

INDEPENDENT
ADVISOR
OUTLOOK
STUDY
WAVE 17

June 25, 2015

charles
SCHWAB

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Executive Summary

Industry Outlook

- Advisors are confident in the economy – more than 80% believe it is improving.
- Advisors are optimistic about the RIA industry – more than half of RIAs polled believe that the industry will continue to grow faster than the market, and more than 90% believe that it has not hit its peak growth yet.

Firm Outlook

- The bull market has many benefits for firms, most notably they report acquiring new clients and higher advisor compensation.

HIRING AND TRAINING

- Larger firms (\$500M+ assets) are more likely to be hiring employees than smaller firms; generally, they are prioritizing adding operational staff and junior advisors.
- Firms' biggest needs for employee development are in business development and understanding of technology.
- Of firms of all sizes, a reported 33% offer a formal, in-house training program.

Executive Summary

Firm Outlook (continued)

DIVERSITY

- More than half of firms see diversity hiring as a priority.
- Of the firms who do believe that diversity hiring is a priority, their main action taken is expanding the network they use to search for new employees.

PATH TO OWNERSHIP

- Nearly one-third of firms offer equity ownership today; it is more common at larger firms (52%) than smaller firms (21%).
- The primary reasons for offering equity ownership are to ensure the long-term success of the firm and retain talent.
- Of the firms that offer equity, nearly half (49%) have a documented path to ownership.
- Equity ownership is generally acquired through buying in (57%) as compared to equity grants (15%) or earning out (12%).

Executive Summary

Firm Outlook (continued)

TECHNOLOGY

- Firms report that advancements in technology have allowed them to operate more efficiently, leading them to both a more profitable business and a better client experience, while freeing up more time for advisors to meet with clients.
- Advisors expect that younger investors and investors with low asset levels will be the target for an automated investment management offering.
- When asked about the main benefits of an automated investment management offering, the ability to serve clients with lower asset levels and reduce the cost of serving those clients rises to the top.

Executive Summary

Firm Outlook (continued)

BUSINESS MANAGEMENT

- Advisors overwhelmingly believe that their firms offer holistic wealth management (77%).
 - Investment management, long-term financial planning, and tax-efficient planning generally make up firms' core offer to clients.
 - Services such as financial planning for children, estate planning, charitable planning, and health care planning are seen as value-added services.
 - Holistic firms almost universally offer a range of eight services.
 - There may be a range of views regarding how advisors define holistic wealth management. Many firms don't offer real estate management (82%), tax preparation and filing (70%), advice on alternative investments (53%) or health care planning (36%).
- Firms are predominantly directing resources to adopting and integrating technology, differentiating their firm in the marketplace, and adding staff.
- About half of advisors believe that lowering account minimums is an effective way of attracting new clients, yet only one in five firms are taking action to lower minimums.

Executive Summary

Market Outlook

- The S&P 500 climbed again in the past wave, though slightly fewer advisors believe that the S&P 500 will increase in the next six months, down to 62% from 65% in the previous wave, and down for the first time since January of 2012.
- Despite slightly lower confidence in the S&P 500, advisors are significantly less likely to believe that there will be a market correction in the next six months compared to previous wave.

DETAILED FINDINGS

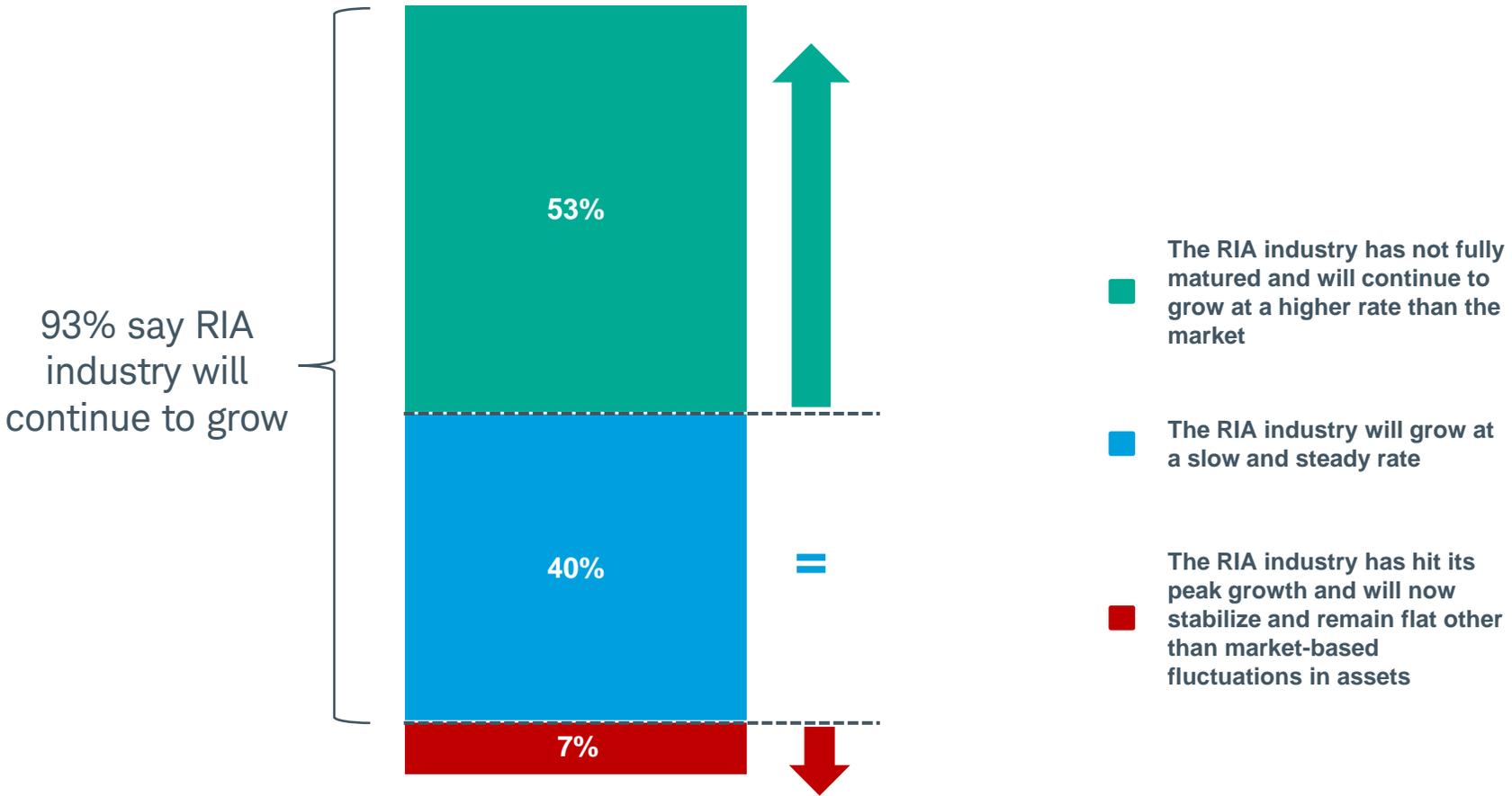
Advisor Services

INDUSTRY OUTLOOK

Advisor Services

Over half of advisors believe that the RIA industry has not yet reached its full potential

Growth of the RIA industry: Statement Best Describing Opinion of RIA industry
(Base: Total Advisors)

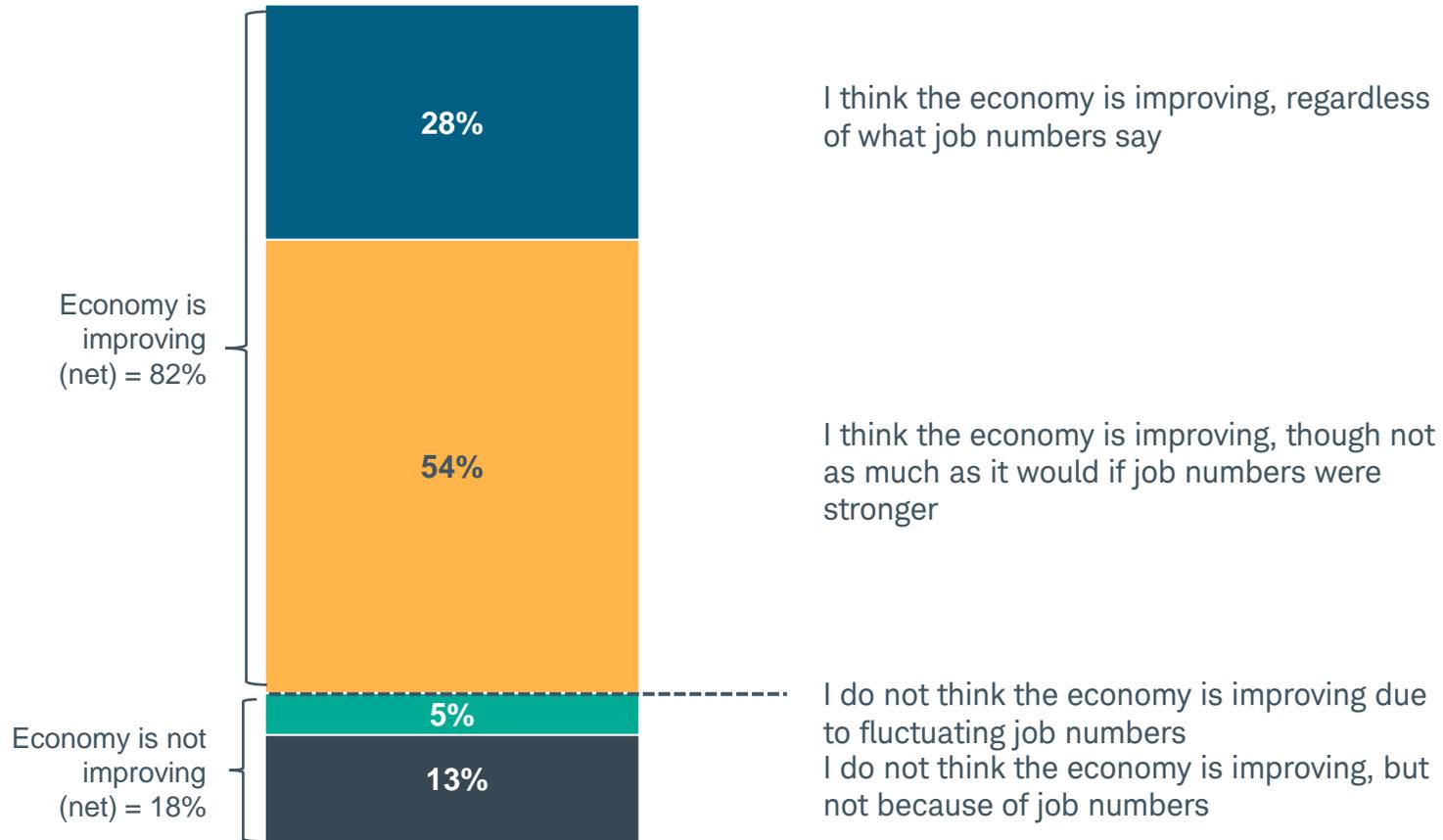


Q28: Which statement best describes your opinion on the state of the RIA industry?
(Base = Total Advisors; Current wave = 629)

