I invest in an ETF, I usually just pick the top performer in a given category. After all, aren’t the ETFs in a category pretty similar to one another?

A: Not really. Of course, two ETFs tracking the performance of a particular benchmark, such as the S&P 500® Index, will perform similarly. But there can be significant differences between the individual ETFs in most other categories. For example, two ETFs tracking tech industry stocks could deliver vastly different returns.
The table below looks at why the holdings of the ETFs within a given category might differ. It also shows how this can lead to varying outcomes. As you can see, it’s important to research potential ETF selections to ensure they provide the exposure you actually want. To do this, you can go to schwab.com and enter an ETF ticker symbol. Then go to the Portfolio tab, where you can see the ETF’s portfolio characteristics.

**Q: How much does average volume matter when trading an ETF?**

**A:** Not as much as you might think. Some traders look at average volume to determine how easy it will be to trade an ETF at a good price, the idea being that when large quantities of ETFs are changing hands, there might be more chances to buy at a lower price or sell at a higher one.

However, when searching for a good price, I think it makes more sense to look at the bid-ask spread, or the gap between the best price at which you can buy an ETF and the best price at which you can sell it. Think of the bid-ask spread as one of the costs of trading, separate from fees and commissions. The smaller the spread, the smaller the cost.

You should also think about the bid-ask spread as a percentage rather than a cost per share. To see why, imagine you’re trading a $100 ETF and the difference between the bid and ask prices is $0.05 per share. That’s a spread of 0.05%, which is pretty good. Now imagine you’re trading a $20 ETF with a price difference of $0.05 per share. That’s a spread of 0.25%, which isn’t nearly as good.

In general, you probably want to avoid ETFs that have a spread greater than 0.25%. However, the longer you hold an ETF, the less important spread becomes.

**Q: Should I use inverse ETFs to hedge my portfolio?**

**A:** If you choose to use them, do so very, very carefully. Inverse ETFs are designed to go up when the market goes down and down when the market goes up. They are often used to make very short-term tactical bets against the market, and they can also be used for hedging purposes.

For instance, imagine that you believe a particular stock is likely to outperform its peers, whether the sector goes up or down in value. In this scenario, you could buy $5,000 worth of the stock and $5,000 worth of an inverse ETF tied to the stock’s sector. Let’s assume that you’re right, and the stock outperforms its sector by 2%. If the stock rises by 6% while the sector rises by 4%, your combined investment would be expected to rise by 2%. Similarly, if the stock falls by 7% while the sector falls by 9%, your total investment would also rise by 2%. Of course, if you’re wrong and your stock underperforms the sector, you would likely lose money regardless of whether the stock goes up or down in value.

The situation becomes trickier when we factor in “beta slippage.” This refers to the effects that arise from ETFs having to adjust their holdings to reflect changes in the market.

For example, if the index your inverse ETF is tracking falls by 1% on a given day, the ETF should rise by about 1%, at which point it will need to buy more inverse exposure to reflect its larger total asset base. If on the next day the index rises back to where it started, the ETF will drop by slightly more than it rose, of course, because the ETF needs to go in the other direction to mirror the index.

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it rose on the first day because of the extra inverse exposure it took on.

What's the bottom line? Over periods longer than a day, inverse ETFs might not return the opposite of what the index returns. They are intended for very active traders and should be monitored as frequently as daily.

There are other ways to achieve your hedging goals. Call us at 888-484-5340 to talk about them.

Q: Market volatility was particularly low earlier this year. If I want to bet that volatility will pick up again soon, does it make sense to buy VIX®-based ETFs?

A: The VIX is a market volatility index published by the Chicago Board Options Exchange. It is tied to the amount of volatility traders expect to see in the S&P 500 over the next month and is sometimes called the “fear index” since it tends to go up when market participants panic.

You can't buy individual stocks to mirror the VIX's movements. As a result, VIX ETFs own baskets of futures contracts tied to the future level of the VIX and are designed to rise when volatility-wary investors drive up the prices of such derivatives.

For this reason, you might think that a VIX ETF could provide portfolio insurance. But that would be a mistake. At issue is a characteristic affecting futures known as “contango.”

In a nutshell, contango occurs when a longer-dated futures contract costs more than one that is about to expire. This poses a major problem for VIX-linked ETFs because when they are trading in contango they must constantly buy longer-dated, higher-cost futures to replace the cheaper contracts that are expiring. In other words, they must repeatedly buy high and sell low—not a recipe for success. And this doesn't even take into account the transaction costs involved in this process, which also reduce returns.

So, if you want to bet on a very short-term jump in market volatility, a VIX ETF might go up in value if you're right. But if you plan to hold a VIX ETF for a longer period of time, be aware of the eroding power of contango in VIX futures contracts, as illustrated in the chart above. You should note that, since mid-2006, VIX futures have traded in contango 78% of the time.

Michael Iachini is Managing Director of Mutual Fund and ETF Research at Charles Schwab Investment Advisory, Inc.

Next Steps
Stay abreast of the markets with Traders Lunch, a live analysis and Q&A session about current market action. Join us every Thursday at 1:30 p.m. Eastern time. Sign up at schwab.com/OMtraderslunch.

1Bloomberg, with data from 8/31/2006–2/28/2014. See page 2 for important information.

Investors should carefully consider information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by visiting schwab.com or calling Schwab at 800-435-4000. Please read the prospectus carefully before investing.

Past performance is no guarantee of future results.

Inverse ETFs seek to provide the opposite of the investment returns, daily, of a given index or benchmark, either in whole or by multiples. Due to the effects of compounding, aggressive techniques, and possible correlation errors, inverse ETFs may experience greater losses than one would ordinarily expect. Compounding can also cause a widening differential between the performances of an ETF and its underlying index or benchmark, so that returns over periods longer than one day can differ in amount and direction from the target return of the same period. Consequently, these ETFs may experience losses even in situations where the underlying index or benchmark has performed as hoped. Aggressive investment techniques such as futures, forward contracts, swap agreements, derivatives and options can increase ETF volatility and decrease performance. Investors holding these ETFs should therefore monitor their positions as frequently as daily.

(1114-4736)
Consider overseas property investments to balance your portfolio.

The potential benefits of investing in real estate extend beyond the comfort of having a roof over your head. As an asset class, real estate can complement a traditional portfolio of stocks, bonds and other financial products. Some of the key benefits of investing in real estate include:

- **Growth potential.** Real estate holdings can grow in value over time, potentially delivering capital gains.
- **Income potential.** Real estate has historically provided attractive income to investors, whether in the form of rental income or dividends and other distributions.
- **Diversification.** Including real estate in your portfolio could offer another way to further diversify your holdings.
This last point raises an important question: When it comes to real estate investing, how broad should investors’ horizons be? After all, how much diversification can one expect from owning multiple properties in the same neighborhood, city or even country?

That’s why it might make sense to think on a global scale, says Tony Davidow, Vice President of Alternative Beta and Asset Allocation Strategist at the Schwab Center for Financial Research.

Historically, global real estate has delivered strong performance and attractive returns. And having exposure to a portfolio of real estate holdings allocated across regions could offer investors not only international diversification, but also another way to participate in global economic growth. “Real estate can be an effective barometer of the state of the economy,” Tony says. “Rising real estate prices and rents could indicate strong demand and a healthy economy, while falling prices may portend trouble.”

Let’s take a closer look at how growth potential, income potential and diversification benefits could make global real estate attractive to investors.
Global real estate securities have compared favorably to other asset classes in recent years, performing nearly as well as U.S. stocks even as global equities lagged.”

**1 STRONG GROWTH POTENTIAL**
Global real estate securities have compared favorably to other asset classes in recent years, as you can see on the chart below.

“A global allocation could also be a means of gaining exposure to emerging economies, whose share of global economic output has been increasing in recent years as growth rates have picked up,” says Tony. “Many economists are predicting stronger international growth in coming years, particularly in Asia and Latin America.”

In fact, the United States and Europe accounted for a combined 48.7% share of global gross domestic product (GDP) in 2012, down from 60.7% in 2000. During the same period, Asia and Latin America’s combined share of global GDP rose to 40.1% from 33.7%.1

“In other words, the growth outside of the United States is likely to be stronger than the growth within our borders, supporting the case for a global allocation,” Tony says.

**2 ATTRACTIVE INCOME**
On top of offering growth potential, global real estate investment trusts (REITs) have historically provided attractive yields relative to equities and many fixed income options. As of the end of June 2014, global REITs were yielding 3.5%, which compares favorably with the 3.4% yield on international stocks and 1.9% yield on U.S. stocks.2

“With fixed income yields at generationally low levels, investors have been seeking other sources of income and REITs have been an attractive option,” Tony says.

Of course, higher yields could also mean increased risks, so income investors should use caution when considering global REITs for their income needs. (For more, read “Worth the Risk?” on page 31.)

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Global real estate outpaces global securities

Source: Morningstar Direct with data from 2/22/2005–6/30/2014. FTSE EPRA/NAREIT Global Index was incepted on 2/22/2005. The example is hypothetical and provided for illustrative purposes only. It is not intended to represent a specific investment or product. Dividends and interest are assumed to have been reinvested, and the example does not reflect the effects of expenses, taxes or fees. If it had, performance would have been substantially lower. Past performance is no guarantee of future results.
Let’s Talk
Call your Schwab Consultant to discuss how to incorporate global real estate investments into your portfolio strategy.

WAYS TO INVEST IN REAL ESTATE

Investors can simply buy property—ranging from a second home or condo to something as large as a shopping mall or office building—in the United States and in many overseas countries. However, such purchases could involve challenges such as hefty down payments, maintenance obligations and restrictive foreign ownership laws, not to mention the cost of traveling to check on the property.

A REIT is a special type of corporation that invests in real estate properties, mortgages or both. REITs trade on major exchanges like stocks and many are required to distribute a portion of their income to shareholders as dividends. REITs offer a variety of diverse investing styles. Some invest in property in specific geographic regions, while others are widely diversified. Some REITs specialize in property types, such as office buildings, shopping malls, apartments, warehouses, hotels or a combination of properties.

DIVERSIFICATION

In 2006, 2009 and 2012, global real estate was the best performer out of seven major asset classes, as shown in the chart above. Conversely, it was the worst performer in 2007 and 2008.

There is a natural rotation among the best- and worst-performing asset classes. By allocating across stocks, bonds, commodities and real estate, investors gain diversified exposure—and global investments amplify that diversification potential.

“Global real estate provides exposure to various parts of the globe, and has historically delivered strong performance, attractive yields and diversification benefits relative to traditional investments,” says Tony.


2FactSet and Bloomberg data as of 6/30/2014. Global REITs are represented by the FTSE EPRA/NAREIT Global Real Estate Index. U.S. stocks are represented by the S&P 500 Index. International stocks are represented by the MSCI EAFE Index.

See page 2 for important information.

Investors should carefully consider information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by visiting schwab.com or calling Schwab at 800-435-4000. Please read the prospectus carefully before investing.

Investment returns will fluctuate and are subject to market volatility, so that an investor’s shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. Shares are bought and sold at market price, which may be higher or lower than the net asset value.

Past performance is no guarantee of future results.

©Getty Images


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Past performance is no guarantee of future results.
Are you getting the most out of your wealth management relationship?

For many investors, one metric seems to stand above all others when it comes to rating their financial advisors: the recent performance of their portfolios. But while performance is obviously important, it doesn't tell the whole story. After all, when the market is doing well, even a mediocre strategy could seem inspired.

It is helpful to remember that when the proverbial rising tide is lifting all boats, conditions can vary beneath the surface. High and complex fee structures—which might be tolerated or go unnoticed when returns are good—can significantly erode a portfolio's performance over time. Similarly, rising equity values may be pushing portfolio allocations past their long-term targets, exposing investors to heightened risks.

The important thing is to ask questions. In this spirit, Onward sat down with Antwone Harris, a Schwab Financial Consultant based in Washington, D.C., to discuss Schwab's approach to wealth management, as well as what investors should expect from their relationships with their financial professionals.

Q: What is “wealth management”?

Antwone Harris: At Schwab, wealth management starts with a holistic approach to planning that is aimed at bringing your goals to fruition, not just getting you a specific return. It is about cultivating a personal relationship with someone who understands your needs and is committed to helping you achieve your goals. And it's rooted in the belief that investors deserve a better investing experience.

A lot of clients come in asking about which specific stock or bond they should buy. They want to know about returns. But there are a lot of competing objectives involved in reaching your financial goals, and understanding things like risk or taxes can be just as important as choosing investments.

First and foremost, my job is to listen. Then I can help my clients identify their long-term goals and create a holistic plan...
designed to achieve them—a plan that takes into account personal circumstances such as savings, investments, risk appetite, family history and background. This plan is really the foundation of the relationship. From there, it's a matter of monitoring the plan to make sure we're staying on track.

**Q:** What should investors expect from their wealth management provider?

**AH:** The main thing they should expect is accountability. At Schwab, wealth management isn't just a transaction. We look to build a lifetime relationship with our clients. And when we say we're accountable, we stand behind it. If a client isn't satisfied, we'll work to make things right, and we can also rebate certain fees through our Accountability Guarantee.

Investors also should be able to trust their wealth management providers. One of the best ways to build trust with a client is to be totally transparent. I try to make sure my clients are educated about our strategy recommendations and the costs involved in different investments.

Schwab Financial Consultants also have the freedom to draw from an extensive universe of investment options—including more than 40 outside investment managers in addition to Schwab's own—to build a portfolio. We have the freedom to make recommendations from a wide range of investment solutions, and this flexibility means we can align more closely with our clients' needs.

**Q:** How regularly do you think investors should interact with their financial professionals?

**AH:** In my opinion, at least twice a year—though in some cases, the more often, the better. A lot of things can happen over the course of a year, and it's important that investors tell their financial professionals about big life changes. That way, their plans can be updated and portfolios adjusted if necessary.

You should never feel like you don't have access to your financial professional, or that they're not interested in answering or equipped to answer your questions. Schwab Financial Consultants help their clients choose a level of advice that makes sense for their needs, whether that means occasional investing advice, a detailed financial plan or ongoing professional management of their portfolio.

