

INDEPENDENT ADVISOR OUTLOOK STUDY WAVE 18

November 2015

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Executive Summary

Market & Economic Outlook

- Most advisors (67%) believe the S&P 500 will increase in the next six months, revealing optimism in the context of the market downturn of third quarter.
- Looking ahead the next six months, a majority (97%) of advisors expect there will be continued market volatility, that interest rates will rise (82%), and that geopolitics and global markets will adversely influence U.S. markets (80%).
- Even though their confidence in the S&P 500 is at its highest point in three years, almost all advisors have had to reassure at least some clients in the past six months that their investment goals will be met. That being said, it was generally a small number of clients (18% on average) – and represented the lowest level by mean since wave two of this study in the fall of 2007.
- Advisors say interest rates would have to increase by at least one percent (1%), in order to influence the way they manage client portfolios.
- Almost three-quarters of advisors (73%) believe that fundamental tax reform would have a positive impact on the market.
- Few advisors (11%) are somewhat or extremely worried about a government shut-down; more (19%) think their clients are worried.

Executive Summary

Firm Outlook

Growth & Change

- A majority of advisors are projecting firm growth in the year ahead:
 - Half of all advisors expect their firms to grow between five and 10 percent in the coming year.
 - One in three project growth rates of up to 20 percent.
- Advisors plan to maximize asset growth by attracting new clients (61%) versus increasing share of wallet (39%).
- While firms face a number of challenges as they grow, balancing client service needs with business operational needs is singled out as the biggest growth challenge by one in five advisors (20%).
- The top three forces driving change within RIA firms are: talent development/acquisition/ retention (19%), an aging client base (18%) and technology (18%).
- The top three forces driving change outside RIA firms are: the need to differentiate from other advice firms (22%), regulation (21%) and competition (17%).
 - For smaller firms (less than \$500 million AUM), regulation plays a more pronounced role.

Executive Summary

Firm Outlook

Technology

- When asked to compare them directly, advisors say changes in technology (61%) are having more impact on their firms than changes in client demographics (39%). This is even more pronounced among larger firms (above 500 million AUM).
- The majority of RIAs (68%) see technology adoption as central to their operational strategy, allowing them to spend more time with clients and achieve growth.
- Client expectations also influence technology adoption, with 43 percent citing this as a driver, while 31 percent cite 'competitive necessity' as a driver of technology adoption.
- The majority (70%) of advisors say they would recommend automated investing for clients who don't meet the firm's asset minimums or clients with relatively simple investment needs (67%); half of advisors (54%) would recommend automated investing for children of existing clients or as a strategy to capture intergenerational wealth (24%).
- More than one third (37%) of advisors consider up to 10 percent of their new client assets in the next year are likely to be appropriate for automated investment management, and an additional 21 percent say more than 10 percent of new assets are likely to be suitable.

Executive Summary

Firm Outlook

Talent

- Three quarters of firms (74%) have identified the next generation of leaders and are actively preparing them to take the helm in the future by giving them hands-on exposure to business operations, technology and new client development learning experiences.
- Over the past five years, advisors report the largest shifts in allocation of staff time have been toward spending more time implementing and learning how to use new technology (58%) and interacting with clients (52%), and less time doing manual data entry and generating reports (43%).



