

INDEPENDENT ADVISOR OUTLOOK STUDY

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Executive Summary

LEADERSHIP

- About **half of firms have identified their next generation of leadership.**
 - Among those that have, 37 percent characterize the next generation as being extremely prepared to lead the firm.
- The current and next generations of advisors are viewed more often as agreeing than disagreeing on key components of running the firm.
 - Areas of agreement: Education, relationship management and investment strategy
 - Areas of disagreement: Philosophy on technology use, business development/marketing expertise and talent acquisition skills

TALENT

- One in four advisors said their firms are **already making efforts to recruit diverse employees** and an additional 15 percent indicated they will be making efforts in the future.
- When considering the appeal of their firms to candidates under the age of 30, the majority of the advisors (64%) believe that their firm would be seen as **'striving to be flexible across generations'** and an additional 13 percent think such a candidate would consider the firm a **'perfect fit with their generation.'**

Executive Summary

FIRM OUTLOOK

- One in three advisors **have taken action to grow their business**, beyond organic growth, over the past five years.
 - Of these, half (51%) report **acquiring, joining or merging** with another independent registered investment advisor (RIA) firm, and half (54%) report bringing into their firms an individual advisor with a **transferable book of business**.
 - The leading two reasons for taking these specific steps are **cultural fit** (59%) and **alignment of business models** (49%).
- About half of **advisors would sell their business** if the right reasons presented themselves.
 - Three-quarters of those willing to sell would likely sell to another RIA firm.

NEXT GENERATION CLIENTS

- Advisors believe Millennials and GenX have a greater **lack of trust of financial institutions** than their parents' and grandparents' generations; they place **value on fee transparency** but **less emphasis on personal service**.
- Advisors are most often **building awareness** of the RIA model through involvement in community organizations (42%) and providing internships (30%).

Executive Summary

COMPETITION & AUTOMATED INVESTMENT ADVISORY SERVICES

- Advisors see the landscape as **getting more competitive** – one third of advisors say competition for clients' assets has increased in the past two years.
- Advisors believe that the **greatest competition for acquiring assets** from next generation prospects will come from automated investment advisory services (22%) and investors' general spending (22%).
- Advisors view younger investors and clients with <\$100K in investable assets as the main targets of automated investment advisory services.
- Forty percent of advisors **aren't sure what their firm will do** regarding automated investment advisory services, 31 percent believe they will **outsource** to a third party and 10 percent believe they will **build the capabilities in-house**.

TECHNOLOGY

- Firms either **use or are likely to adopt** within the next two years: **mobile** apps (41% use/34% adopt), **real-time information and data** (65% use/17% adopt) and **video chat** (34% use/35% adopt).

Executive Summary

MARKET OUTLOOK

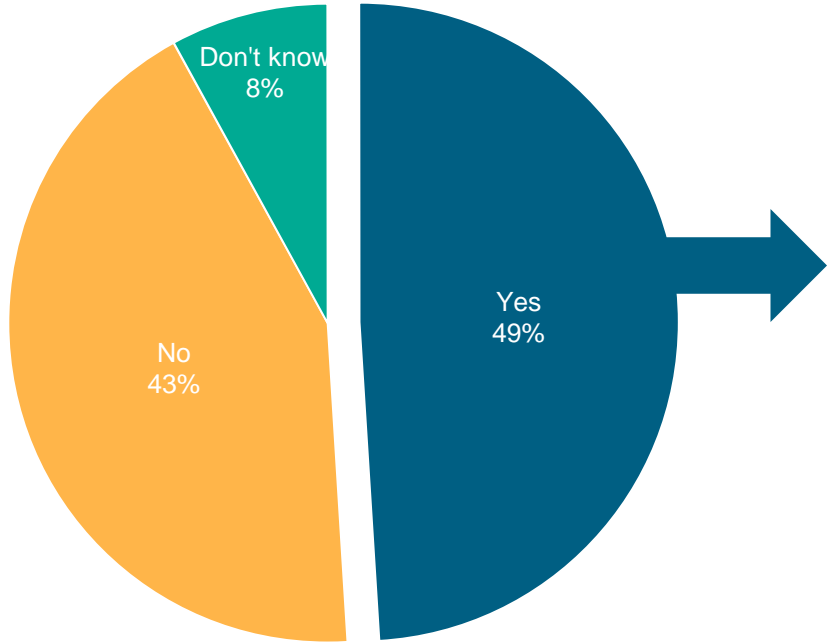
- The market has been steadily up for the past six waves, and **65 percent of advisors predict that the S&P 500 will increase** in the next six months, a slight increase from previous waves.
- Yet advisors are also **anticipating a market correction**, with over 70 percent predicting that one will occur within six months.
- The current **geopolitical environment is shaking investment confidence**, with over half of advisors saying that their clients' confidence has decreased.

DETAILED FINDINGS

Half of firms have identified the next generation of leadership; among those, 37 percent characterize the next generation as being extremely prepared to lead the firm

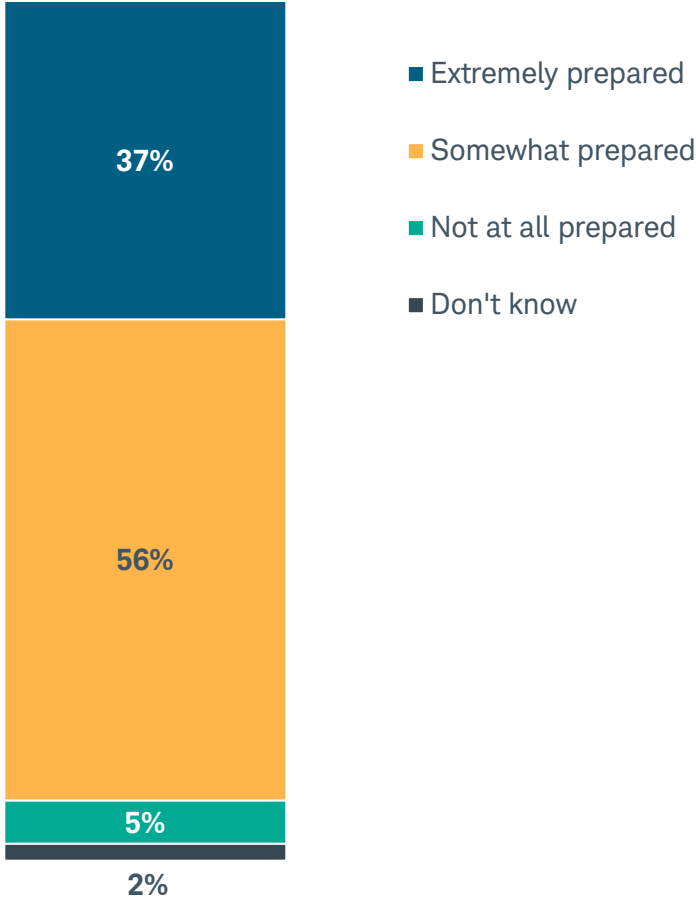
Has Firm Identified Next Generation of Leadership

(Base: Total Principals)



Preparation of Next Generation of Leadership

(Base: Total Principals Who Have Identified Next Generation of Leadership)



Q11: Has your firm identified the next generation of leadership?
(Base = Total Advisors; Current wave = 462)

