

Schwab Advisor Services

Independent Advisor Outlook Study

Part II: Advisor Outlook

October 2020

Media contact:
Rob Farmer
Corporate Public Relations
415-667-0083
rob.farmer@schwab.com

The Charles Schwab logo is located in the bottom right corner of the page. It consists of a blue square containing the word "charles" in a white, lowercase, serif font, and the word "SCHWAB" in a white, uppercase, sans-serif font directly below it.

charles
SCHWAB

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Foreword

For each of the past 13 years Schwab Advisor Services has sought the perspective of independent advisors in a continuing effort to better understand the current and evolving state of the industry. Through the *Independent Advisor Outlook Study (IAOS)*, Schwab brings a focus to the topics that are top-of-mind for advisors.

The latest study comes at a time when firms are grappling with the impacts of COVID-19 on their businesses, the markets and the industry at large. In this second of a two-part release of this year's data, advisors illustrate **the impact of the pandemic on growth in 2020 as well as share their outlook for the industry.**

2020 has been challenging, but advisors remain optimistic. The impacts of COVID-19 are being felt, as indicated by the findings on **growth projections for 2020**, on **planning for the future** and on the challenges of **connecting with clients virtually.**

Yet the constraints posed by these challenges have created opportunities. Advisors see a chance against this backdrop to **demonstrate client service**, show the **value of relationships** and meaningfully **differentiate from the competition.**

Despite the uncertainty of 2020, many advisors anticipate some **changes are here to stay**, and they are overwhelmingly bullish about the industry's growth.

“Advisors are meeting the challenges of 2020 with a steadfast focus on their clients. Their ability to persevere through this pandemic is a powerful statement about the resilience and strength of this industry.

Independent advisors are uniquely positioned to rise to the challenges of this moment. Trusted, human advice has never been more important. Demand for fiduciary advice – particularly among high net worth investors – remains strong.

There are challenges still ahead. The impacts of COVID-19 will reverberate for years to come. But we are confident that the industry still has significant opportunity for growth and we look forward to continuing to support all advisors along the journey.”

