

Schwab Advisor Services

Independent Advisor Outlook Study (IAOS)

Spring 2023

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| Foreword

For 16 years, the Schwab Advisor Services' Independent Advisor Outlook Study (IAOS) has taken the pulse of independent advisors and provided a window into future trends. This wave of the study is no different, and there is no shortage of topics to cover.

The consistent pace of growth in this space over the past two decades has taken many forms. Against the backdrop of individual and family wealth creation, we have seen growing demand for fiduciary advice – and as firms have expanded to meet this demand, we've seen evolving ways of attracting and retaining the best talent to serve the growing needs of clients. Industry growth has also been buoyed by a steady pace of innovation across technology, products and solutions, and operational best practices, all in the service of the independent model.

If there is an overarching story to this edition of IAOS, it's that advisors don't see the industry slowing down, and that growth continuously brings change, whether in the form of new opportunities, increased complexity, or new challenges. Consolidation is making big players even bigger, advisors have more technology and digital solutions than ever before, and client expectations are getting more pronounced when it comes to having a deeply personalized experience.

However, what's most interesting is the myriad ways in which individual RIA firms can leverage these trends, resources, and evolving client demands to shape how their firms are growing and position themselves for continued success.

The report that follows tells this story through data representing the collective viewpoint of more than 860 RIAs, along with the individual perspectives of a range of longtime industry voices. Beyond growth, we have homed in on some specific topics that are top of mind right now, namely automation, data, and personalization.

We at Schwab Advisor Services are spending a lot of time thinking about what the future of this industry will and can be. What we know for sure: We are incredibly proud to play a part in this vibrant and exciting space. There is so much more to come, and investors will be better for it.

– Bernie Clark, Managing Director, Head of Advisor Services

Methodology

The Independent Advisor Outlook Study (IAOS) is conducted for Charles Schwab by Logica Research.*
The current survey wave consists of a quantitative online survey and qualitative interviews.



The **quantitative survey**, conducted from December 1 through December 15, 2022, polled 862 independent investment advisors who custody assets with Schwab Advisor Services, representing a total of \$359 billion in assets under management (AUM). Participation was voluntary, participants were not incentivized, and the typical (median) survey length was 15 minutes.



Qualitative interviews were conducted with eight industry subject matter experts: three Schwab Advisor Services leaders, and five third-party participants. Participants in these interviews are providing their own perspectives on industry trends and issues. They did not view the quantitative survey results and are not commenting specifically on the findings.



| Introducing the experts

Schwab Advisor Services



Bernie Clark

Managing Director
Head of Schwab Advisor Services



Jon Beatty

Chief Operating Officer
Schwab Advisor Services



Jalina Kerr

Managing Director, Client Experience
Schwab Advisor Services



Introducing the experts

Industry voices



Eric Clarke

CEO
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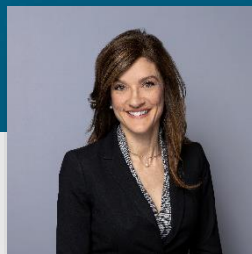


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Findings

I

Beyond AUM: How growth is changing and shaping the RIA industry

Enabled by technology and driven by continued client demand for the independent model, growth brings choices, complexity, and challenges to RIA firms.

01 | Growth

Growth of the RIA industry can be understood in many ways.

At the firm level, assets under management (AUM) and ‘number of clients’ certainly capture the evolving size and scope of the industry over the past two decades. In fact, 64% of RIAs cite ‘number of clients served’ as the top measure of their growth after AUM.

Approximately two in five advisors (43%) also point to the number of RIAs in the industry as a reflection of growth; while 42% say growth can be defined by the increased diversity of services RIAs offer their clients.

At an industry level, interviewees talked about growth in terms of the innovation that has helped shape the RIA ecosystem. This innovation continues to fuel the open architecture technology solutions that enable RIAs to run and grow successful businesses on their own terms – a defining aspect of independence.



“It’s all about how you find and attract new clients. New clients are ultimately the most valuable expression of growth.”