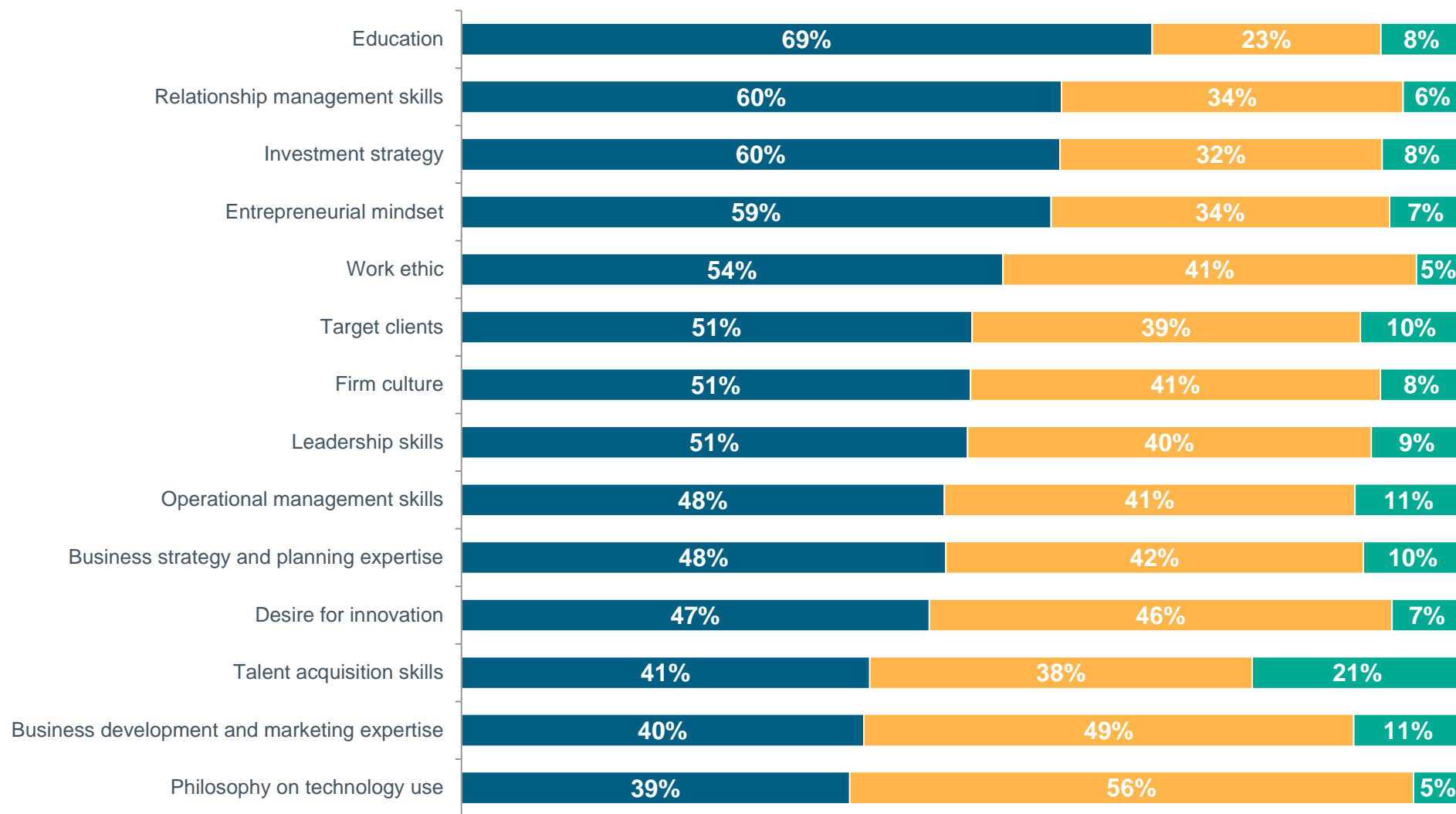
Q12: How prepared is the next generation of leadership to successfully lead your firm into the future?
(Base = Total Advisors Who Have Identified Next Generation of Leadership; Current wave = 228)

Advisors see the current and next generations of advisors as having a lot in common, though differing on some key areas

Differences in Generational Leadership

(Base: Total Advisors Answering)

■ Have in common ■ Differ on ■ Don't know

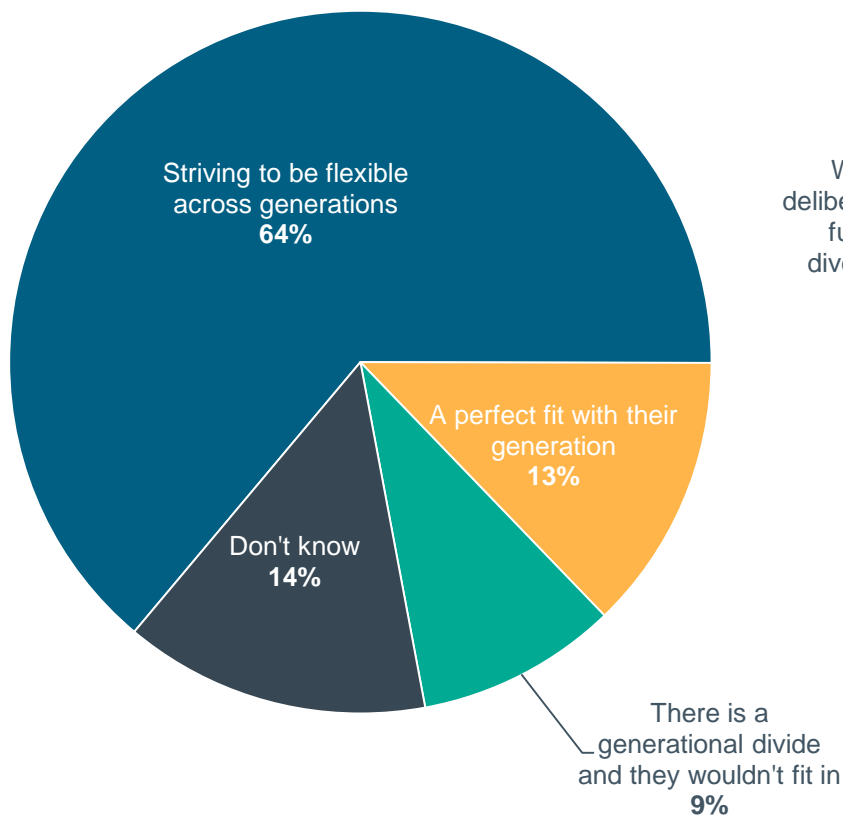


Q13: Think about the current generation of leadership among RIA firms in general (those current principals) and the future next generation of advisors who will lead firms. Please select the words or phrases that best describe attributes that these generations of leaders may share and attributes that may be different. (Base = Total Advisors Answering—excludes advisors who chose not to answer question; Current wave = 647)

Over three-quarters of firms believe job candidates under 30 years of age would view their firm as striving to be flexible across generations; one in four advisors say their firm is making efforts to recruit diverse employees and 15 percent say they plan to do so in the future

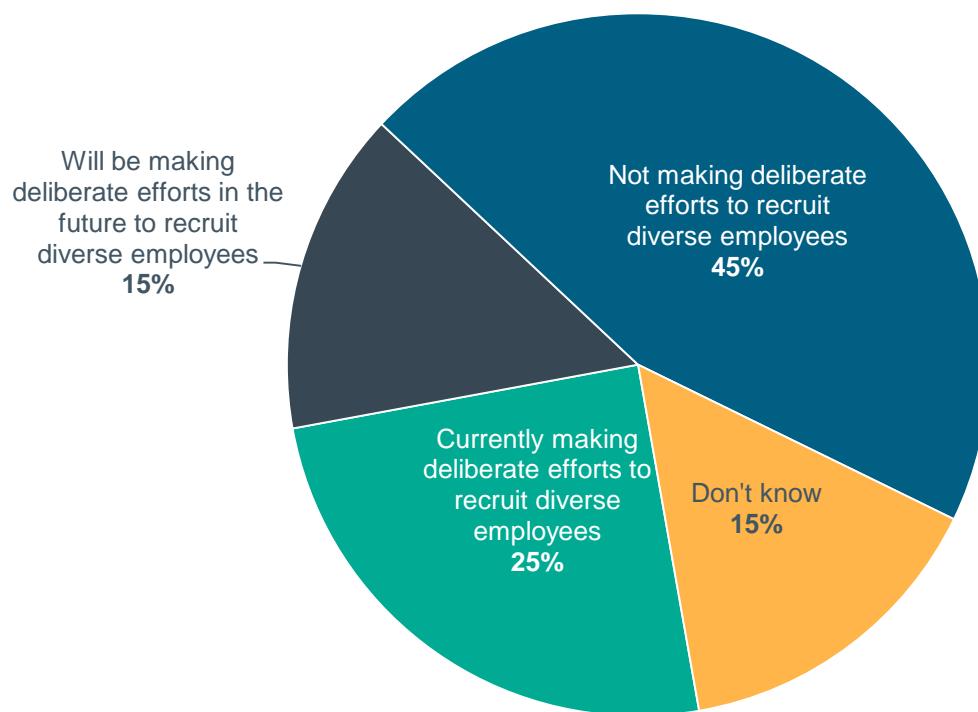
Appeal to Candidates Under 30

(Base: Total Advisors)



Diversity of Employees

(Base: Total Advisors)



Q14: Which of the following best describes your firm?