- Bernie Clark
Executive Vice President
Head of Schwab Advisor Services

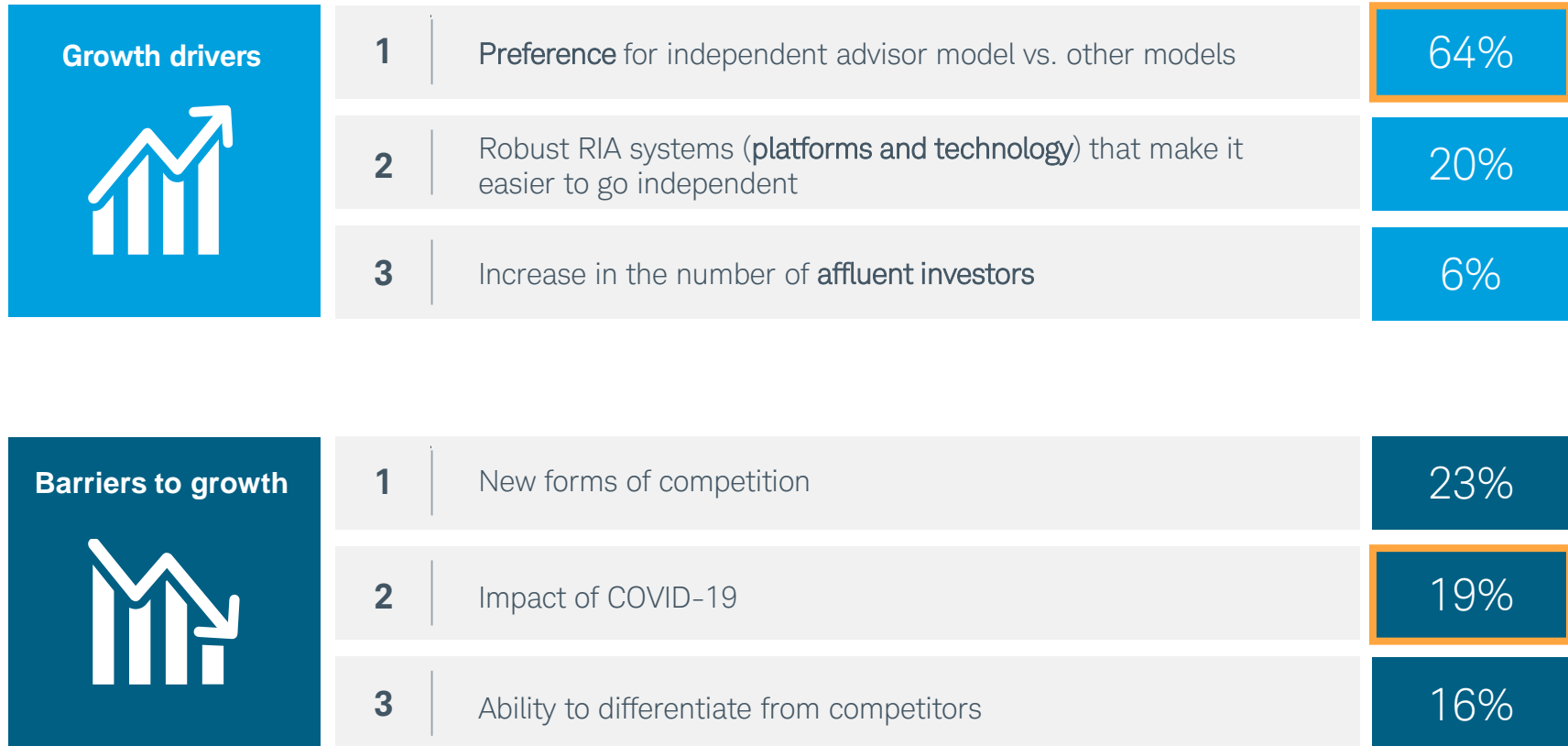
Industry & firm outlook

Despite COVID-19 and its economic impact, advisors are bullish about the industry's prospects for continued growth



Q4. Which statement best describes your opinion on the state of the RIA industry?
(Base: Total Advisors; Current wave =1,347)

Preference for the independent model will continue to drive industry growth, though impacts from COVID-19 and new forms of competition may present barriers



Q5. What factor do you think will drive the most growth for the RIA industry?
Q6. What will be the biggest barrier to growth for the RIA industry in the next five years?
(Base: Total Advisors; Current wave = 1,347)

Most firms expect growth in net new assets this year, but for many this is down from original projections



Firms that expect growth

82%



Average expected growth rate in new assets by end of 2020

11%

Compared to January projections...



42%

Report growth is expected to be lower



20%

Report growth is expected to be higher

Size breakdown of firms projecting lower growth rate:



Large firms
More than \$500M

49%

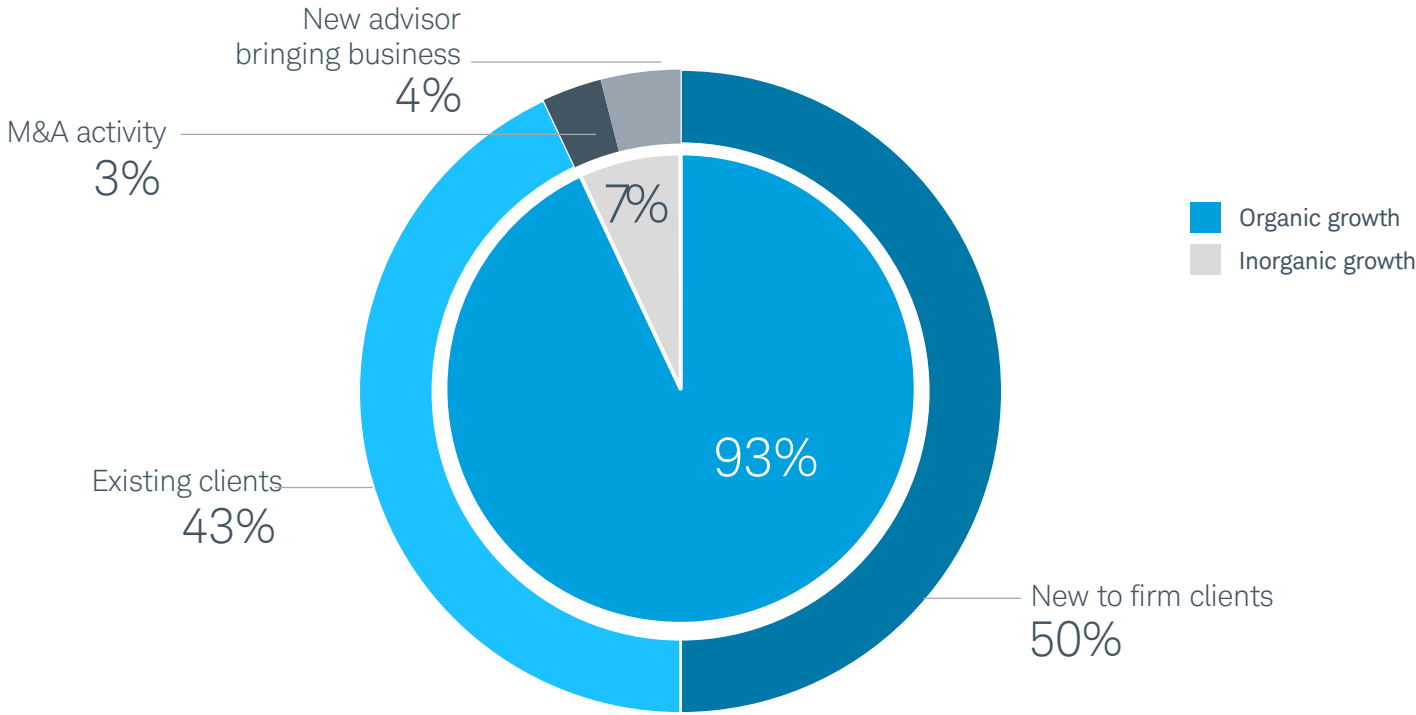


Small firms
\$500M or less

39%

Organic growth from existing and new to firm clients is expected to drive most net new asset growth in 2020

Organic & inorganic firm growth expectations by end of 2020

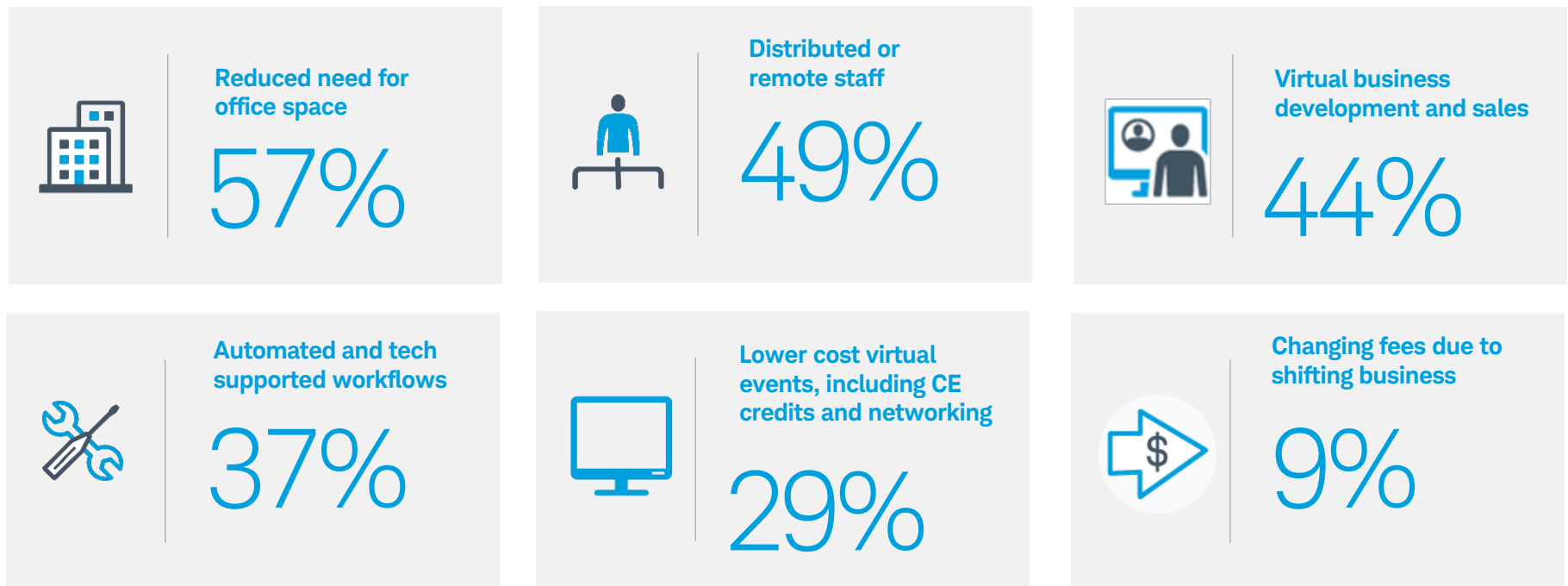


Q10. Thinking about the growth of your firm by the end of 2020 in terms of net new assets, what percentage do you expect to come from existing and new clients (organic growth), and what percentage do you expect to come from outside investments or transactions (inorganic growth)?
(Base: Advisors who expect growth; Current wave = 1,113)