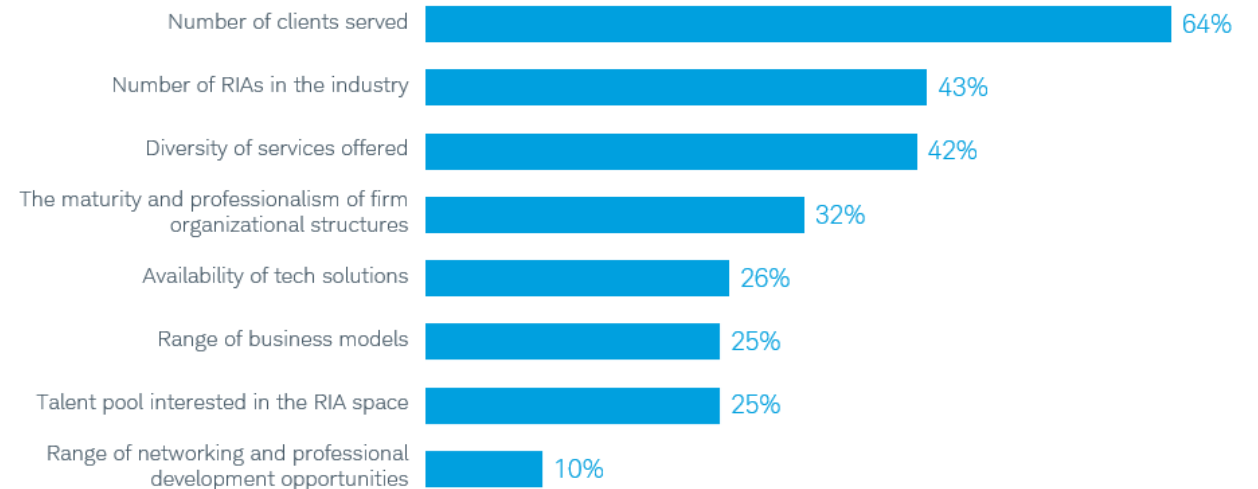
– Jon Beatty



“One of the drivers of growth in the RIA space has been the desire advisors have to provide more comprehensive solutions to their clients.”

– Kevin Keller

Defining growth beyond AUM



01 | Growth



“Technology has been key to growth and has helped unlock and fuel it more broadly.”

– Jalina Kerr



“The opportunity that growth creates is a space where you can be crystal clear about the type of client you are able to serve, and more importantly, the type of client you are able to serve best.”

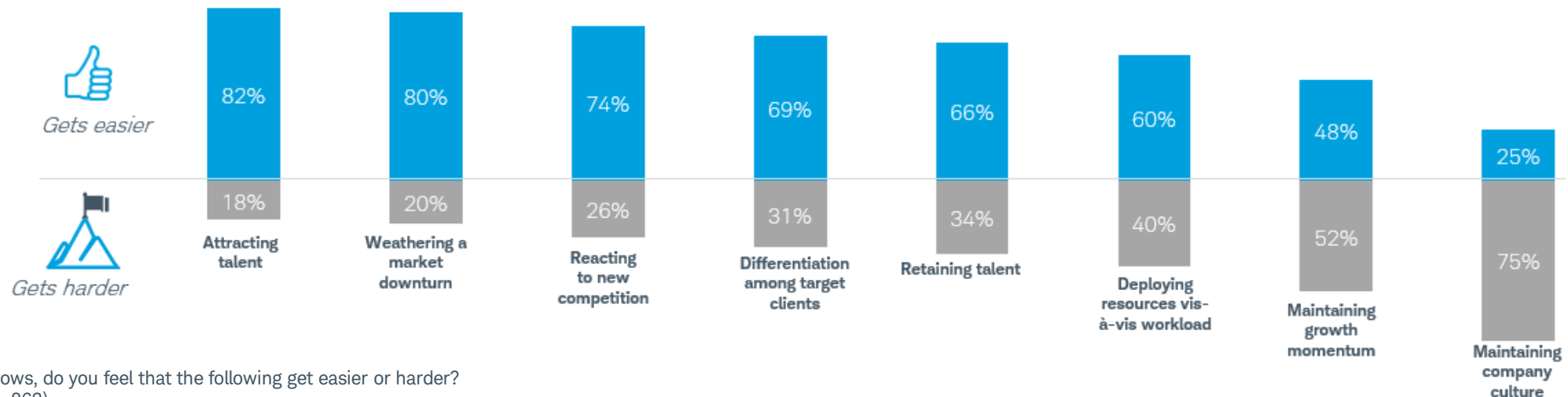
– Heather Fortner

The study found that growth makes many aspects of running a firm easier, but not everything.

On the one hand, advisors say it gets easier to react to new competition, to differentiate their firm among potential clients, and notably, to attract and retain talent.

But as they are growing, three quarters of advisors report it gets harder to maintain their company culture. In addition, half start to find it harder to maintain the growth momentum itself.

What gets easier or harder with growth



Q.3: As an RIA firm grows, do you feel that the following get easier or harder?
(Base: Total Advisors = 862)

01 | Growth

Longer-term perspective

Almost all advisors (95%) report that growth gives them the ability to invest in the long term versus staying focused on the short term, and they are more likely to describe themselves as being able to take risks.

The perspective of the industry leaders echoed this theme through the lens of robust M&A activity in the industry.

An embodiment of a long-term viewpoint, dealmaking has maintained a strong pace, and the interviews highlighted the ways in which it is being used by advisors to increase scale, add talent and technology, and expand their services.



