

charles
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2015 ETF Investor Study

September 2015

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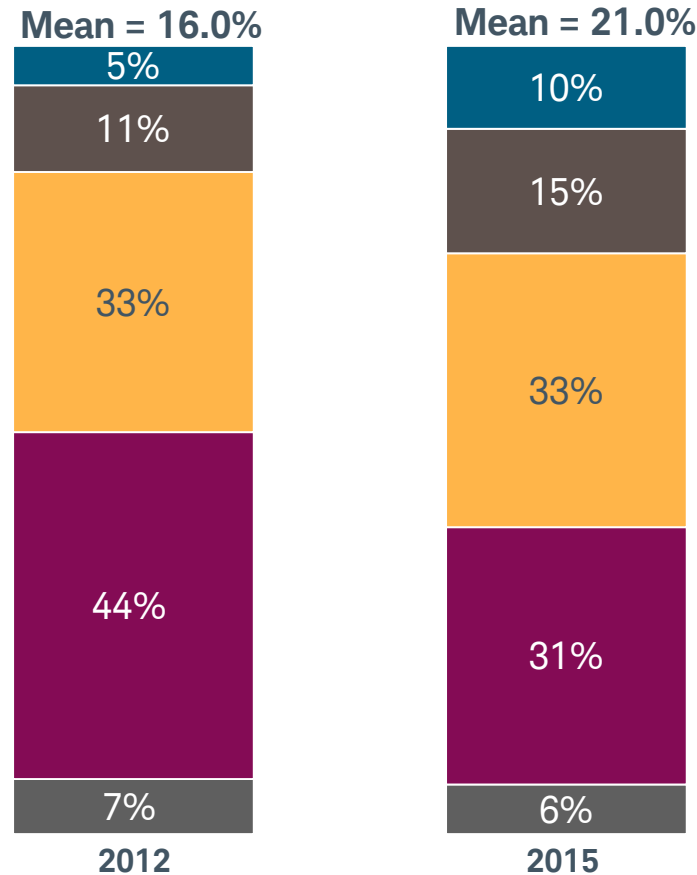
Methodology

What	<ul style="list-style-type: none">▪ Schwab commissioned an online study to gauge U.S. individual investors' perceptions and knowledge of investing in exchange-traded funds (ETFs)▪ Similar studies were conducted in previous years, and certain questions were repeated for benchmark purposes
How	<ul style="list-style-type: none">▪ An online study among a national sample of ETF investors was conducted by Koski Research▪ Margin of error for a sample size of 1,008 is 3%; higher for subgroups <p><i>Koski Research is neither affiliated with, nor employed by, Charles Schwab</i></p>
When	<ul style="list-style-type: none">▪ The study was fielded July 29 to August 10, 2015.
Who	<ul style="list-style-type: none">▪ 1,008 ETF investors completed the study▪ To qualify for the study, investors had to:<ul style="list-style-type: none">▪ Be 25 to 75 years old▪ Have a minimum of \$25,000 in investable assets▪ Have purchased an ETF in the past 2 years

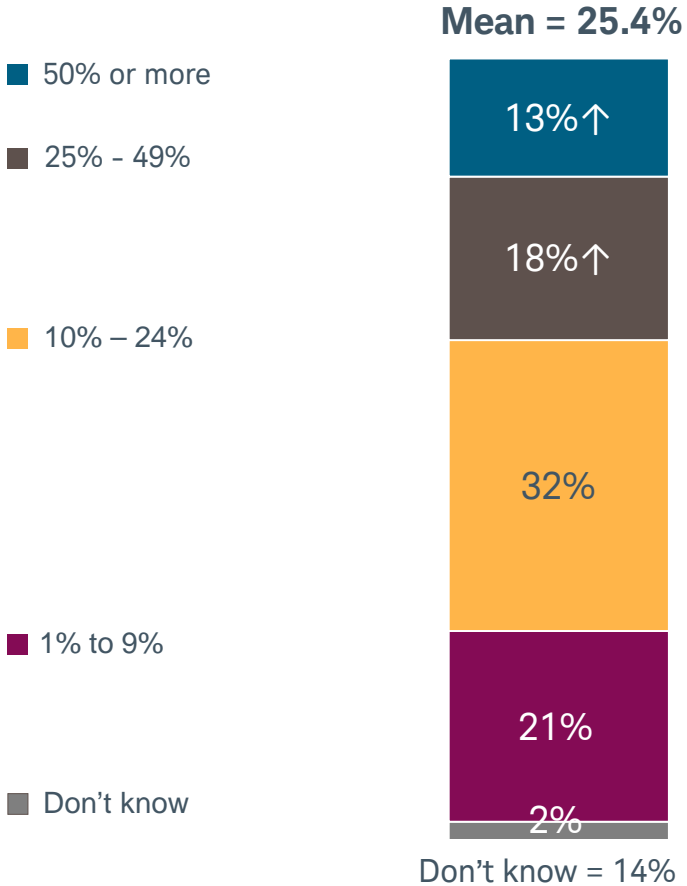
An ETF Evolution

ETFs are Becoming an Increasingly Important Part of Investors' Portfolios...