Advisors are confident in the economy and the job market as a whole

Economy and the Job Market : Statement Agree with Most

(Base: Total Advisors)



Q3: Which of the following statements do you agree with most? (Please select one)
(Base = Total Advisors; Current wave = 629)

FIRM OUTLOOK

Advisor Services

The bull market has many benefits for firms, most notably firms report acquiring new clients and higher advisor compensation due to additional revenue

Benefits of Bull Market

(Base: Total Advisors)

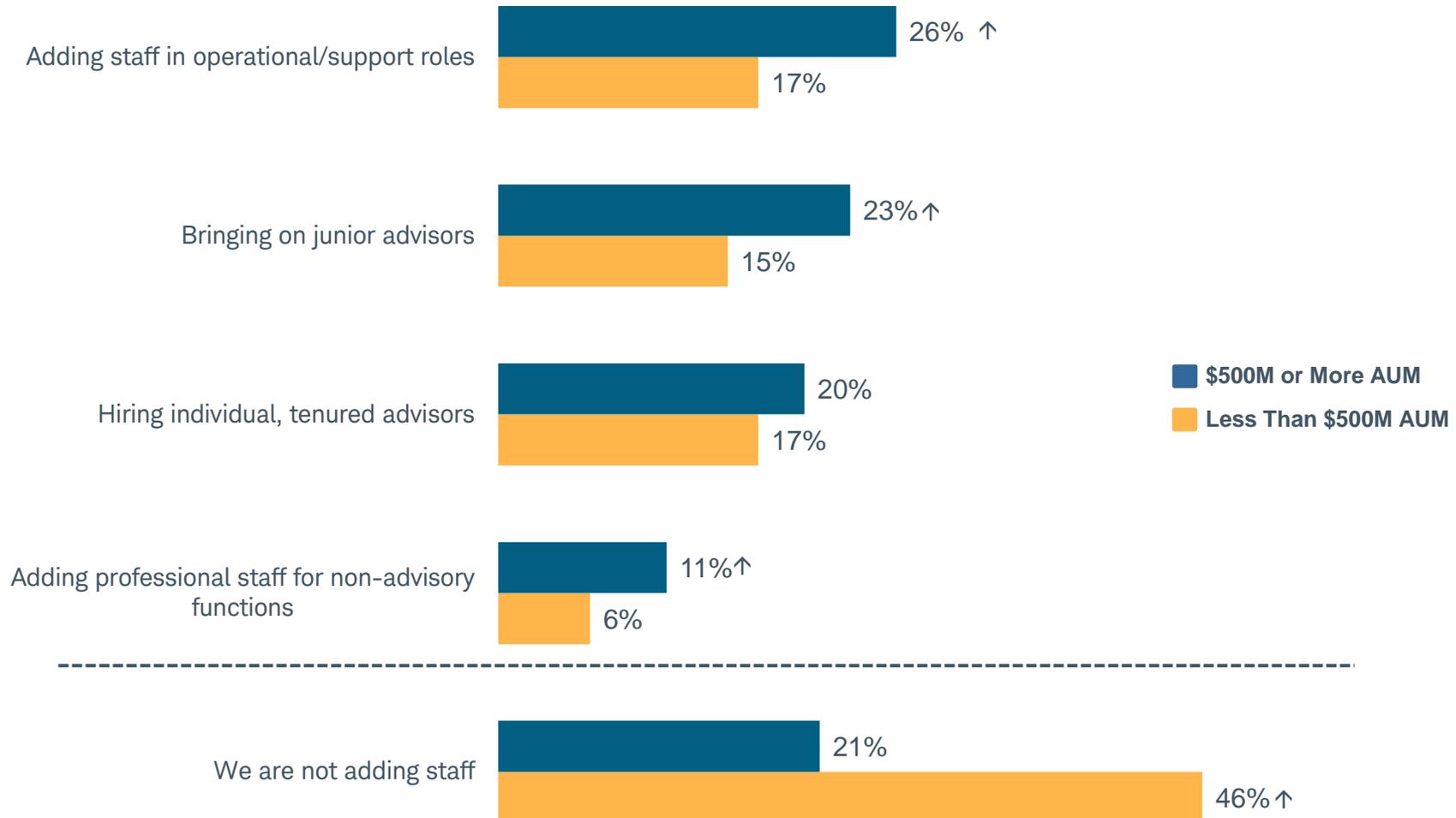


Q4: How is the current bull market most benefiting your firm, if at all?
(Base = Total Advisors; Current wave = 629)

Larger firms are more likely to be hiring employees than smaller firms; adding operational roles and junior advisors is the top hiring priority for these larger firms

Top Talent Acquisition Priority

(Base: Total Advisors)



↑ Indicates significant difference at 95% confidence interval

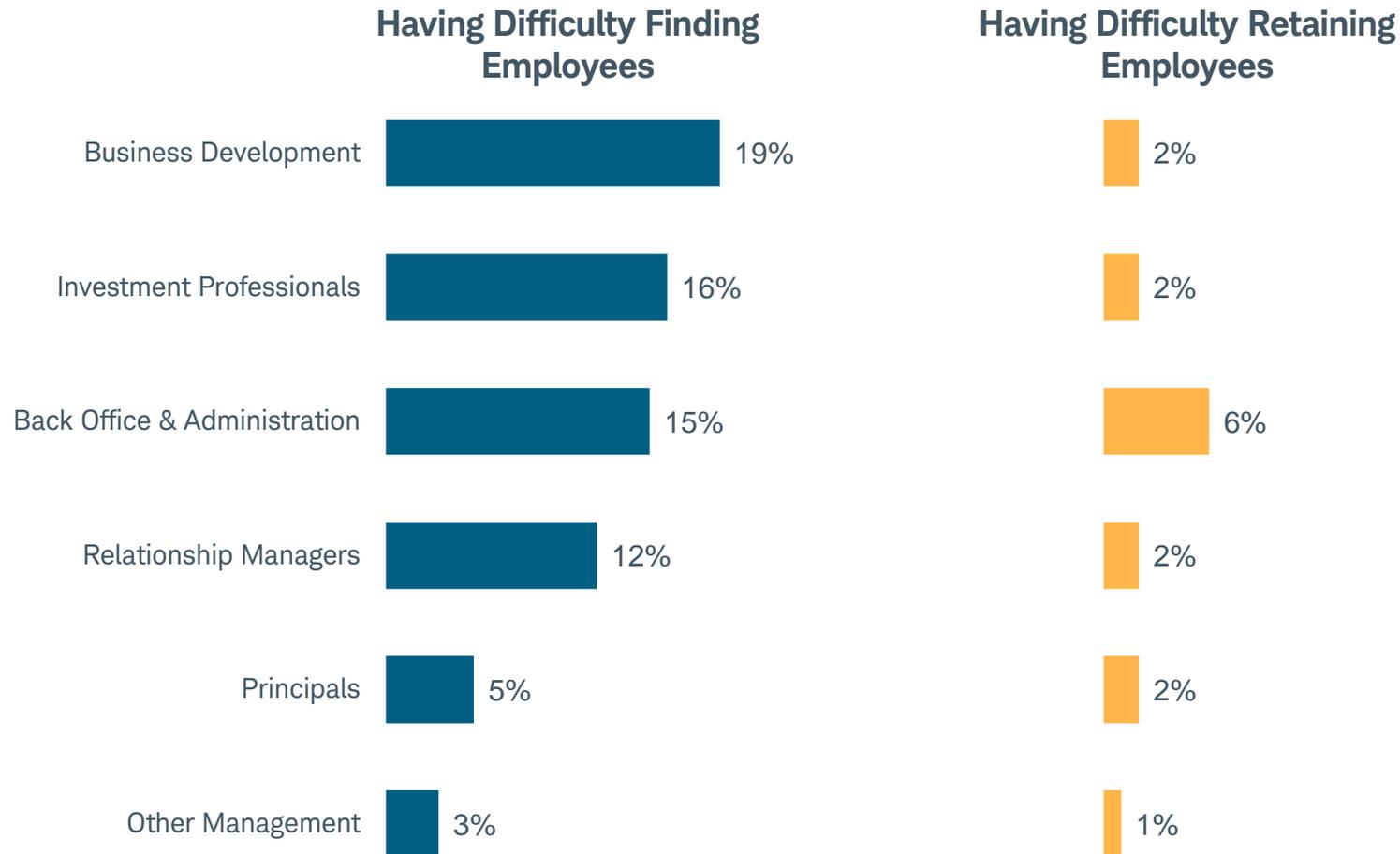
Q18: As a firm, what is the top priority for talent acquisition this year?