Detailed Findings

Advisor Services

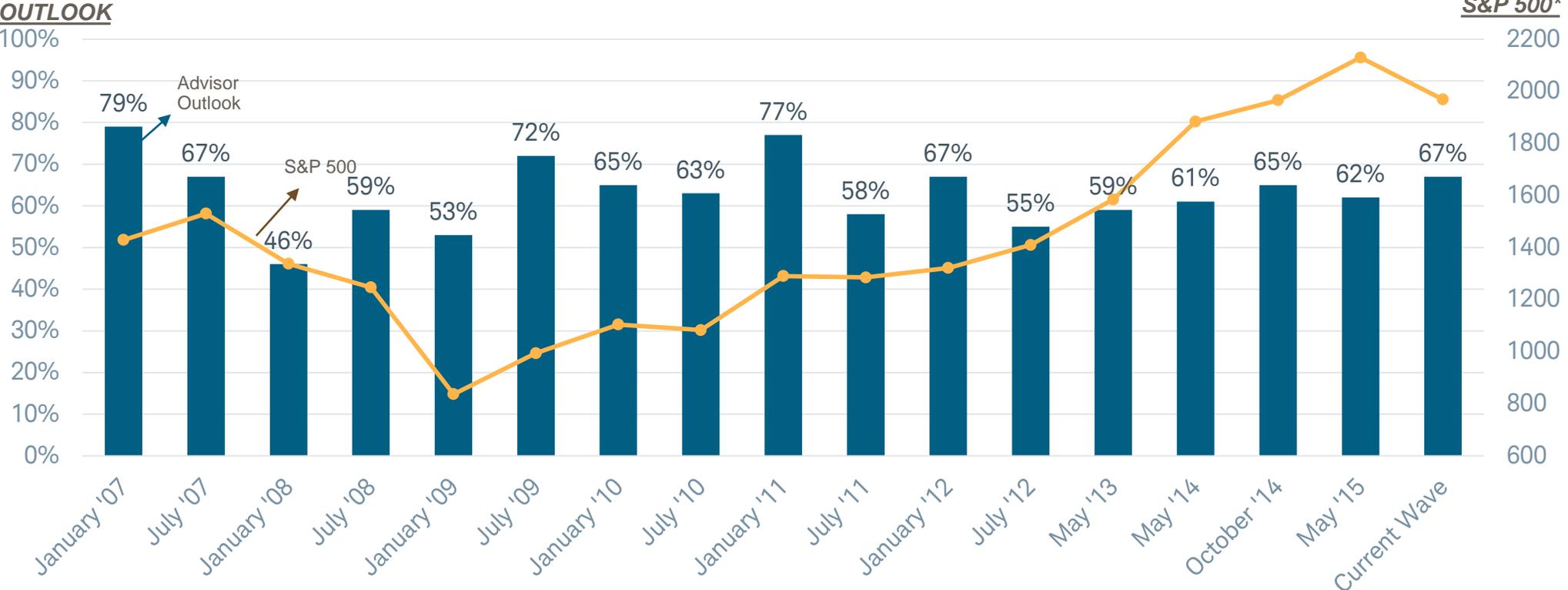
Market & Economic Outlook

Advisor Services

Advisor confidence in the S&P 500 is at its highest point in over three years

Performance of the S&P 500 by advisors' predictions if it will increase in the next six months

(Base: Total advisors)



AVERAGE	AVERAGE DAILY OPENING VALUE WHILE IN FIELD & S&P 500 WILL INCREASE															Current Wave [Q]	
	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]	OCT '14 [O]		May '15 [P]
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	1968.21
Outlook	79%	67%	46%	59%	53% _c	72%	65%	63%	77%	58%	67%	55%	59%	61%	65%	62%	67%