“In my experience, most clients don't mind paying a management fee. They just want to know exactly what they're paying for and why.”

—ANTWONE HARRIS, CFP®, SCHWAB FINANCIAL CONSULTANT
Q: How does a Financial Consultant handle a client question they can’t answer?

AH: It’s highly unlikely that any one person at any firm will be able to answer every question that comes to them. Here, we have myriad resources available to us when those situations arise. Our clients have access to a wide array of experienced specialists in areas like fixed income, global investing, trading, portfolio management, charitable giving, and tax, trust and estate planning. The Financial Consultant may quarterback the relationship, but we adopt a team approach to help ensure the client's needs are being met.

Q: How easy should it be for investors to track the fees and commissions they are being charged?

AH: Investors should expect their financial professional to educate them about the fees they’re paying. In my experience, most clients don’t mind paying a management fee. They just want to know exactly what they’re paying for and why.

Again, transparency is a big part of a relationship with a Schwab Financial Consultant, especially when it comes to fees. That’s partly because we want our clients to see how our fees compare to the rest of the industry’s, but also because we believe that having an open, ongoing conversation is the foundation of a trusting relationship.

Q: What can investors do to make sure they are getting the most out of their wealth management relationship?

AH: I would encourage them to just talk with their financial professional. Ask tough questions. Ask about fees. Ask about compensation. If they like what they hear, that probably means they’re working with a good partner. If not, maybe it’s time to explore other options.

It’s possible that an investor might not know what an ideal wealth management relationship looks like. At Schwab, we believe that working in close collaboration with our clients is the best way to help them reach their desired outcomes. I would invite investors who are working with financial professionals outside of Schwab to speak with them to make sure they’re getting that same level of commitment. If they’re still not sure after that conversation, we’d love to hear from them.

Let’s Talk
We welcome your questions. Call your Schwab Financial Consultant for open and honest answers about all aspects of our relationship, including what you pay for our services and the logic behind our advice.

Brokerage Products: Not FDIC Insured • No Bank Guarantee • May Lose Value

'Schwab Accountability Guarantee: The guarantee applies to the following investment advisory services ("Participating Services") and associated program fees: (i) Schwab Private Client ("SPC"); (ii) Schwab Managed Portfolios™ ("SMP"); and (iii) Managed Account Connection® ("Connection") for accounts that are managed by investment advisors affiliated with Charles Schwab & Co., Inc. ("Schwab"); Windhaven Investment Management, Inc. ("Windhaven"), ThomasPartners, Inc. ("ThomasPartners") and Charles Schwab Investment Management, Inc. ("CSIM"). The guarantee does not apply to (i) accounts managed by investment advisors that are not affiliated with Schwab; (ii) accounts managed by Schwab-affiliated advisors outside of the SPC, Connection, and SMP programs; or (iii) any other product or service made available by Schwab or its affiliates. SPC, SMP, and Connection are wrap fee programs sponsored by Schwab.

If at any time or for any reason you are not completely satisfied with a Participating Service, at your request Schwab will refund the associated program fee for the previous calendar quarter applicable to the Participating Service. The program fee is a percentage of the eligible assets in your Participating Service account(s). You will receive a credit to your Participating Service account(s) within approximately four weeks of your request. No other fees, commissions, charges, expenses, or market losses will be refunded. If Schwab is unable to address your concerns after consulting with you and refunding your program fee, Schwab will work with you to help meet your financial goals. Schwab reserves the right to change this guarantee in the future after providing notice. For additional information regarding associated program fees, please see the disclosure brochure for the Participating Service, available at the time you enroll or upon your request.

See page 2 for important information.

Wealth management refers to products and services available through the operating subsidiaries of The Charles Schwab Corporation, of which there are important differences including, but not limited to, the type of advice and assistance provided, fees charged, and the rights and obligations of the parties. It is important to understand the differences when determining which products and/or services to select.

There are eligibility requirements to work with a dedicated Financial Consultant.

The Charles Schwab Corporation provides a full range of brokerage, banking and financial advisory services through its operating subsidiaries. Its broker-dealer subsidiary, Charles Schwab & Co., Inc. (member SIPC), offers investment services and products, including Schwab brokerage accounts. Its banking subsidiary, Charles Schwab Bank (member FDIC and an Equal Housing Lender), provides deposit and lending services and products.
GIVING WISELY

❯ Make the most of your charitable donations by thinking strategically.
For many people, the end of the year signifies a time of giving—not just to family and friends, but to charitable organizations as well. On average, charities receive about 40% of their total donations during the final weeks of the year. The annual tide of goodwill helps organizations direct funding, set their budgets for the coming year, and hire or retain employees.

As meaningful as year-end contributions can be, many individual donors have discovered that they can optimize their giving throughout the year with donor-advised funds. These charitable vehicles—tax-advantaged accounts to which you can contribute cash, securities, real estate, art and other valuables for eventual distribution to charities—offer a number of advantages over traditional direct giving.

One of the main attractions of donor-advised funds is their flexibility. Donors can contribute to the account at any time—and claim an immediate tax deduction—but can take a more strategic approach regarding when and how to distribute the gifts. For example, an individual might make several tax-deductible donations to a donor-advised fund account throughout the year as part of a plan to give a large, one-time gift to an organization later in life.

In addition, contributing appreciated securities or other assets to a donor-advised fund—instead of selling first and then donating the proceeds to a charity—can help you avoid paying capital gains taxes on those assets and enable more money to go to charity.

As you can see from the example in the table at right, thinking strategically about donations could boost the value of those donations as well as deliver attractive tax benefits.

Schwab Charitable President Kim Laughton says donors are increasingly sensitive to the fact that while giving is always good, giving wisely is great. “Charitable planning is becoming a natural part of financial planning and wealth management discussions,” she says.

Regardless of how you give—directly to charities, through a donor-advised fund or via another method—it may be possible to increase the impact of your contributions. Here are five tips for creating a strategic plan for your charitable giving.

**TAX BENEFITS OF DONATING CASH VS. STOCK**

<table>
<thead>
<tr>
<th></th>
<th>Scenario 1: Sell appreciated stock and donate proceeds (cash) to charity</th>
<th>Scenario 2: Donate appreciated stock directly to donor-advised fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair market value (FMV)</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Capital gains tax (CGT) paid</td>
<td>$50,000 appreciation × 15% = $7,500</td>
<td>$0</td>
</tr>
<tr>
<td>Total donated to charity (FMV − CGT)</td>
<td>$100,000 − $7,500 = 92,500</td>
<td>$100,000</td>
</tr>
<tr>
<td>Charitable tax deduction (CTD)</td>
<td>28% × $92,500 = $25,900</td>
<td>28% × $100,000 = $28,000</td>
</tr>
<tr>
<td>Net tax savings (CTD − CGT)</td>
<td>$18,400</td>
<td>$28,000</td>
</tr>
</tbody>
</table>

Hypothetical example is provided for illustrative purposes only. Assumes that the investment has been held for more than a year, donor is in the 28% federal income tax bracket, and that all realized gains are subject to a 15% federal long-term capital gains tax rate. Does not take into account any state or local taxes. Certain federal income tax deductions, including the charitable contribution, are available only to taxpayers who itemize deductions, and may be subject to reduction for taxpayers with adjusted gross income (AGI) above certain levels. In addition, deductions for charitable contributions may be limited based on the type of property donated, the type of charity and the donor’s AGI. For example, deductions for contributions of appreciated property to public charities generally are limited to 30% of the donor’s AGI. Excess contributions may be carried forward for up to five years. Total donor tax savings are calculated by subtracting any long-term capital gains paid from the value of the charitable income tax deduction.
1 DEVELOP A PURPOSE. When defining your purpose, start by asking yourself which specific causes you would like to support. You should also identify specific charitable goals before making any grants. In addition to reflecting your values, having clear goals can help you say no when you get solicitations to support projects that aren’t in line with your desired outcomes.

2 CHOOSE ORGANIZATIONS TO SUPPORT. Once you’ve settled on a cause, it’s time to think about which organizations you want to support. As part of your research, consider contacting different organizations and asking questions. Their answers could help inform your decision.

You can conduct due diligence on charities through the IRS website or through your donor-advised fund. In addition to verifying the organization’s 501(c)(3) status, you might also consider analyzing its program results, financials and staff turnover.

3 DECIDE ON GRANT TIMING AND AMOUNTS. Once you identify specific charities, you can grant money in one lump sum or spread it out over a span of months or years. Some charities prefer donations toward the end of their fiscal year, which is generally when they draw up plans for the following year. With a donor-advised fund, you can create a giving schedule to make one-time or recurring donations.

4 CHOOSE YOUR DESIRED LEVEL OF RECOGNITION. Depending on the size of your charitable gift and the philanthropic vehicle you choose, the record of your donation could be made available to the public. For example, federal law requires private foundations to report on their annual tax returns—which are public records—the names of donors who give more than $5,000 in a single year.

With donor-advised funds, on the other hand, you can choose how (or whether) you would like to be recognized for each grant, giving you control over the amount of public exposure you receive for your donation. Those who prefer to avoid scrutiny or unwanted solicitations might opt for anonymity.

5 LEAVE A LASTING LEGACY. Consider adopting an estate-planning strategy to help pass down your charitable values along with your assets. With such a strategy in place, your heirs will know which charitable organizations to continue to support in your memory.

A donor-advised account may make sense for people who want to create a legacy of giving for future generations, without the administrative burden or cost of setting up a private foundation.
WORTH THE RISK?

Why preferreds, REITs and MLPs aren’t substitutes for bonds.
coming into 2014, many U.S. bond analysts were expecting a bond bear market—in which prices fall and yields rise—amid anticipation of an improving economy and the winding down of the Federal Reserve’s bond-buying program. Such conditions would have been a welcome relief for bond investors who have taken to the sidelines while they wait for yields to rise.

Instead, U.S. bonds rallied in the first half of the year, fueled largely by a lagging economy, dimmer housing prospects and stagnant job creation. Unrest in the Ukraine and Iraq also helped drive down yields as risk-averse investors gravitated toward the perceived safety of bonds.

The low-yield environment has encouraged some investors to consider substituting bonds with income-oriented investments, such as preferred securities, real estate investment trusts (REITs) and master-limited partnerships (MLPs). But where there is additional return or yield, there is usually added risk, as illustrated in the chart at right.

Let’s take a closer look at some of the potential benefits and risks associated with preferred securities, REITs and MLPs.

PREFERRED SECURITIES
These hybrid investments combine attributes of stocks and bonds. They tend to pay higher dividends than common stock but have less growth potential because, unlike common stock, they generally don’t increase in value if a company grows. As you can see in the chart, the average annualized total return on preferred securities was 9.23% from 2009–2013.

Despite frequent comparisons with high-yield bonds, preferred securities present a different set of risks:

- **Prices.** Like bonds, preferreds’ prices are influenced by interest rates. However, their prices tend to be more volatile than those of bonds, making preferred securities more susceptible to short-term losses.
- **Dividends.** Companies can suspend or cancel a preferred dividend payment at will, without facing the consequences of a default.
- **Principal.** Unlike bonds, preferred securities never mature, meaning there’s no guaranteed return of principal.
- **Value.** Because they make fixed payments, preferred securities usually trade inversely to interest rates. If rates rise, preferred securities generally depreciate.

A REIT is a special corporation that invests in real estate. It’s structured to pay out most of its income as dividends to shareholders. This is one way of capital preservation. An investment may generate attractive yield income, but the risk doesn’t mean it can take the place of bonds in a diversified portfolio. One of the major appeals of bonds is that, barring default, they preserve capital. To be a true bond alternative, an investment would have to behave like a bond, and that means being insulated from the problem of double taxation that arises with dividends, but it also means additional complexity when filing taxes. And some MLPs don’t pay corporate income taxes, unit-holders, as limited partners, exchange and distribute most of their cash flow to unit holders, sheltered retirement accounts.

MLPs
Master-limited partnerships (MLPs) are partnerships that are public companies, which can trade on major stock exchanges, their prices can be volatile—of the eight asset classes added risk. Because REITs often trade like stocks on major

REITs
Real estate investment trusts (REITs) and master-limited partnerships (MLPs). But where there is additional return or yield, there is usually added risk, as illustrated in the chart at right.

**Higher return tends to coincide with higher risk**

<table>
<thead>
<tr>
<th>RETURN</th>
<th>RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td>30%</td>
<td>MLPs</td>
</tr>
<tr>
<td>25%</td>
<td>High-yield corporates</td>
</tr>
<tr>
<td>20%</td>
<td>Short Treasuries</td>
</tr>
<tr>
<td>15%</td>
<td>Preferred securities</td>
</tr>
<tr>
<td>10%</td>
<td>Intermediate-term investment-grade corporates</td>
</tr>
<tr>
<td>5%</td>
<td>Intermediate Treasuries</td>
</tr>
<tr>
<td>5%</td>
<td>Long Treasuries</td>
</tr>
</tbody>
</table>

Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The chart compares the risk and return features of various income-oriented investments, which are represented by the following indexes: Barclays U.S. 1–3 Year Treasury Bond Index, Barclays U.S. Intermediate Treasury Bond Index, Barclays U.S. Long Treasury Bond Index, Barclays U.S. Intermediate Corporate Bond Index, Barclays U.S. Corporate High Yield Index, BofA Merrill Lynch Fixed Rate Preferred Securities Index, Alerian MLP Index and the Dow Jones U.S. Select REIT Index. Risk is represented by the annualized standard deviation of monthly returns, and return is represented by the average annualized total return for the period 1/2002–12/2013. Bond returns assume reinvestment of bond principal and interest and are not adjusted for taxes. Past performance is no guarantee of future results.

Past performance is no guarantee of future results. See page 2 for important information.
REITs
A REIT is a special corporation that invests in real estate properties, mortgages or both. Some specialize in specific property types such as shopping malls or office buildings, others invest in geographic regions, and some are diversified and invest across property types, regions or both.