“Some firms are starting to pivot toward acquisition as a way to augment or create another channel of growth for themselves.”

– **Jon Beatty**



“M&A is helping growth, because firms can consolidate those lower value services into a more consistent experience for clients and allow the people on the relationship side of the business to be focused on the relationship.”

– **Bernie Clark**



“As RIA firms grow, moving quickly and staying agile become more difficult. They may have more resources at their disposal, but they also have more decision-makers in the room.”

– **Brian Hamburger**



01 | Growth

Interviewees pointed to some of the challenges of growth, including balancing scale with the demand for increased personalization, managing increasingly complicated technology stacks, and finding or training the right talent to support expanded firm services.



“Advisors need to compete while having the appropriate relationship between cost to serve and revenues so that they don’t get too squeezed as they try to deliver more personalized services.”

– **Jon Beatty**



“The challenge – and the opportunity – is in trying to be everything to everybody. For us, having niche client communities enables us to build for both scale and personalization. It also allows our advisors to have a base clientele who they truly understand and are really passionate about serving well.”

– **Heather Fortner**



“In the face of growth, talent is the biggest obstacle to overcome. You can educate technically competent individuals, and that’s incredibly important, but it’s harder to teach people to be counselors who can deliver that high-touch connection with clients that will fuel long-term success.”

– **Bernie Clark**



“We’ve seen a transition from an industry that largely relied on organic growth to one that is now seemingly fixated on acquisitions, both the acquisitions of talent and acquisitions of businesses, to fuel growth.”

– **Brian Hamburger**

II

The promise of data: Intelligence to operate and grow strategically

Advisors acknowledge the potential benefits of the wealth of data at their fingertips – but harnessing it remains a challenge.

02 | Data

Industries across the board are seeing new opportunities for growth, scale, and service as a result of increasingly sophisticated data aggregation and analytics tools. RIAs are no different.

The interviews underscored that client data has the potential to yield actionable intelligence for advisors, ultimately enabling them to deliver better service and outcomes – but only if they can gather and process all of it effectively.

RIAs don't need to be convinced of the value of data. Just over three-quarters (76%) see the opportunity to provide better service to clients and 56% say data can help them streamline their operational processes.



"It's not just the day-to-day and operational aspects of their practices. Advisors also want to be forward-looking and have good intelligence about which clients are taking advantage of what things, and how the advisor could be optimizing the client behavior."

– **Jalina Kerr**



"It's important for advisors to understand data and to be able to translate it into insights and actions."

– **Kevin Keller**



"For example, when you roll up information at a firm level, you need to know your AUM and how your revenues are trending, as well as the demographic base of your clientele. From there, you can determine at the beginning of every year how much of a headwind you face due to market distributions that are going to be going out as RMDs or systematic withdrawals. Knowing that type of data about your firm will help you understand and manage your business better."

– **Eric Clarke**



Biggest benefits of data

76%

Provide better service to clients

35%

Informing personalization of client relationship

56%

Streamlining our operational process

34%

Managing resources (human & tech) more efficiently

38%

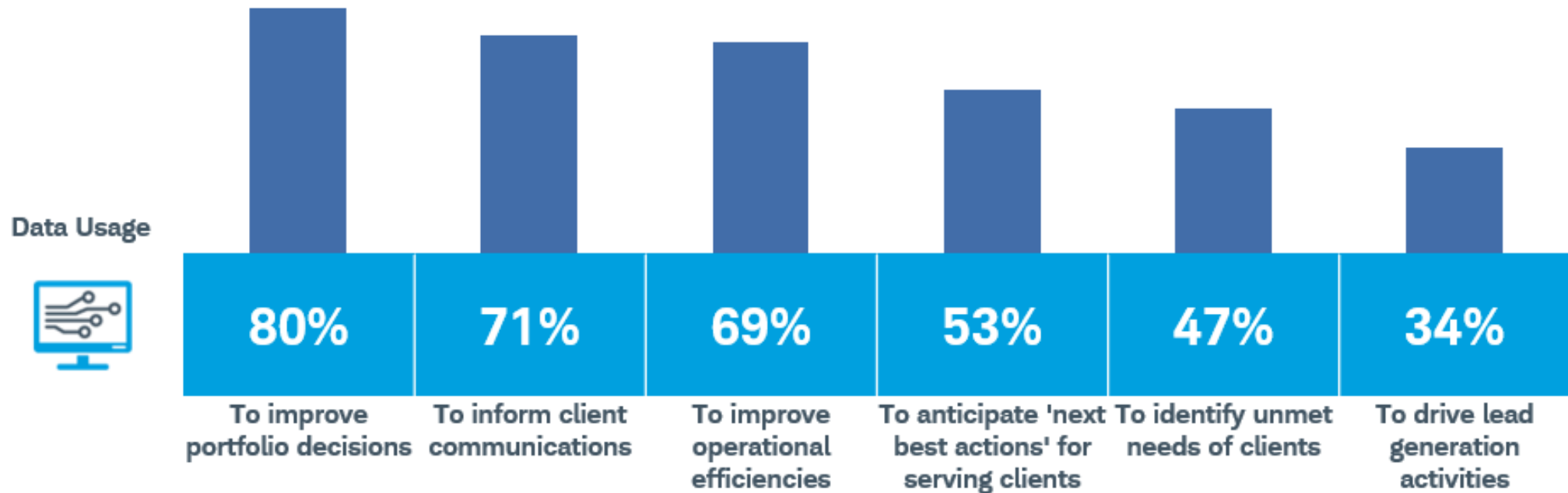
Develop a more focused business strategy