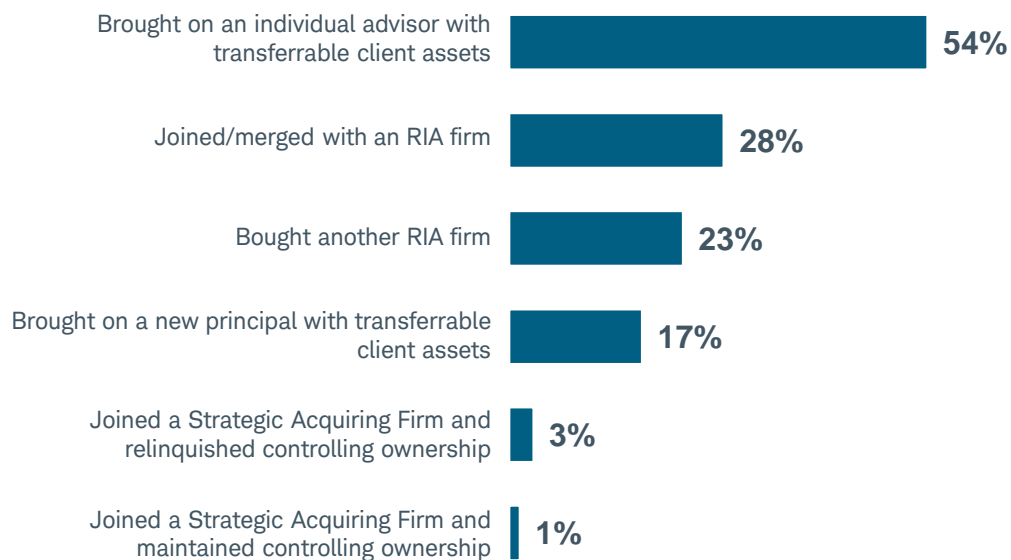
Q15: If your firm were interviewing a job candidate who is under 30 years old, how do you think that candidate would perceive your firm?

(Base = Total Advisors; Current wave = 740)

One-third of advisors have taken actions to grow their business in the past five years, beyond organic growth; most by bringing on new advisors, joining or merging with another RIA firm or buying another RIA firm

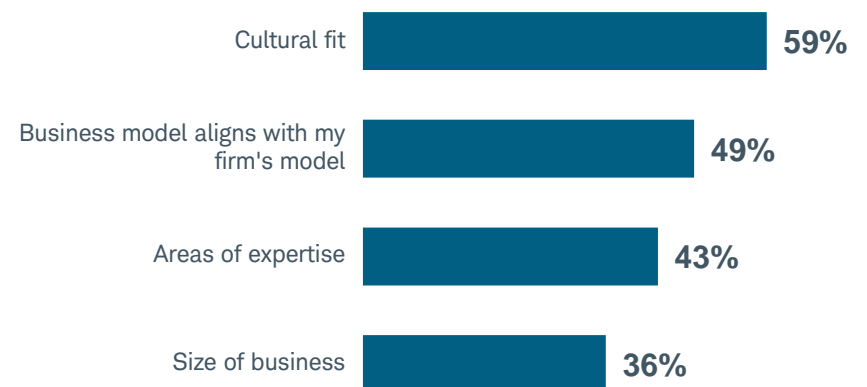
Specific Actions Taken

(Base: Advisors Who Took Any Actions)



Top Reasons for Specific Actions Taken

(Base: Advisors Who Took Any Actions)



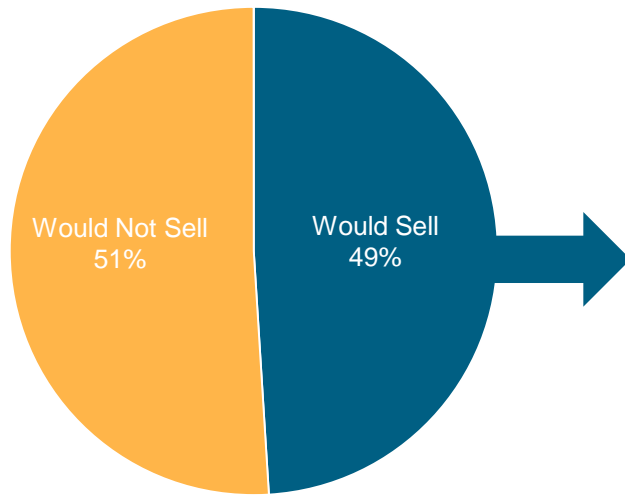
Q4: Considering the ways you may have grown your business, have you done any of the following activities in the past 5 years?

Q5: What were the key factors that drove your decision to make that transaction (i.e. bought another RIA firm, merged with another RIA firm, brought on a new principal, etc.)?

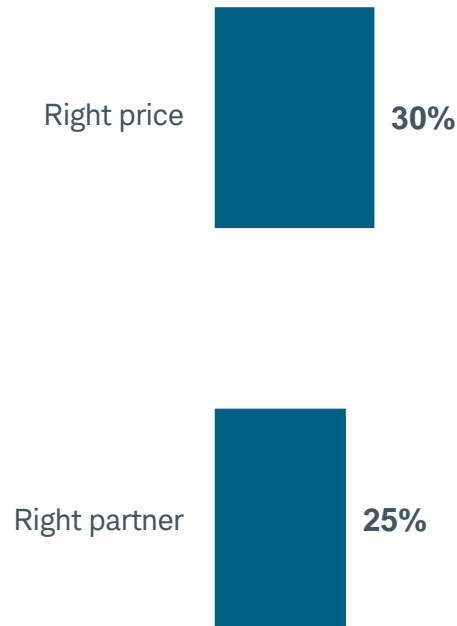
(Base = Total Advisors; Current wave = 740; Total Advisors Took Any Actions; Current wave = 226)

About half of advisors would sell their business if motivated for the right reasons, and would mainly consider selling to other RIA firms

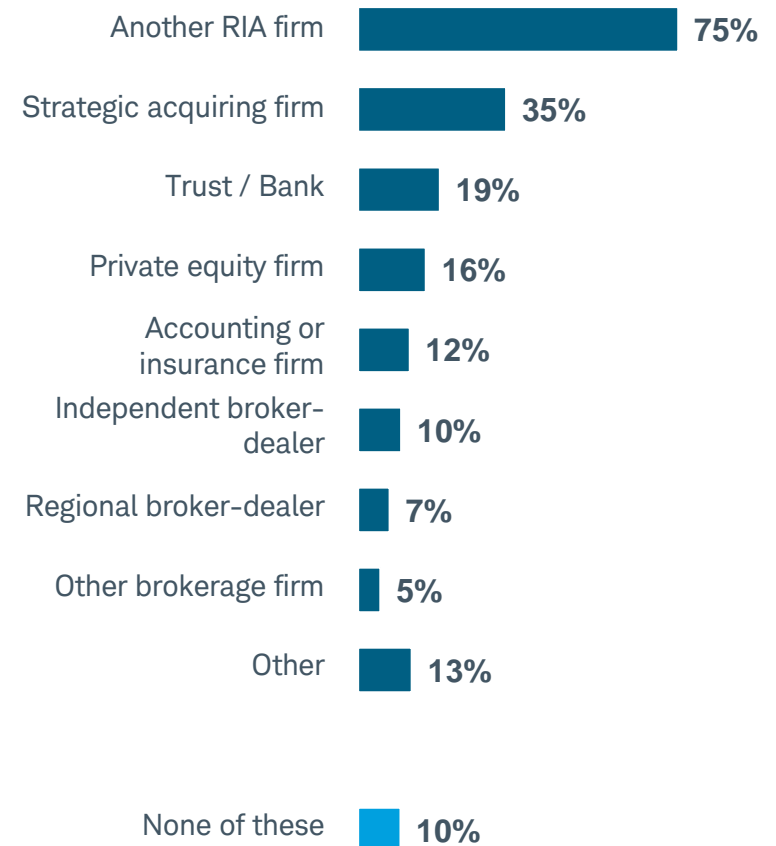
Would Advisors Sell Business
(Base: Total Advisors)



Top Reasons to Sell Business
(Base: Advisors Who Would Sell Business)



Who Would Sell Business To
(Base: Advisors Who Would Sell Business)



Q6: What would motivate you to sell your business in the next 5 years?