Impact of COVID-19 on the industry

Advisors expect a range of lasting industry changes due to COVID-19

Anticipated lasting changes due to COVID-19



Advisors predict that greater use of video conferencing with clients and prospects is here to stay

Top three predicted permanent changes due to COVID-19



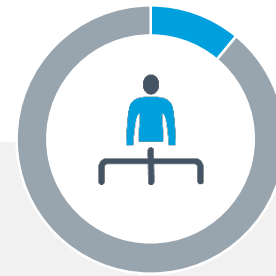
47%

Increase in use of video-enabled meetings with clients and prospects



14%

Reduction in travel



11%

Hybrid of remote or distributed teams

Impact of COVID-19 on firms

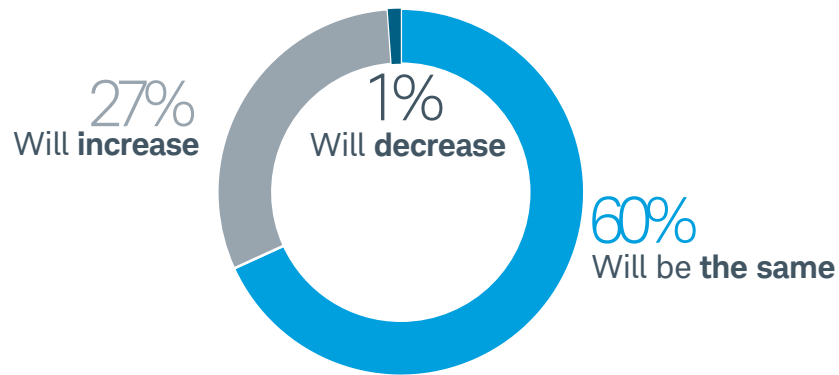
Advisors see opportunity in the face of new challenges, particularly when it comes to demonstrating client service



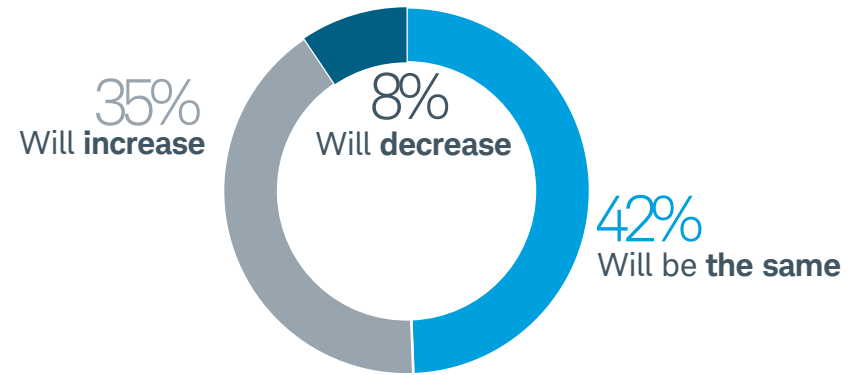
Q11. What are the three biggest challenges to your business in 2020 due to COVID-19?
 Q12. What are the three biggest opportunities to your business in 2020 due to COVID-19?
 (Base: Total Advisors; Current wave = 1,347)

Expectations for more remote work are on the rise, particularly among larger firms

In **2020**, the number of employees working remotely...



In **2021**, the number of employees working remotely...