Percent of Investments in ETFs Today
ETF Owners



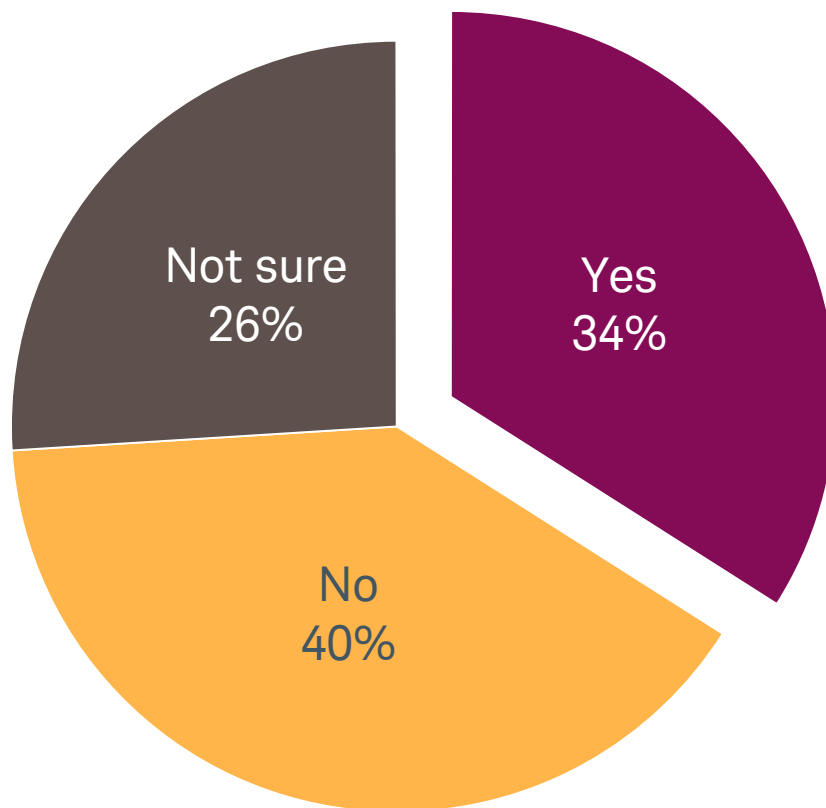
Percent of Investments Expect to Hold in ETFs Five Years from Now
ETF Owners



Q10. What percent of all of your investments is in ETFs today, if any? (Bases: ETF Owners, 2012=566; 2015=1,008)

...And a Third Say ETFs Will Be Their Core Investment in the Future

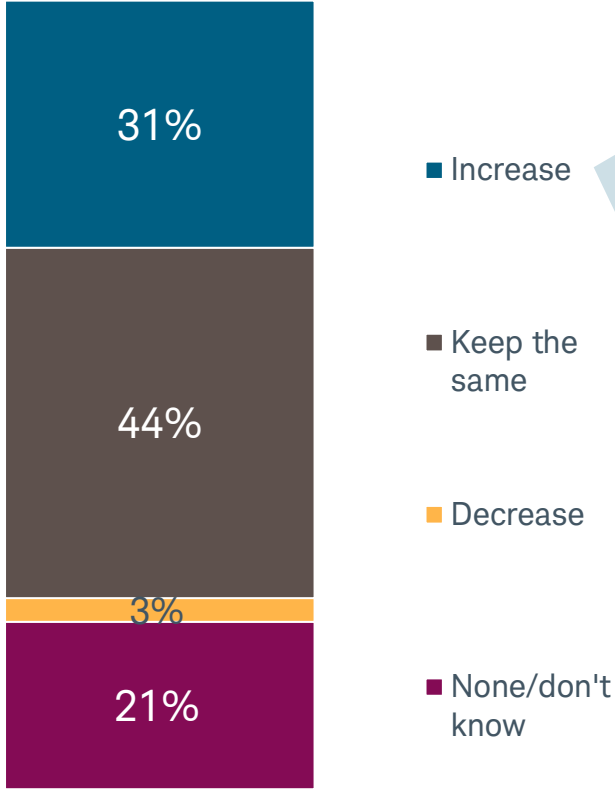
Use of ETFs as Core Investment in the Future ETF Owners



Q15. Do you see ETFs as being the core investment type in your portfolio in the future? (Base: ETF Owners=1,008)

31% Plan to Increase Their ETF Holdings Next Year

ETF Activity Expect to Do in the Next Year
ETF Owners



ETF Owners

How ETF Investments Will Be Increased
ETF Owners

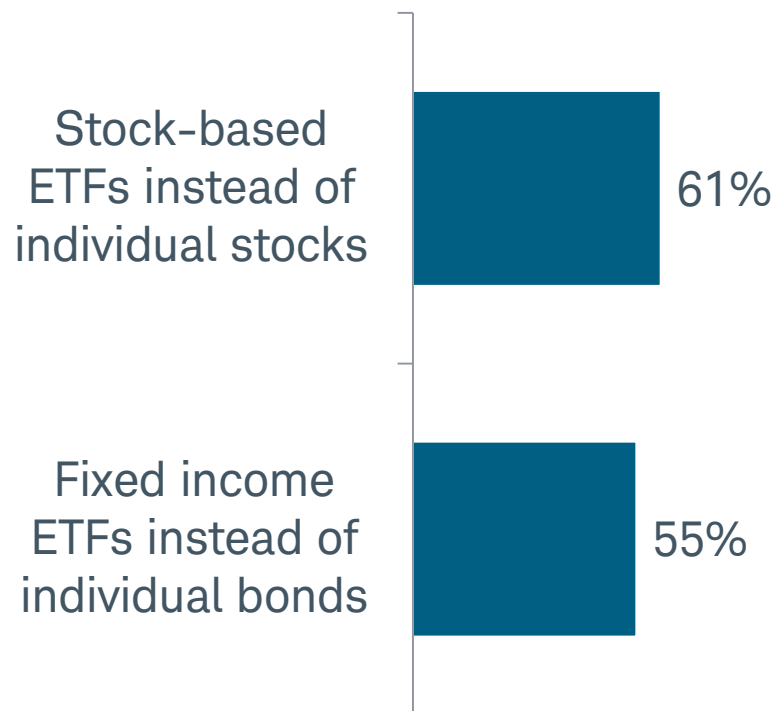
- Increase investments in ETFs already in my portfolio: **65%**
- Increase investments in new ETFs: **57%**

Q18. In the next year, which of the following do you expect to do, if any? (Base: ETF Owners=1,008)

Q19. You say you are planning to increase your investments in ETFs. Which of the following do you plan to do? (Base: Plan to increase ETFs in next year, ETF Owners=308)