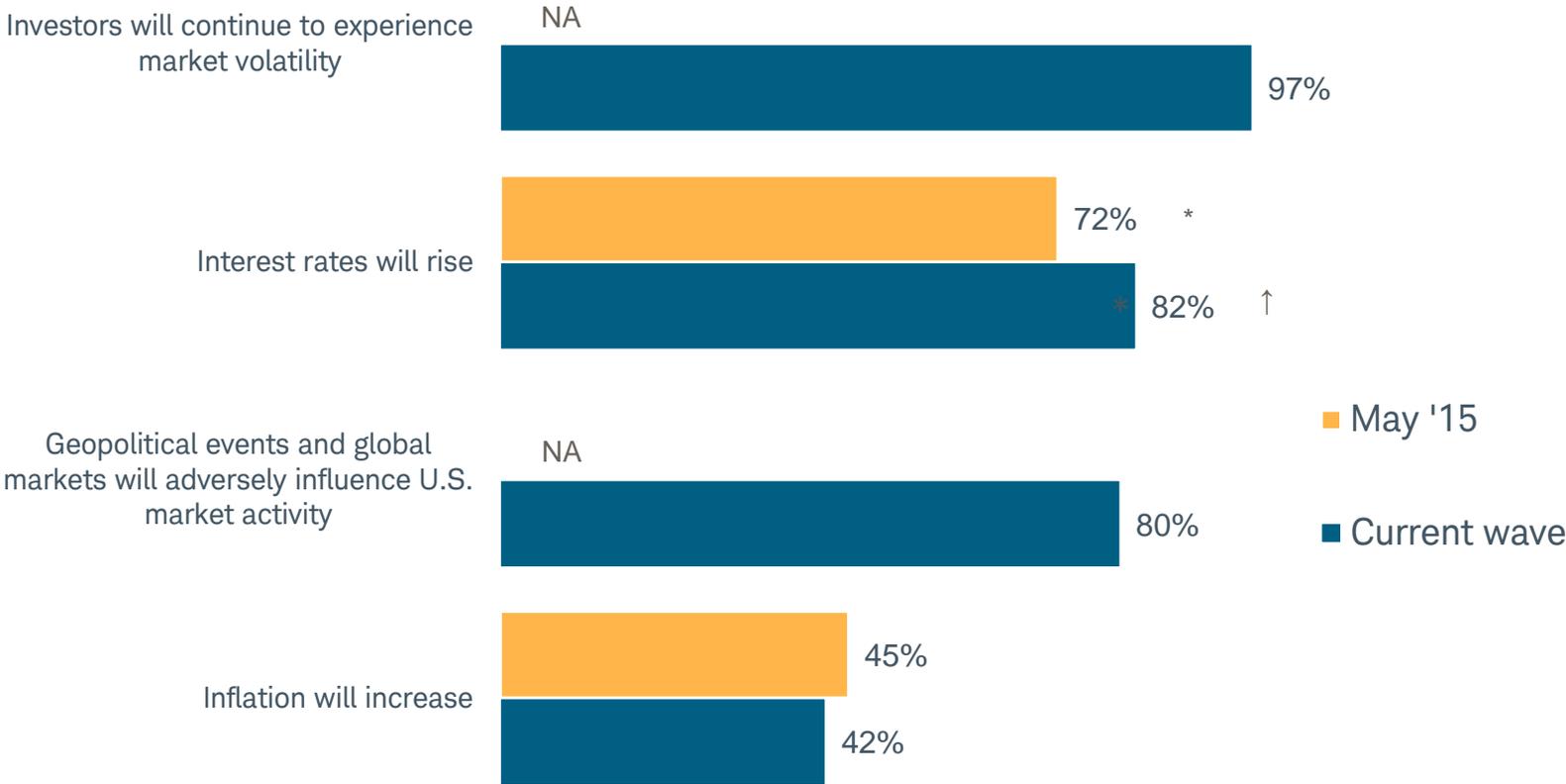
Q1: Which of the following best describes what you think will happen to the S&P 500 in the next six months?
 (Base = Total advisors; Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1198; Jan '10 = 1144; July '10 = 1199; Jan '11 = 1337; July '11 = 911; Jan '12 = 882 ; July '12 = 839; May '13 = 1016; May '14 = 720; October '14 = 740; May '15 = 629; Current Wave = 638)
 Note: The standard deviation opening values for the S&P 500 during the current fielding period was 18.9
 * S&P 500: Average daily opening values per survey fielding period

Advisors see market volatility continuing and believe that interest rates are very likely to rise

Changes that will “likely” occur in the U.S. during the next six months

(Base: Total advisors)