Fixed income investors may be attracted to REITs because they generally distribute a portion of their income as dividends to shareholders. Such distributions helped push the average annualized total return on the Dow Jones U.S. Select REIT Index to 16.36% in the 2009–2013 period. Again, it is important to note that such returns come with added risk. Because REITs often trade like stocks on major exchanges, their prices can be volatile—of the eight asset classes compared in the chart at left, REIT prices exhibited the highest risk during the 2009–2013 period. (For more on REITs, see “Capitalizing on Global Real Estate” on page 20.)

MLPs
MLPs are a niche sector in the income world—most of them are oil and gas partnerships. MLPs trade like stocks on an exchange and distribute most of their cash flow to unit holders, who are technically considered limited partners in the business. Returns on MLPs can be high—the Alerian MLP Index had an average annualized total return of 29.55% during the 2009–2013 period. But these products also involve risks and potential complications that must be weighed carefully.

For example, distributions can be diluted if an MLP issues additional units to raise capital, and energy-linked MLPs are sensitive to changes in fuel prices. Also, because MLPs don’t pay corporate income taxes, unit-holders, as limited partners, pay income taxes on their share of the distributions. This avoids the problem of double taxation that arises with dividends, but it also means additional complexity when filing taxes. And some income from MLPs may be subject to taxation even in tax-sheltered retirement accounts.

An investment may generate attractive yield income, but that doesn’t mean it can take the place of bonds in a diversified portfolio. One of the major appeals of bonds is that, barring default, they preserve capital. To be a true bond alternative, an investment would have to behave like a bond, and that means both providing steady income and offering something in the way of capital preservation.

Let’s Talk
Call your Schwab Consultant to discuss whether these income-generating investments make sense as part of your portfolio.

See page 2 for important information.
(1114-5155)
Pledged Asset Line® From Charles Schwab Bank

Leverage the value of your investments without liquidating them.

You’re the kind of investor who knows that sticking to a plan can pay off—and you’ve got the assets to prove it. But you also appreciate that seizing an opportunity—a chance to invest in a business, buy or improve a home, or make some other large purchase—can mean having to quickly mobilize resources.

Charles Schwab Bank’s Pledged Asset Line (PAL) is available for such situations.¹

A Schwab Bank PAL is a revolving line of credit that allows clients with at least $200,000 of liquid, nonretirement assets to borrow against the value of their holdings.²

That means you don’t have to liquidate your assets or change your investment strategy, and you don’t have to borrow against the value of your home. Credit lines range from a minimum of $100,000 up to $15 million. Clients can borrow up to 70% of the value of pledged eligible assets for a standard five-year term, with no penalties for early repayment.

Here are some of the other key benefits:

- **Quick lending decisions.** Most decisions on completed applications are made within 48 hours.
- **No account maintenance fees.** There are no application or setup fees. Many other account fees—wire fees, returned payment fees, draw fees, check fees—have been eliminated. The only fees applicable to the account are late fees.
- **Straightforward payment options.** Make payments on your PAL by check, wire, a transfer from a Schwab Bank checking account or an incoming Schwab MoneyLink® transfer from a non-pledged Schwab One® brokerage account. You can pay off your loan balance at any time.
- **Consolidated access to your financial accounts.** Having a Schwab Bank PAL backed by Schwab assets means having all your accounts under one roof. That makes servicing your debt easy.

The Pledged Asset Line offered by Charles Schwab Bank is all about giving you the flexibility to leverage both sides of your balance sheet as you pursue your investing goals.
1Proceeds may not be used to purchase securities or to pay down margin loans; proceeds may not be deposited into a Charles Schwab & Co., Inc. (Schwab) brokerage account.

2Schwab Bank requires that the assets pledged as collateral for the Pledged Asset Line be held in a separate Pledged Asset Account (PAASB) maintained at Schwab. Schwab Bank establishes collateral requirements regarding the type of assets, value of assets, and concentration of assets that are required to be maintained in the PAASB as collateral for the Pledged Asset Line, and reserves the right to change the requirements from time to time. The collateral requirements must be satisfied in order to borrow on the Pledged Asset Line and to maintain the Pledged Asset Line in good standing. The collateral requirements must be satisfied based on the maximum Pledged Asset Line amount.

Brokerage Products: Not FDIC Insured • No Bank Guarantee • May Lose Value

Nothing herein should be interpreted as imposing an obligation on Schwab Bank to lend. Loans are subject to credit and collateral approval. Some restrictions may apply. Loan terms are subject to change without notice.

Charles Schwab Bank and Charles Schwab & Co., Inc., are separate but affiliated companies and subsidiaries of The Charles Schwab Corporation. Brokerage products and services, including the Pledged Asset Account, are offered by Charles Schwab & Co., Inc., Member SIPC, and are not insured by the FDIC, are not deposits or obligations of Charles Schwab Bank, and are subject to investment risk including possible loss of principal invested.

Deposit and lending products, including the Pledged Asset Line, are offered by Charles Schwab Bank, Member FDIC and an Equal Housing Lender. Charles Schwab Bank is not acting or registered as a securities broker-dealer or investment advisor.

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(1114-5297)
Schwab Fundamental Global Real Estate Index Fund

Our new fund offers an innovative approach to global real estate investing.

Here at Schwab, we believe global real estate makes sense as part of many investors’ core portfolio allocations. As an asset class, global real estate has historically delivered solid growth and attractive returns while offering a diversified way of participating in global economic growth—including in potentially faster-growing emerging economies.

That’s why we’re offering an innovative approach to global real estate investing with the Schwab Fundamental Global Real Estate Index Fund (SFREX)—the first U.S.-based real estate fund to apply the Fundamental Index® methodology developed by Research Affiliates, LLC, to a portfolio of broad-based global real estate securities.

This no-load, no-transaction-fee fund employs a unique approach to indexing by selecting and weighting companies based on three fundamental characteristics: adjusted sales, retained operating cash flow, and dividends plus buybacks.

If you are looking for an innovative way to gain exposure to global real estate, then the Schwab Fundamental Global Real Estate Index Fund could be right for you.

Here are some of the features:

- **Access to global real estate.** The fund invests in securities of residential and commercial real estate companies and real estate investment trusts (REITs) in both developed and emerging economies around the globe.

- **Opportunity to diversify.** The fund provides exposure to more than 200 securities in 20 countries, including the United States and countries in Asia and Europe.

- **Competitive expenses.** The fund offers a 0.49% expense ratio. As an introductory offer, Schwab will waive operating expenses until January 31, 2015.

- **Income potential.** By investing in REITs—many of which distribute a portion of their revenue to shareholders in the form of dividends—the fund offers the potential for dividend income.

**NEXT STEPS**

Learn more about the Schwab Fundamental Global Real Estate Index Fund at schwab.com/OMglobalrealestate.

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1Schwab's short-term redemption fee of $49.95 will be charged on redemption of funds purchased through Schwab’s Mutual Fund OneSource® service (and certain other funds with no transaction fee) and held for 90 days or less. Schwab reserves the right to exempt certain funds from this fee, including Schwab Funds®, which may charge a separate redemption fee, and funds that accommodate short-term trading. For each of these trade orders placed through a broker, a $25 service charge applies. Funds are also subject to management fees and expenses.

Trades in no-load mutual funds available through the Mutual Fund OneSource service (including Schwab Funds), as well as certain other funds, are available without transaction fees when placed through schwab.com or our automated phone channels. Schwab reserves the right to change the funds we make available without transaction fees and to reinstate fees on any funds.

Charles Schwab & Co., Inc. (member SIPC) receives remuneration from fund companies for recordkeeping, shareholder services and other administrative services for shares purchased through its Mutual Fund OneSource service. Schwab also may receive remuneration from transaction fee fund companies for certain administrative services.

The investment advisor and its affiliates have agreed to limit the total annual fund operating expenses (excluding interest, taxes and certain nonroutine expenses) of the fund to 0.49% for so long as the investment advisor serves as the advisor to the fund. This agreement may be amended or terminated only with the approval of the fund’s Board of Trustees. For the period from 10/21/2014–1/31/2015, the investment advisor has agreed to waive the fund’s net operating expenses to 0.00% (excluding interest, taxes and certain nonroutine expenses).

See page 2 for important information.

Investors should carefully consider information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by visiting schwab.com or calling Schwab at 800-435-4000. Please read the prospectus carefully before investing.

Past performance is no guarantee of future results.

Investment returns will fluctuate and are subject to market volatility, so that an investor’s shares, when redeemed or sold, may be worth more or less than their original cost. (0814-4944)
Value Line Funds

Life is Often Complex.

Your Portfolio Doesn’t Have To Be.

Trusted By Investors For Over 60 Years

Past performance is no guarantee of future results. Investors should carefully consider the investment objectives, risks, charges and expense of a fund. This and other important information about a fund is contained in the fund’s prospectus. For more complete information about these Value Line Funds and a copy of a prospectus, contact Schwab at 800-435-4000 or go to www.schwab.com/mutualfunds, or contact your financial advisor. Read the prospectus carefully before you invest or send money.

There are risks associated with investing in small and mid-cap stocks, which tend to be more volatile and less liquid than stocks of large companies, including the risk of price fluctuations.

Charles Schwab & Co., Inc., Member SIPC, receives remuneration from fund companies and/or their affiliates in the Mutual Fund OneSource® service for recordkeeping, shareholder services and other administrative services. The amount of fees Schwab or its affiliates receive from funds participating in the Mutual Fund OneSource service is not considered in the Select List selection, nor does any fund pay Schwab to be included in the Select List (1114-6469).

Consider the Value Line Asset Allocation Fund (VLAAX) Included on the Q4 2014 Mutual Fund OneSource Select List®

Past performance is no guarantee of future results.

Morgan Stanley

We congratulate our colleague Dennis Lynch on being named Morningstar’s 2013 U.S. Domestic Stock Fund Manager of the Year. Dennis and his team exemplify conviction, insight, and long-term thinking—the values we strive to provide to our clients each day.

Morgan Stanley Institutional Fund Growth Portfolio (MSEGX) is included on the Q4 2014 Mutual Fund OneSource Select List®

Past performance is no guarantee of future results.

Please consider the investment objectives, risks, charges and expenses of funds carefully before investing. The prospectus contains this and other information about the funds. To obtain a prospectus, go to schwab.com/mutualfunds. Please read the prospectus carefully before investing.

There is no assurance that the Fund will achieve its investment objective. The Fund is subject to market risk, and you can lose money by investing in this Fund.

Morningstar Awards Winner (2013) © Morningstar, Inc. All Rights Reserved. Dennis Lynch awarded Domestic-Stock Fund Manager of the Year in the U.S. To qualify for the Domestic-Stock Fund Manager of the Year award, a manager’s funds must have not only posted impressive returns for the year, but the manager also must have had a record of delivering outstanding long-term risk-adjusted performance and of aligning their interests with shareholders. Nominated funds must be Morningstar Medalists—a fund that has garnered a Morningstar Analyst Rating® of Gold, Silver, or Bronze. Morningstar Analyst Ratings are based on Morningstar’s current expectations about future events and therefore involve unknown risks that may cause Morningstar’s expectations not to occur or to differ significantly from what was expected. In addition, Morningstar Analyst Ratings are based on qualitative evaluation and are thus subjective in nature and should not be used as the sole basis for an investment decision. The Fund Manager of the Year award winners are chosen based on Morningstar’s proprietary research and in-depth qualitative evaluation by its fund analysts.

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Mutual Fund OneSource Select List®

ANALYSIS AND COMMENTARY ON ACTIVELY MANAGED MUTUAL FUNDS BY CHARLES SCHWAB INVESTMENT ADVISORY, INC.

With thousands of mutual funds available, finding the right funds for your portfolio can seem more time-consuming and difficult than ever. The Mutual Fund OneSource Select List, consisting only of OneSource funds available without a load or transaction fee, is a smart solution that can help you make confident investment decisions.

HOW FUNDS ARE SELECTED
To build the Schwab Mutual Fund OneSource Select List, Charles Schwab Investment Advisory, Inc. (CSIA) starts by analyzing the funds tracked by Morningstar using quantitative and qualitative selection criteria described below. Then, based on its analysis, CSIA builds the Mutual Fund OneSource Select List by selecting the most favorably evaluated OneSource funds, including Schwab Funds and Laudus Funds (“Schwab Affiliate Funds”), within each Morningstar category.

Most of the funds on the List are actively managed OneSource funds. In addition, CSIA also includes up to one Schwab Affiliate Fund that is a market-cap weighted index fund for each of the large-cap, small-cap, international and taxable bond asset classes, and one Schwab Affiliate Fund that is a fundamentally weighted index fund for each of the large cap, small cap, developed large cap international, developed small cap international and emerging market asset classes.

ELIGIBILITY REQUIREMENTS
Each OneSource Select List and Income Select List fund must:

- Be no-load and open to new investors at Schwab in all 50 states.
- Have a minimum three-year performance track record (except funds that are listed below the “Leading Schwab Affiliate Funds” sections of the list, which are eligible if they have a minimum 12 months performance track record under their current management and/or current investment objectives and strategy).
- Have at least $40 million in assets (except for small-cap value, high yield, multisector bond, world bond, emerging market equity and bond, diversified Pacific Asia, Pacific Asia ex-Japan, Europe, Japan, Latin America, convertibles, retirement income, target date and specialty funds, which require at least $20 million in assets). To meet this requirement, assets in multiple share classes of the same fund may be aggregated.

SELECTION CRITERIA
Actively Managed OneSource Funds, including Schwab Affiliate Funds, are evaluated by CSIA based on a quantitative analysis of risk, performance, expenses, active share (when meaningful), assets under management and asset flows. CSIA also may apply additional qualitative factors to its analysis to enhance its overall evaluation of a fund, including, for example, changes in a fund’s investment strategy or management structure, portfolio manager tenure, whether a fund’s investment style and portfolio holdings are representative of its investment category, portfolio composition and turnover rates, consistency of a fund’s performance and CSIA’s evaluation of the fund over time, and other risk and diversification considerations.