23%

Targeting prospects better

02 | Data

According to the study, many advisors are already putting data insights into action: 80% say they currently leverage data to improve portfolio decisions, and 69% use it to improve operational efficiencies.



02 | Data

In the interviews, experts pointed to how data can inform the client relationship itself – how it can be used to customize offerings, anticipate client needs, and help clients be more engaged in the wealth planning process.

The study shows that a significant number of RIAs are already taking steps toward using data to enhance the client-advisor relationship. Close to half (47%) say they are using data to identify the unmet needs of clients right now, with another 39% saying they plan to do so in the next three years. Fifty-three percent (53%) also say they're currently tapping data to anticipate the 'next best actions' for serving their clients, and 35% say they will do so in the next three years.



“I think RIAs are doing an unbelievable job at being reactive with data to meet client needs. But I don't know that they're using data to be predictive with their clients. For example, are they using data to uncover opportunities where they can create services for their client? The data might show that there's a group of clients reaching a certain age or pursuing a certain lifestyle, and the advisor can identify how they can do more with them and, in turn, deepen the relationship.”
– **Bernie Clark**



“Beyond the one-off data points for a client relationship, I think it's important that you look at data that can help you get insight as to how a client is feeling. So, for instance, how often are they logging into the client portal? When they're in the client portal, what things do they look at? Getting that type of insight about a client is very helpful.”
– **Eric Clarke**

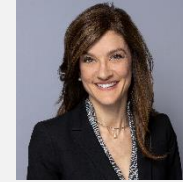


“As RIAs look to the future, it's important that they take a proactive stance in leveraging data to enhance the client experience. Some clients want to see the bottom line, some want desktop access, and others want apps, which is why working with various tech partners to deliver differentiated client experiences works well for us.”
– **Heather Fortner**

02 | Data

What stands in the way of greater data use across the industry?

RIAs are struggling to find the expertise to build the capabilities necessary to aggregate, analyze, and operationalize the vast quantities of data available to them.



"We're currently experimenting with data warehousing, for both our business and our clients. If I'm thinking about financials of the firm or revenue forecasting, I want to have all the data I need to make informed decisions in one place. On the client experience side, our greatest opportunity is the ability to create a customized client experience based on the community that they're a part of – and have all the areas that matter to them accessible in a single dashboard."