Advisors believe the proportion of employees working remotely **will increase**



Large firms

More than \$500M

34%



Small firms

\$500M or less

25%

Advisors believe the proportion of employees working remotely **will increase**



Large firms

More than \$500M

53%



Small firms

\$500M or less

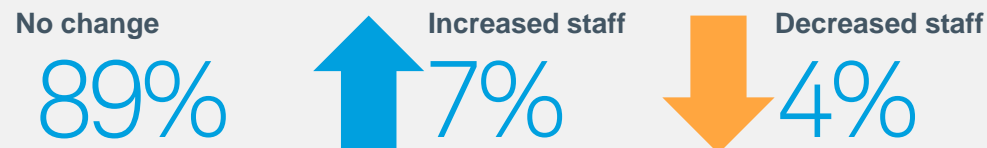
27%

While staffing levels remained stable, over a third of advisors have been working more hours

As a result of COVID-19 **advisors are working...**



How **staffing levels** have changed as a result of COVID-19



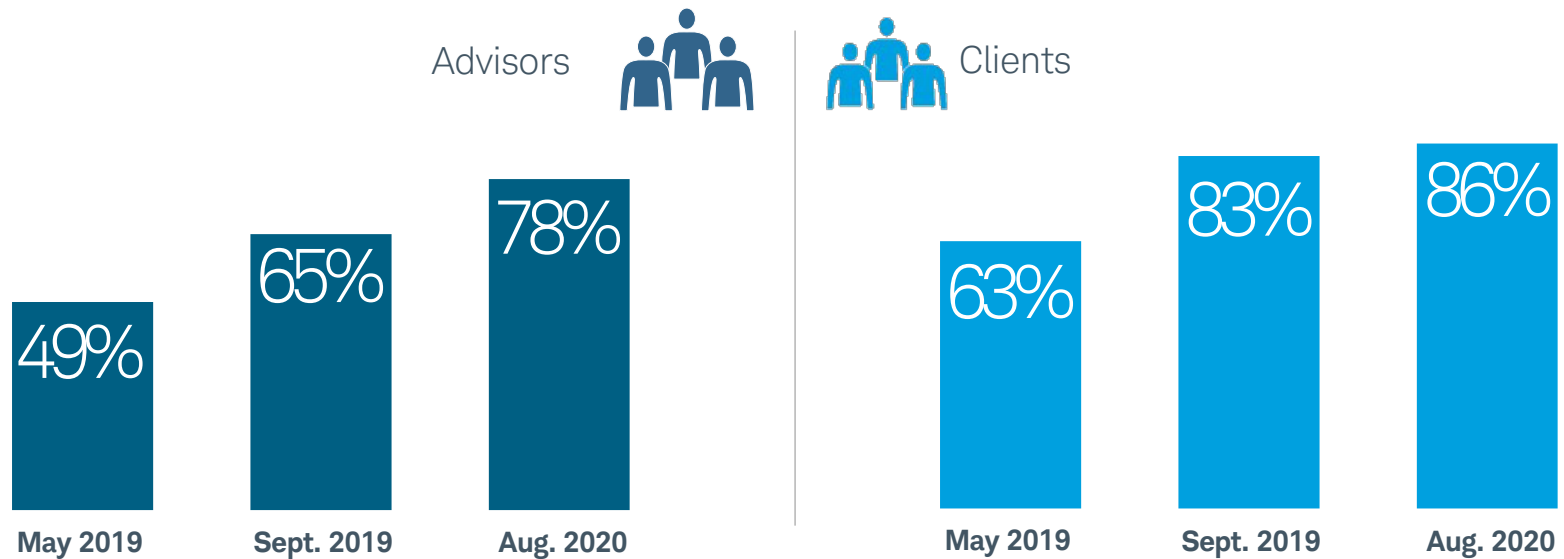
Market & investing outlook

Most advisors and clients fear the recession will linger through 2021. Overall, recession fears have risen over the last year

Concerned about continued recession through 2021



Concerned about a recession



Q2. How concerned are **your clients**, if at all, about the possibility of a continued **recession** through 2021)?
 Q3. How concerned are **you**, if at all, about the possibility of a continued **recession** through 2021?
 (Base: Total Advisors; Current wave = 1,347)

Advisors have grown more concerned about reaching client goals




Q1. Which of the following best describes how easy or difficult you think it will be to achieve your clients' investment goals in the current market environment?
(Base: Total Advisors; Current wave =1,347)

Appendix

Methodology

- The Independent Advisor Outlook Study (IAOS) is an online study conducted for Charles Schwab by Logica Research.
 - Logica Research is neither affiliated with, nor employed by, Charles Schwab & Co., Inc.
 - The sampling error is +/- 3 percentage points at the 95% confidence level.
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- The study was conducted from August 3 through August 16, 2020.
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- 1,347 independent investment advisors who custody assets with Schwab representing a total of \$513B in assets under management (AUM) 
- Participation is voluntary, participants are not incentivized, and the typical (median) survey length was 16 minutes.

Firmographic Snapshot