“Leading Schwab Affiliate Funds” sections of the Select List feature eligible actively managed Schwab Affiliate Funds that generally fall into the top 35 percent of all CSIA-evaluated funds (including OneSource and non-OneSource funds) in their respective Morningstar categories. If two or more Schwab Affiliate Funds that fit this criteria also have similar investment styles, CSIA may determine that only the most favorably evaluated fund(s) be included in the list. Because Schwab Affiliate Funds included in the “Leading Schwab Affiliate Funds” section of the OneSource Select List are selected independently from other actively managed funds on the list, they may have a less favorable evaluation overall than the funds listed in the “Leading Third-Party Funds” section of the list.

The Index Funds sections of the Select List feature only Schwab Affiliate Funds. These sections include up to one market capitalization weighted index fund for each of the large-cap, small-cap, international and taxable bond asset classes and one fundamentally weighted index fund for each of the large cap, small cap, developed large cap international, developed small cap international and emerging market asset classes. A market capitalization weighted index fund is a fund that attempts to match the performance of an established list of securities, where the securities with the highest market capitalization (total market value of outstanding stock) get the most weight. A fundamentally weighted index fund is a fund that attempts to match the performance of an established list of securities, where the securities with the highest fundamental value (measured based on criteria such as sales, cash flow, dividends and stock buybacks) get the most weight. A Schwab Affiliate fund that is market capitalization weighted and a Schwab Affiliate Fund that is fundamentally weighted are included unless no funds meet Schwab’s quantitative and qualitative evaluation criteria.

The Schwab affiliate index fund that receives the most favorable evaluation by CSIA in each asset class is included on the Select List. If two index funds receive equal evaluations, CSIA will determine that only the most favorably evaluated fund(s) be included in the list. If two index funds receive equal evaluations, CSIA will generally include the fund that has the lower expense ratio.

“Leading Third-Party Funds” sections of the OneSource Select List feature eligible actively managed third-party OneSource funds that generally fall within the top 35 percent of all CSIA-evaluated funds within a given Morningstar category and that receive the most favorable evaluations in their respective categories.

For the OneSource Select List, CSIA generally includes the five most-favorably evaluated funds in each of the large-cap, small-cap, intermediate-term bond, municipal national intermediate and foreign large blend asset categories and the two most favorably evaluated funds in all other asset categories. If two or more of the most favorably evaluated funds within an asset category have similar investment styles, CSIA may substitute a less-favorably evaluated fund for one or more of those funds to provide a more diverse selection of fund investment strategies.
Upside and downside capture ratios: measure of how much a fund moves in comparison to the broad market when the market goes up or down.

Upside capture ratio: For the months in which the market return was positive, what was the ratio of the fund’s returns to the market’s returns? Upside capture of 110% means that in up markets, the fund went up 10% more than the market did. For investors who are concerned with growth in rising markets, looking for a fund with a high upside capture ratio (above 100%) can be useful.

Downside capture ratio: For the months in which the market return was negative, what was the ratio of the fund’s returns to the market’s returns? Downside capture of 110% means that in down markets, the fund went down 10% more than the market did. For investors who are concerned with minimizing losses, looking for a fund with a low downside capture ratio (below 100%) can be helpful.

Generally speaking, it’s good for a fund to have an upside capture ratio at least as high as its downside capture ratio, and preferably higher. A fund delivering 110% of the market’s positive returns but only 105% of the negative returns means that the fund has delivered more of the market’s upside than downside (which is desirable). The “holy grail” for many investors is a fund with a low downside capture ratio that has an upside capture ratio of 100% or more.

The absolute level of upside capture and downside capture can be important as well, providing an overall indication of the fund’s risk relative to the market. If both ratios are around 120%, it means that the fund has been more volatile than the market (even if upside is higher than downside). If both ratios are around 80%, it means that the fund has been less volatile than the market.

As with most metrics, these ratios are backward looking (in this case, over the past three years). Just because a fund has delivered a certain percentage of the market’s returns in past up markets and down markets doesn’t mean that it is guaranteed to do the same in future up or down markets.

In a three-year period with very few up months or very few down months, the upside or downside capture ratio can be hard to measure. These ratios provide no information about the fund’s overall returns and are simply a measure of performance relative to the market in up periods and in down periods.

ADDITIONAL IMPORTANT INFORMATION

More than 3,500 funds participate in the Mutual Fund OneSource® service. Only these funds, including Schwab Affiliate Funds, are eligible for the Select Lists. Schwab receives remuneration from fund companies, and/or their affiliates, in the Mutual Fund OneSource service, including Schwab Affiliate Funds, for record keeping, shareholder services and other administrative services. Schwab and its affiliates also receive fees from Schwab Affiliate Funds for investment advisory and fund administration services. The aggregate fees Schwab or its affiliates receive from Schwab Affiliate Funds (see fund prospectuses for more details) are greater than the remuneration Schwab receives from other fund companies participating in Schwab’s Mutual Fund OneSource service. The amount of fees Schwab or its affiliates receive from funds participating in the Mutual Fund OneSource service is not considered in the Select List selection, nor does any fund pay Schwab to be included in any Select List. Eligible funds are selected based solely on the quantitative and qualitative criteria described on pages 38 and 39.

Schwab Affiliate Funds include Schwab Funds and Laudus Funds. Schwab Funds and Laudus Funds are advised by Charles Schwab Investment Management, Inc. Schwab Funds and the Laudus MarketMasters Funds are distributed by Charles Schwab & Co., Inc. and Laudus Funds (except Laudus MarketMasters Funds) are distributed by ALPS Distributors, Inc.

INVESTING IN MUTUAL FUNDS AT SCHWAB

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can obtain a prospectus by calling Schwab at 800-435-4000. Please read the prospectus carefully before investing.

Investment value will fluctuate and shares, when redeemed, may be worth more or less than original cost.

Trades in no-load mutual funds participating in the Mutual Fund OneSource service (including Schwab Funds), as well as certain other funds, are available without loads or transaction fees when placed through schwab.com or one of our automated phone channels. However, for each of these trades placed through a broker, a $25 service charge applies. Additionally, Schwab will charge a short-term redemption fee (STR) if you sell shares of OneSource funds held for 90 days or less. Schwab reserves the right to exempt some funds from the STR fee, including certain Schwab Funds, which may charge a separate redemption fee, and funds that accommodate short-term trading. Certain funds may charge a redemption fee separate, and in addition to, the OneSource STR. All other funds available at Schwab are subject to a transaction fee when bought and sold and may be subject to fees assessed by the fund itself. Schwab reserves the right to change the fees it makes available without transaction fees and reinstate fees on any funds.

INFORMATION ON THE MUTUAL FUND ONESOURCE SELECT LIST®

No mention of particular funds or fund families here should be construed as a recommendation, or considered an offer to sell, or a solicitation to buy any securities. This information is provided for general information purposes only and should not be considered an individualized recommendation or personalized investment advice. The securities listed may not be suitable for everyone. Each investor needs to review a security transaction for his or her own particular situation. Schwab or its employees may sometimes hold positions in the securities listed here. Charles Schwab & Co. Inc. is the underwriter and distributor of Schwab Funds®.

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Charles Schwab Investment Advisory (CSIA) is a separately registered investment advisor and an affiliate of Charles Schwab & Co., Inc. Among other functions, CSIA oversees the selection of investments and ongoing monitoring of the Select List and produces market commentary and other investment advice for Schwab clients and financial consultants. (0914-6132)
Large-Cap U.S. Stock Funds

**PERSPECTIVES AND THIRD QUARTER 2014 SUMMARY**

In the short-term, escalated global fears could continue to foster volatility for the U.S. equity markets and the recent rally in the dollar may be hardest felt in earnings of larger, multi-national corporations. Moreover, Federal Reserve policy uncertainty can add to investor consternation. However, it is important to keep the longer-term picture in mind, which we believe is positive. The U.S. economy is improving, monetary policy remains quite loose, and in general, a stronger dollar is likely to be both economic and market positive.

- Large cap U.S. stocks rose modestly, with the Standard & Poor’s 500 Composite Index edging 1.13% higher. Stronger economic data, an uptick in M&A activity and strong corporate earnings buoyed returns in domestic large cap stocks.
- Large-cap U.S. stocks outperformed small- and mid-cap stocks with returns in flat- to- positive territory. Large-cap Growth Category returned gains of 0.68%, while Large-cap Blend and Large-cap Value were lower with returns of -0.08% and -0.55%, respectively.

All perspectives are as of October 14, 2014
For the latest up-to-date perspectives, please visit schwab.com

### FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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<th>FUND NAME (FUND INCEPTION DATE)</th>
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<th>QUOTE SYMBOL</th>
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<th>GROSS EXPENSE RATIO</th>
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<td><strong>LEADING SCHWAB AFFILIATE FUNDS</strong></td>
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<td>Schwab Core Equity Fund (07/01/96)</td>
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<td>20.91</td>
<td>22.79</td>
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<td>Janus Contrarian T (2/29/00)</td>
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<td>JP Morgan Equity Income A (2/18/92)</td>
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<td>1.05</td>
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<td>INTECH U.S. Value T (7/6/09)</td>
<td>Large Value</td>
<td>JRTX</td>
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<td>22.82</td>
<td>14.88</td>
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<td>112.62</td>
<td>0.95</td>
<td>0.95</td>
<td>121</td>
</tr>
</tbody>
</table>

### PERFORMANCE BENCHMARKS

- Schwab 1000 Index® (Dividends Reinvested) | 25.09 | 16.46 | 19.19 | 8.22 |
- S&P 500 Index® (Dividends Reinvested) | 19.73 | 22.99 | 15.70 | 8.11 |

- New to the Select List this quarter

### Asset Class and Performance Benchmark Definitions

Large-cap U.S. stock funds invest primarily in stocks that fall in the top 70% of the U.S. market capitalization range as defined by Morningstar, Inc. Growth funds invest in companies that may be experiencing rapid growth in earnings, sales or return on equity. Value funds invest in companies that may have share prices below estimated fair market value, undervalued assets, an opportunity to “turnaround” or lower price-to-earnings or price-to-book ratios. Blend funds invest in a combination of value and growth stocks.

The S&P 500® Index includes common stocks of 500 widely held companies. S&P 500 is a registered trademark of The McGraw-Hill Co., Inc.

If an expense waiver was in place during the period, the net expense ratio was used to calculate fund performance. A net expense ratio lower than the gross expense ratio may reflect a cap on or contractual waiver of fund expenses. Please read the fund prospectus for details on limits or expiration dates for any such waivers.

Performance quoted is past performance and is no guarantee of future results. Current performance may be lower or higher. Visit schwab.com for month’s end performance information. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.
Mid- and Small-Cap U.S. Stock Funds

### PERSPECTIVES AND THIRD QUARTER 2014 SUMMARY

The volatility and coinciding risk aversion amid the heightened global fears that has punished smaller domestic stocks may continue in the short term. However, indicators we look at still point to a renewed uptrend, and the U.S. economy's relative global strength may be setting more domestically-oriented stocks up for rebound, bolstered by the potential positive impact of the dollar's rally on earnings of these companies. We recommend sticking to your long-term portfolio asset allocations and not making market cap bets.

- The Mid- and Small-cap Categories lagged during the quarter, with Mid-caps having relatively better performance to the Small-caps. Mid-cap Growth return -2.29%, followed by mid-cap blend at -3.30% and mid-cap value at -3.42%.

- Small-cap stocks suffered a steep sell-off, sending the benchmark, Russell 2000® Index down 7.36%. The Small-cap Value Category at -7.14% posted the lowest returns relative to the small- and mid-cap universe, followed by Small-cap Blend with a return of -6.75%, and Small-cap Growth at -5.80%.

All perspectives are as of October 14, 2014

For the latest up-to-date perspectives, please visit schwab.com

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### PERFORMANCE BENCHMARKS

<table>
<thead>
<tr>
<th>Index</th>
<th>1 YEAR</th>
<th>3 YEARS</th>
<th>5 YEARS</th>
<th>10 YEARS</th>
<th>SINCE INCEPTION</th>
</tr>
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</table>

**New to the Select List this quarter**

**Asset Class and Performance Benchmark Definitions**

Mid-cap U.S. stock funds invest primarily in stocks that fall in the next 20% of the U.S. market capitalization range following large-cap stocks. Small-cap U.S. stock funds generally invest in stocks falling in the bottom 10% of the range. Definitions based on Morningstar, Inc.

Growth funds invest in companies that may be experiencing rapid growth in earnings, sales or return on equity. Value funds invest in companies that may have share prices below estimated fair market value, undervalued assets, an opportunity to “turnaround” or lower price-to-earnings or price-to-book ratios. Blend funds invest in a combination of value and growth stocks. The Russell 2000® Index consists of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 96% of the total market value of publicly available domestic equities.

Small-cap funds are subject to greater volatility than those in other asset categories.