(Base = Total Advisors; Current wave: \$500M or More AUM = 193; Less than \$500M AUM = 408)

While firms are experiencing high employee retention rates, finding staff can be more challenging; business development roles are the most difficult to fill

Finding and Retaining Employees

(Base: Total Advisors)



Q15: Is there a specific staffing need that you are having difficulty finding or retaining?
(Base = Total Advisors; Current wave = 629)

Firms identify business development and technology skills as the most significant needs for employee development

Biggest Employee Development Need

(Base: Total Advisors)



Q20: Where is the biggest need for employee development at your firm?
(Base = Total Advisors; Current wave = 629)

Informal, on the job training is the main method of training for new employees, however 33% of firms do offer formal, in-house training

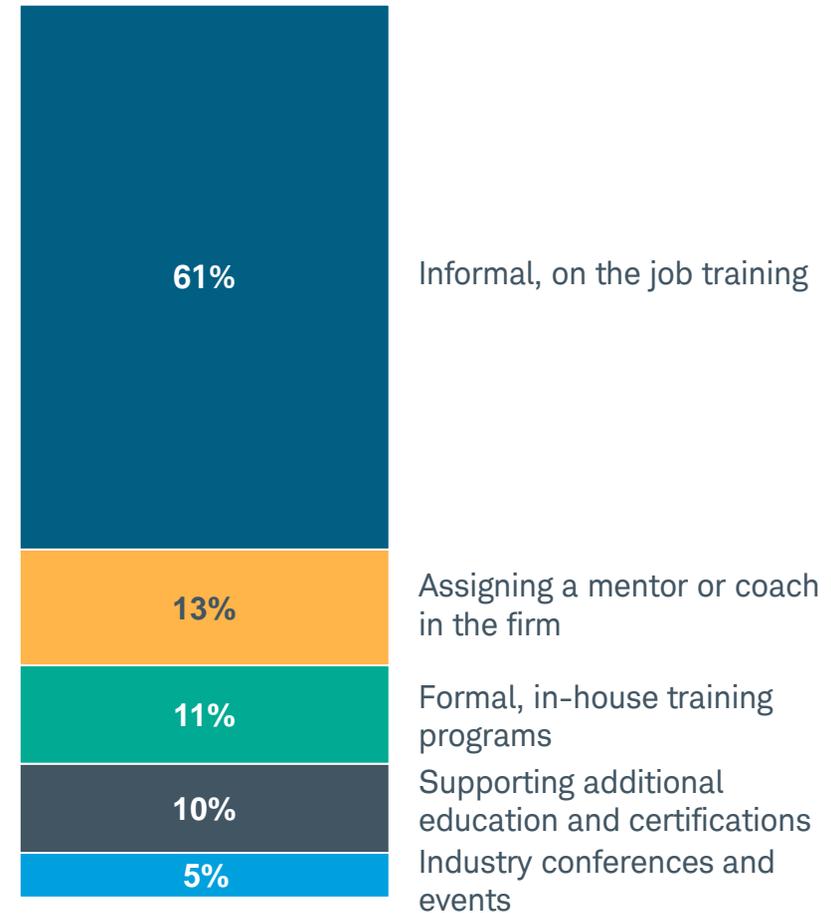
Training Options Offered

(Base: Total Advisors)



Training Option Most Relied Upon

(Base: Total Advisors)



Q19: For new employees, which of the following training options do you offer? And which do you rely on most?
(Base = Total Advisors; Current wave = 629)

More than half of firms prioritize diversity in hiring, with many expanding their network to search for more diverse candidates

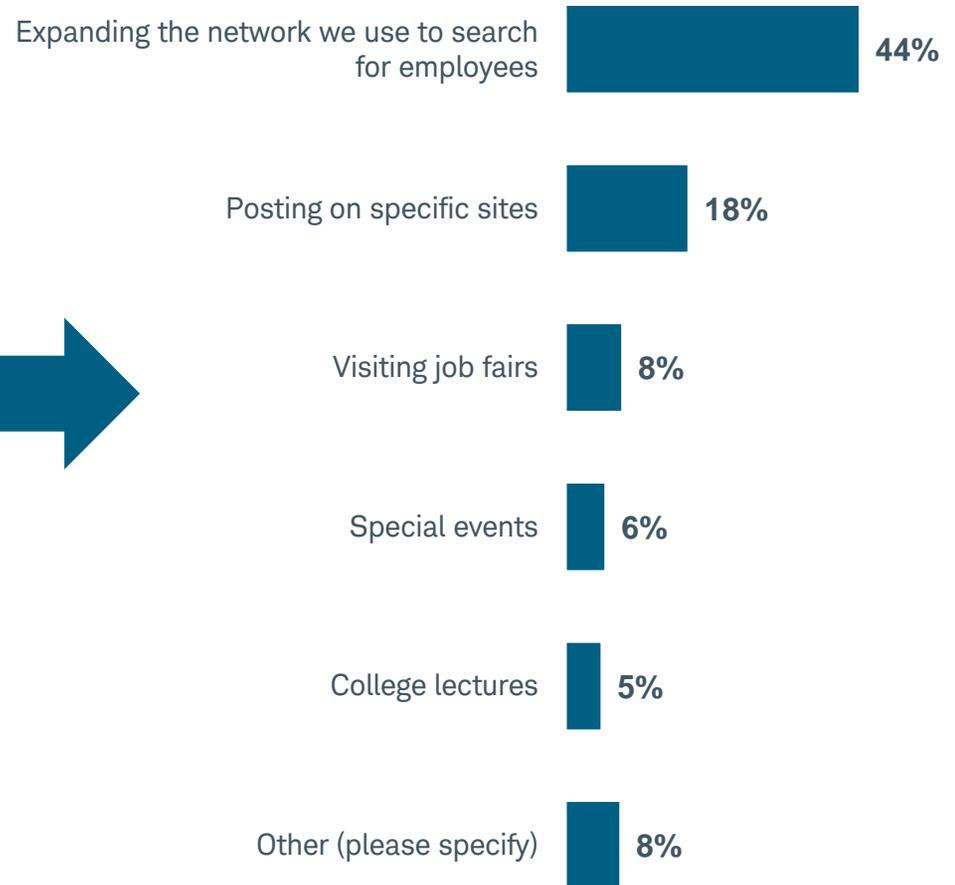
Approach to Diverse Workforce

(Base: Total Advisors)



Actions Taken to Attract Diverse Employees

(Base: Advisors Whose Firm Sees Diversity as a Priority)



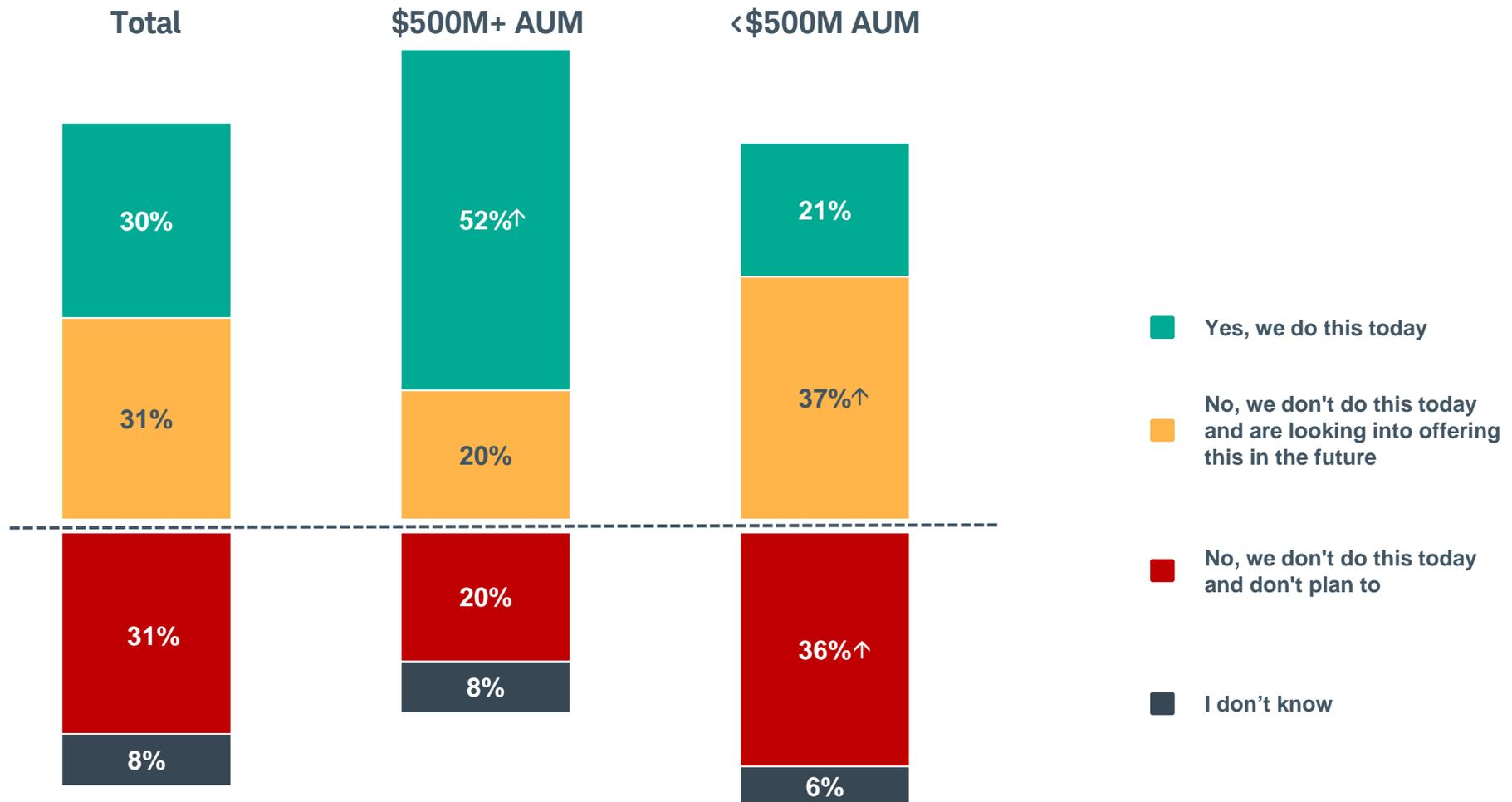
Q16: When thinking about creating a more diverse workforce (i.e., age, gender, race), how would you define your approach?
(Base = Total Advisors; Current wave = 629)