Majority of Investors View ETFs as Portfolio Building Blocks of the Future

Would Consider Using... ETF Owners

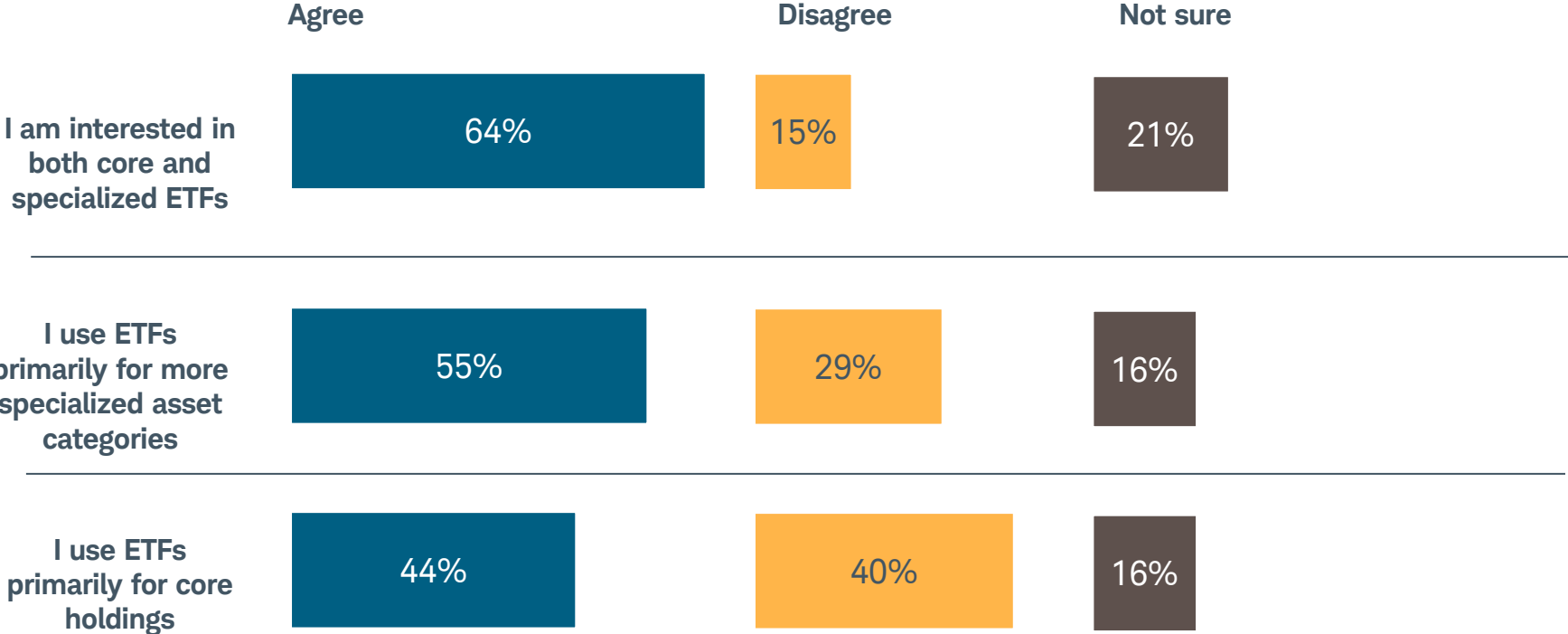


Q30. Would you consider using stock-based ETFs instead of individual stocks in your portfolio?

Q31. Would you consider using fixed income ETFs instead of individual bonds in your portfolio? (Base: ETF Owners=1,008)

Investors are interested in both core and specialized ETFs

Agreement with Statements about ETFs ETF Owners



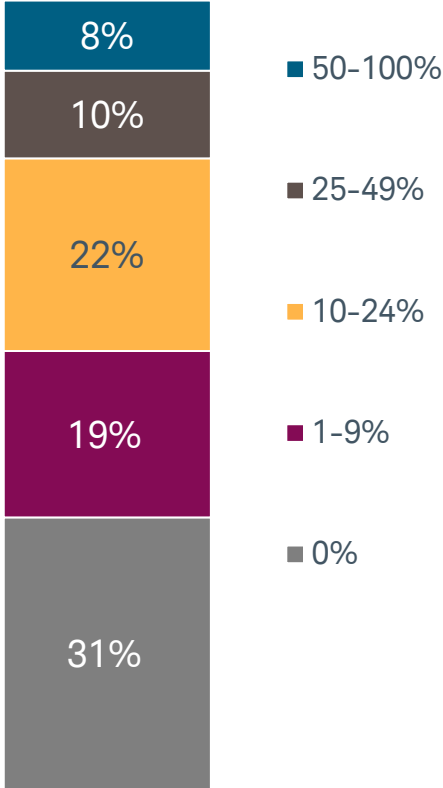
Q28. Please indicate whether you agree or disagree with each of the statements below. (Base: ETF Owners=1,008)