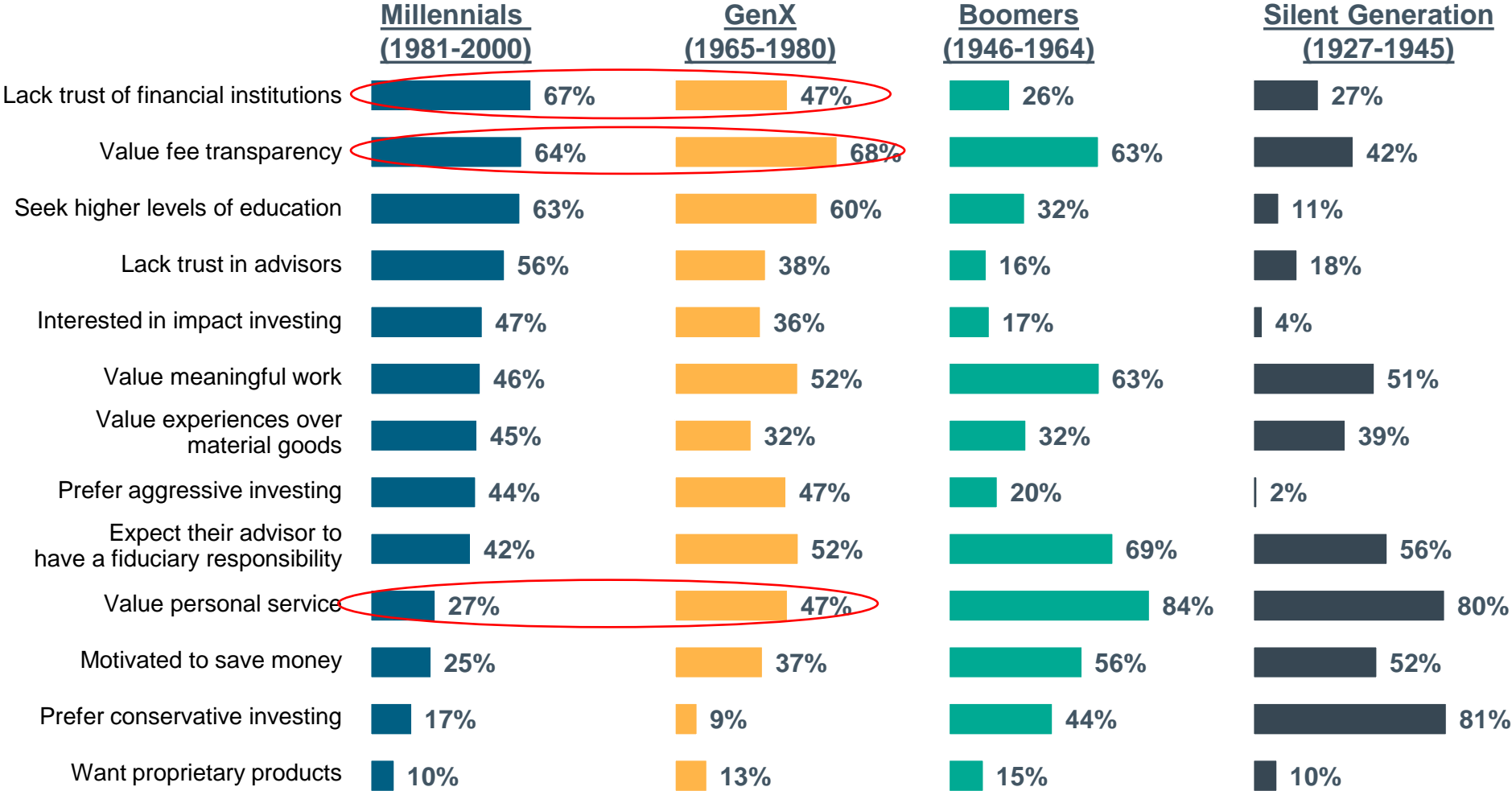
Q7: What type of entity would you consider selling to?

(Base = Total Advisors; Current wave = 740; Total Advisors Who Would Consider Selling Business; Current wave = 365)

Advisors believe Millennials and GenX have a greater lack of trust of financial institutions than their parents' and grandparents' generations; they place value on fee transparency but less emphasis on personal service

Generational Attributes

(Base: Total Advisors)

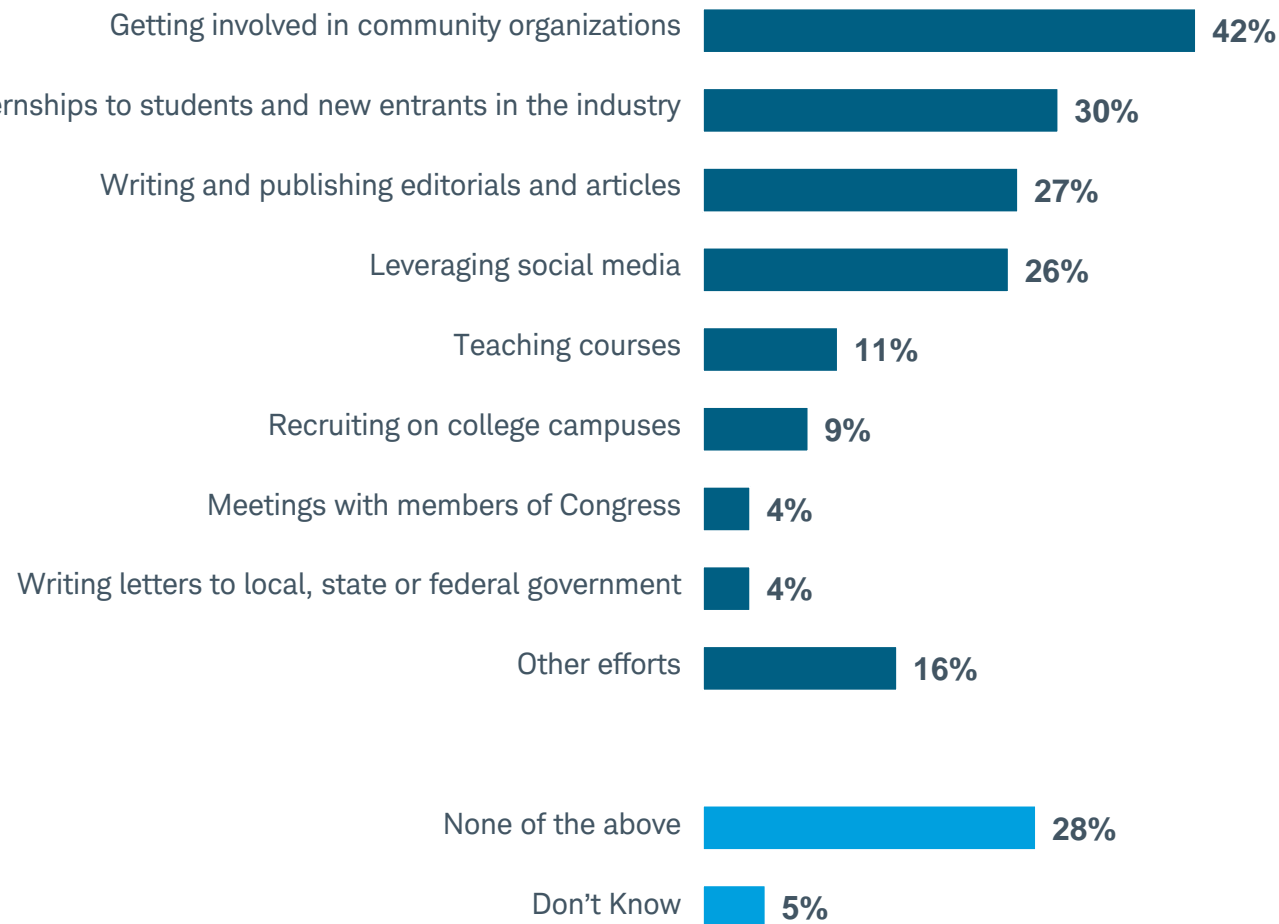


Q10: Based on what you know about each generation shown below, please select the attributes that you feel describe that generation. (Base = Total Advisors; Current wave = 740)