Q17: Which of the following do you do to attract diverse employees?
(Base = Total Advisors whose firm has taken action toward diversity or for whom diversity is a high priority/somewhat of a priority; Current wave = 356)

Nearly one third of firms offer equity ownership; more than half of large firms offer equity ownership versus only one-fifth of smaller firms

Equity Ownership

(Base: Total Advisors)

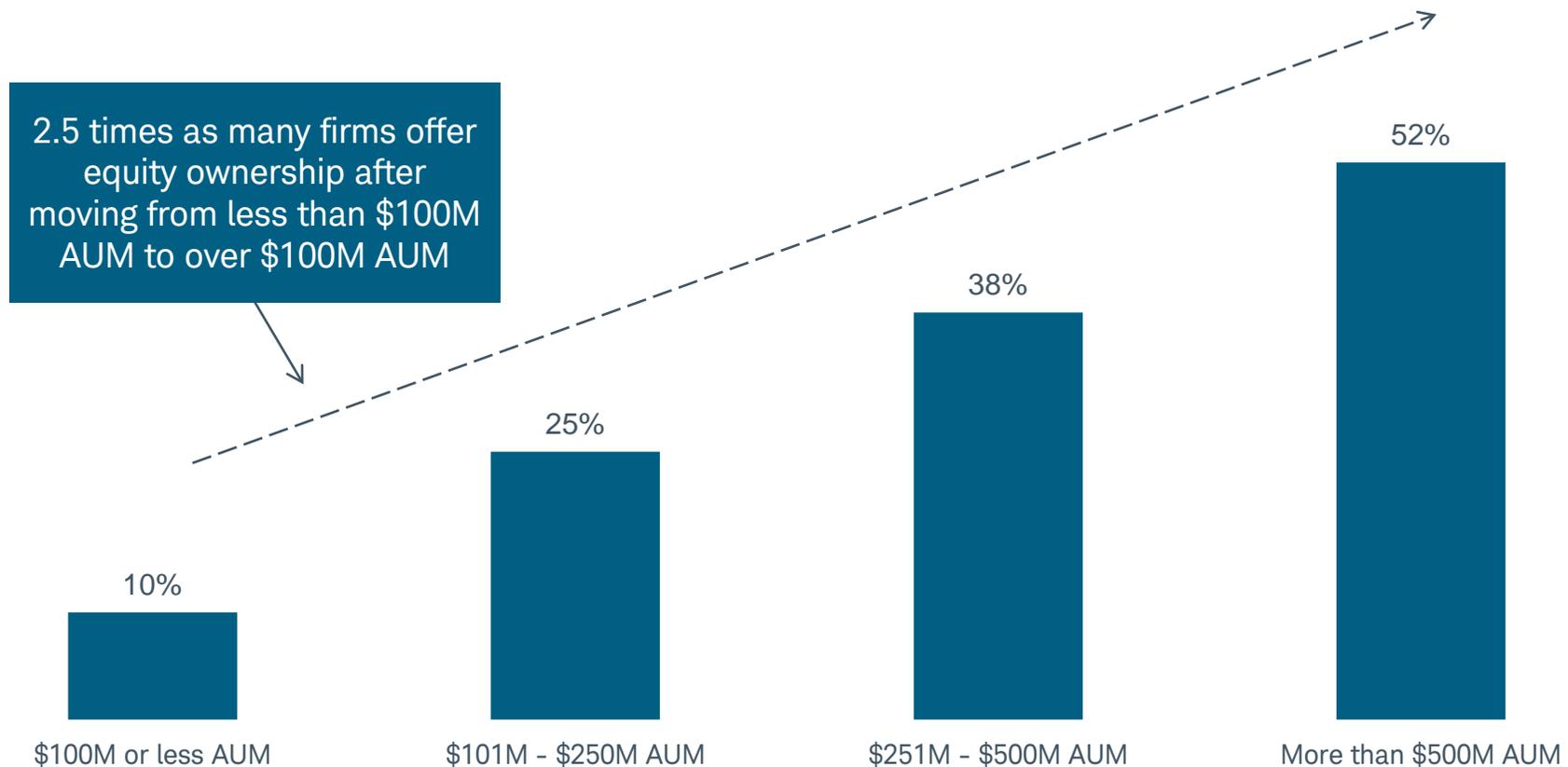


↑ Indicates significant difference at 95% confidence interval
 Q21: Has your firm extended equity ownership beyond the founding principal(s)?
 (Base = Total Advisors; Current wave = 629)

As firms' AUM grows, they are more likely to offer equity ownership to employees

Equity Ownership Offering by AUM (% Who Offer Today)

(Base: Total Advisors)



↑ Indicates significant difference at 95% confidence interval

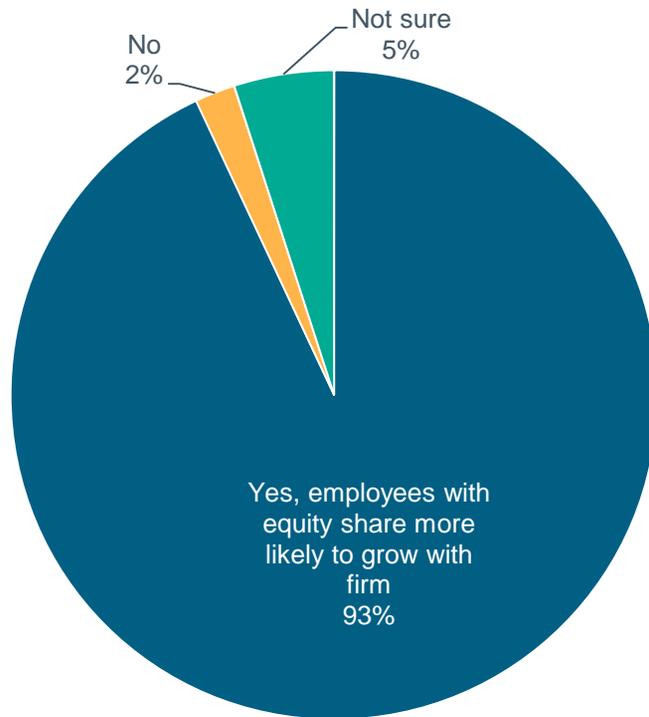
Q19: For new employees, which of the following training options do you offer?

(Base = Total Advisors; Current wave: \$100M or less = 191, \$101 - \$250M = 130, \$251 - \$500M = 87, Over \$500M = 193)

Those who offer equity ownership agree that it is more likely to grow the firm, and that ownership helps retain key employees to help ensure future success

Effect of Equity Ownership on Employees

(Base: Advisors whose firms offer equity ownership)



Q24: In your opinion, do you think employees with an equity share are more likely to help grow the firm?
(Base = Total Advisors whose firms offer equity ownership; Current wave = 190)

Reason for Offering Equity Ownership

(Base: Advisors whose firms offer equity ownership)

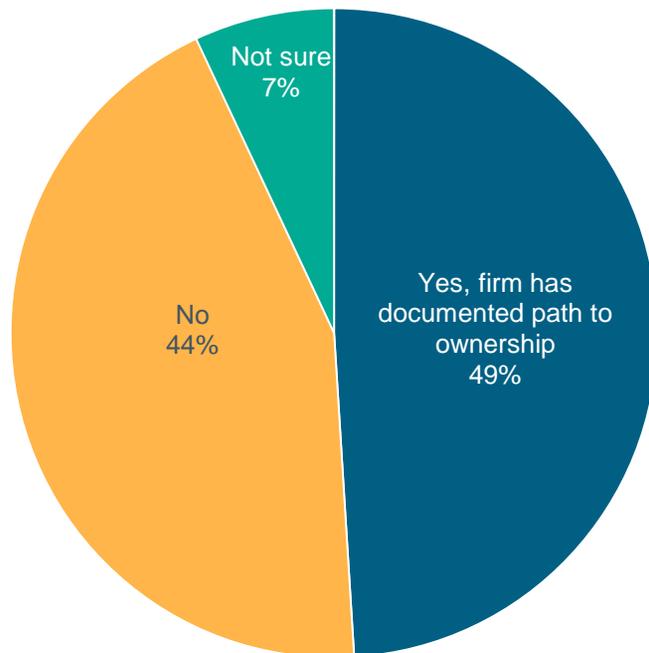


Q23: What is the primary reason you offer equity ownership beyond founding principals?
(Base = Total Advisors whose firms offer equity ownership; Current wave = 190)

Nearly half of firms that offer equity have documented a path to ownership; equity ownership is typically achieved through buy in

Documentation of Path to Ownership

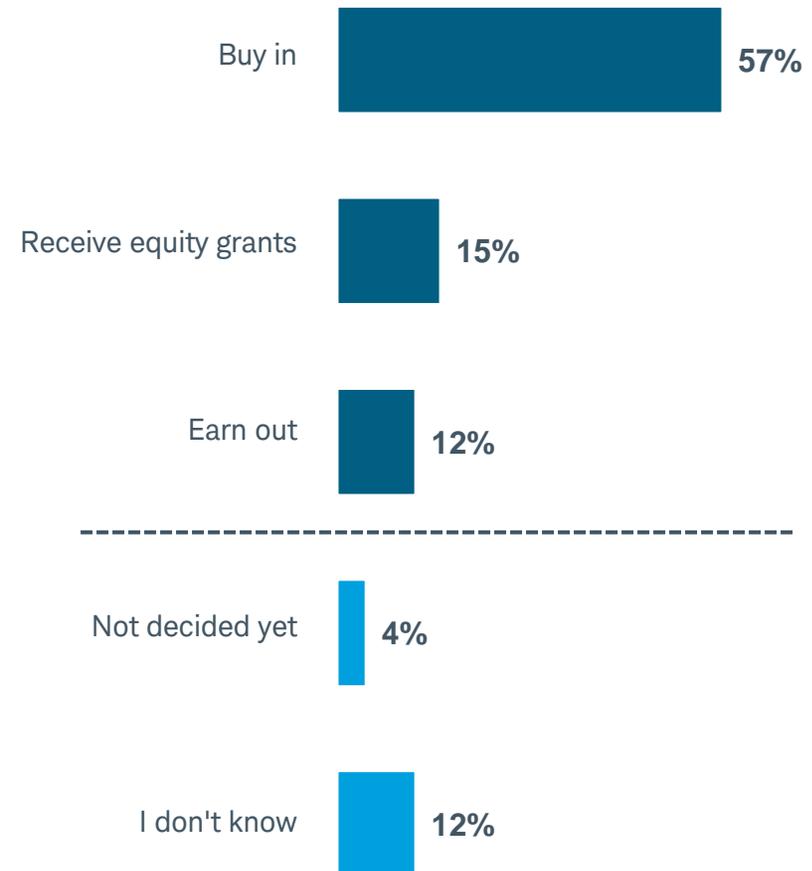
(Base: Advisors whose firms offer equity ownership)