ETF Investing Trends

All-ETF Portfolios: More Than Half of Investors Have One

Percent of Investments in an All-ETF Portfolio ETF Owners

Mean = 16.5%



Don't know = 6%

Not sure what an all-ETF portfolio is = 4%

Agreement with Statements About ETFs ETF Owners

I'd like to be able to build an all-ETF portfolio online simply and quickly



I'd like an all-ETF account that an advisor creates and manages for me

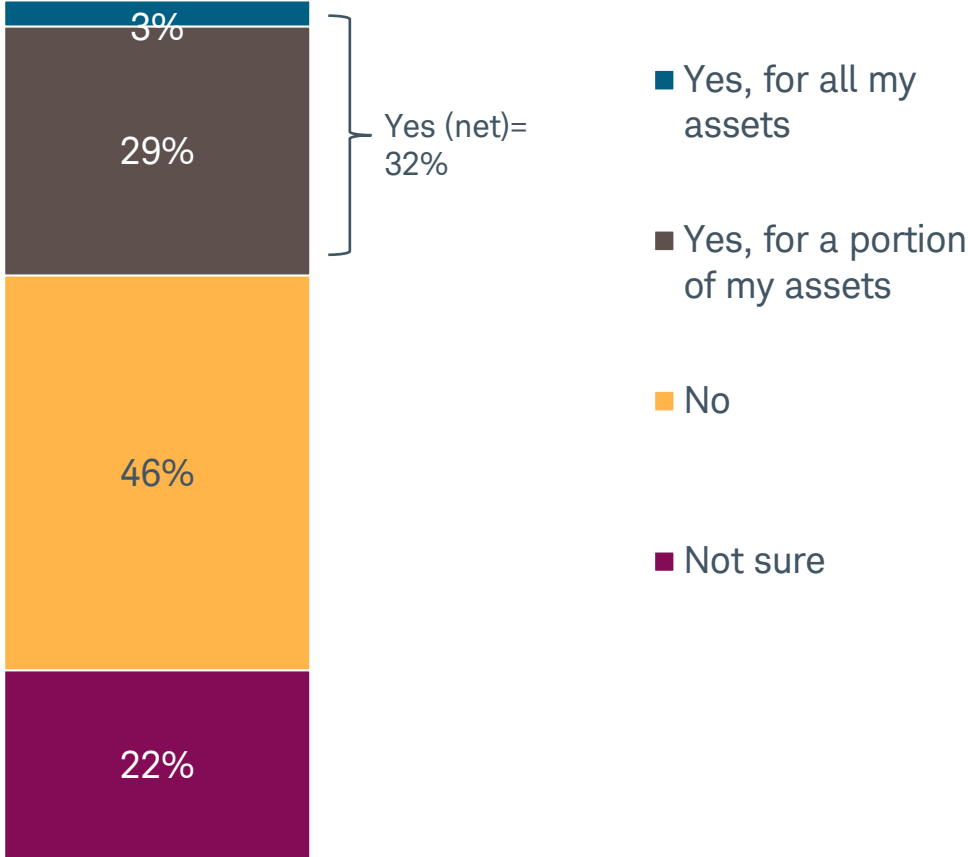


■ Agree
 ■ Disagree
 ■ Not sure

Q12. What percent of all your investments is in an all-ETF portfolio (i.e., a dedicated account or investment portfolio composed of only ETFs)?
 Q28. Please indicate whether you agree or disagree with each of the statements below. (Base: ETF Owners=1,008)

One in Three Would Consider Using a “Robo-Advisor”

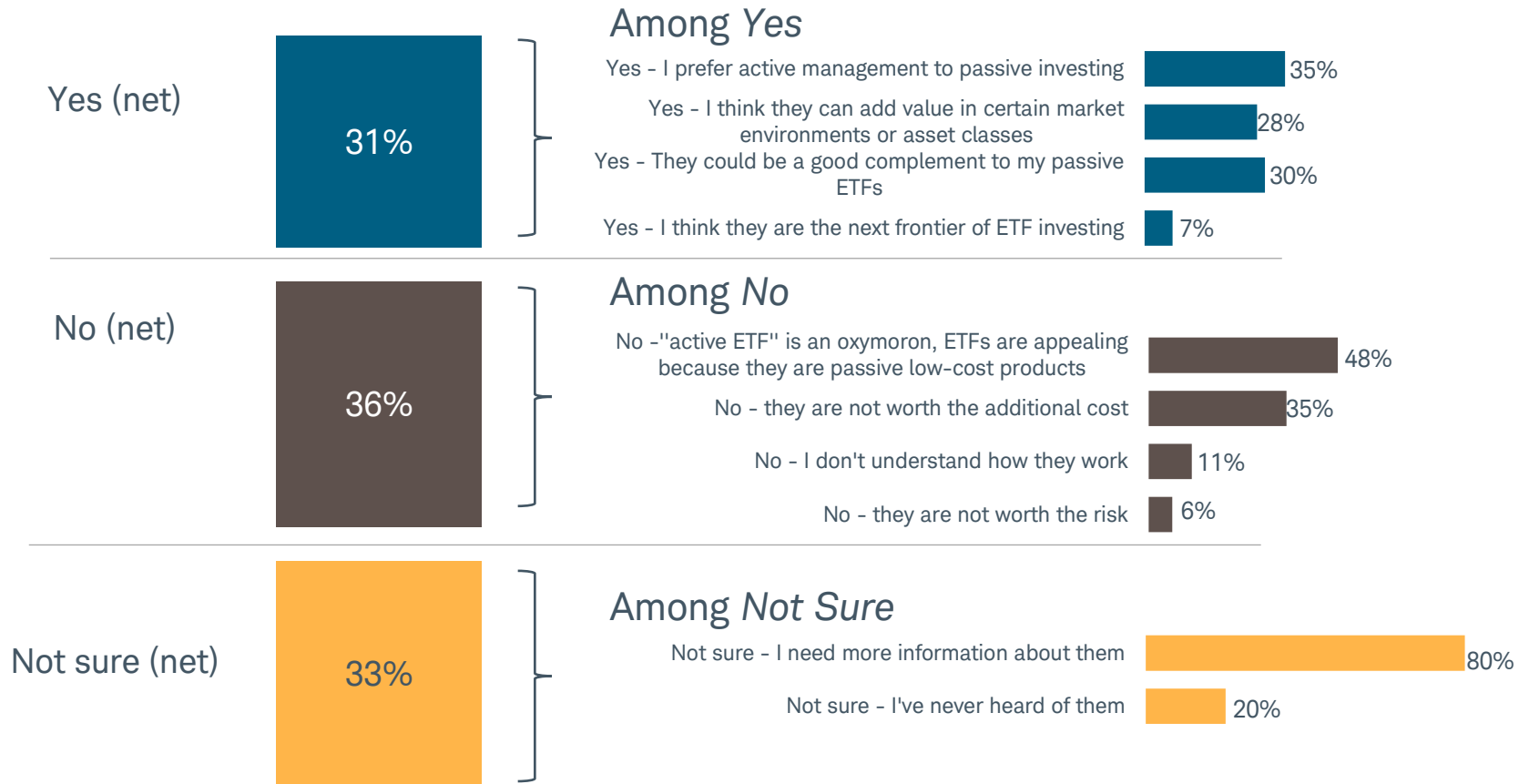
Would Consider Using “Robo” Advisor ETF Owners



Q13 Would you consider using an automated investment product (“robo advisor”) that creates and manages portfolios composed of only ETFs? (Base: ETF Owners=1,008)