– **Heather Fortner**



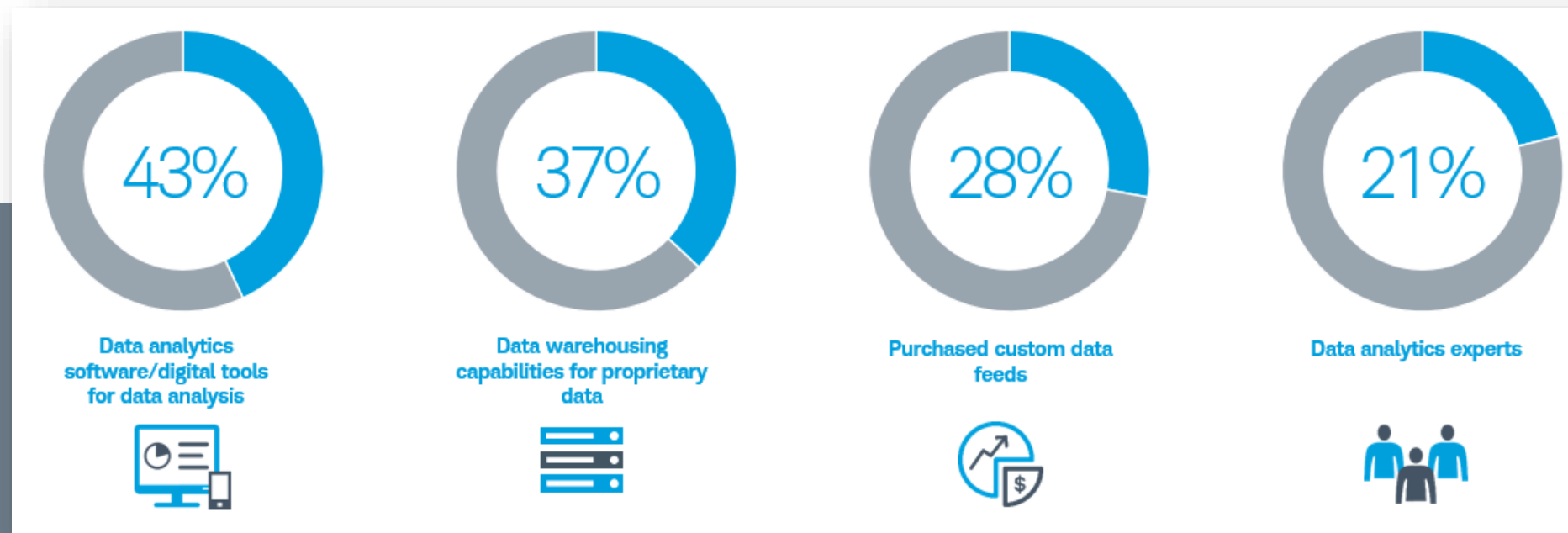
Biggest challenges of data



02 | Data

Currently and over the next three years, advisors are twice as likely to have software and digital tools that will support data analysis (43%) versus data analytics experts (21%); they are also likely to turn to data warehousing capabilities for proprietary data (37%) before they start purchasing custom data feeds.

Tools currently using



02 | Data

“I think the legal and the ethical part will come into existence because data can be misused. Both opportunities and challenges lie with big data so we must be very careful. There will be rules that will need to come up as we go – telling us what you can and cannot do.”

– Nandita Das

Decisions about using data must include security and privacy considerations

Over three-quarters (76%) of advisors express concern about client data security and privacy.

The interviews further underscore these points, with some experts pointing out that data collection and use can't be intrusive; it must be secure, and a high bar needs to be set from both a client transparency and compliance perspective.

Attitudes toward data (Strongly agree/Somewhat agree)





Not-so-strange bedfellows: Automation and personalization combine to better support clients

Finding the balance between scale and high-touch personalized client service is a challenge almost every RIA will wrestle with in the coming years – but it is not insurmountable.

03 | Personalization & automation

Client expectations are higher than ever for personalized advice and planning solutions.

But clients also crave convenience – a one-stop-shop for managing their financial lives, instantaneous access to their accounts, and flexibility when it comes to when and how they meet with their advisor.

It is imperative, then, for RIAs to find a way to blend the efficiencies of automation with the white-glove service that ensures their clients' proliferating needs are being met.



“Personalized businesses are looking for scale. What’s interesting is this puts them in competition with large enterprise players, especially those targeting ultra-high-net-worth clients.

Yet these large players are still trying to figure out how they create personalization within their own client experience.”

– Jon Beatty



“I think it’s important to keep in mind that automation creates scale. It also creates consistency so that we don’t miss key information that may exist in another system.”

– Eric Clarke

03 | Personalization & automation

Automation brings forward the true value of the advisor.

The experts say the key lies not in end-to-end automation and digitization, but in streamlining and automating repeatable, labor-intensive tasks wherever possible.

RIAs appear to agree. The majority (79%) cite time savings as a top benefit of automation, followed closely by allowing staff to focus on higher value tasks (70%), allowing people to spend more time servicing clients (67%), reducing errors (65%), and improving the client experience (57%).



"Advisors spend a lot of time massaging data to help know what kind of transactions to generate on behalf of their client. They are relying on data in their ecosystem and their tech stacks to tell them what the next best action is. A lot of that could be truly automated."

– Jalina Kerr



"When we talk about the advisor of the future, we think of advice being digitally enabled but human-delivered. That's where the future is headed."