Advisors' firms are most often building awareness by involvement in community organizations and providing internships

Current Methods of Building Awareness of RIA Industry

(Base: Total Advisors)

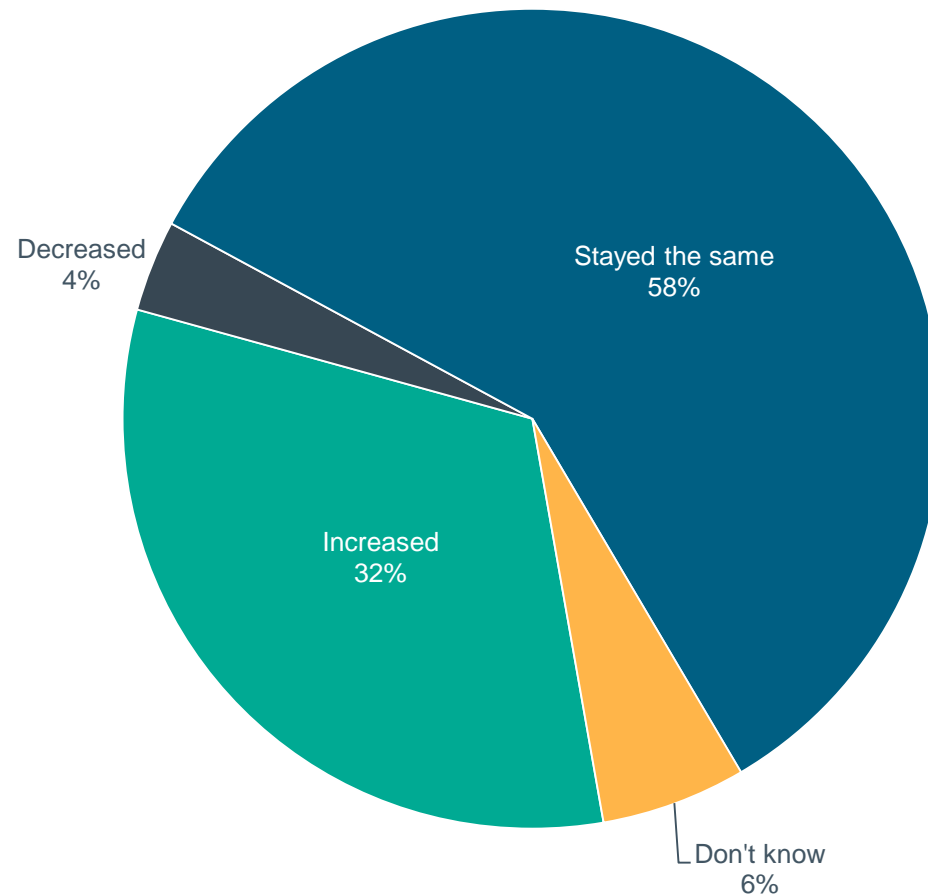


Q20: Which of the following, if any, is your firm doing to build awareness of the RIA industry?
(Base = Total Advisors; Current wave = 740)

About a third of advisors believe that competition for their clients' business has increased in the past two years

Change in Competition for Clients' Business

(Base: Total Advisors)



Q19: Has competition for your clients' business increased, decreased, or stayed the same in the last two years?

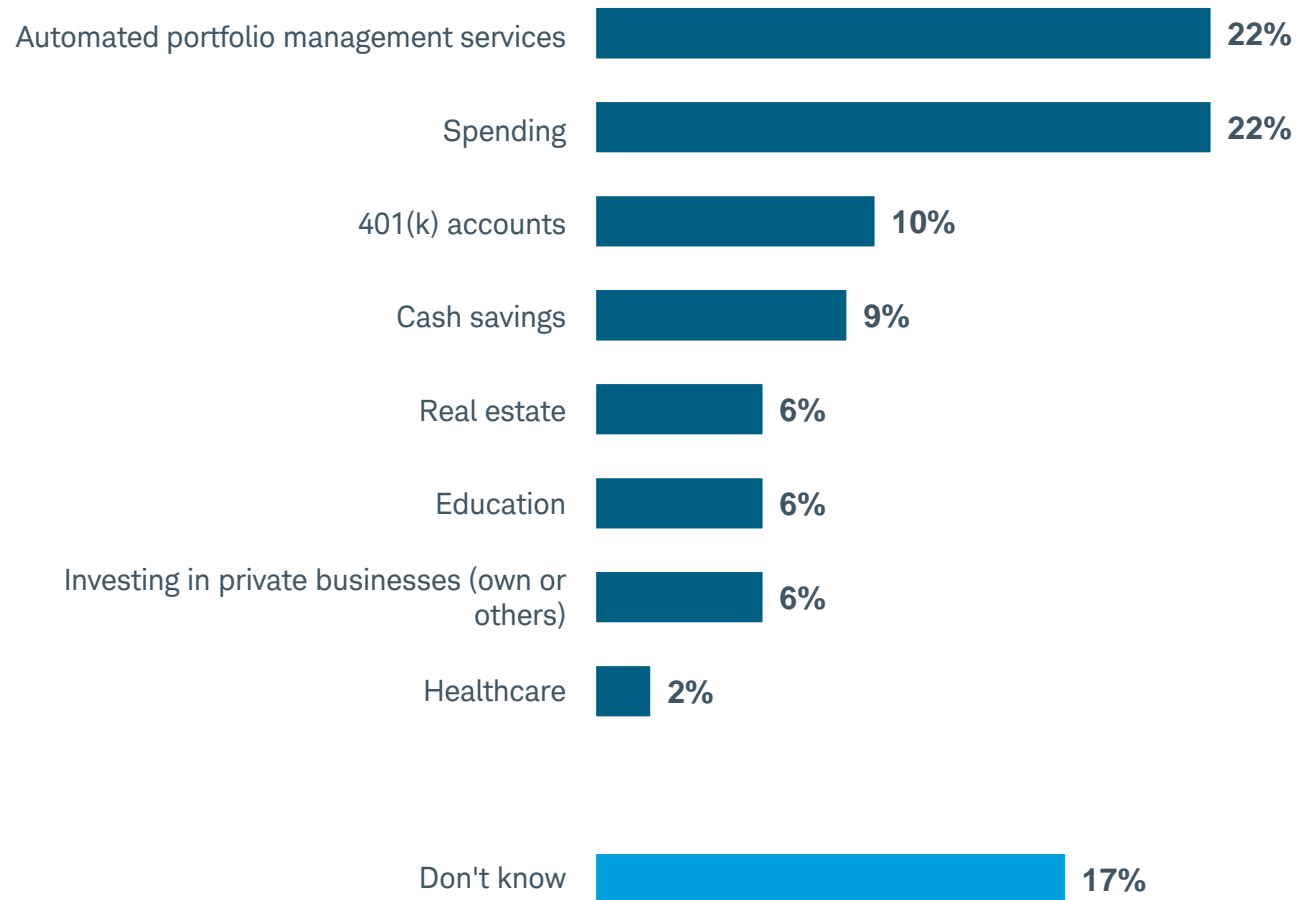
Q9: Which of the following presents the greatest competition for acquiring the assets of the next generation of investors (those between the ages of 30-45 years old), other than competitor financial advisors?