Changes that are Extremely/Somewhat Likely to Happen in the Next Six Months

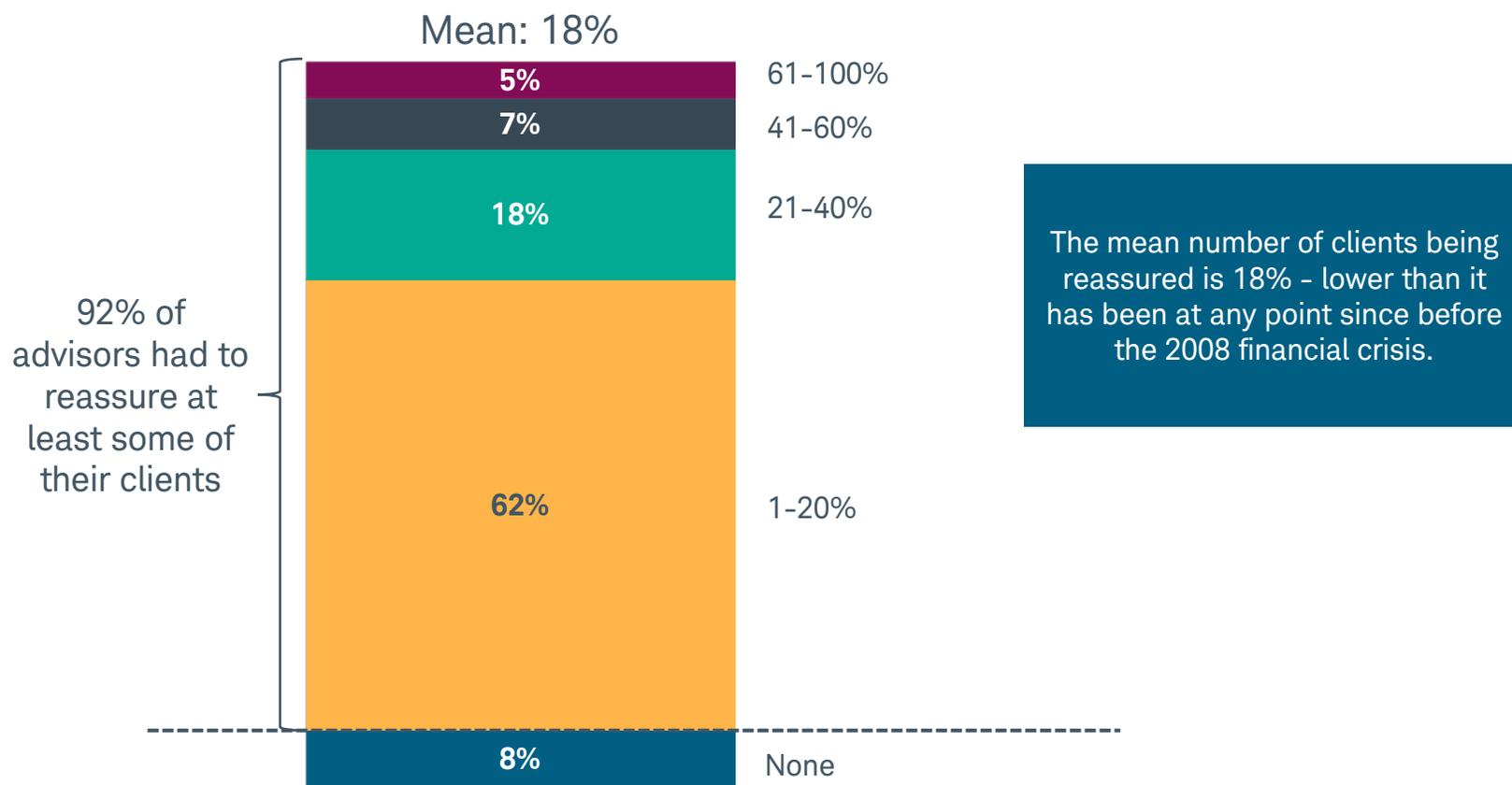


Q2: Please choose the response that best describes your opinion of the likelihood of each of the below events occurring in the U.S. in the next six months. (Base = Total advisors; May '15 = 629; Current wave = 638)

Nearly all advisors reported the need to provide reassurance to at least some clients in the past six months, though it was generally a small number of clients

Percent of clients needing reassurance that they will achieve their investment goals