Active ETFs? The Jury is Still Out

Would Consider Using Actively Managed ETFs ETF Owners



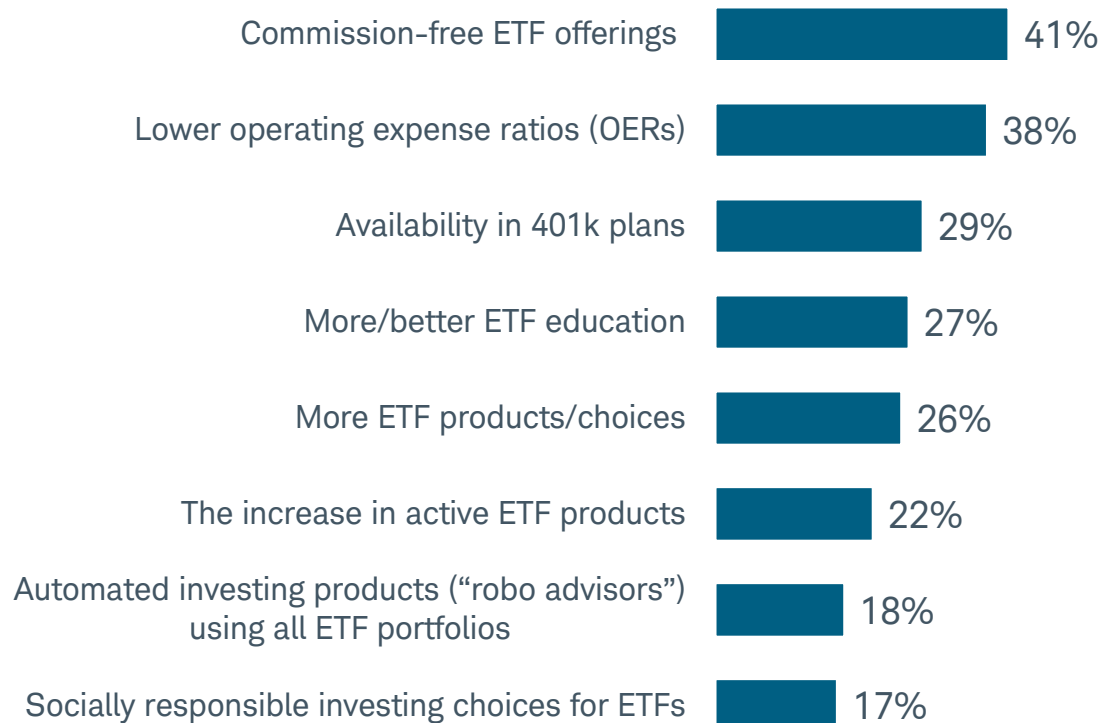
Q14. Would you consider using an actively managed ETF? (Base: ETF Owners=1,008)

Commission- Free ETFs

41% of Investors Say Commission-Free ETFs are Game-Changers

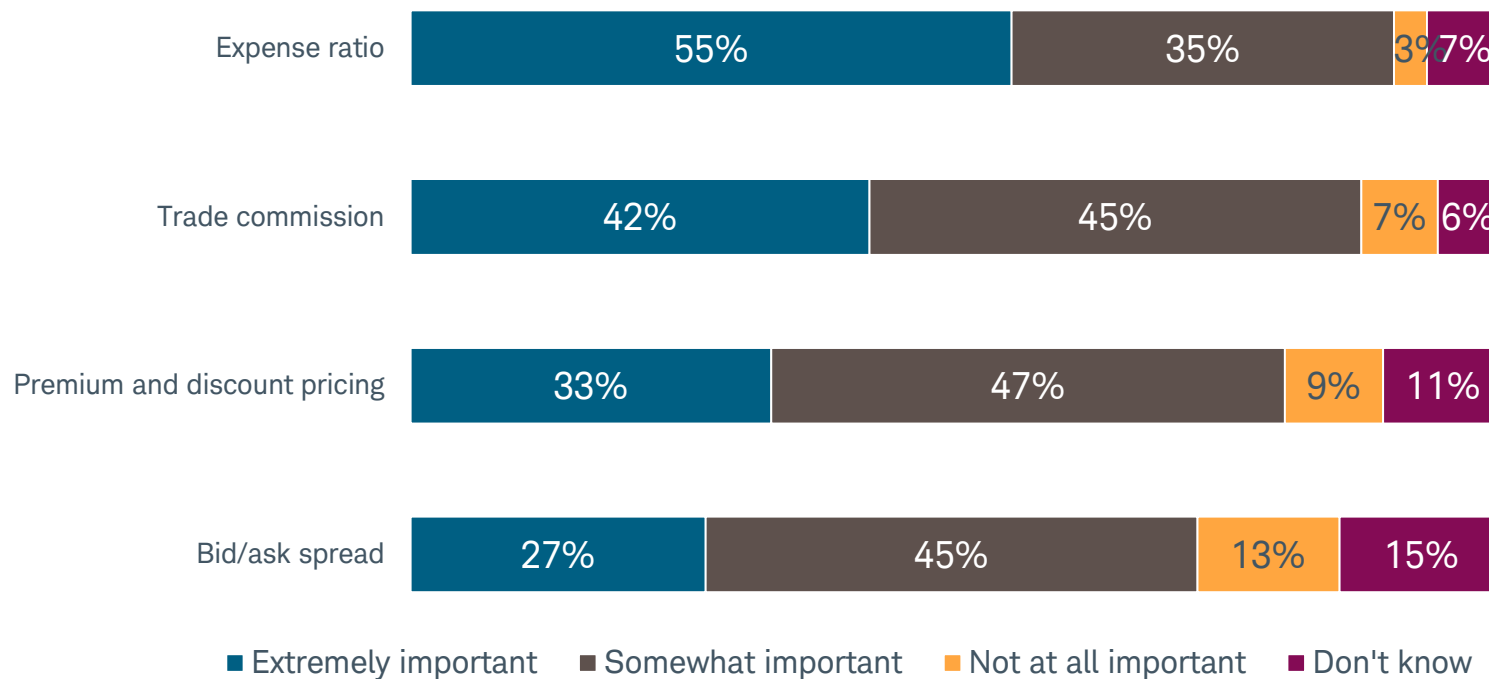
Impact of ETF Industry Innovations/Trends on Investors ETF Owners

Rated Game-changing:



And 87% Say ETF Commissions Matter...