(Base = Total Advisors; Current wave = 740)

Advisors believe that the greatest competition for acquiring assets from next generation prospects will come from automated portfolio management services and general spending

Greatest Competition for Acquiring Assets from Next Generation

(Base: Total Advisors)



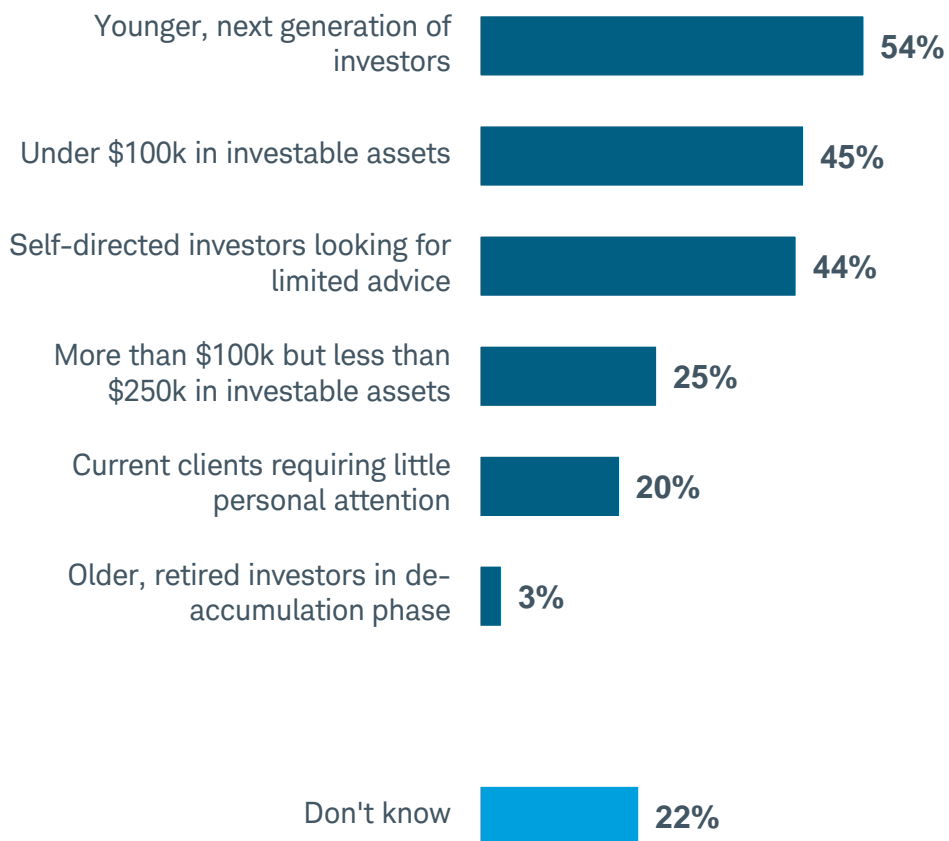
Q9: Which of the following presents the greatest competition for acquiring the assets of the next generation of investors (those between the ages of 30-45 years old), other than competitor financial advisors?

(Base = Total Advisors; Current wave = 740)

Advisors view younger investors and smaller clients as the main targets of automated portfolio management services

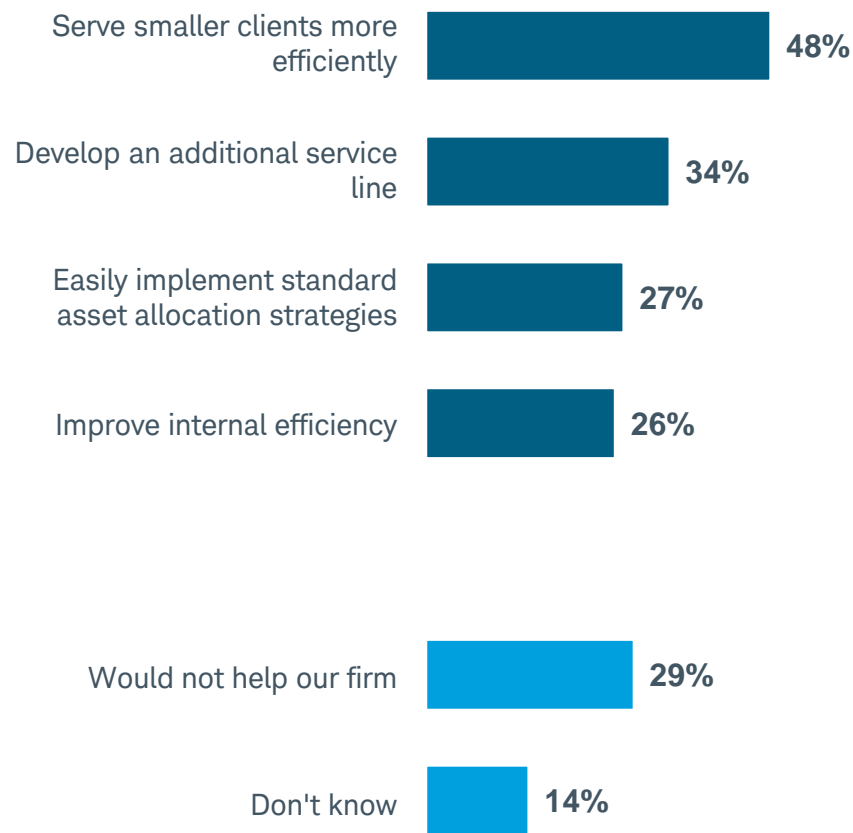
Clients Targeted for Automated Portfolio Management

(Base: Total Advisors)



How Automated Portfolio Management Would Help Business

(Base: Total Advisors)



Q17: What kinds of clients would you most likely target for online, algorithm-based investment advisory services?

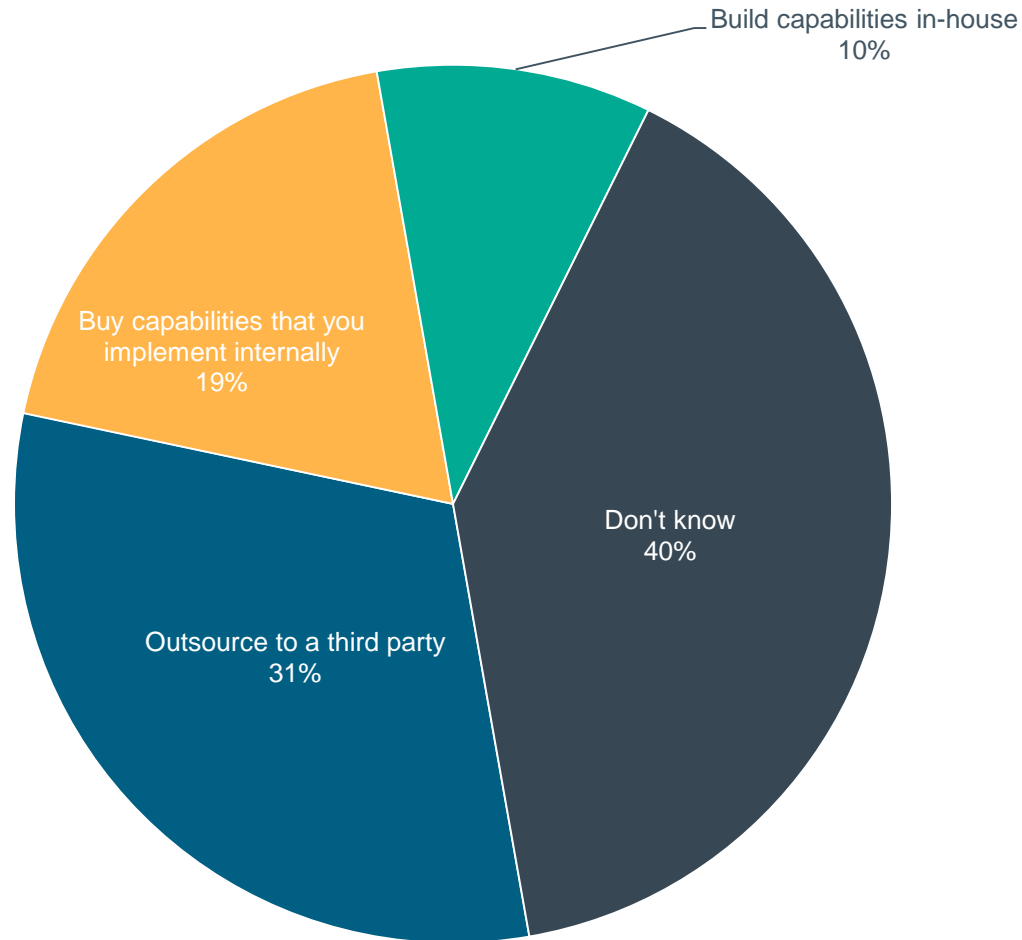
Q18: How would online, algorithm-based investment advisory services help your firm?