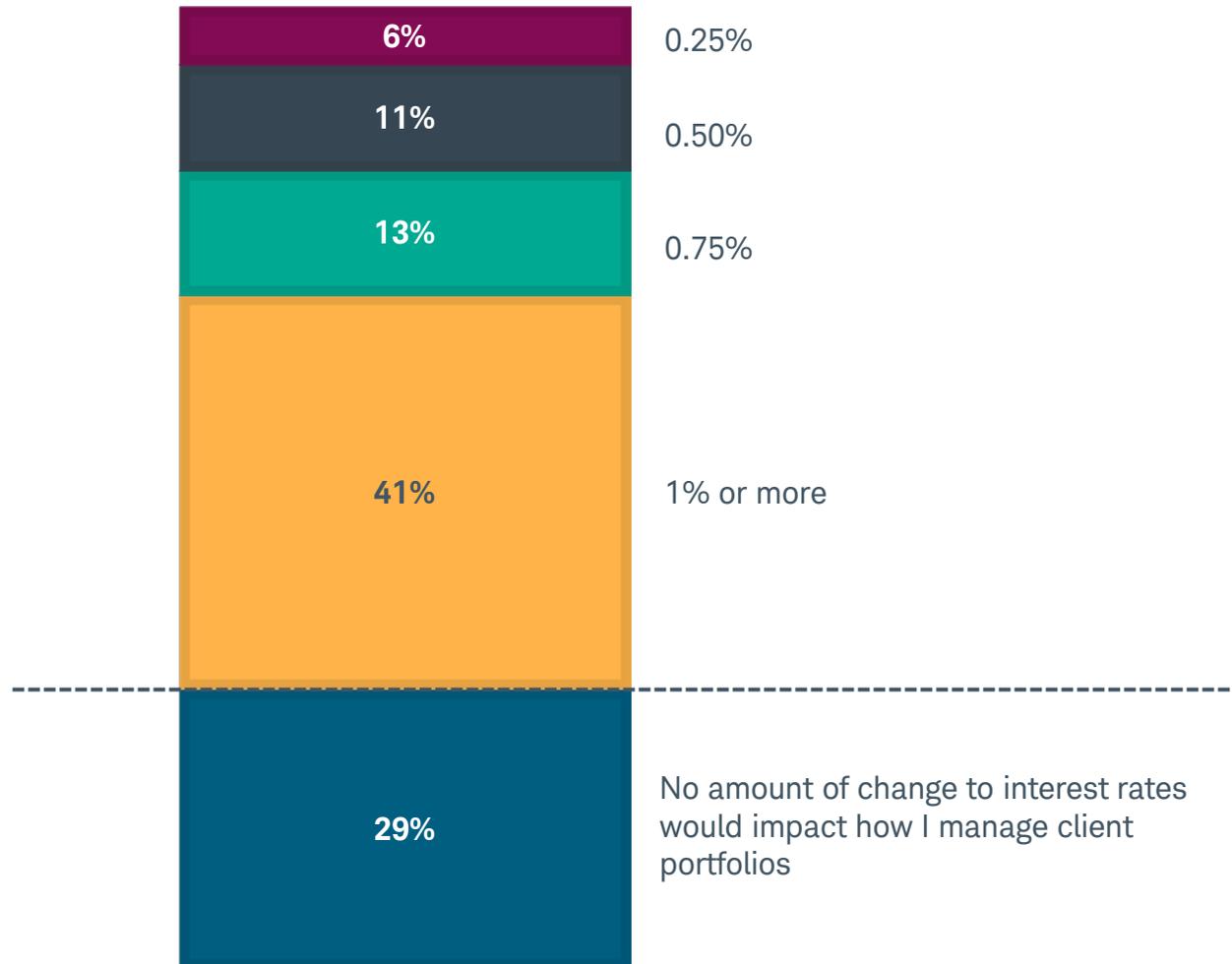
(Base: Total advisors)



Q6: In the past six months, what percent of your clients have you needed to reassure that they will achieve their investment goals?
(Base = Total advisors; Current wave = 638)

Interest rates would have to jump by at least 1% for advisors to consider changing the way they manage client portfolios

Amount interest rates would have to rise to influence the way client portfolios are managed
(Base: Total advisors)