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### LEADING SCHWAB AFFILIATE FUNDS

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<th>Fund Name (Fund Inception Date)</th>
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<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
<th>SINCE INCEPTION</th>
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<tr>
<td>Schwab Small-Cap Equity Fund (07/01/03)</td>
<td>Small Blend</td>
<td>SWSCX 9.08</td>
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### OTHER NOTABLE PERFORMANCE

- First Eagle Fund of America A (11/19/96)*: Mid-Cap Blend, FEAX, 11.96, 21.58, 15.37, 9.82, 8.92, 97.27, 80.34, 1.42, 1.42, 2,989
- Stewart Capital Mid Cap (12/29/06): Mid-Cap Blend, SCMFX, 18.66, 21.71, 16.90, 9.37, 94.66, 94.09, 1.56, 1.21, 86
- Janus Enterprise T (8/1/92): Mid-Cap Growth, JAXN, 12.33, 20.73, 16.07, 10.95, 10.59, 89.14, 83.91, 0.93, 0.93, 3,478
- Morgan Stanley Inst Mid Cap Growth A (1/31/97)*: Mid-Cap Growth, MGMX, 1.33, 13.26, 12.60, 10.13, 9.95, 83.40, 130.13, 0.96, 0.96, 6,931
- TIAA-CREF Mid-Cap Value Retail (10/1/02): Mid-Cap Value, TCNX, 15.15, 22.31, 14.94, 10.02, 12.73, 99.12, 104.81, 0.76, 0.76, 263
- Victory Established Value A (5/5/00)*: Mid-Cap Value, VETAX, 7.57, 19.24, 13.57, 10.19, 9.24, 97.82, 108.22, 1.05, 1.05, 2,038
- Neuberger NVO Small/Mid-Cap Value A (12/15/06)*: Small Blend, NMSX, 1.52, 17.43, 14.38, —, 2.87, 98.95, 135.85, 1.32, 1.32, 50
- Northern Small Cap Core (9/30/99): Small Blend, NSRX, 5.68, 22.00, 16.02, 9.30, 6.89, 106.65, 139.21, 0.86, 0.75, 180
- Pax World Small Cap Individual Inv (3/27/08): Small Blend, PSXX, 7.76, 22.23, 16.14, —, 10.54, 96.21, 81.84, 1.66, 1.24, 141
- Touchstone Small Cap Value Opp A (7/31/03)*: Small Blend, TSGAX, 5.55, 22.22, 13.02, 8.21, 10.42, 114.04, 136.51, 2.47, 1.51, 174
- Lazard US Small-Mid Cap Equity Open (1/30/07): Small Blend, LZOX, 10.66, 22.27, 14.40, 8.50, 8.17, 105.04, 129.40, 1.20, 1.20, 263
- Janus Venture T (4/30/95): Small Growth, JAVXX, 8.31, 22.13, 17.55, 10.66, 12.24, 97.56, 100.80, 0.94, 0.94, 2,315
- Pioneer Oak Ridge Small Cap Growth A (1/3/94)*: Small Growth, ORIGX, -2.64, 16.70, 13.77, 8.82, 10.04, 82.99, 80.35, 1.40, 1.40, 2,087
- Eaton Vance Tx-Mgd Small-Cap A (8/25/97)*: Small Growth, EXMGX, -9.42, 17.84, 12.21, 8.85, 4.65, 94.17, 125.47, 1.27, 1.27, 100
- ASTON/LMCG Small Cap Growth N (11/3/10): Small Growth, ACWDX, 9.05, 25.16, —, —, 15.00, 111.76, 121.28, 2.04, 1.36, 46
- Neuberger Berman Small Cap Growth A (5/27/09)*: Small Growth, NSMX, -3.55, 15.97, 12.08, 8.07, 15.12, 90.13, 118.99, 1.83, 1.26, 79
- Pirit Ultra MicroCap (8/31/04): Small Value, PRXO, 9.71, 18.86, 15.81, 7.48, 7.56, 78.11, 64.49, 1.76, 1.76, 64
- Wells Fargo Advantage Spec SmCap Val A (5/7/93)*: Small Value, ESFX, 4.19, 18.68, 12.77, 7.91, 11.23, 103.83, 127.04, 1.41, 1.34, 655
- Delaware Small Cap Value A (6/24/97)*: Small Value, DELVX, 3.66, 18.32, 14.46, 8.39, 11.34, 99.42, 126.46, 1.25, 1.25, 2,462
- Diamond Hill Small Cap A (12/28/00)*: Small Value, DSNX, 4.37, 18.91, 12.82, 8.07, 11.22, 100.19, 126.66, 1.33, 1.33, 1,343

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* All performance is past performance and is no guarantee of future results. Current performance may be lower or higher. Visit schwab.com for month-end performance information. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.
International Stock Funds

PERSPECTIVES AND THIRD QUARTER 2014 SUMMARY

Our outlook for international funds is mixed. Growth in Europe has weakened and remains at risk of a near-term recession, while in South America, Brazil, is expected to make only a slow recovery from recession. However, economic growth is stabilizing in China and rebounding in Japan. Finally, growth is strengthening in India and expected to remain strong elsewhere in emerging Asia, supporting our current outlook favoring emerging markets within a diversified international portfolio.

- Developed market non-U.S. equities, represented by the MSCI EAFE® Index, fell -5.88% during the quarter, hampered by a surging dollar and faltering economic growth. The MSCI Japan Index was up 5.8% in local-currency returns on the back of a depreciating yen; down 2.3% in dollar-denominated terms. The Europe Stock category, the largest detractor, declined -7.54% amid weak economic growth, mounting deflationary pressures and a depreciating euro.

- Emerging markets outperformed developed markets in the quarter, helped by China and India. The Diversified Emerging Markets Category declined 3.47% during the quarter and concerns about the potential for further monetary policy tightening in the U.S. and geopolitical instability. The China Region Category returned -0.38% on the back of stimulus measures and new reforms regarding state-owned enterprises, partly offsetting worries about slowing economic growth.

All perspectives are as of October 14, 2014

For the latest up-to-date perspectives, please visit schwab.com
Sector Funds

PERSPECTIVES AND THIRD QUARTER 2014 SUMMARY

With the bifurcation of outlooks for global monetary policy and economic growth, which has underpinned the recent rally in the U.S. dollar, volatility for sectors related to dollar-priced commodities, such as oil and gold, is likely to remain elevated. Meanwhile, we believe the industrial sector should benefit from signs of general improvement in global manufacturing and accommodative monetary policies that should stimulate growth in the developed economies. Moreover, we see the positive trend for the technology sector continuing, bolstered by indications of a further acceleration in capital expenditures by companies.

- The Specialty categories performed dismally across most sectors. Notably, the Energy (-10.19%) and Precious Metals (-19.11%) sectors experienced the most decline. Falling global oil prices and concerns over production growth held back returns in Refiners, Exploration and Production and Equipment & Services sub-sectors. Weakness in Silver and Platinum prices and Gold Mining Producers added to the woes of the Natural Resources sector already weighed down by a strengthening US dollar. Utilities (-4.80%) and Financials (-1.41%) also posted marginally negative performance. Real Estate (-3.01%) also experienced negative performance, due to investor concerns that the end of quantitative easing in October will lead to rising interest rates. However, Health Care (4.58%) was the strongest performer for the quarter led by Biotechnology and Managed Health Care.

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For the latest up-to-date perspectives, please visit schwab.com

FOR THE QUARTER ENDED SEPTEMBER 30, 2014

Due to the concentrated nature of sector funds, they can be more volatile than broadly diversified equity funds.

They will seldom correlate. When evaluating sector fund performance, it's more appropriate to compare an individual fund's returns with the average performance of funds in its category.

- The S&P 500 Index, so they tend to perform differently than broader market measures. Because of their unique investment objectives, it's unfair to compare sector funds with broader market indices as

Net Asset Value (NAV) is the value of a fund's assets minus its liabilities. It represents the value of an investment in a fund as of a specific date.

Performance quoted is past performance and is no guarantee of future results. Current performance may be lower or higher. Visit schwab.com for month's end performance information. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.
# Taxable Bond Funds

## Perspectives and Third Quarter 2014 Summary

In the third quarter, short- and intermediate-term Treasury bond yields moved higher as investors anticipate the first Fed rate hike sometime next year. However, long-term Treasury bond yields moved lower, ending the quarter at 2.49%. We continue to see risks in the lower-rated segments of the market, like sub-investment grade bonds. We think most investors should focus on a core portfolio of high quality investments, and those reaching for yield in the riskier parts of the market should consider moving up in quality.

- Overall, taxable fixed income funds had relatively flat performance in the third quarter—Barclays U.S. Agg Bond Index returned just 0.17%—but there were still a few standout categories worth noting. The long end of the curve had the strongest tailwind as 30 year U.S. Treasuries fell by 19bps. Bond prices move inversely to yields and Long Government funds took advantage of this appreciation with an average return of 2.59%, followed by Long-Term Bond funds at 0.66%.
- Riskier spread sectors performed worse this quarter. Emerging Markets Bond funds were the biggest laggard, returning -2.92%. They were followed by High Yield Bond funds (-2.03%) Multisector Bond funds (-1.02%) and Bank Loan funds (-0.67%). Also, modest US GDP growth, low interest rates and weak inflation expectation brought down Inflation-Protected Bond funds by -2.16%.

All perspectives are as of October 14, 2014

For the latest up-to-date perspectives, please visit schwab.com

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## Performance Benchmarks

Barclays U.S. Aggregate Bond Index (Dividends Reinvested)

<table>
<thead>
<tr>
<th>Category</th>
<th>Index Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morningstar Category</td>
<td>Barclays U.S. Aggregate Bond Index</td>
</tr>
<tr>
<td>Morningstar Category</td>
<td>Barclays U.S. Aggregate Bond Index</td>
</tr>
<tr>
<td>Quote Symbol</td>
<td>SWIGX</td>
</tr>
<tr>
<td>Morningstar Category</td>
<td>Barclays U.S. Aggregate Bond Index</td>
</tr>
<tr>
<td>Morningstar Category</td>
<td>Barclays U.S. Aggregate Bond Index</td>
</tr>
<tr>
<td>Quote Symbol</td>
<td>SWIXX</td>
</tr>
</tbody>
</table>

**Returns for the Quarter Ended September 30, 2014**

### Leading U.S. Bond Funds

<table>
<thead>
<tr>
<th>Fund Name / Category</th>
<th>Yearly Return</th>
<th>5-Year Return</th>
<th>10-Year Return</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schwab GNM Fund</td>
<td>3.15%</td>
<td>4.94%</td>
<td>5.86%</td>
<td>5.82%</td>
</tr>
<tr>
<td>Schwab Intermediate-Term Bond Fund</td>
<td>2.99%</td>
<td>4.54%</td>
<td>5.41%</td>
<td>5.34%</td>
</tr>
</tbody>
</table>

### Leading U.S. Bond Funds

<table>
<thead>
<tr>
<th>Fund Name / Category</th>
<th>Yearly Return</th>
<th>5-Year Return</th>
<th>10-Year Return</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loomis Sayles Bond Retail</td>
<td>3.96%</td>
<td>4.23%</td>
<td>4.12%</td>
<td>4.62%</td>
</tr>
</tbody>
</table>

**New to the Select List this quarter**

- Schwab GNM Fund
- Schwab Intermediate-Term Bond Fund

**Asset Class and Performance Benchmark Definitions**

Bond funds invest in corporate, municipal or government debt obligations of different maturities and interest rates. Taxable bond funds generally invest in the debt obligations issued by the U.S. Treasury, other U.S. government agencies and U.S. corporations. They also may invest in high-yield and foreign non-U.S. bonds.

The Barclays U.S. Aggregate Bond Index tracks the total U.S. bond market, which includes U.S. Treasury, government agency, investment-grade corporate bond and mortgage-backed securities with maturities of at least one year. The index includes reinvestment of interest.

If an expense waiver was in place during the period, the net expense ratio was used to calculate fund performance. A net expense ratio lower than the gross expense ratio may reflect a cap on or contractual waiver of fund expenses. Please read the fund prospectus for details on limits or expiration dates for any such waivers.

Performance quoted is past performance and is no guarantee of future results. Current performance may be lower or higher. Visit schwab.com for more recent performance information. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.
**Tax-Free Bond Funds**

**PERSPECTIVES AND THIRD QUARTER 2014 SUMMARY**

We believe that credit conditions in the municipal market continue to improve despite some headline cases. Investors in tax-free funds should continue to earn an attractive after-tax distribution relative to Treasuries and taxable bonds, in our view. For investors who can accept some price volatility but are looking to earn a higher after-tax return, we favor intermediate-term funds. For more risk adverse investors, or those with a need for principal in the near term, we would suggest shorter-term funds.

- As a whole, municipal bond funds have been standout performers in 2014, and that trend continued through the third quarter as the Barclays Municipal Index returned 1.49%. The municipal market continues to be strong from both a technical and fundamental point of view – supply has been limited, demand is recovering and credit trends are improving as defaults are on the decline. Contrary to the taxable bond market, High Yield Muni funds outperformed all other categories with a quarterly return of 2.43%. Muni California Long funds were close behind, returning an average of 2.20%.

- Over half the municipal bond categories outperformed the aggregate index, and no categories had a negative return. However, the weakest quarterly performers were Muni National Short and Muni Single State Short, returning just 0.29% and 0.78%, respectively.