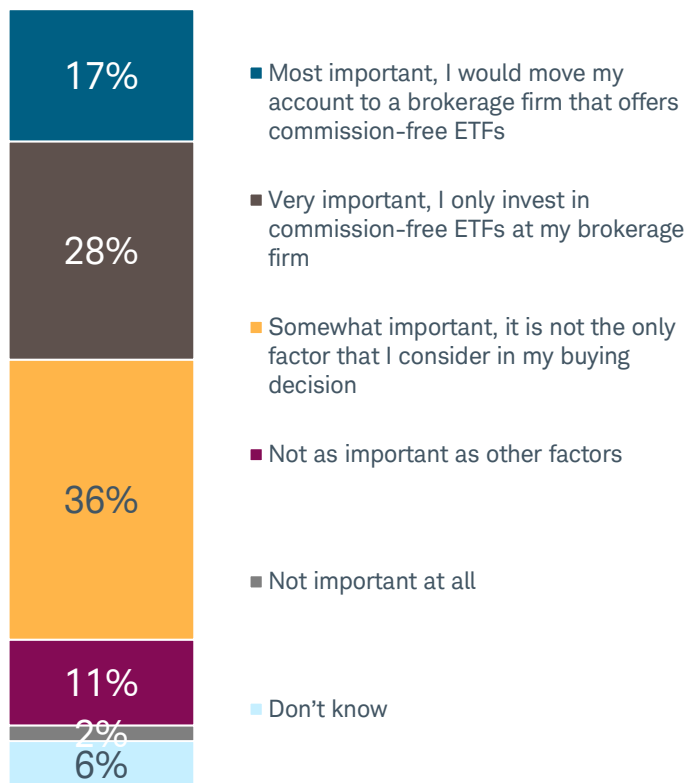
Importance in Evaluating the Cost of an ETF ETF Owners



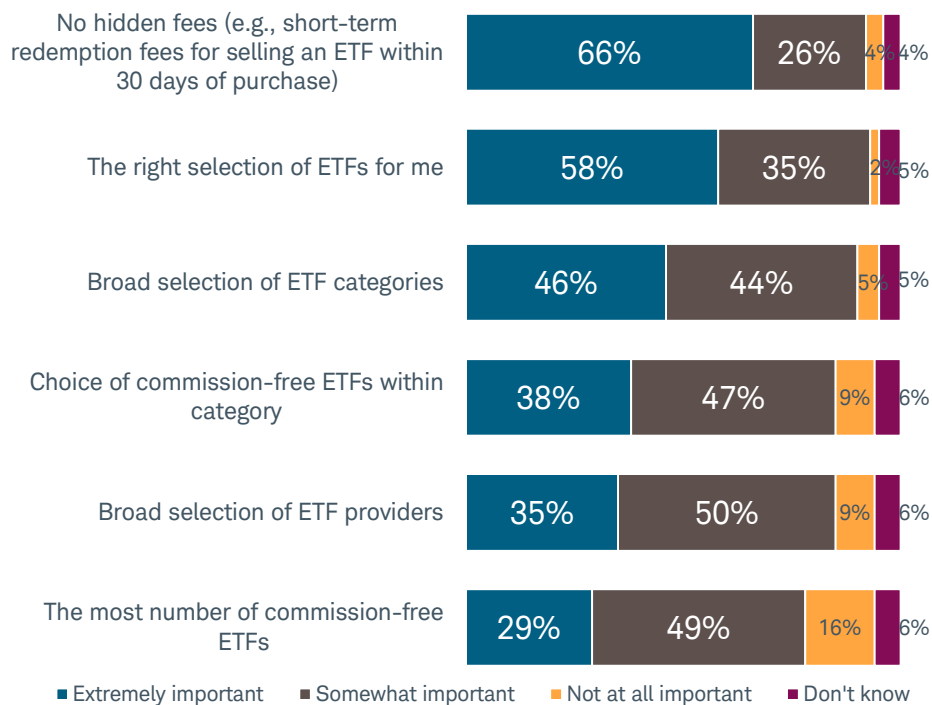
Q25. How important to you is each of the following when evaluating the cost of a specific ETF? (Base: ETF Owners=1,008)

...But They Aren't Everything When it Comes to Commission-Free ETF Programs

Importance of Trading ETFs Without Commissions/Other Brokerage Firm Fees ETF Owners



Importance in Evaluating Brokerages that Offer Commission-Free ETFs ETF Owners



Q26. How important is the ability to trade ETFs without commissions or other brokerage firm fees?

Q27. How important to you is each of the following when evaluating brokerages that offer commission-free ETFs/a commission-free ETF platform? (Base: ETF Owners=1,008)

Focus on: Millennials

Millennial Investors Have a Higher Percentage of Their Investments in ETFs and are More Likely to See ETFs as a Core Investment

	Generations			
	Millennials ^a	GenX ^b	Boomers ^c	Matures ^d
	Age 25-35 (n=132)	Age 36-50 (n=175)	Age 51-68 (n=523)	Age 69-75 (n=178)
Percent of Investments in ETFs				
None	5%	4%	5%	6%
1% - 9%	8%	25%a	36%ab	41%ab
10% - 24%	17%	37%a	37%ad	28%a
25% - 49%	33%bcd	17%c	11%	13%
50% - 100%	33%bcd	13%cd	5%	4%
MEAN	40.8bcd	24.5cd	16.6	15.4
Whether See ETFs as Being Core Investment Type in the Future				
Yes	70%bcd	46%cd	24%	21%
No	13%	33%a	46%ab	49%ab
Not sure	17%	21%	29%ab	30%a
ETF Activity Expect to Do in the Next Year				
Increase investments in ETFs	61%bcd	33%d	25%	21%
Keep my ETF investments the same	30%	53%ad	46%a	42%a
Decrease my ETF investments	2%	3%	4%	3%
None-I don't own any ETFs and don't plan to buy any in the next year	1%	2%	2%	3%
Don't know	7%	10%	22%ab	30%abc

Q10. What percent of all of your investments is in ETFs today, if any?