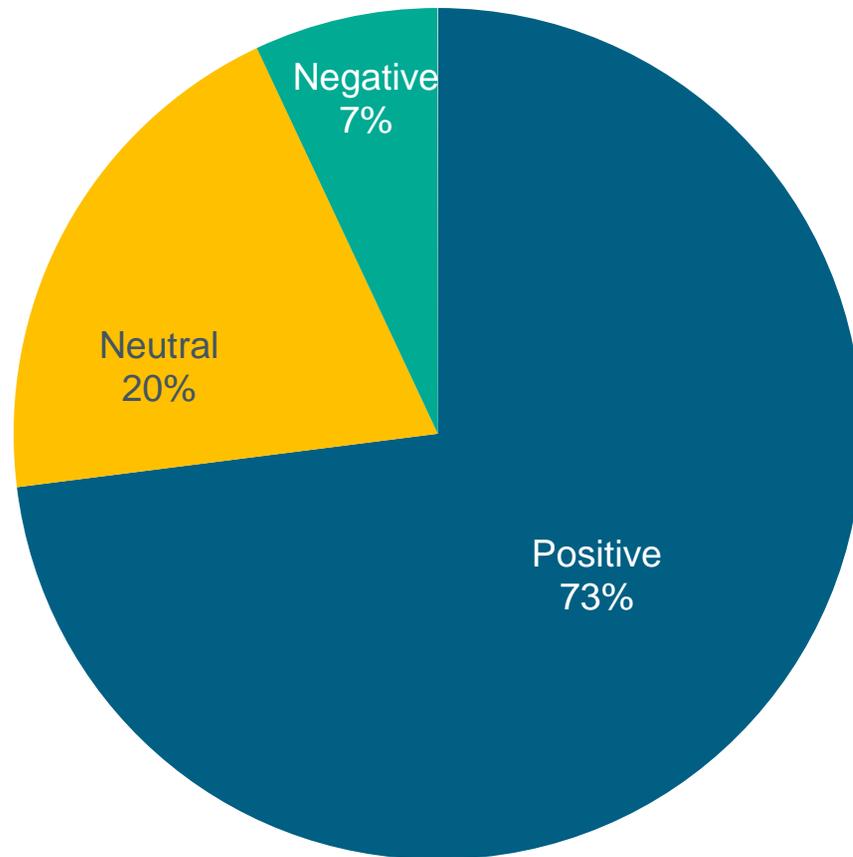


Q3: The Fed has signaled that they will move interest rates up in the near future. How much would interest rates have to rise to influence the way that you manage client portfolios?
(Base = Total advisors; Current wave = 638)

Advisors think fundamental tax reform would have a positive impact on the markets

Impact of fundamental tax reform on markets

(Base: Total advisors)