All perspectives are as of October 14, 2014

For the latest up-to-date perspectives, please visit schwab.com

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**LEADING SCHWAB AFFILATE FUNDS**

<table>
<thead>
<tr>
<th>FUND NAME (FUND INCEPTION DATE)</th>
<th>MORNINSTAR CATEGORY</th>
<th>QUOTE SYMBOL</th>
<th>AVERAGE ANNUALIZED TOTAL RETURN</th>
<th>UPSIDE MARKET CAPTURE</th>
<th>DOWNSIDE MARKET CAPTURE</th>
<th>GROSS EXPENSE RATIOa</th>
<th>NET EXPENSE RATIO</th>
<th>AVG. WEIGHTED MATURITY (YRS)</th>
<th>TOTAL ASSETS ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LEADING SCHWAB AFFILIATE FUNDS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schwab Tax-Free Bond Fund (09/11/82)</td>
<td>Muni National Interm</td>
<td>SWNTX</td>
<td>5.35</td>
<td>6.88</td>
<td>7.44</td>
<td>7.82</td>
<td>8.21</td>
<td>98.28</td>
<td>79.84</td>
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</table>

**LEADING 3RD PARTY FUNDS**

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<thead>
<tr>
<th>FUND NAME (FUND INCEPTION DATE)</th>
<th>MORNINSTAR CATEGORY</th>
<th>QUOTE SYMBOL</th>
<th>AVERAGE ANNUALIZED TOTAL RETURN</th>
<th>UPSIDE MARKET CAPTURE</th>
<th>DOWNSIDE MARKET CAPTURE</th>
<th>GROSS EXPENSE RATIOa</th>
<th>NET EXPENSE RATIO</th>
<th>AVG. WEIGHTED MATURITY (YRS)</th>
<th>TOTAL ASSETS ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Century Interm/Term Muni National Interm</td>
<td>TWNTX</td>
<td>5.17</td>
<td>3.27</td>
<td>3.83</td>
<td>4.01</td>
<td>4.09</td>
<td>80.68</td>
<td>92.54</td>
<td>0.47</td>
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<tr>
<td>USAA Tax Exempt Intermediate-Term (3/19/82)</td>
<td>Muni National Interm</td>
<td>USATX</td>
<td>6.63</td>
<td>4.77</td>
<td>4.92</td>
<td>4.49</td>
<td>6.92</td>
<td>91.45</td>
<td>73.65</td>
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<tr>
<td>Northern Intermediate Tax-Exempt (3/31/94)</td>
<td>Muni National Interm</td>
<td>NQNTX</td>
<td>5.94</td>
<td>3.56</td>
<td>3.58</td>
<td>4.35</td>
<td>4.49</td>
<td>90.25</td>
<td>106.72</td>
</tr>
<tr>
<td>BMO Intermediate Tax-Free Y (2/1/94)</td>
<td>Muni National Interm</td>
<td>MITFX</td>
<td>6.47</td>
<td>4.32</td>
<td>4.58</td>
<td>4.54</td>
<td>4.66</td>
<td>88.26</td>
<td>79.27</td>
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<td>Baird Intermediate Muni Bd Inv (3/30/01)</td>
<td>Muni National Interm</td>
<td>BMBSX</td>
<td>3.98</td>
<td>2.34</td>
<td>3.00</td>
<td>3.72</td>
<td>4.33</td>
<td>64.14</td>
<td>81.40</td>
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<tr>
<td>USAA Tax Exempt Long-Term (3/19/82)</td>
<td>Muni National Long</td>
<td>USTEX</td>
<td>9.27</td>
<td>5.92</td>
<td>5.51</td>
<td>4.64</td>
<td>7.59</td>
<td>119.23</td>
<td>105.47</td>
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<tr>
<td>Northern Tax-Exempt (3/31/94)</td>
<td>Muni National Long</td>
<td>NOTEX</td>
<td>9.36</td>
<td>4.85</td>
<td>4.61</td>
<td>4.61</td>
<td>5.34</td>
<td>114.72</td>
<td>126.22</td>
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<tr>
<td>Federated Shrt-Interm Dur Muni Instl (9/4/81)</td>
<td>Muni National Short</td>
<td>FSHIX</td>
<td>2.65</td>
<td>1.94</td>
<td>2.41</td>
<td>2.63</td>
<td>4.38</td>
<td>38.07</td>
<td>31.23</td>
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<tr>
<td>Wells Fargo Advantage S/T Muni Bd Inv (12/31/91)</td>
<td>Muni National Short</td>
<td>STSMX</td>
<td>1.70</td>
<td>1.58</td>
<td>2.24</td>
<td>3.01</td>
<td>3.84</td>
<td>21.13</td>
<td>19.70</td>
</tr>
<tr>
<td>American Century High-Yield Muni Inv (3/31/88)</td>
<td>High Yield Muni</td>
<td>ADBHYX</td>
<td>10.06</td>
<td>6.45</td>
<td>6.25</td>
<td>4.10</td>
<td>4.81</td>
<td>131.55</td>
<td>119.01</td>
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<tr>
<td>Western Asset Municipal High Income A (11/8/92)</td>
<td>High Yield Muni</td>
<td>STXAX</td>
<td>6.52</td>
<td>4.94</td>
<td>5.03</td>
<td>5.16</td>
<td>5.60</td>
<td>129.86</td>
<td>114.54</td>
</tr>
</tbody>
</table>

**NOTES: ALL DATA SHOWN IS AS OF SEPTEMBER 30, 2014**

1. Definitions: Gross Expense Ratio—actual expense as stated in the fund’s prospectus. Net Expense Ratio—net amount after any expenses are waived and/or partially absorbed by fund management.
2. Fund has an initial minimum investment greater than $2,500.
3. Investor Shares™ are available at a lower minimum but with higher operating expenses than Select Shares®.
4. Schwab Affiliate Funds include Schwab Funds and Laudus Funds. Schwab Funds and Laudus Funds are advised by Charles Schwab Investment Management, Inc. Schwab Funds and the Laudus MarketMasters Funds are distributed by Charles Schwab & Co., Inc. Laudus Funds, except the Laudus MarketMasters Funds, are distributed by ALPS Distributors, Inc.
5. This fund is available without a load through Schwab. The performance figures shown reflect the performance with the load. Please see the Fund Summary on schwab.com for performance without load.
Additional Fund Categories

FOR THE QUARTER ENDED SEPTEMBER 30, 2014

| FUND NAME (FUND INCEPTION DATE) | MORNINGSTAR CATEGORY | QUOTE SYMBOL | CATEGORY | INCEPTION SINCE CAPTURE | QUOTE | YEAR | 3 YEARS | 5 YEARS | 10 YEARS | SINCE INCEPTION | UPIDE MARKET CAPTURE | DOWNSIDE MARKET CAPTURE | GROSS EXPENSE RATIO | NET EXPENSE RATIO | TOTAL ASSETS (SM) |
|--------------------------------|---------------------|--------------|----------|-------------------------|-------|------|---------|---------|----------|----------------|---------------------|----------------------|-------------------|-----------------|-----------------|----------------|
| Schwab Balanced Fund (11/18/86) | Moderate Allocation | SWOBX | BALANCED FUNDS—LEADING SCHWAB AFFILIATE FUNDS* | | | | | | | | | | | | |
| Oakmark Equity & Income (11/1/95) | Aggressive Allocation | OAKSX | | | | | | | | | | | | | |
| Value Line Asset Allocation (6/24/93) | Aggressive Allocation | VLAXX | | | | | | | | | | | | | |
| American Century One Choice® (WryCornerv) (9/30/04) | Conservative Allocation | AIONX | | | | | | | | | | | | | |
| JPMorgan Income Builder A (5/31/07)* | Conservative Allocation | JNAXX | | | | | | | | | | | | | |
| Janus Balanced T (9/1/92) | Moderate Allocation | JABAX | | | | | | | | | | | | | |
| Greenspring (7/1/83)* | Moderate Allocation | GRSFX | | | | | | | | | | | | | |
| Morgan Stanley Inst Global Strat A (11/1/90)* | World Allocation | MBAXX | | | | | | | | | | | | | |

| FUND NAME (FUND INCEPTION DATE) | MORNINGSTAR CATEGORY | QUOTE SYMBOL | CATEGORY | INCEPTION SINCE CAPTURE | QUOTE | YEAR | 3 YEARS | 5 YEARS | 10 YEARS | SINCE INCEPTION | UPIDE MARKET CAPTURE | DOWNSIDE MARKET CAPTURE | GROSS EXPENSE RATIO | NET EXPENSE RATIO | TOTAL ASSETS (SM) |
|--------------------------------|---------------------|--------------|----------|-------------------------|-------|------|---------|---------|----------|----------------|---------------------|----------------------|-------------------|-----------------|-----------------|----------------|
| Schwab Monthly Income Fund—Max (03/28/88) | Retirement Income | SWRLX | ALTERNATIVE FUNDS | | | | | | | | | | | | |
| Schwab Target 2015 Fund (03/12/08) | Target Date 2011-2015 | SWGXX | | | | | | | | | | | | | |
| Schwab Target 2020 Fund (07/01/05) | Target Date 2016-2020 | SWRX | | | | | | | | | | | | | |
| Schwab Target 2025 Fund (03/12/08) | Target Date 2021-2025 | SWHRX | | | | | | | | | | | | | |
| Schwab Target 2030 Fund (07/01/05) | Target Date 2026-2030 | SWDRX | | | | | | | | | | | | | |
| Schwab Target 2035 Fund (03/12/08) | Target Date 2031-2035 | SWKRX | | | | | | | | | | | | | |
| Schwab Target 2040 Fund (07/01/05) | Target Date 2036-2040 | SWKRX | | | | | | | | | | | | | |
| Schwab Target 2045 Fund (01/23/13) | Target Date 2041-2045 | SWKRX | | | | | | | | | | | | | |
| Schwab Target 2050 Fund (01/23/13) | Target Date 2046-2050 | SWKRX | | | | | | | | | | | | | |

ALTERNATIVE FUNDS—LEADING SCHWAB AFFILIATE FUNDS

| FUND NAME (FUND INCEPTION DATE) | MORNINGSTAR CATEGORY | QUOTE SYMBOL | CATEGORY | INCEPTION SINCE CAPTURE | QUOTE | YEAR | 3 YEARS | 5 YEARS | 10 YEARS | SINCE INCEPTION | UPIDE MARKET CAPTURE | DOWNSIDE MARKET CAPTURE | GROSS EXPENSE RATIO | NET EXPENSE RATIO | TOTAL ASSETS (SM) |
|--------------------------------|---------------------|--------------|----------|-------------------------|-------|------|---------|---------|----------|----------------|---------------------|----------------------|-------------------|-----------------|-----------------|----------------|
| American Beacon Retire Inc & Appric Inv (7/17/03) | Retirement Income | AANPX | BALANCED FUNDS—LEADING SCHWAB AFFILIATE FUNDS* | | | | | | | | | | | | | |
| American Century One Choice 2015 Inv (8/31/04) | Target Date 2011-2015 | ARIX | | | | | | | | | | | | | |
| American Century One Choice 2020 Inv (5/30/08) | Target Date 2016-2020 | ABRX | | | | | | | | | | | | | |
| American Century One Choice 2025 Inv (8/31/04) | Target Date 2021-2025 | ARIX | | | | | | | | | | | | | |
| American Century One Choice 2030 Inv (5/30/08) | Target Date 2026-2030 | ARXX | | | | | | | | | | | | | |
| Manning & Napier Target 2030 K (3/28/28) | Target Date 2026-2030 | MTPXX | | | | | | | | | | | | | |
| American Century One Choice 2035 Inv (8/31/04) | Target Date 2031-2035 | ARXX | | | | | | | | | | | | | |
| American Century One Choice 2040 Inv (3/28/08) | Target Date 2036-2040 | ARXX | | | | | | | | | | | | | |
| American Century One Choice 2045 Inv (8/31/04) | Target Date 2041-2045 | AROXX | | | | | | | | | | | | | |
| American Century One Choice 2050 Inv (5/30/08) | Target Date 2046-2050 | AROXX | | | | | | | | | | | | | |
| Manning & Napier Target 2050 K (3/28/28) | Target Date 2046-2050 | MTXX | | | | | | | | | | | | | |
| American Century One Choice 2055 Inv (3/31/11) | Target Date 2051+ | AREXX | | | | | | | | | | | | | |

ALTERNATIVE FUNDS—LEADING SCHWAB AFFILIATE FUNDS

| FUND NAME (FUND INCEPTION DATE) | MORNINGSTAR CATEGORY | QUOTE SYMBOL | CATEGORY | INCEPTION SINCE CAPTURE | QUOTE | YEAR | 3 YEARS | 5 YEARS | 10 YEARS | SINCE INCEPTION | UPIDE MARKET CAPTURE | DOWNSIDE MARKET CAPTURE | GROSS EXPENSE RATIO | NET EXPENSE RATIO | TOTAL ASSETS (SM) |
|--------------------------------|---------------------|--------------|----------|-------------------------|-------|------|---------|---------|----------|----------------|---------------------|----------------------|-------------------|-----------------|-----------------|----------------|
| Schwab Hedged Equity Fund (09/03/02) | Long/Short Equity | SWHEX | ALTERNATIVE FUNDS | | | | | | | | | | | | |
| PIMCO Convertible D (5/2/11) | Convertibles | PCVXX | | | | | | | | | | | | | |
| Gateway A (12/7/77)* | Long/Short Equity | GATEX | | | | | | | | | | | | | |
| Glenmede Total Market (12/21/06) | Long/Short Equity | GTMXX | | | | | | | | | | | | | |
| PIMCO CommoditiesPLUS® Strategy D (5/28/10) | Commodities Broad Basket | PCXX | | | | | | | | | | | | | |
| Goldman Sachs Commodities Strategy A (3/30/07)* | Commodities Broad Basket | GCAX | | | | | | | | | | | | | |
| Merger Investor (1/31/89) | Market Neutral | MRRXX | | | | | | | | | | | | | |
| Arbitrage R (8/18/00) | Market Neutral | ARBXX | | | | | | | | | | | | | |

PERFORMANCE BENCHMARKS

| FUND NAME (FUND INCEPTION DATE) | MORNINGSTAR CATEGORY | QUOTE SYMBOL | CATEGORY | INCEPTION SINCE CAPTURE | QUOTE | YEAR | 3 YEARS | 5 YEARS | 10 YEARS | SINCE INCEPTION | UPIDE MARKET CAPTURE | DOWNSIDE MARKET CAPTURE | GROSS EXPENSE RATIO | NET EXPENSE RATIO | TOTAL ASSETS (SM) |
|--------------------------------|---------------------|--------------|----------|-------------------------|-------|------|---------|---------|----------|----------------|---------------------|----------------------|-------------------|-----------------|-----------------|----------------|
| S&P 500 Index® (Dividends Reinvested) | | | | | | | | | | | | | | | | | |
| Barclays U.S. Aggregate Bond Index (Dividends Reinvested) | | | | | | | | | | | | | | | | | |
| New to the Select List this quarter | | | | | | | | | | | | | | | | | |

Asset Class Definitions

Balanced funds invest in a mix of stocks, bonds and cash within one fund and are classified into two categories. Conservative Allocation funds may invest 20% to 50% of assets in equities and 50% to 80% of assets in fixed income and cash. Moderate Allocation funds may invest 50% to 70% of assets in equities, with the balance invested in fixed income and cash. Convertible funds invest primarily in bonds and preferred stocks that can be converted into common stocks. Target maturity or “Lifecycle” funds are managed for investors planning to retire (or to begin withdrawing substantial portions of their investments) in a particular year. These funds provide both asset allocation and rebalancing for investors following an investment strategy that grows more conservative as the target date approaches.

Additional definitions:

Commodity-related products, including futures, carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by investments in a particular year. These funds provide both asset allocation and rebalancing for investors following an investment strategy that grows more conservative as the target date approaches.