Q25: Does your firm have a clear, documented path to ownership?
(Base = Total Advisors whose firms offer equity ownership; Current wave = 190)

How Equity Ownership is Acquired

(Base: Advisors whose firms offer equity ownership)

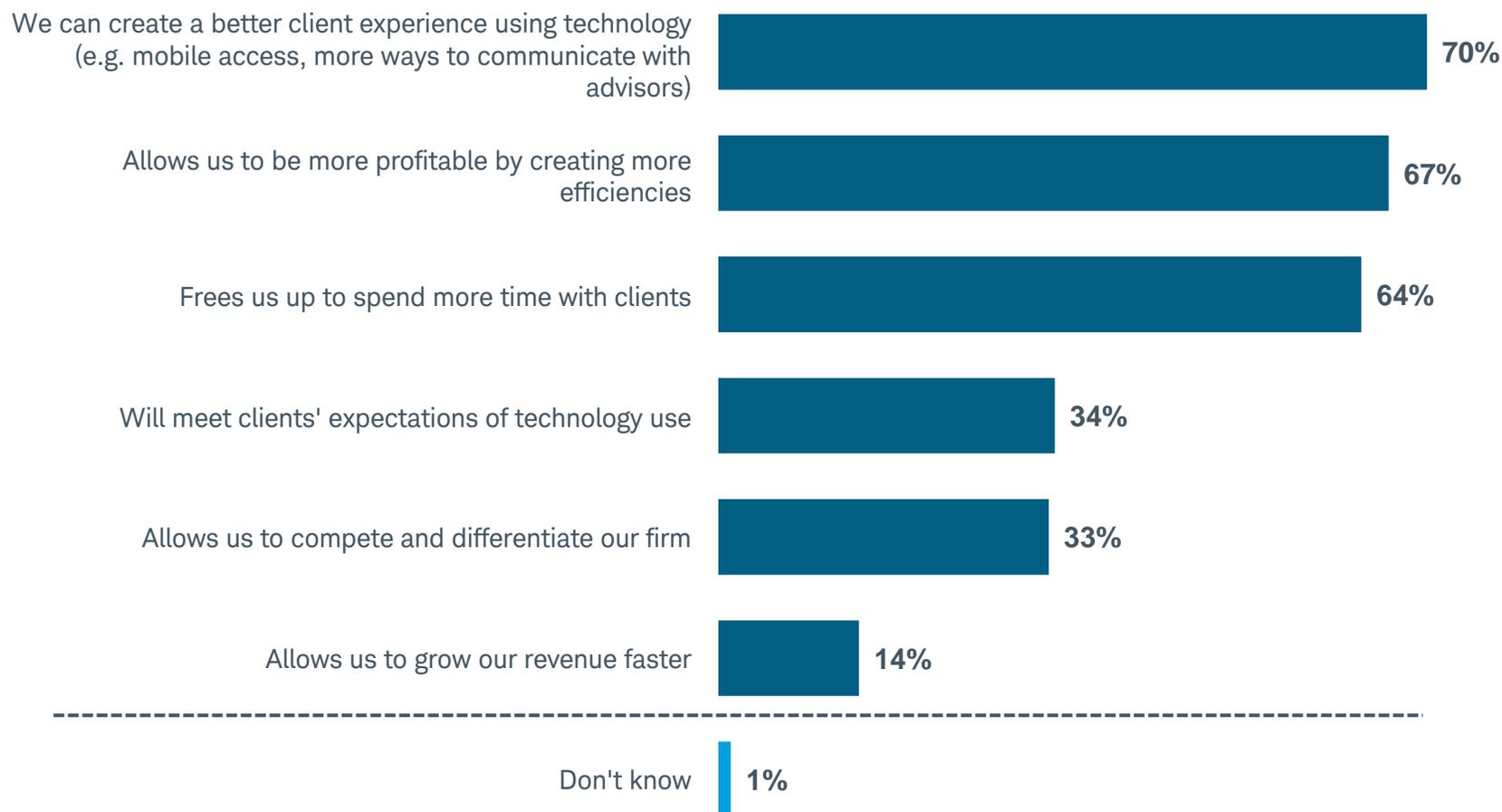


Q22: Do equity owners...?
(Base = Total Advisors whose firms offer equity ownership; Current wave = 190)

Firms report that advancements in technology have enabled a better client experience, created firm efficiencies, and freed up time for advisors to spend with clients

Top Technological Benefits

(Base: Total Advisors)



Q11: Overall, what do you see as the top three benefits of technology for your business?
(Base = Total Advisors; Current wave = 629)

Advisors see the ability to serve clients with lower assets as the primary benefit of automated investment management

Primary Benefit of Automated Investing

(Base: Total Advisors)

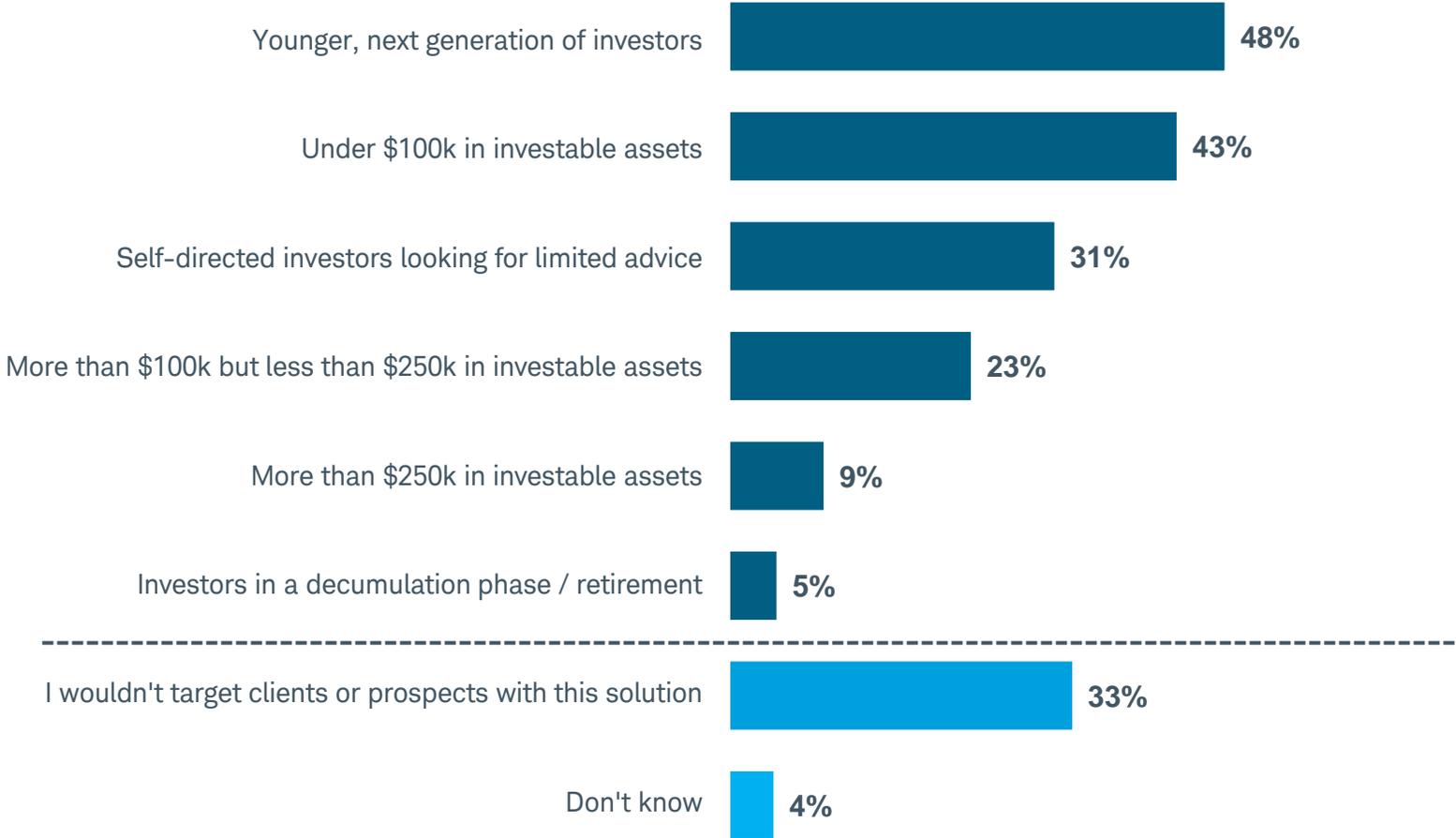


Q13: In your opinion, what is the primary benefit of automating investment management, if any?
(Base = Total Advisors; Current wave = 629)

Advisors are most likely to target younger investors and those with fewer investible assets with an automated investment solution

Automated Investing Targets

(Base: Total Advisors)