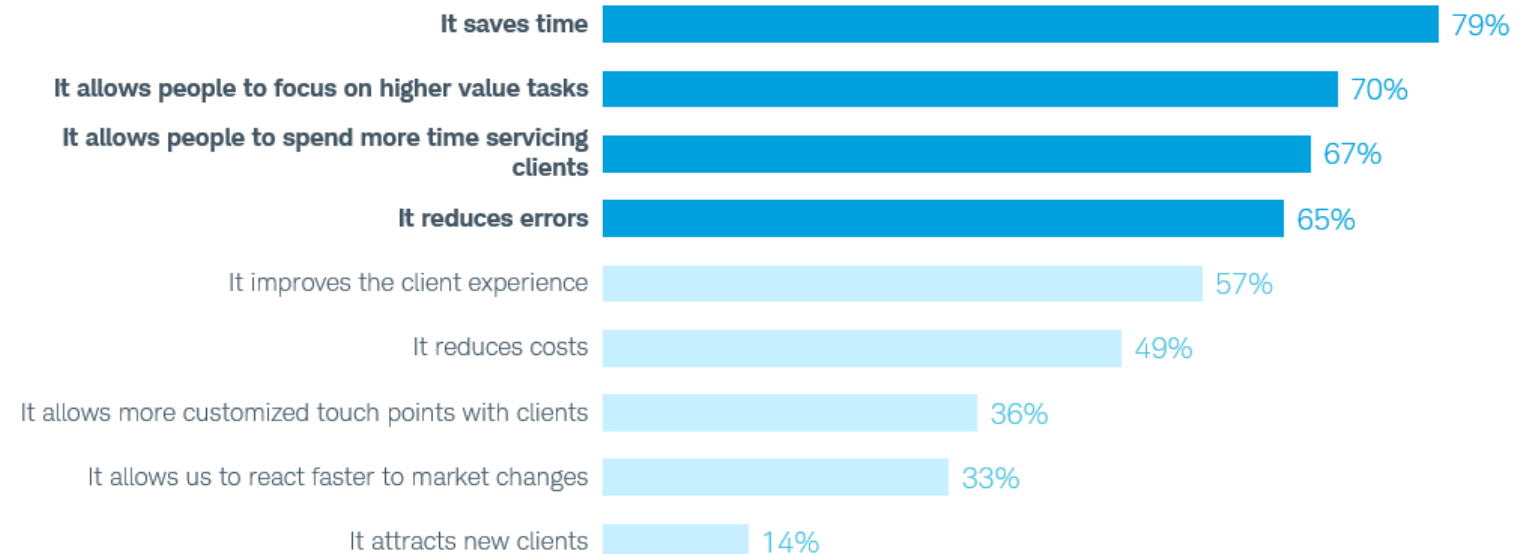
– Kevin Keller



"Automation can't happen independent of the advisor. I'm wary of completely automated solutions that suggest investments based on how users answer a few generic questions. These tools don't know who the investor is, and they don't have a feel for the investor's individual needs or values. Remember that personal finance is also behavioral, and technology can't capture that on its own."

– Nandita Das

Benefits of automation



03 | Personalization & automation

RIAs have already made headway on automating some of the more onerous elements of their day-to-day work. When asked to rate their firms' progress toward total automation on a scale of 1 (totally manual) to 10 (totally automated), the median answer was a 6.



"When you're talking about technology for advisors, it is important to stay focused on one of two outcomes. You're either going to be creating a great client experience or improving or creating operational efficiencies. So, when we think of automation and digitization, it's important to step back and say, 'Is this going to create a better client experience, or is this going to be driving operational efficiencies? Exactly what is our objective? What are we trying to achieve by accomplishing this for our clients?'"

– Eric Clarke



"The greatest value advisors get from automation is consistent replicability and scalability of business processes. When tasks are completed repeatedly and with a great amount of predictability, it reduces risk."

– Brian Hamburger

Current Processes



03 | Personalization & automation

Advisors are missing out on several key opportunities to realize the benefits of automation. Using the 1 (totally manual) to 10 (totally automated) scale, firms rated themselves toward the middle or below average on:

- Financial plan updates (median ranking: 4)
- Portfolio reviews (median ranking: 5)
- Client reminders (median ranking: 5)
- Investment management (median ranking: 5)
- Trading (median ranking: 5)
- Distributing marketing materials (median ranking: 5)

While these tasks may never be fully automated, there is a clear opportunity for advisors to seek technology solutions to streamline some of these activities – in turn, creating additional opportunities to offer clients tailored advice and planning services.



“Manually intensive activities like portfolio rebalancing – where you may have allocation components to manage or need to run a rebalancing scenario – those are the activities that are ripe for automation.”