(Base = Total Advisors; Current wave = 740)

Though most advisors aren't sure what their firm would do, three in ten believe they would outsource automated portfolio management services to a third party

How Firm Would Implement Automated Portfolio Management Services

Base: Total Advisors)



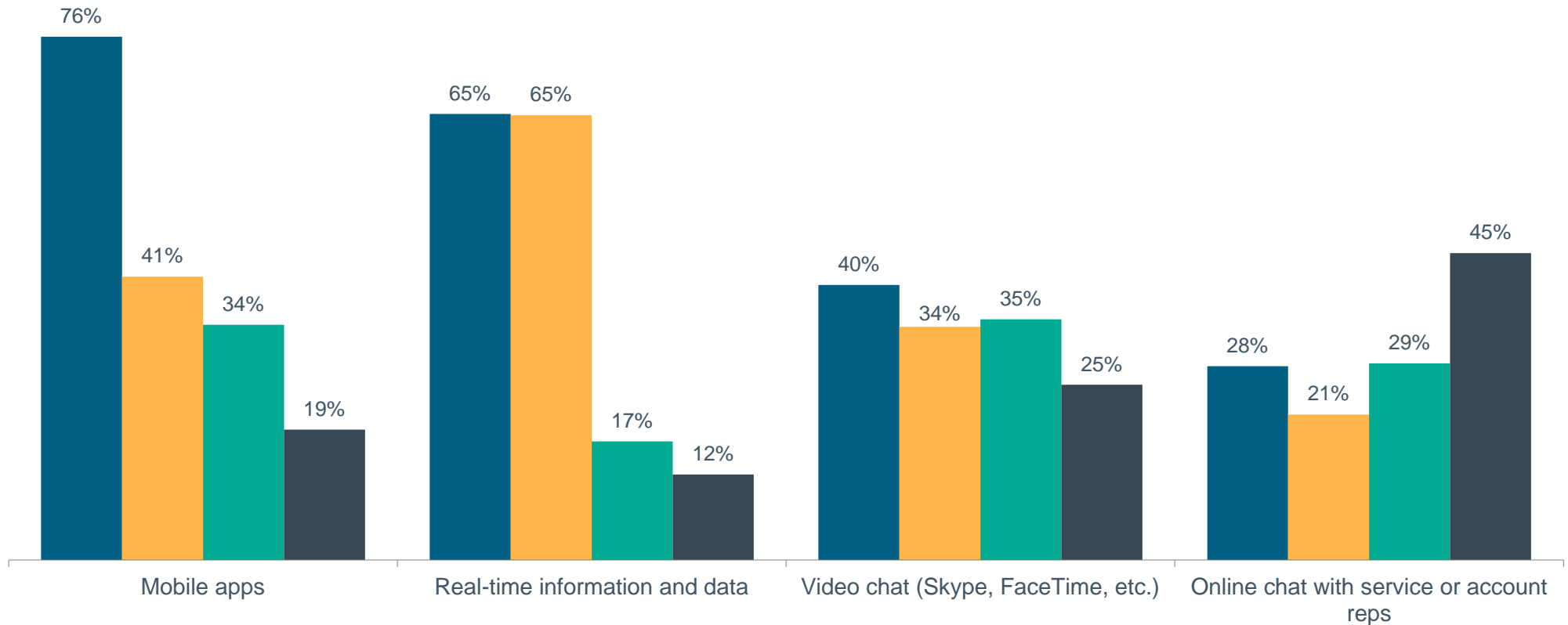
Q16: If your firm were to integrate online, algorithm-based investment advisory services are you most likely to...?
(Base = Total Advisors; Current wave = 740)

Firms already use or are likely to adopt mobile apps, real-time info, and video chat within the next two years

Firm's Technology Usage

(Base: Total Advisors)

■ % Use in Daily Life Today ■ % Use in Firm Operations Today
■ % Expect to Use Within 2 Years ■ % Don't Expect to Use Within 2 Years



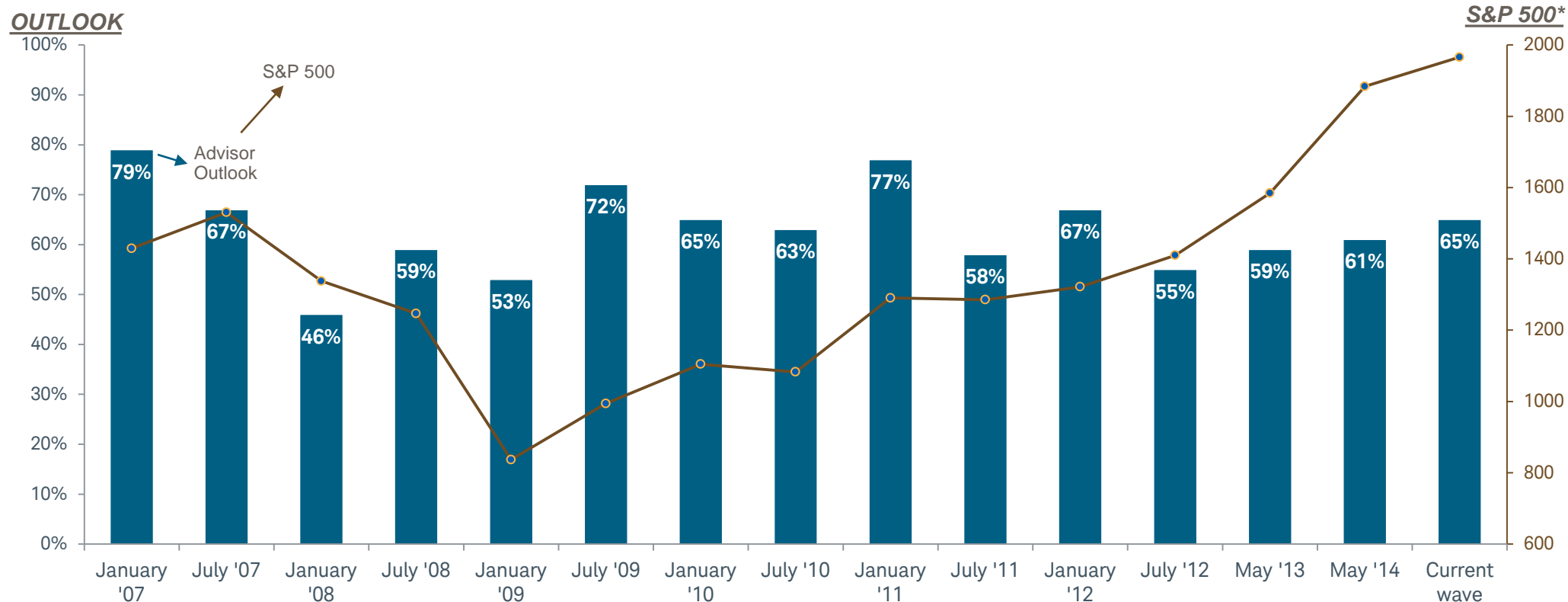
Q8a: Please indicate below the technology you are using in your daily non-business life today.

Q8b: Please indicate below the technology you are using in your firm today and whether or not you plan on using it in the future.