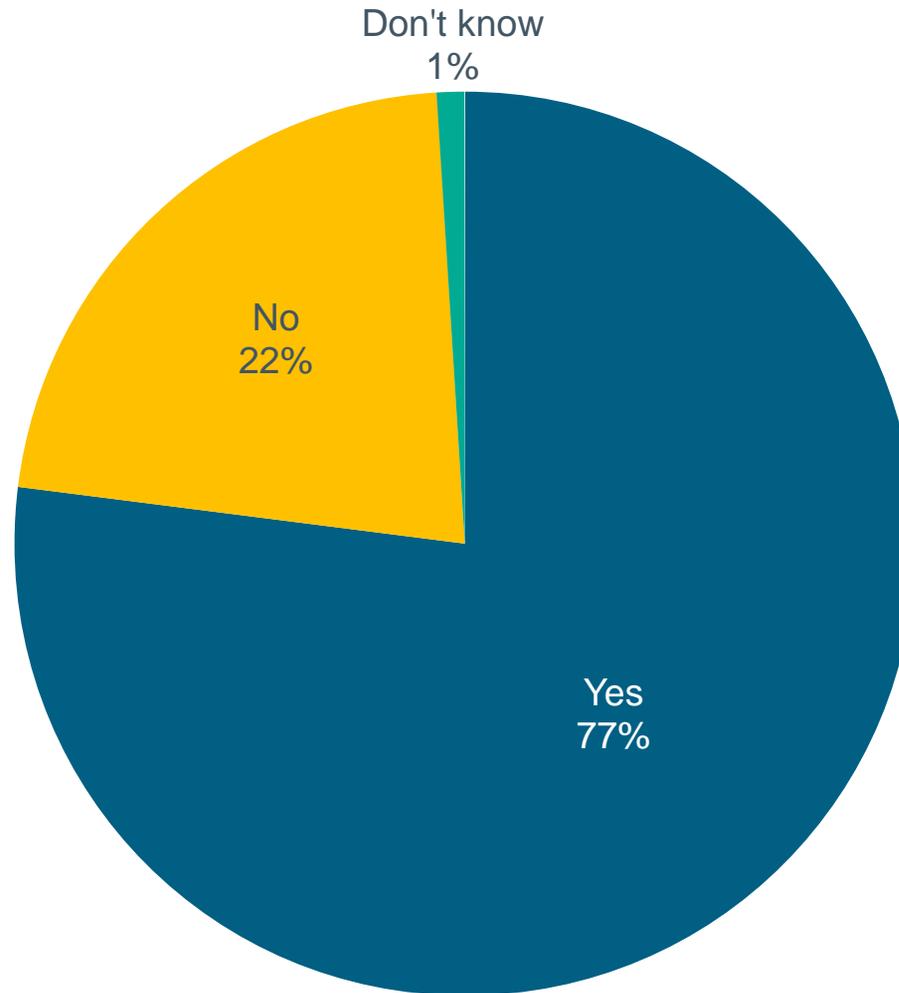


Q12: What kinds of clients would you most likely target with an automated investment management solution?
(Base = Total Advisors; Current wave = 629)

More than three-quarters of advisors believe their firm offers holistic wealth management

If Firm Offers Holistic Wealth Management

(Base: Total Advisors)



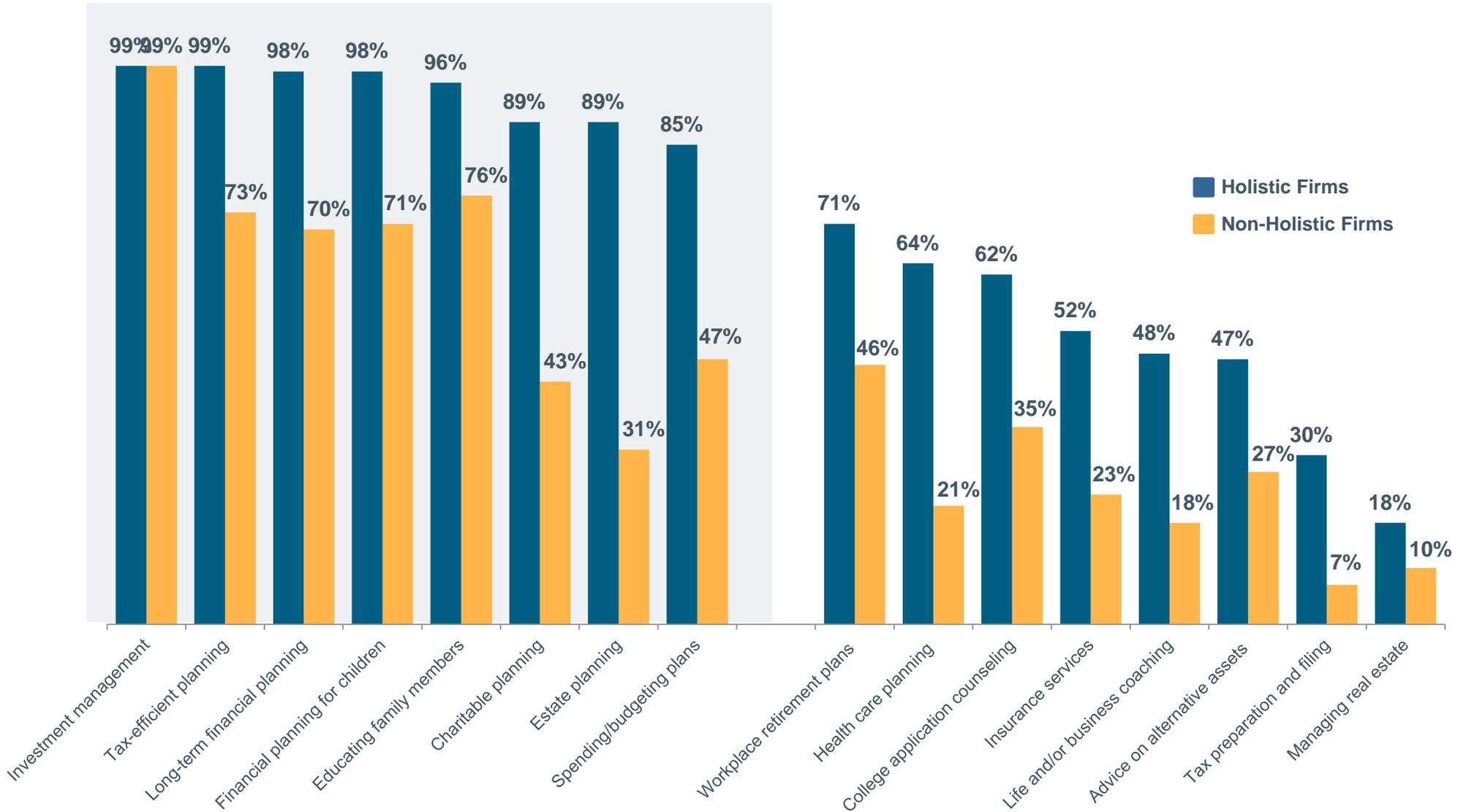
Q8: Does your firm offer holistic wealth management to your clients beyond investment management? Holistic wealth management would include other services such as tax planning, estate planning, etc.

(Base = Total Advisors; Current wave = 629)

Firms that identify themselves as holistic almost universally offer a set of eight services, while offering a few others as well

Services Offered by Firms

(Base: Total Advisors)



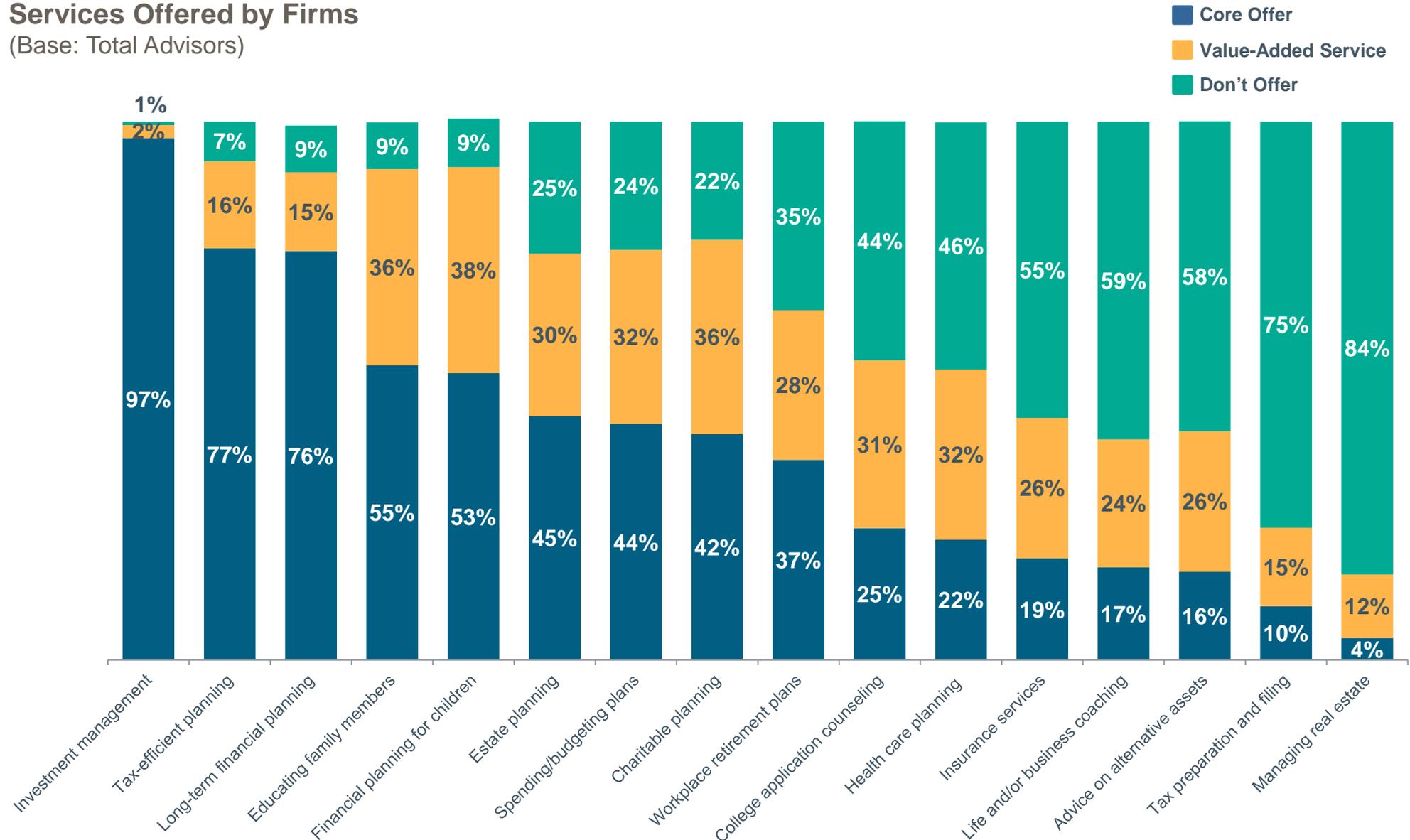
Q9: Please indicate whether you consider each of the below services core to your business ('table stakes') or a value added service (offered for an additional fee) that goes beyond your current core business.