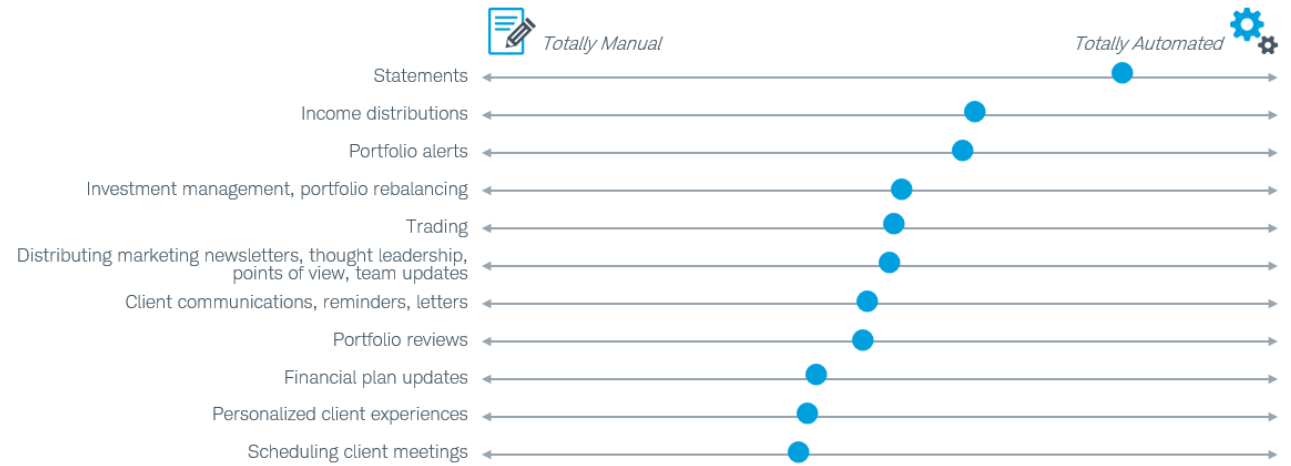
– Jalina Kerr



“Digitization is about allowing the appropriate distribution of human capital within a business to those things that are personal and relational, and less of that time toward rote types of processes in the back office that can be handled more effectively and with less error by digital tools. That is what will let advisors stay on the cutting edge of personalization and to maintain that edge at scale.”

– Jon Beatty

Areas currently automated



03 | Personalization & automation

Achieving true personalization and high-touch service isn't just about automating wherever possible and spending more time serving clients face-to-face; it's about carefully balancing human, analog, and digital to meet clients where they are.

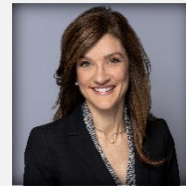
The interviews suggest that the most successful firms will be the ones that use automation, digitization, and as discussed in the previous section, data insights to create more informed and engaging client interactions, both in-person and online.

Whether it's offering clients access to a self-service portal or setting up a system that alerts an advisor to a potential client need based on the client's actions, automation will be an essential steppingstone on the path to delivering differentiated, highly personalized service at scale.



"When I think about a digital process, inherently the view of the client is front and center."

– Jalina Kerr



"There's a ton of opportunity in this space, but firms are going to have to invest and evolve faster than they ever have before. Technology innovation in the advisory industry is moving quickly, and I don't see that pace slowing down."

– Heather Fortner

Top three activities advisors would undertake if they could automate more



69%

Spend more time with clients



62%

Target new clients/new opportunities



33%

Offer more services

IV

Managing the relationship, not the portfolio

For firm differentiation and growth, advisors' time must be front and center as the value-creator for client relationships.

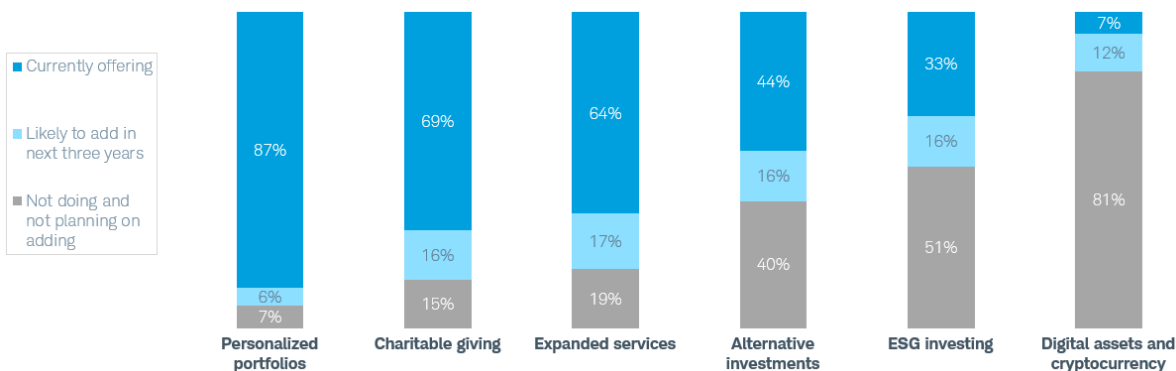
04 | Client relationships

Differentiating beyond investment management

When asked about the ways in which they differentiate themselves, the data reflects that most RIAs are offering personalized portfolios (87%), charitable giving (69%), and expanded services overall (64%).

Almost half (44%) also currently offer alternative investments, while one-third (33%) offer ESG investing. An additional 16% of advisors surveyed say they plan to offer alternatives and ESG investing in the next three years.