(Base = Total Advisors; Current wave = 740)

Sixty-five percent of advisors predict that the S&P 500 will increase over the next six months, a slight increase from previous waves

Performance of the S&P 500 by Advisors' Predictions that It Will Increase in the Next Six Months
(Base: Total Advisors)



AVERAGE DAILY OPENING VALUE WHILE IN FIELD & S&P 500 WILL INCREASE															
AVERAGE	JAN '07 [A]	JULY '07 [B]	JAN '08 [C]	JULY '08 [D]	JAN '09 [E]	JULY '09 [F]	JAN '10 [G]	JULY '10 [H]	JAN '11 [I]	JULY '11 [J]	JAN '12 [K]	JUL '12 [L]	May '13 [M]	May '14 [N]	CURRENT WAVE [O]
S&P 500	1429.28	1530.25	1337.63	1246.76	836.92	994.17	1104.60	1082.90	1290.31	1285.35	1321.71	1409.75	1584.36	1883.68	1965.80
Outlook	79% BCDEFGHJKLMNO	67% CDEHJLMN	46%	59% CE	53% _C	72% BCDEGHJKLMNO	65% CDEJLM	63% CEJL	77% BCDEFGHJKLMNO	58% CE	67% CDEHJLMN	55% C	59% CE	61% CEL	65% CDEJLM

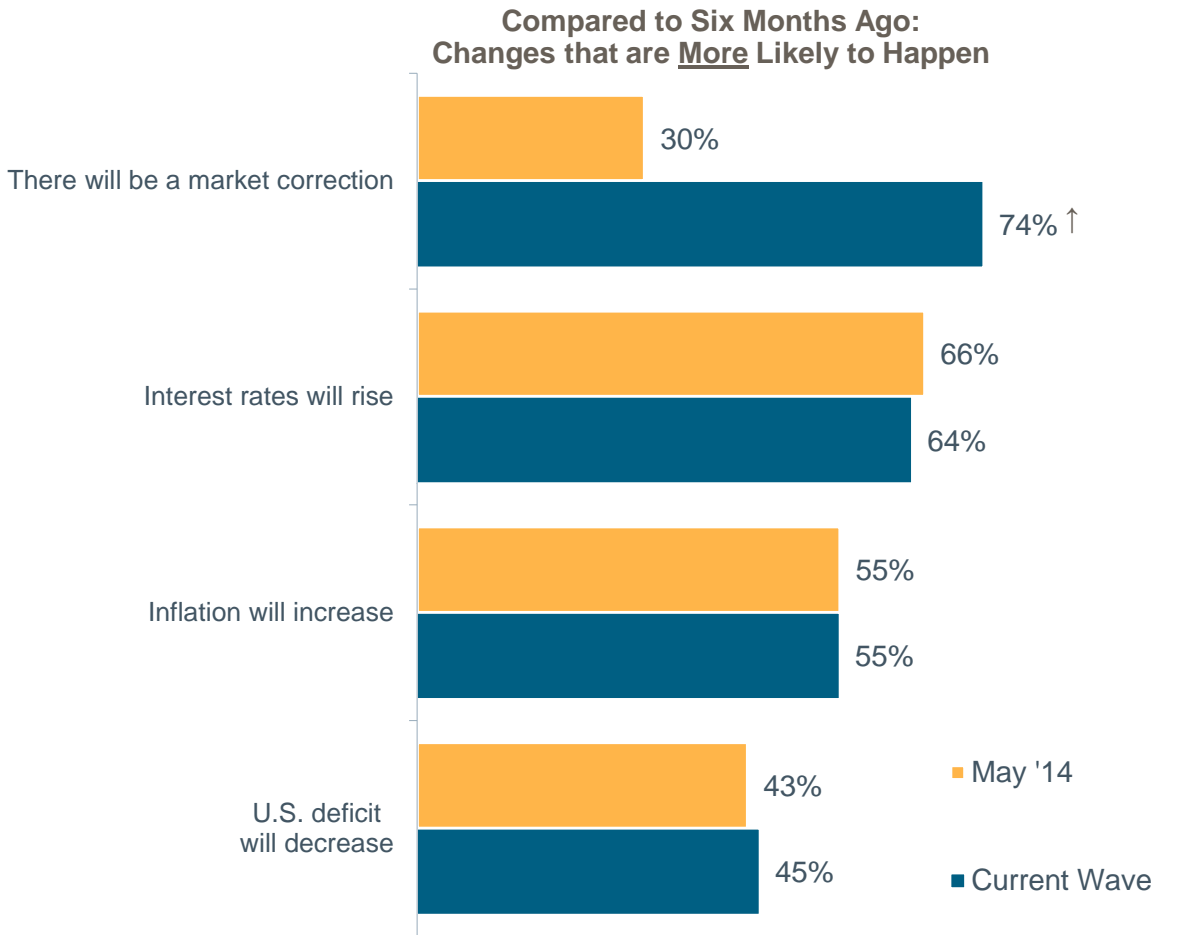
Q1: Which of the following best describes what you think will happen to the S&P 500 in the next six months? (Base = Total Advisors; Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1198; Jan '10 = 1144; July '10 = 1199; Jan '11 = 1337; July '11 = 911; Jan '12 = 882; July '12 = 839; May '13 = 1016; May '14 = 720; Current wave = 740)

Note: The standard deviation opening values for the S&P 500 during the current fielding period was 11.07

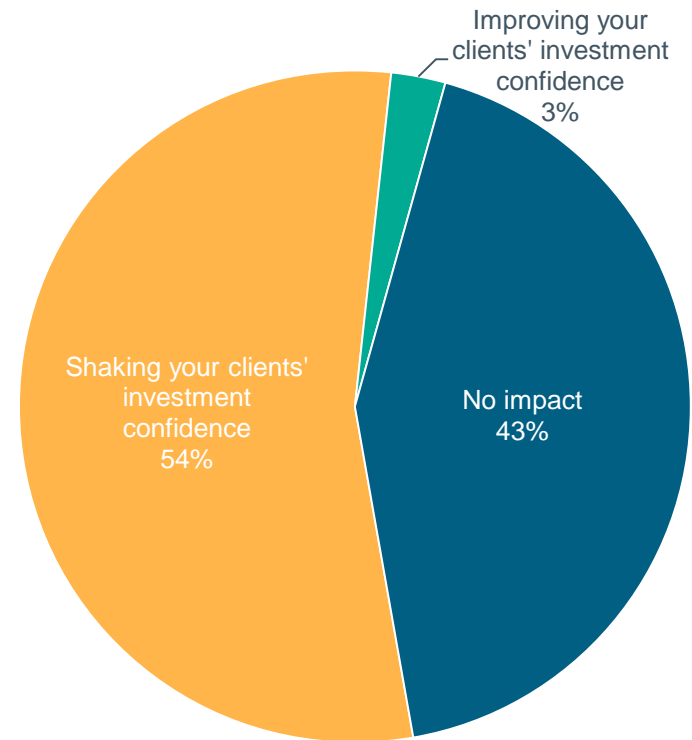
* S&P 500: Average daily opening values per survey fielding period

Advisors strongly believe there will be a market correction & interest rates will rise in the next six months; just over half of advisors believe the geopolitical environment is negatively affecting clients' investment confidence

Changes that Will “Likely” Occur in the U.S. During the Next Six Months — May ‘14 to Current Wave
(Base: Total Advisors)



Current Geopolitical Environment
(Base: Total Advisors)



↑ Indicates significant difference at 95% confidence interval

Q2: Please choose the response that best describes your opinion of each of the below events occurring in the U.S. in the next six months.

(Base = Total Advisors; May '14 = 720; Current wave = 740)

Q3: Is the current geopolitical environment...? (Base = Total Advisors; Current wave = 740)

APPENDIX

Background

- Charles Schwab Advisor Services™ is a leading provider of custodial, operational and trading support to nearly 7,000 independent registered investment advisors (RIAs) with \$1 trillion in assets under management (as of 9/30/14).
- For 25 years, Schwab Advisor Services has been championing RIAs – advocating on their behalf, delivering forward-looking insights to help them navigate the future, and providing services and technology that support the continued growth and success of their businesses so that they can help their clients reach their financial goals.
- This semi-annual study has been designed to measure independent investment advisors' views on a variety of timely subjects.
- The current wave of this survey set out to better understand RIAs' perspectives about the opportunities and challenges they see with respect to the next generation of leadership and clients.

Methodology

What	<ul style="list-style-type: none">• The Independent Advisor Outlook Study is an online study conducted for Charles Schwab by Koski Research.• Koski Research is neither affiliated with, nor employed by, Charles Schwab & Co., Inc.• The sampling error is +/-3.6 percentage points at the 95% confidence level.
When	<ul style="list-style-type: none">• The study was conducted from September 10th to September 23rd, 2014.
Who	<ul style="list-style-type: none">• 740 advisors employed by independent registered investment advisor firms, whose assets are custodied at Schwab.• Participation is voluntary. Respondents are offered the opportunity to sign up for a summary of the results. The survey length averages approximately 20 minutes.• For this report, the majority of data is reported at the total sample level. When applicable, comparisons with prior waves of the study are made.• All data are self-reported by study participants and are not verified or validated.