(Base = Total Advisors; Current wave: Holistic Firms = 482, Non-Holistic firms = 139)

Firms' core offering tends to be made up of investment management, long-term financial planning, and tax-efficient planning

Services Offered by Firms

(Base: Total Advisors)



Q9: Please indicate whether you consider each of the below services core to your business ('table stakes') or a value added service (offered for an additional fee) that goes beyond your current core business.

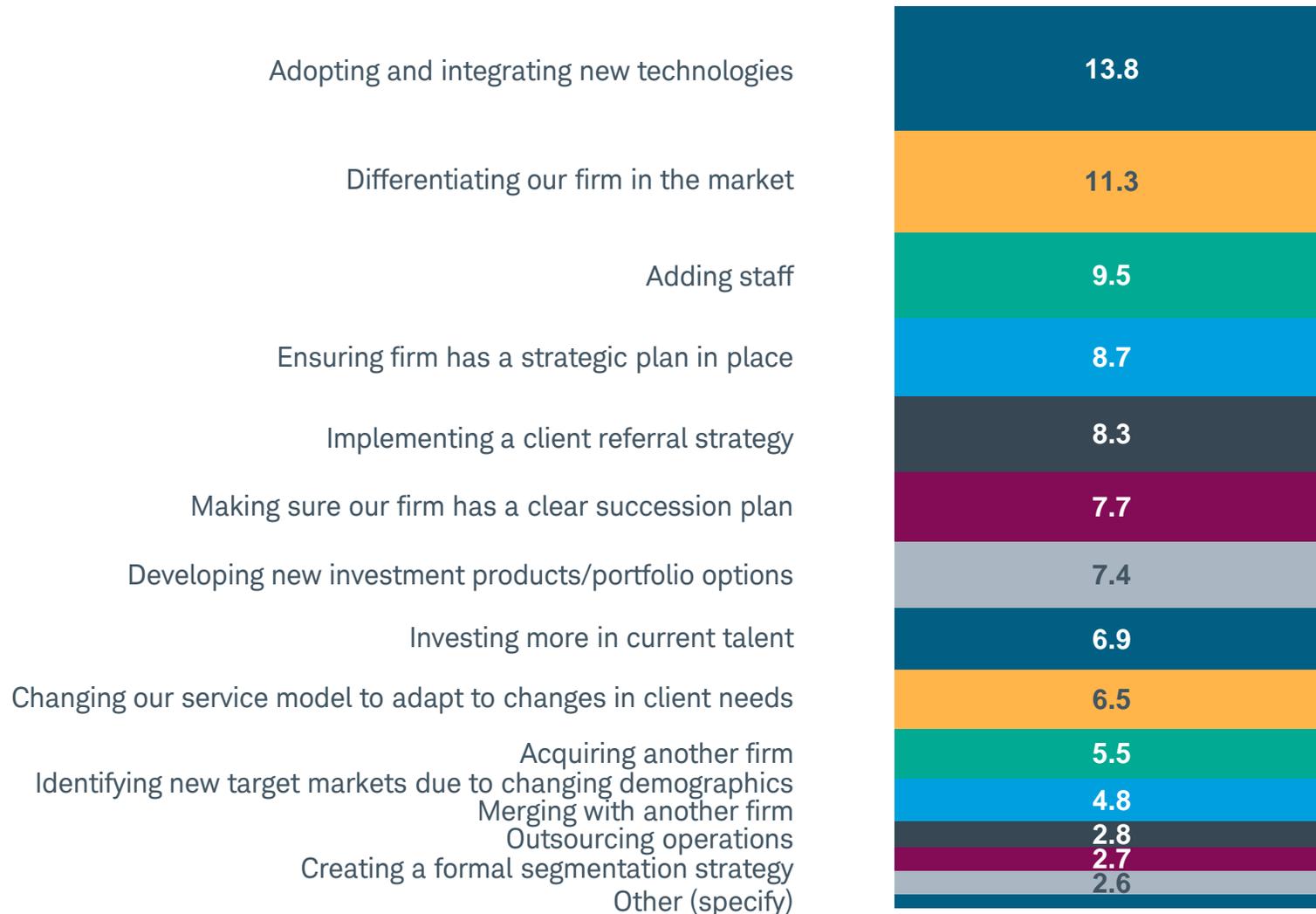
(Base = Total Advisors; Current wave = 629)

All firms choose to allocate their resources to adopting and integrating new technology as a top strategy for growth

Preferred Areas of Growth

(Base: Total Advisors)

Mean points out of 100

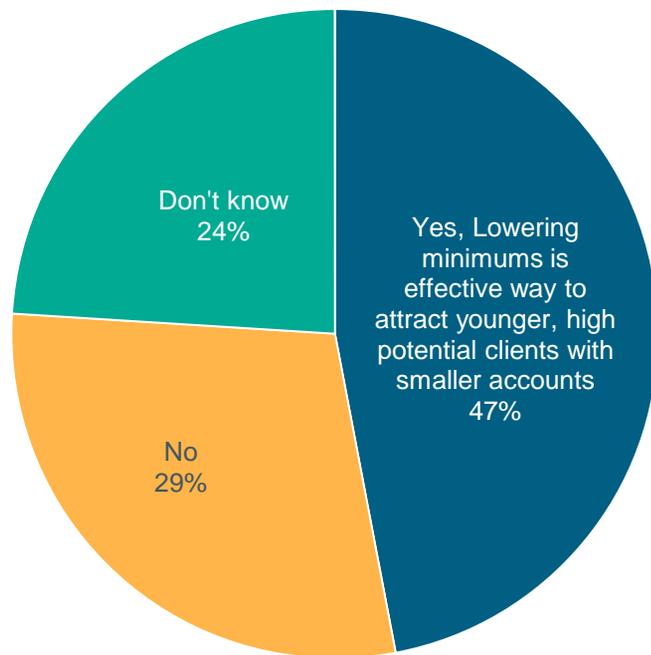


Q14: Following are potential areas your firm could choose to focus on to prepare for growth over the next 5 years. Please assume you have 100 points. Please put points in each area to show where you would allocate resources. (For example, 100 points in the first box means all of your resources would be dedicated to that area. Please place a 0 in the space if you would not allocate any resources to that area.)

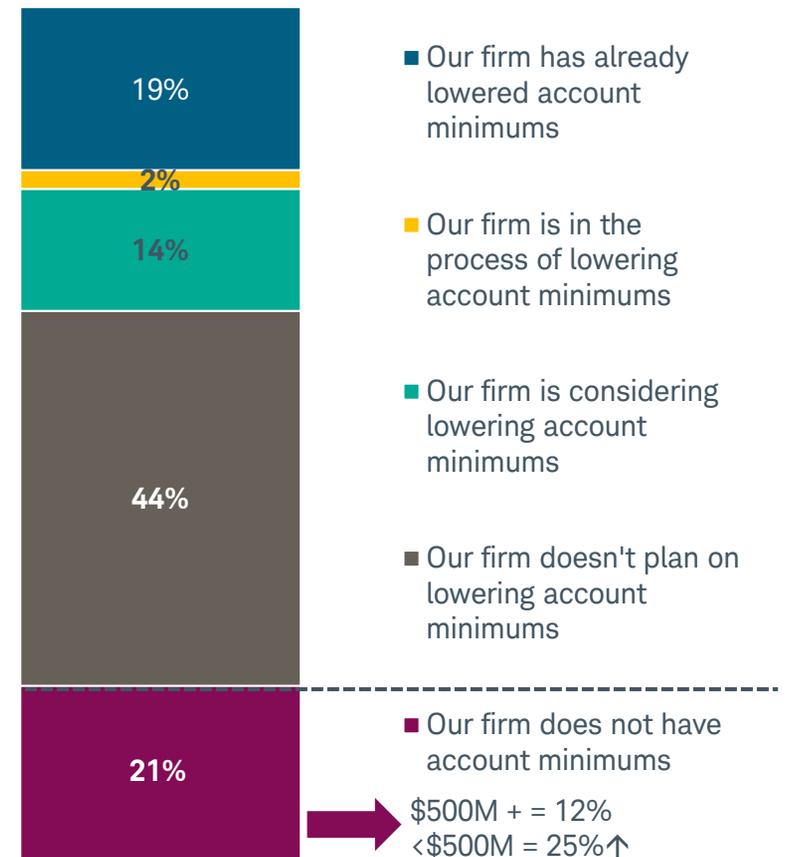
(Base = Total Advisors; Current wave = 629; Current wave: \$500M or More AUM = 193; Less than \$500M AUM = 408)

Nearly half of firms believe that lowering account minimums will help attract younger, high-potential clients, yet only one in five have taken action

Effectiveness of Lowering Account Minimums
(Base: Total Advisors)



Actions Taken Re: Account Minimums
(Base: Total Advisors)



Q26: Do you believe that lowering account minimums is an effective way to attract younger, high potential clients who have smaller accounts today?
(Base = Total Advisors; Current wave = 629)