Performance quoted is past performance and is no guarantee of future results. Current performance may be lower or higher. Morningstar, Inc., does not warrant the accuracy or completeness of any information.
ETF Select List®
A LIST OF PRESCREENED LOW-COST EXCHANGE-TRADED FUNDS

The ETF Select List provides you with a list of prescreened, low-cost ETFs representing one ETF from approximately 67 asset categories. This makes it easier for you to find the right ETFs to fit your investment needs and goals. The List was developed by the experts at Charles Schwab Investment Advisory, Inc., and is updated quarterly.

HOW ETFS ARE SELECTED
To build the Schwab ETF Select List, Schwab analyzes all eligible ETFs using the quantitative and qualitative selection criteria described below. This includes both Schwab ETFs™ and ETFs from third-party providers. Schwab accepts no payments for inclusion of any ETF on this List, and all ETFs are evaluated using the same criteria.

Because the ETFs featured typically seek to track their index as closely as possible (not outperform, as actively-managed mutual funds seek to do), the List highlights just one ETF per category. Each ETF that makes the List has earned its spot based upon a combination of qualitative and quantitative variables such as cost of ownership, risk, fund structure and fit within a given category rather than outperforming its peers.

SELECTION CRITERIA
From among these eligible funds, one is selected for each ETF Select List category on the basis of its low cost of ownership, assuming a $5,000 purchase into the ETF is made online on schwab.com, held for one year, then sold.

Estimated total cost of ownership as an annual percentage of invested assets including:
- net operating expenses
- bid-ask spreads
- trade commissions (buy and sell)

Commissions can add significantly to the cost of ownership, particularly smaller positions with shorter holding periods. Schwab does not charge a commission for online trades of ETFs in Schwab ETF OneSource, giving them a cost advantage in the selection process. Schwab ETFs are the only funds available on Schwab ETF OneSource in certain categories. Investing different amounts, trading more or less frequently, trading through brokers with commission structures different from Schwab’s, or trading at Schwab through a trading channel like a live representative or automated phone, or through a Schwab fee-based service that waives commissions, would affect cost of ownership estimates and could favor an ETF other than the one selected by Schwab for the List.

Other criteria are also considered, such as risk, fund structure and other qualitative factors. For example, a fund may be excluded if its investment style or portfolio holdings are not representative of its asset category; its bid-ask spread reflects a history of occasional large spikes; or its structure makes it more susceptible to adverse tax consequences.

To show a broader sampling of ETF providers on the List, no single ETF provider, including Schwab, may represent more than one-third of the ETFs on the ETF Select List. If any ETF provider, including Schwab, has more than one-third of the most favorably evaluated funds on the List, one or more of the second-most favorably evaluated ETFs will be substituted as necessary to limit that ETF provider’s representation. ETFs are evaluated and selected quarterly for the List using quarter-end data.

ELIGIBILITY REQUIREMENTS
To be eligible for the ETF Select List, an ETF must meet certain minimum requirements to ensure a basic standard of liquidity, viability and structural stability among eligible ETFs. Eligibility criteria include:
- assets under management
- bid-ask spread
- length of track record
- number of competitive market makers

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can obtain a prospectus by calling 800-435-4000. Please read the prospectus carefully before investing.

1 Conditions Apply: Trades in ETFs available through Schwab ETF OneSource™ (including Schwab ETFs™) are available without commissions when placed online in a Schwab account. Schwab ETFs are the only funds available on Schwab ETF OneSource in certain categories. Service charges apply to sell transactions. Certain types of Schwab ETF OneSource transactions are not eligible for the commission waiver, such as short sells and buys to cover (not including Schwab ETFs), Schwab reserves the right to change the ETFs we make available without commissions. All ETFs are subject to management fees and expenses. Please see pricing guide for additional information.

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## Exchange-Traded Funds

**FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

ETFs can be a flexible and cost-effective way to invest in a variety of sectors and regions. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. Shares are bought and sold at market price, which may be higher or lower than the net asset value (NAV). U.S. growth stocks with market caps between $850M and $3.8B selected based on sales growth, earnings growth, & momentum selected.

In emerging markets may accentuate these risks. See the prospectus for more information on the risks associated with investing outside the U.S. U.S. investors may have different risk exposures than investors in emerging markets.

Some specialized exchange-traded funds can be subject to additional market risks. Investment returns will fluctuate and are subject to market volatility, so that an investor’s shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF.

### Recent Updates
- Schwab Total Stock Market Index 0.08% $0† Index covers over 700 largest U.S. firms which comprise about 80% of the U.S. market (by capitalization)
- EFG iShares MSCI EAFE Growth Index MSCl EAFE Growth Index 0.40% $8.95 Developed stock markets excl. U.S. and Canada. Top index weights are U.K., Japan and Switzerland.
- SCHD Schwab U.S. Dividend Equity ETF Dow Jones U.S. Dividend 100 Index 0.07% $0† Holds U.S. companies that consistently pay dividends and have strong relative fundamental strength based on financial ratios.
- Developed Core SCHX Schwab U.S. Large-Cap Total Stock Market Index 0.04% $0† Index covers over 700 largest U.S. firms which comprise about 80% of the U.S. market (by capitalization)
- Large Core SCHG Schwab U.S. Large-Cap Growth Total Stock Market Index 0.07% $0† ETF has diversified exposure to large growth names such as Apple, Berkshire Hathaway and Google
- Large Value SCHV Schwab U.S. Large-Cap Value Total Stock Market Index 0.07% $0† ETF has diversified exposure to large value names such as ExxonMobil, GE, and Wells Fargo
- Mid Core SCHM Schwab U.S. Mid-Cap Total Stock Market Index 0.07% $0† Over 500 holdings providing U.S. equity exposure to the mid-cap portion of the broader U.S. stock market.
- Mid Growth MDYG SPDR S&P MidCap 400 Growth Index S&P MidCap 400 Growth Index 0.25% $0† U.S. growth stocks with market caps between $850M and $3.8B selected based on sales growth, earnings growth, & momentum.
- Mid Value MDYV SPDR S&P MidCap 400 Value Index S&P MidCap 400 Value Index 0.25% $0† Focuses on over 1700 small-cap companies; index excludes the smallest micro-cap stocks.
- Small Core SCHA Schwab U.S. Small-Cap Total Stock Market Index 0.08% $0† Holds small-cap stocks with value characteristics based on: book value to price, earnings to price and sales to price ratios.
- Small Growth SLYG SPDR S&P SmallCap 600 Growth Index S&P SmallCap 600 Growth Index 0.25% $0† Holds small-cap stocks with characteristics and market caps ranging from $250M to $1.2B.
- Small Value SLYV SPDR S&P SmallCap 600 Value Index S&P SmallCap 600 Value Index 0.25% $0† Holds stocks with value characteristics selected from the S&P 600 Small Cap 600 index.
- Total Stock Market SCHB Schwab U.S. Broad Market ETF Dow Jones U.S. Broad Stock Market Index 0.04% $0† Holds over 1900 large to small-cap firms; covers virtually the entire U.S. stock market (by capitalization).
## Exchange-Traded Funds

*For the quarter ended September 30, 2014*

### ETF Select List

<table>
<thead>
<tr>
<th>Category</th>
<th>Symbol</th>
<th>Fund Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BOND ETFs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short Term</td>
<td>BSV</td>
<td>Vanguard Short-Term Bond</td>
<td>Invests in U.S. government and investment-grade corporate bonds with durations from one to five years.</td>
</tr>
<tr>
<td>Broad Market</td>
<td></td>
<td>ETF</td>
<td></td>
</tr>
<tr>
<td>Short Term</td>
<td>VCSH</td>
<td>Vanguard Short-Term Corp</td>
<td>Hold over 1500 short-term, investment grade corporate bonds</td>
</tr>
<tr>
<td>Broad Market</td>
<td></td>
<td>Bond Index ETF</td>
<td></td>
</tr>
<tr>
<td>Short Term</td>
<td>SHM</td>
<td>SPDR Nuveen Barclays Short</td>
<td>Holdings in other U.S. dollar denominated investment-grade corporate bonds.</td>
</tr>
<tr>
<td>Muni</td>
<td></td>
<td>Term Municipal Bond</td>
<td></td>
</tr>
<tr>
<td>Short Term</td>
<td>SCHD</td>
<td>Schwab Short-Term U.S.</td>
<td>ETF features about 60 Treasuries which mature in 1–3 years.</td>
</tr>
<tr>
<td>Treasury</td>
<td></td>
<td>Treasury ETF</td>
<td></td>
</tr>
<tr>
<td>Intermediate</td>
<td>SCHZ</td>
<td>Schwab U.S. Aggregate Bond</td>
<td>Holdings that are fixed rate, non-convertible with at least $250 million of outstanding face value.</td>
</tr>
<tr>
<td>Broad Market</td>
<td></td>
<td>ETF</td>
<td></td>
</tr>
<tr>
<td>Intermediate</td>
<td>CORP</td>
<td>PIMCO Investment Grade</td>
<td>Tracks a market-weighted index of U.S. dollar denominated investment-grade corporate bonds.</td>
</tr>
<tr>
<td>Corporate</td>
<td></td>
<td>Corporate Bond</td>
<td></td>
</tr>
<tr>
<td>Intermediate</td>
<td>TFI</td>
<td>SPDR Nuveen Barclays</td>
<td>Trade the U.S. long-term tax-exempt bond market and includes general obligation, revenue, pre-refunded and insured issues.</td>
</tr>
<tr>
<td>Muni</td>
<td></td>
<td>Municipal Bond</td>
<td></td>
</tr>
<tr>
<td>Intermediate</td>
<td>SCHR</td>
<td>Schwab Intermediate-Term</td>
<td>ETF features debt issued by foreign governments: non-dollar denominated, investment grade.</td>
</tr>
<tr>
<td>U.S. Treasury ETF</td>
<td></td>
<td>U.S. Treasury ETF</td>
<td></td>
</tr>
<tr>
<td>Long Term</td>
<td>BLV</td>
<td>Vanguard Long-Term Bond</td>
<td>Holds U.S. Treasuries with an average maturity of over 24 years.</td>
</tr>
<tr>
<td>Broad Market</td>
<td></td>
<td>Bond Index ETF</td>
<td></td>
</tr>
<tr>
<td>Long Term</td>
<td>VCLT</td>
<td>Vanguard Long-Term Corp</td>
<td>Tracks an index of high-yield, U.S. bonds that are selected based on the Research Affiliates. Fundamental Index® methodology.</td>
</tr>
<tr>
<td>Corporate</td>
<td></td>
<td>Bond Index ETF</td>
<td></td>
</tr>
<tr>
<td>Long Term</td>
<td>MLN</td>
<td>Market Vectors Long Municipal</td>
<td>Provides diversified exposure to the long-term, investment-grade segment of the U.S. bond market.</td>
</tr>
<tr>
<td>Treasury</td>
<td></td>
<td>ETF</td>
<td></td>
</tr>
<tr>
<td>Short Term</td>
<td>TLO</td>
<td>SPDR Barclays Long Term</td>
<td>Tracks an index of high-yield, U.S. bonds that are selected based on the Research Affiliates. Fundamental Index® methodology.</td>
</tr>
<tr>
<td>Treasury</td>
<td></td>
<td>Treasury Index ETF</td>
<td></td>
</tr>
<tr>
<td>High Yield</td>
<td>PHB</td>
<td>PowerShares Fundamental</td>
<td>Tracks a market-weighted index of U.S. dollar denominated investment-grade corporate bonds.</td>
</tr>
<tr>
<td>TIPS</td>
<td>SCHP</td>
<td>S&amp;P 500 Equal Weight ETF</td>
<td>Tracks an index of U.S. dollar denominated investment-grade corporate bonds.</td>
</tr>
<tr>
<td>International</td>
<td>BXK</td>
<td>SPDR Barclays International</td>
<td>Tracks an index of high-yield, U.S. bonds that are selected based on the Research Affiliates. Fundamental Index® methodology.</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>PCY</td>
<td>PowerShares Emerging Mkts</td>
<td>Tracks an index of high-yield, U.S. bonds that are selected based on the Research Affiliates. Fundamental Index® methodology.</td>
</tr>
<tr>
<td>Sovereign Debt</td>
<td></td>
<td>Sovereign Debt</td>
<td></td>
</tr>
<tr>
<td>Preferred Stock</td>
<td>PGX</td>
<td>PowerShares Preferred</td>
<td>Tracks an index of high-yield, U.S. bonds that are selected based on the Research Affiliates. Fundamental Index® methodology.</td>
</tr>
<tr>
<td>Portfolio</td>
<td></td>
<td>Portfolio</td>
<td></td>
</tr>
</tbody>
</table>