Q15. Do you see ETFs as being the core investment type in your portfolio in the future?

Q18. In the next year, which of the following do you expect to do, if any?

Letter notations indicate statistically significant differences at the 95% confidence level

Millennial Investors: The ETF Outlook is Bright

	Generations			
	Millennials ^a	GenX ^b	Boomers ^c	Matures ^d
	Age 25-35 (n=132)	Age 36-50 (n=175)	Age 51-68 (n=523)	Age 69-75 (n=178)
Percent of Investments Expect to be in ETFs in Five Years				
None	1%	1%	2%	5%ab
1% - 9%	5%	18%a	24%a	28%ab
10% - 24%	24%	35%a	34%a	29%
25% - 49%	29%cd	21%	15%	15%
50% - 100%	34%bcd	17%cd	8%	5%
Don't know	8%	7%	16%ab	18%ab
MEAN	41.7%bcd	29.3%cd	21.7%	18.6%

Q20. Looking ahead five years, what percentage of your portfolio do you expect will be in ETFs??
Letter notations indicate statistically significant differences at the 95% confidence level

And, Millennials Are Most Likely to View ETFs as Portfolio Building Blocks Over Individual Securities

Close Up On Investing	Generations			
	Millennials ^a <i>Age 25-35</i> (n=132)	GenX ^b <i>Age 36-50</i> (n=175)	Boomers ^c <i>Age 51-68</i> (n=523)	Matures ^d <i>Age 69-75</i> (n=178)
Would Consider Using Stock-Based ETFs Instead of Individual Stocks In Portfolio				
Yes	77%cd	69%cd	58%	51%
No	8%	9%	15%ab	18%ab
Not sure	15%	23%	27%a	31%a
Would Consider Using Fixed Income ETFs Instead of Individual Bonds in Portfolio				
Yes	69%cd	64%cd	52%	46%
No	17%b	9%	15%b	21%b
Not sure	14%	27%a	33%a	33%a

Q30. Would you consider using stock-based ETFs instead of individual stocks in your portfolio?

Q31. Would you consider using fixed income ETFs instead of individual bonds in your portfolio?

Letter notations indicate statistically significant differences at the 95% confidence level

Millennial Investors are Eager to Learn

Knowledge of ETFs	Generations			
	Millennials ^a Age 25-35 (n=132)	GenX ^b Age 36-50 (n=175)	Boomers ^c Age 51-68 (n=523)	Matures ^d Age 69-75 (n=178)
When it comes to understanding ETFs, consider self to be:				
Expert	17%cd	15%cd	8%	4%
How knowledge of ETFs has changed over the past year:				
I think I know more now	65%bcd	43%c	33%	37%
It stayed about the same	30%	55%a	60%a	56%a
Would like to better understand:				
How to best use ETFs in my portfolio in general	45%c	39%	35%	35%
How to choose an ETF	47%bcd	32%	31%	28%
The tax implications of ETFs	53%bcd	34%d	27%	22%
The risks associated with ETFs	39%bc	27%	27%	30%
The benefits associated with ETFs	40%cd	32%	25%	26%
The costs associated with ETFs	44%bcd	31%	24%	25%
The differences between cap-weighted ETFs and Smart Beta ETFs	46%bcd	26%	24%	28%
The differences between cap-weighted ETFs and fundamentally weighted ETFs	41%bc	27%	24%	31%c
The differences between ETFs, mutual funds, and stocks	34%cd	26%c	16%	19%
The value of active ETFs	44%bcd	20%d	16%	12%
Not sure what I would like to know more about	4%	5%	11%ab	12%ab
Nothing-I know as much as I want to know	5%	10%	14%a	12%a

Q6. When it comes to your understanding of ETFs, do you consider yourself a/an...?

Q6a. How has your knowledge of ETFs changed over the past year?

Q7. Which of the following would you like to better understand?

Letter notations indicate statistically significant differences at the 95% confidence level

Millennials are Cost-Conscious

Close Up On Investing	Generations			
	Millennials ^a Age 25-35 (n=132)	GenX ^b Age 36-50 (n=175)	Boomers ^c Age 51-68 (n=523)	Matures ^d Age 69-75 (n=178)
Top Reasons Hold/Have Held ETFs if Currently Own or Have Bought or Sold ETFs				
They are a highly efficient way to diversify my portfolio (i.e., they are diversifiers)	30%	47%a	52%a	60%ab
They can be traded throughout the day like stocks (i.e., they are flexible investment products)	36%	41%	42%	48%a
They provide access to asset classes, market segments or strategies that I wouldn't otherwise be able to invest in (i.e., they broaden investing horizons)	41%b	28%	40%b	34%
My advisor recommended them	20%	26%	33%a	44%abc
Their structure makes them more tax-friendly than other investments (i.e., they are tax smart)	30%cd	21%d	15%	11%
They are more transparent than mutual funds in terms of underlying holdings (i.e., I know exactly what I'm buying)	24%cd	16%	15%	13%
They allow me to invest in a socially responsible way (i.e., they are socially-conscious)	17%bcd	9%d	6%	4%
Importance When Evaluating Brokerages that Offer Commission-Free ETFs: Extremely Important				
The most number of commission-free ETFs	49%bcd	31%	26%	22%
Choice of commission-free ETFs within category	61%bcd	39%	34%	34%
Broad selection of ETF categories	60%cd	49%d	44%	37%
Broad selection of ETF providers	53%bcd	36%	31%	31%

Q23. What are the top three reasons you hold or have held ETFs in your portfolio?

Q27. How important to you is each of the following when evaluating brokerages that offer commission-free ETFs/a commission-free ETF platform?