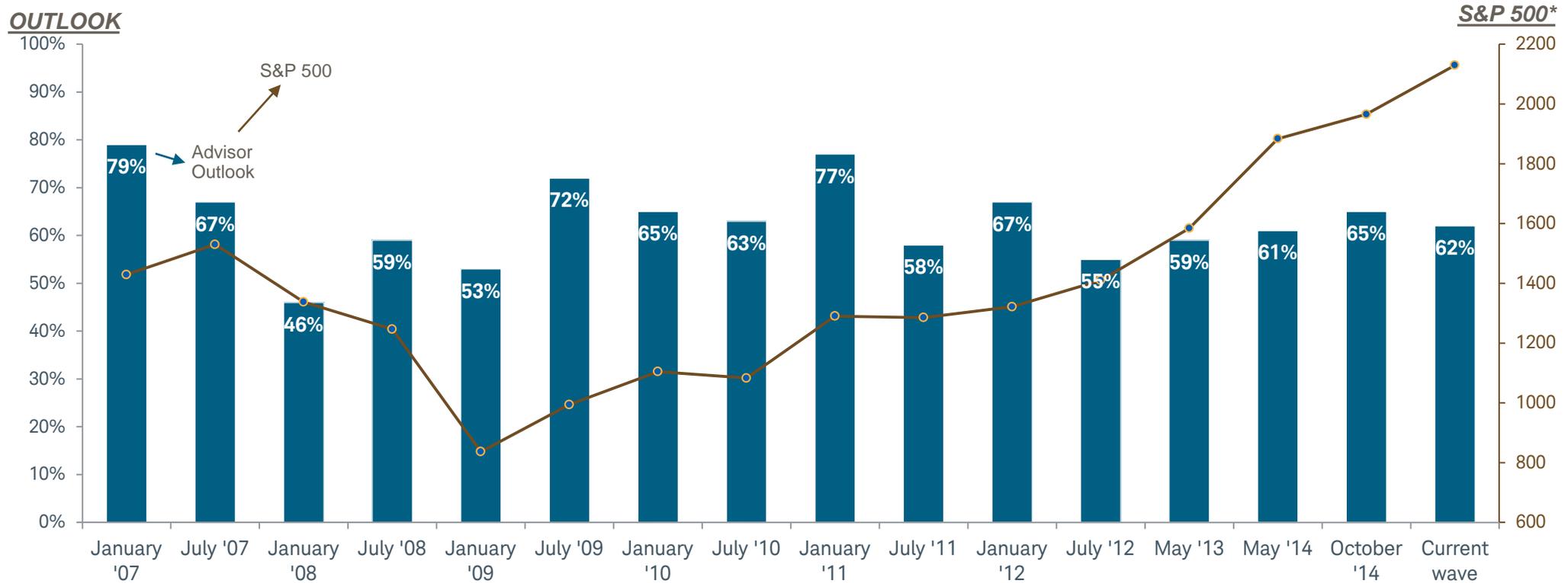
↑ Indicates significant difference at 95% confidence interval
Q27: Which of the following best describes how your firm views lowering your account minimums to allow for smaller, growing accounts from younger or lower asset clients?
(Base = Total Advisors; Current wave = 629)

MARKET OUTLOOK

Advisor Services

While the S&P 500 has increased steadily in the past two years, advisors' optimism has remained relatively consistent

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



AVERAGE	AVERAGE DAILY OPENING VALUE WHILE IN FIELD & S&P 500 WILL INCREASE															
	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '10	JULY '10	JAN '11	JULY '11	JAN '12	JUL '12	May '13	May '14	OCT '14	Current wave
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	2129.58
Outlook	79%	67%	46%	59%	53%	72%	65%	63%	77%	58%	67%	55%	59%	61%	65%	62%

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; October '14 = 740; Current Wave = 629)

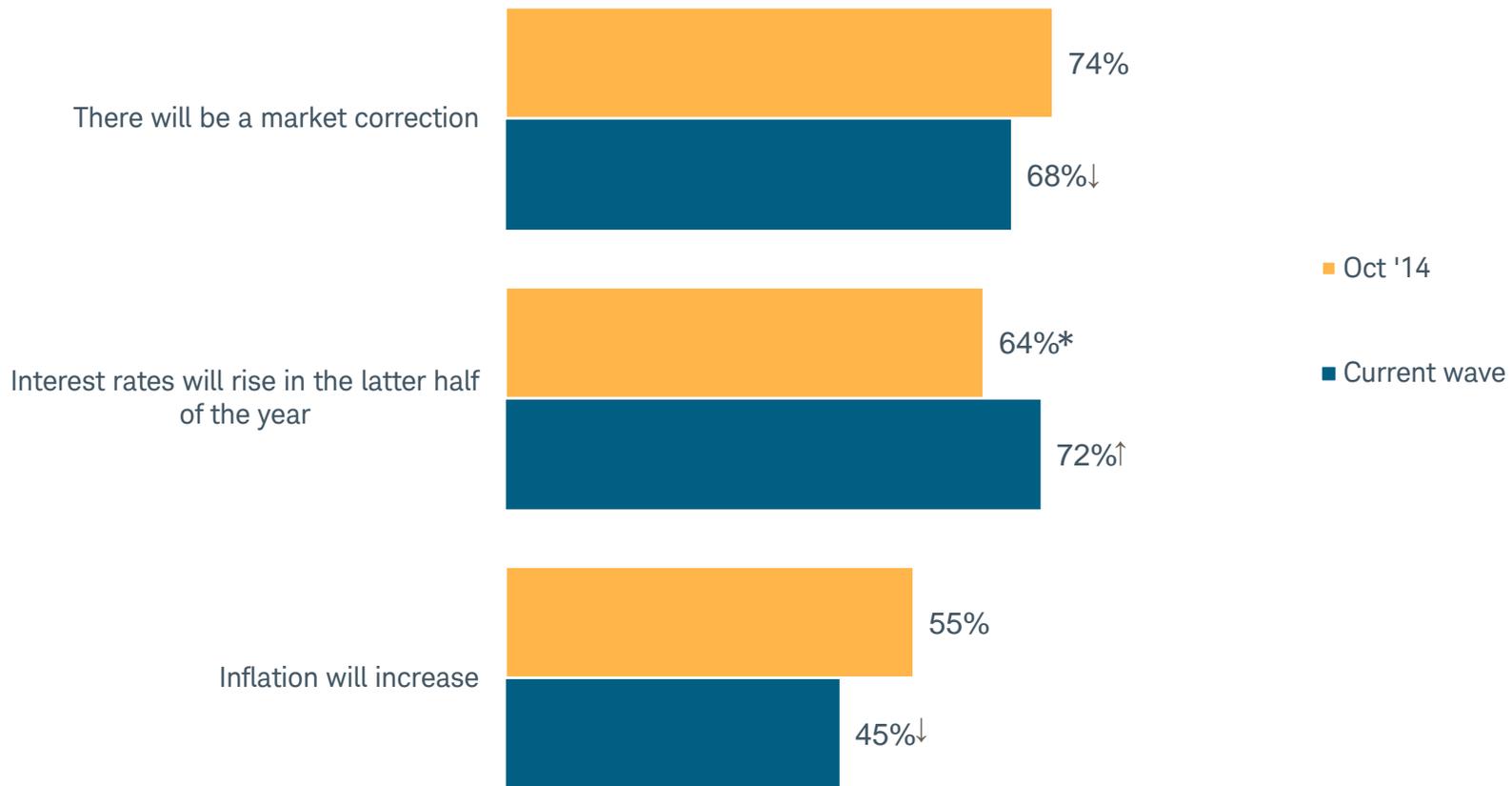
Note: The standard deviation opening values for the S&P 500 during the current fielding period was 11.07

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

Advisors believe that interest rates are very likely to rise and that a rise in inflation or a market correction is significantly less likely than six months ago

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

Compared to Six Months Ago:
Changes that are More Likely to Happen



* Asked differently in Oct '14

↑↓ 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; Oct '14 = 740; Current wave = 629)



APPENDIX

Advisor Services

Background

- Charles Schwab Advisor Services™ is a leading provider of custodial, operational and trading support to more than 7,000 independent registered investment advisors (RIAs) with more than \$1 trillion in assets under management (as of 3/31/15).
- 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.
- Independent investment advisors are not owned by, affiliated with or supervised by Schwab.

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 +/-3.9 percentage points at the 95% confidence level
When	<ul style="list-style-type: none">• The study was conducted from April 28th to May 11th, 2015
Who	<ul style="list-style-type: none">• 629 advisors employed by independent 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 around 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.

Demographics

(Base: Total Advisors Responding)

Advisors Responding	Base
Average Client Age by Range	(n=628)
Less than 50 years old	5%
50 to 54 years old	9%
55 to 59 years old	24%
60 to 64 years old	32%
65 or older	22%
MEAN	60 years old
Age of Advisor Responding	(n=624)
Under 35	9%
35 to 44 years old	19%
45 to 54 years old	31%
55 to 64 years old	27%
65 to 74 years old	9%
75 or older	1%
MEAN	51 years old
Number of Years Worked for Independent Advisory Firm	(n=627)
5 years or less	25%
More than 5 to 10 years	20%
More than 11 to 15 years	17%
More than 15 years	37%
MEAN	12 years
Primary Role at Firm	(n=629)
Principal	60%
Portfolio Manager	15%
Operations staff	10%
Other	15%
Founding Principal (among Principals)	(n=628)
Yes	48%
No	52%

Advisors Responding	Base
Whether Respondent Future Principal (among Non-Principals)	(n=326)
Yes	67%
No	33%
Number of Employees at Firm	(n=556)
1 to 5	45%
6 to 15	33%
16 to 50	18%
51 or more	4%
MEAN	22 employees
Assets Under Management at Firm (AUM)	(n=629)
Less than \$25M	9%
\$25M to \$100M	22%
\$100.1M to \$250M	21%
\$250.1M to \$500M	14%
More than \$500M	31%
MEAN	\$364M
MEDIAN	\$227M
Number of Clients Per Firm	(n=629)
1 to 50	13%
51 to 100	14%
101 to 250	22%
251 or more	32%
MEAN	542 clients
MEDIAN	104 clients
Gender	(n=624)
Male	78%
Female	22%