Differentiated offerings



"We have been doing things that allow us to move from solving the investment problem, which I think in large part has been solved, to solving the investor problem, and there's a lot of opportunity there." – **Eric Clarke**



"If you don't talk about socially responsible investing, very soon you will become extinct. Understand how the cultural values of your clients influence financial decisions." – **Nandita Das**



"Leaning into a specific value proposition has served us well from a career-building and professional development standpoint. New team members who aren't quite sure about the type of client that they love can work across multiple areas. As they progress in their career track with us, they can gravitate to the community that they feel best positioned to serve." – **Heather Fortner**



"The successful RIA of the future will focus more on the clients, on how to match their investments with their values, how to address their life goals, how they think about money, and the behavioral obstacles that stand in the way of their success." – **Kevin Keller**

04 | Client relationships

Most experts underscore that relationship and scale do not need to be at odds with one another. Rather, they can – and should – be symbiotic. The better they work together, with the clients' needs in mind, the stronger the long-term growth of firms and the industry.



“The client wants to work with one person or one firm that is addressing all their needs. However, advisors don’t have to own every capability within the four walls of their firm. They just need to be a trusted point of connectivity that can bring capabilities together in the right solutions for the client, even if it’s not their own solution.”
– **Bernie Clark**



“I think that the greatest value that an advisor can give me as a client is their time. So having the advisor really listen, synthesize my needs, and then address those needs in a customized way that supports our interactions is the most valuable thing that I can hope for.”
– **Brian Hamburger**



“Clients are awake to the idea that they don't want a cookie-cutter solution. They want something that's about their needs, where they are financially, and reflects their view of the world.”
– **Jon Beatty**

V

What's next for the RIA industry?

We asked each of our subject matter experts which trends are poised to most impact the industry over the next five years. Here's what they had to say.

05 | What's next for the RIA industry?



Bernie Clark

I think there will be a big shift in firms addressing more of their clients' liability needs in response to growing demand for lending services – credit consolidation, new and second mortgages, pledged asset lines, and so on. Tax services may also become more important as tax laws continue to evolve. We always see a huge movement of assets when investors become wary of any potential tax law changes. Finally, income solutions have been a very big question in advisors' minds over the past several years – short-term duration, guaranteed return – and this will continue to be important well into the future.



Jon Beatty

The rise of the enterprise RIA is shifting the broader landscape. These organizations are driving M&A that is helping solve real business challenges and creating opportunities for solo entrepreneurs. The transaction activity has allowed capital, private equity and otherwise, to flow into the space. When combined with the proliferation of services and fintechs catering to RIAs, the industry is starting to show how it will be able to achieve scale while still maintaining the personalization that really started this industry.



Jalina Kerr

I think the industry must move toward the convergence of banking and broker-dealer activities. Otherwise, we're just going to continue in this vicious cycle of disconnectedness, and I don't think the marketplace will bear that. The expectations of investors – and, more broadly, people consuming financial services – are getting higher. Clients want instantaneous service and a one-stop-shop experience, and driving automation and consistency will be central to achieving this.

05 | What's next for the RIA industry?



Eric Clarke

Advisors have an incredible opportunity to grow their business through digital prospecting efforts. Historically, firms have used marketing tactics like direct mail, seminars, dinners, and radio and TV ads – all of which are very expensive and often time-consuming. But today, firms can invest a reasonable amount of money in digital marketing tools to reach their target audiences efficiently and effectively. It allows them to work smarter, not harder.



Nandita Das

I'm hoping there will be a lot more diversity, not only because it is the right thing to do, but also because it's what keeps the profession moving forward. Clients are growing more diverse, and they need advisors who understand their unique needs and perspectives.



Heather Fortner

Many firms will have to make some tough choices about whether they want to compete with the biggest players, attempt to join them, or stay independent. There's no right path. It's all about leaning into the values and long-term goals you have as an organization.

05 | What's next for the RIA industry?



Brian Hamburger

Everything will continue to change at a macro level, RIAs will continue to evolve and deliver a valuable service to clients as their most trusted advisor, and they'll do it more consistently day-in and day-out. It will seem at certain moments like the industry is 'taking off,' when in fact it has been consistently marching forward in lockstep with its clients' needs all along.



Kevin Keller

The most exciting opportunity going forward will be the continued drive to automate mundane and repetitive tasks so that advisors can spend time on high-value, high-touch client interactions.

I Appendix

Firmographic snapshot

Based on advisors who responded to the study

Advisor Gender



Male	Female
72%	25%

Average Advisor Age



Mean	Median
52 years	52 years

Primary Role at Firm



Principal
59%*



Client Relations
11%



Ops staff
9%



Other
21%

*71% founding

Number of Employees at Firm



Mean	Median
34	6

Assets Under Management at Firm



Total AUM
\$359B

Mean	Median
\$416.7M	\$175.5M

Number of Clients per Firm



Mean	Median
1057	200