Letter notations indicate statistically significant differences at the 95% confidence level

Close-Up on ETF Investing by Generation

Close Up On Investing	Generations			
	Millennials ^a <i>Age 25-35</i> (n=132)	GenX ^b <i>Age 36-50</i> (n=175)	Boomers ^c <i>Age 51-68</i> (n=523)	Matures ^d <i>Age 69-75</i> (n=178)
Agreement with Statements About ETFs: Agree				
I'd be more inclined to trade ETFs at a firm that offers the most commission free ETFs	77%bcd	58%	56%	49%
I'd be more interested in trading ETFs at a firm that offers the broadest number of different asset categories	75%bcd	59%d	54%	48%
If more ETFs were available commission-free, I would invest more in ETFs	69%bcd	57%cd	37%	33%
I would switch brokerage firms if the ETFs I wanted were available commission-free elsewhere	69%bcd	34%cd	25%d	13%
I prefer transparent pricing with no hidden fees	80%	86%	90%a	94%ab
All brokerage firms offer a selection of ETFs that can be bought / sold "for free" – that is, without paying a commission	60%bcd	37%cd	23%	26%
I use ETFs primarily for core holdings	67%bcd	50%c	37%	44%
I use ETFs primarily for more specialized asset categories	69%cd	59%	52%	49%
I am interested in both core and specialized ETFs	78%bcd	67%d	63%d	54%
I am interested in online educational tools, resources and information about ETFs	80%cd	71%c	63%	62%
I'd like to be able to build an all-ETF portfolio online simply and quickly	72%bcd	59%cd	35%d	20%
I'd like to use an automated investment product ("robo advisor") that uses all-ETF portfolios	63%bcd	32%cd	11%d	3%
I'd like an all-ETF account that an advisor creates and manages for me	61%bcd	39%cd	24%	25%

Q28. Please indicate whether you agree or disagree with each of the statements below. Letter notations indicate statistically significant differences at the 95% confidence level

Focus On: Historical Trends

The ETF Investor Study by Charles Schwab: Trends

	2012 ^a (n=634)	2013 ^b (n=606)	2014 ^c n=(610)	2015 ^d (n=1,008)
Please indicate whether you agree or disagree with each of the statements below – Summary of Agree				
I am interested in both core and specialized ETFs	NA	56%	65% ^b	64% ^b
I use ETFs primarily for core holdings	NA	32%	35%	44% ^{bc}
Importance of Ability to Trade ETFs Without Commissions				
Most/Very important	36%	42% ^a	37%	45% ^{ac}
Importance in Selecting an ETF (Extremely Important)				
Total cost (commissions, expense ratio, bid/ask spread)	58%	67% ^{ad}	66% ^{ad}	60%
How well it tracks to its index	51% ^d	50% ^d	51% ^d	43%
Total assets in the ETF	30%	29%	28%	28%
Liquidity/trading volume of the ETF	24%	42% ^a	45% ^{ad}	39% ^a
Items Would Like to Know More About ETFs				
Differences between ETFs, mutual funds and stocks	12%	17% ^a	15%	21% ^{abc}
Costs associated with ETFs	22%	26%	25%	28% ^a
Understanding of ETFs				
Expert	10%	11%	14% ^{ad}	10%
Intermediate	55%	56%	57%	57%
Novice	35% ^c	33%	29%	33%

Q28. Please indicate whether you agree or disagree with each of the statements below.

Q26. How important is the ability to trade ETFs without commissions or other brokerage firm fees?

Q24. When choosing an ETF, how important to you is each of the following?

Q7. Which of the following would you like to better understand?

Q6. When it comes to your understanding of ETFs, do you consider yourself ...?

Letter notations indicate statistically significant differences at the 95% confidence level

September 29, 2015

Investor Demographics

Demographics

	ETF Owners (n=1,008)
Gender	
Male	68%
Female	32%
Age	
Under 45	22%
45 to 55	17%
56 to 65	27%
Over 65	34%
MEAN	56.1
MEDIAN	60
Region	
East	25%
Midwest	21%
South	27%
West	27%
Investable Assets	
Under \$100K	14%
\$100K to less than \$250K	16%
\$250K to less than \$1M	39%
\$1M or more	31%
MEAN	\$1,044.1K
MEDIAN	\$750K
Investor Experience	
A beginner	21%
Somewhat experienced	45%
Experienced	28%
Highly experienced	5%

	ETF Owners (n=1,008)
Income	
Less than \$50K	11%
\$50K to less than \$100K	36%
\$100K to less than \$200K	42%
200K or more	11%
Prefer not to say	1%
MEAN	\$115.5K
MEDIAN	113
Employment	
Working (net)	59%
Employed full-time	50%
Employed part-time	9%
Retired	35%
Unemployed	2%
Student/homemaker/other	3%
Number of Trades in Past Year	
None	6%
1 to 11	44%
12 to 23	19%
24 to 35	10%
36 or more	16%
Don't know/prefer not to answer	4%
MEAN	23.7
MEDIAN	11

Letter notations indicate statistically significant differences at the 95% confidence level

Demographics

	ETF Owners (n=1,008)
Currently Own or Have Bought/Sold in the Past	
ETFs (Exchange Traded Funds)	100%
Individual Stocks	96%
Mutual Funds	96%
Individual Bonds	62%
Last Time Bought or Sold an ETF	
Past month	23%
Past 3 months	21%
Past 6 months	15%
Past year	18%
Past 2 years	12%
More than 2 years ago	6%
Don't know	5%
MEAN (in days)	217
MEDIAN (in days)	180

	ETF Owners (n=1,008)
Type of Investor	
You do all the research and decision-making yourself without the assistance of a financial advisor or broker	40%
You make all of your own investment decisions but want to be able to discuss them with a friend or family member	9%
You make all of your own investment decisions but want to be able to discuss them with a financial advisor or broker	18%
You make most decisions yourself, but rely heavily on a financial advisor or broker	15%
You delegate decision-making to a financial advisor or broker for some or all of your investments	17%

Letter notations indicate statistically significant differences at the 95% confidence level

Disclosures

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Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges, and expenses. You can request a prospectus by 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 (NAV).

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