### SECTOR ETFs

<table>
<thead>
<tr>
<th>Category</th>
<th>Symbol</th>
<th>Fund Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer</td>
<td>RCD</td>
<td>Guggenheim S&amp;P Equal</td>
<td>Tracks an index of U.S. consumer discretionary stocks where each holding is rebalanced quarterly to equal weight.</td>
</tr>
<tr>
<td>Discretionary</td>
<td></td>
<td>Weight Index</td>
<td></td>
</tr>
<tr>
<td>Consumer</td>
<td>RHS</td>
<td>Guggenheim S&amp;P Equal</td>
<td>Tracks an index of U.S. consumer discretionary stocks where each holding is rebalanced quarterly to equal weight.</td>
</tr>
<tr>
<td>Staples</td>
<td></td>
<td>Weight Consumer Staples</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>RYE</td>
<td>Guggenheim S&amp;P Equal</td>
<td>Tracks an index of U.S. consumer discretionary stocks where each holding is rebalanced quarterly to equal weight.</td>
</tr>
<tr>
<td>Weight Energy</td>
<td></td>
<td>Weight Energy Index</td>
<td></td>
</tr>
<tr>
<td>Clean Energy</td>
<td>OCLN</td>
<td>First Trust NASDAQ Clean</td>
<td>Tracks an index of U.S. consumer discretionary stocks where each holding is rebalanced quarterly to equal weight.</td>
</tr>
<tr>
<td>Energy</td>
<td></td>
<td>Edge Green Energy</td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td>RYF</td>
<td>Guggenheim S&amp;P Equal</td>
<td>Tracks an index of U.S. consumer discretionary stocks where each holding is rebalanced quarterly to equal weight.</td>
</tr>
<tr>
<td>Weight Financial</td>
<td></td>
<td>Weight Index</td>
<td></td>
</tr>
<tr>
<td>Health Care</td>
<td>RYH</td>
<td>Guggenheim S&amp;P Equal</td>
<td>Tracks an index of U.S. consumer discretionary stocks where each holding is rebalanced quarterly to equal weight.</td>
</tr>
<tr>
<td>Weight Health Care</td>
<td></td>
<td>Weight Health Care</td>
<td></td>
</tr>
<tr>
<td>Industrials</td>
<td>RGI</td>
<td>Guggenheim S&amp;P Equal</td>
<td>Tracks an index of U.S. consumer discretionary stocks where each holding is rebalanced quarterly to equal weight.</td>
</tr>
<tr>
<td>Weight Industrials</td>
<td></td>
<td>Weight Industrials Index</td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td>VAW</td>
<td>Vanguard Materials</td>
<td>Tracks an index of U.S. consumer discretionary stocks where each holding is rebalanced quarterly to equal weight.</td>
</tr>
<tr>
<td>Technology</td>
<td>RYT</td>
<td>Guggenheim S&amp;P Equal</td>
<td>Tracks an index of U.S. consumer discretionary stocks where each holding is rebalanced quarterly to equal weight.</td>
</tr>
<tr>
<td>Technology</td>
<td></td>
<td>Weight Technology</td>
<td></td>
</tr>
<tr>
<td>Telecommunications</td>
<td>FCOM</td>
<td>Fidelity MSCI Telecommuni-</td>
<td>Tracks an index of U.S. consumer discretionary stocks where each holding is rebalanced quarterly to equal weight.</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td>cation Services</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>RYU</td>
<td>Guggenheim S&amp;P Equal</td>
<td>Tracks an index of U.S. consumer discretionary stocks where each holding is rebalanced quarterly to equal weight.</td>
</tr>
<tr>
<td>Technology</td>
<td></td>
<td>Weight Utilities</td>
<td></td>
</tr>
</tbody>
</table>

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Exchange-Traded Funds

FOR THE QUARTER ENDED SEPTEMBER 30, 2014

REAL ASSETS

<table>
<thead>
<tr>
<th>ETF SELECT LIST CATEGORY</th>
<th>QUOTE SYMBOL</th>
<th>FUND NAME</th>
<th>INDEX</th>
<th>GROSS EXPENSES</th>
<th>ONLINE COMMISSION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodities Broad</td>
<td>USCI</td>
<td>United States Commodity Index</td>
<td>SummerHaven Dynamic Commodity Index Total Return</td>
<td>1.14%</td>
<td>$0†</td>
<td>14 futures contracts on precious metals, industrial metals, energy and agricultural products. Investors will receive K-1s. Uses futures contracts to access a cornucopia of coffee, sugar, livestock, grain, cocoa. Investors will get K-1s at tax time. Each share backed by gold bullion held in a Swiss vault. Provides direct exposure to gold price movements. ETF is structured as a grantor trust; holds gold, silver, platinum and palladium.</td>
</tr>
<tr>
<td>Agriculture</td>
<td>DBA</td>
<td>PowerShares DB Agriculture</td>
<td>DBIG Diversified Agriculture Index Excess Return</td>
<td>0.85%</td>
<td>$8.95</td>
<td></td>
</tr>
<tr>
<td>Gold</td>
<td>SGOL</td>
<td>ETFS Physical Swiss Gold Shares</td>
<td>Gold Spot</td>
<td>0.39%</td>
<td>$0†</td>
<td></td>
</tr>
<tr>
<td>Broad Precious Metals</td>
<td>GLTR</td>
<td>ETFS Physical PM Basket Shares</td>
<td>Silver, Gold, Platinum and Palladium Spot</td>
<td>0.60%</td>
<td>$0†</td>
<td></td>
</tr>
<tr>
<td>Industrial Metals</td>
<td>DDB</td>
<td>PowerShares DB Base Metals</td>
<td>DBIG Optimum Yield Industrial Metals Index Excess Return</td>
<td>0.75%</td>
<td>$8.95</td>
<td></td>
</tr>
<tr>
<td>Oil</td>
<td>USL</td>
<td>United States 12 Month Oil</td>
<td>12 Month Light Sweet Crude Oil</td>
<td>0.99%</td>
<td>$0†</td>
<td>Holds futures contracts expiring in 12 consecutive months for light, sweet crude. Investors will get K-1s at tax time.</td>
</tr>
<tr>
<td>Broad Energy Commodities</td>
<td>DBE</td>
<td>PowerShares DB Energy</td>
<td>DBIG Optimum Yield Energy Index Excess Return</td>
<td>0.75%</td>
<td>$8.95</td>
<td>Holds futures contracts on light sweet crude, heating oil, Brent oil, gasoline and natural gas. Investors will get K-1s.</td>
</tr>
<tr>
<td>Real Estate</td>
<td>SCHH</td>
<td>Schwab U.S. REIT ETF</td>
<td>Dow Jones U.S. Select REIT Index</td>
<td>0.07%</td>
<td>$0†</td>
<td></td>
</tr>
</tbody>
</table>

SPECIALTY ETFs

<table>
<thead>
<tr>
<th>ETF SELECT LIST CATEGORY</th>
<th>QUOTE SYMBOL</th>
<th>FUND NAME</th>
<th>INDEX</th>
<th>GROSS EXPENSES</th>
<th>ONLINE COMMISSION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-Asset Income</td>
<td>CVY</td>
<td>Guggenheim Multi-Asset Income</td>
<td>Zacks Multi-Asset Income Index</td>
<td>0.89%</td>
<td>$0†</td>
<td>Compared to market cap weighted indexes, the ETF has lower exposure to the largest companies; Index is rebalanced quarterly.</td>
</tr>
</tbody>
</table>

ALTERNATIVE WEIGHTED ETFs

<table>
<thead>
<tr>
<th>ETF SELECT LIST CATEGORY</th>
<th>QUOTE SYMBOL</th>
<th>FUND NAME</th>
<th>INDEX</th>
<th>GROSS EXPENSES</th>
<th>ONLINE COMMISSION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Large Weighted Equal</td>
<td>RSP</td>
<td>Guggenheim S&amp;P 500 Equal Weight</td>
<td>S&amp;P 500 Equal Weight Index</td>
<td>0.40%</td>
<td>$0†</td>
<td>Compared to market cap weighted indexes, the ETF has lower exposure to the largest companies; Index is rebalanced quarterly.</td>
</tr>
<tr>
<td>U.S. Large Weighted Fundamental</td>
<td>FNDX</td>
<td>Schwab Fundamental U.S. Large Company</td>
<td>Russell Fundamental U.S. Large Company Index</td>
<td>0.32%</td>
<td>$0†</td>
<td>Diversified exposure to large U.S. stocks; Holdings are weighted based on fundamental measures of company performance. Stocks are selected based on company fundamentals: retained operating cash flow, adjusted sales and dividends plus buybacks. Exposure to large, int’l companies selected and weighted based on fundamental measures of company performance.</td>
</tr>
<tr>
<td>U.S. Small Weighted Fundamental</td>
<td>FNDN</td>
<td>Schwab Fundamental U.S. Small Company</td>
<td>Russell Fundamental U.S. Small Company Index</td>
<td>0.32%</td>
<td>$0†</td>
<td></td>
</tr>
<tr>
<td>International Weighted Fundamental</td>
<td>FNDP</td>
<td>Schwab Fundamental International Large Company</td>
<td>Russell Fundamental Developed ex-U.S. Large Company Index</td>
<td>0.32%</td>
<td>$0†</td>
<td></td>
</tr>
<tr>
<td>U.S. Large Weighted Low Volatility</td>
<td>SPLV</td>
<td>PowerShares S&amp;P 500 Low Volatility</td>
<td>S&amp;P 500® Low Volatility Index</td>
<td>0.25%</td>
<td>$0†</td>
<td>Holds 100 stocks from the S&amp;P 500® Index with the lowest realized volatility over the past 12 months.</td>
</tr>
<tr>
<td>U.S. Small Weighted Low Volatility</td>
<td>XSLV</td>
<td>PowerShares S&amp;P Small Cap Low Volatility</td>
<td>S&amp;P SmallCap 600 Low Volatility Index</td>
<td>0.34%</td>
<td>$8.95</td>
<td>Tracks a volatility weighted index of the 120 least volatile securities from the S&amp;P SmallCap 600 Index.</td>
</tr>
<tr>
<td>International Weighted Low Volatility</td>
<td>IDLV</td>
<td>PowerShares S&amp;P International Developed Low Volatility</td>
<td>S&amp;P BMI International Developed Low Volatility Index</td>
<td>0.35%</td>
<td>$0†</td>
<td>Holds the 200 least volatile large and mid cap stocks excluding the U.S. and South Korea over the past 12 months.</td>
</tr>
</tbody>
</table>

TRADITIONAL INDEXES

These ETFs track indexes that are mostly weighted by market capitalization; that is, they give the most weight to companies whose outstanding stock is worth the most money. The advantages of ETFs that track market capitalization or traditional weighted indexes are that they require very little rebalancing (which keeps costs low) and that they reflect the way the market itself is weighted. In some cases a different weighting scheme may be traditional, such as commodity indexes that are weighted by the liquidity of various commodities.

ALTERNATIVE WEIGHTED ETFS

There are three Alternative Weighted ETF categories on the ETF Select List. Each category has a specific approach to building an index so you can consider which ETFs are best for your situation.

• **EQUAL-WEIGHTED INDEXES:** Most indexes are weighted by market capitalization, where companies with the highest stock market value get the most weight. Equal-weighted indexes give an equal amount of weight to each stock in the index. If an ETF tracks an equal-weighted index with 100 stocks, it would generally put about 1% of the fund’s assets into each of the stocks.

• **FUNDAMENTAL-WEIGHTED INDEXES:** Rather than relying on stock market values for weights, a fundamental index uses criteria such as companies’ profits, dividends, book value, cash flow or number of employees to assign weight to the stocks in the index. The theory is to put more weight into stocks that have a larger economic footprint rather than just a large market value.

• **LOW VOLATILITY-WEIGHTED INDEXES:** In these funds, the lower the volatility of a stock, the more weight it receives in the index. The goal is to arrive at a group of stocks whose overall volatility is lower than the market as a whole, which means that the index may gain less than the market during rallies but lose less than the market during declines.
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- **Argus Model Portfolios**: These three model portfolios (shown below) focus on equity income, growth and income, and mid-cap growth. Changes to the portfolios are executed monthly.

---

**Equity Income**

- Dow Chemical Co. - 17%
- Caterpillar Inc. - 11%
- General Electric Co. - 13%
- Georgia-Pacific Corp. - 11%
- Occidental Petroleum Corp. - 10%
- HCA Inc. - 6%

**Growth & Income**

- Apple Inc. - 14%
- Microsoft Corp. - 13%
- Procter & Gamble Co. - 10%
- Dow Chemical Co. - 17%
- General Electric Co. - 13%
- HCA Inc. - 6%

**Mid-Cap Growth**

- Applied Materials Inc. - 15%
- Nokia Corp. - 10%
- Advanced Micro Devices Inc. - 14%
- Intuit Inc. - 13%
- Applied Materials Inc. - 17%
- Applied Materials Inc. - 14%

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See page 2 for important information.

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(1114-4851)
Ready to Engage

Successful wealth management requires interaction.

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At Schwab, we believe investors deserve respect from the financial professionals who serve them. We believe in relationships built on trust and engagement. We encourage tough questions and honor our clients’ demands for accountability. And we are constantly looking for ways to deliver better investment offerings and service.

That commitment starts with Financial Consultants who work hard on your behalf, encourage your involvement and provide straightforward, honest answers to your questions—including what you pay for our services and how our financial professionals are compensated. It extends to our robust offering of investment insights and commentary, as well as access to a wide array of investments from leading asset managers across the industry—not just from Schwab.

We call this wealth management, and it’s all about providing transparent, trustworthy guidance to help you take ownership of your financial life. If you’re interested in this type of guidance, come talk to us. We’ll share with you our passion for creating a better investing experience through a modern and more engaging approach to wealth management.

CHARLES R. SCHWAB
Founder & Chairman

See page 2 for important information.

Brokerage Products: Not FDIC Insured • No Bank Guarantee • May Lose Value

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There are eligibility requirements to work with a dedicated Financial Consultant.

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Call 1-866-893-6699 to talk with a Schwab Bond Specialist today.

### Comparing bond prices could save you money.

<table>
<thead>
<tr>
<th>Bond</th>
<th>Quantity</th>
<th>Price at Firm A</th>
<th>Price at Firm B</th>
<th>Total Cost Paid at Firm A</th>
<th>Total Cost Paid at Firm B</th>
<th>Potential Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond A</td>
<td>125</td>
<td>104.49</td>
<td>103.11</td>
<td>$130,613</td>
<td>$128,888</td>
<td>$1,725</td>
</tr>
<tr>
<td>Bond B</td>
<td>150</td>
<td>103.63</td>
<td>101.26</td>
<td>$155,445</td>
<td>$151,890</td>
<td>$3,555</td>
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<tr>
<td>Bond C</td>
<td>200</td>
<td>101.00</td>
<td>99.07</td>
<td>$202,000</td>
<td>$198,140</td>
<td>$3,860</td>
</tr>
</tbody>
</table>

The example is hypothetical and provided for illustrative purposes only. It is not intended to represent a specific investment product.

Bond prices are often quoted as a percentage of the face value. For example, a bond priced at 90 can be thought of as 90% of face value. So if the face value of a bond selling at 90 is $1,000, it would cost you $900.