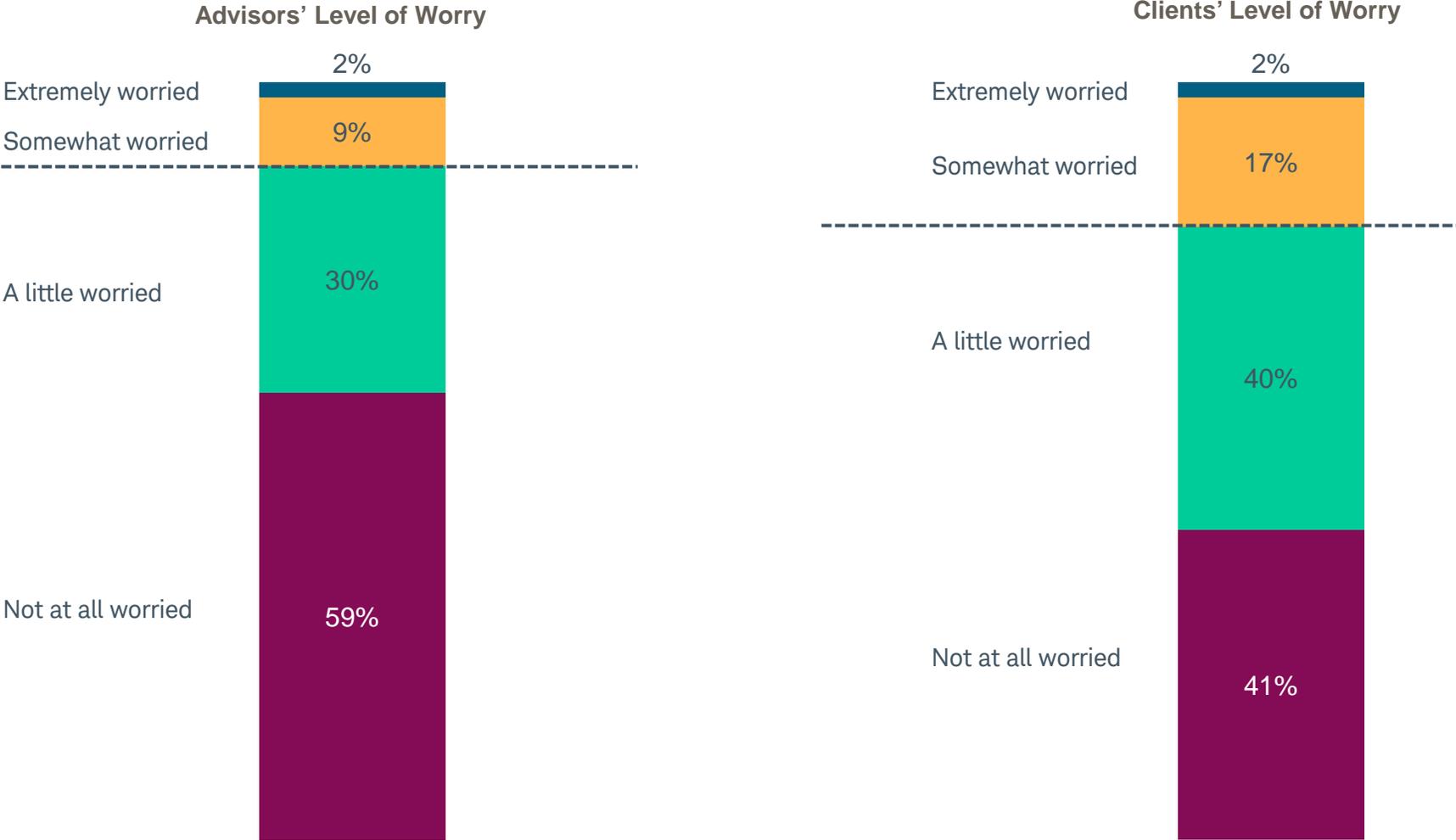


Q4: What kind of impact do you think fundamental tax reform (corporate and individual) would have on the markets?
(Base = Total advisors; Current wave = 638)

Advisors are not worried about a government shut-down, nor do they think their clients are

Level of worry about government shut-down

(Base: Total advisors)



Q5: How worried are you and your clients about a government shut-down as a result of a debt ceiling crisis later this year?
(Base = Total advisors; Current wave = 638)

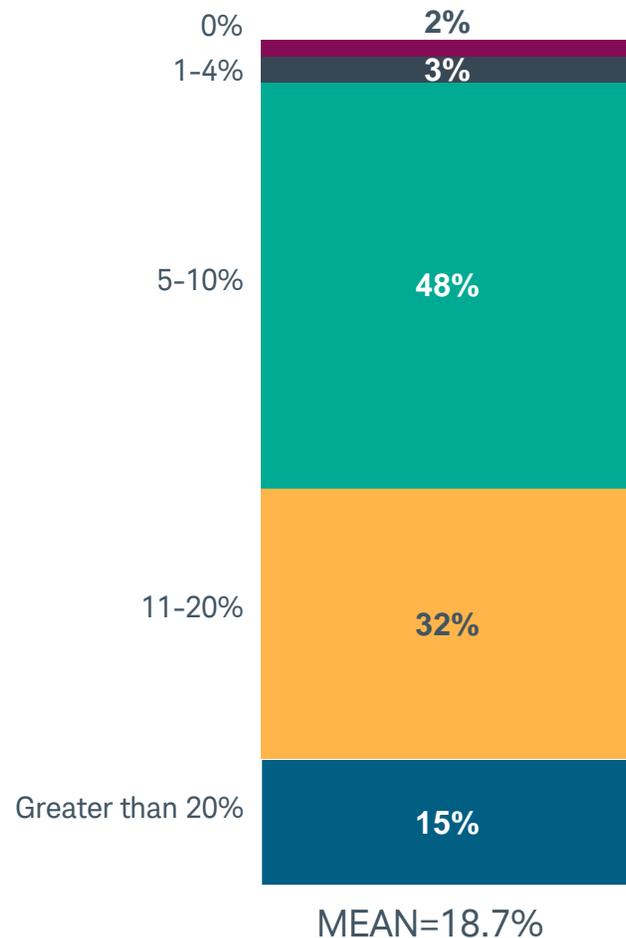


Firm Outlook

Advisor Services

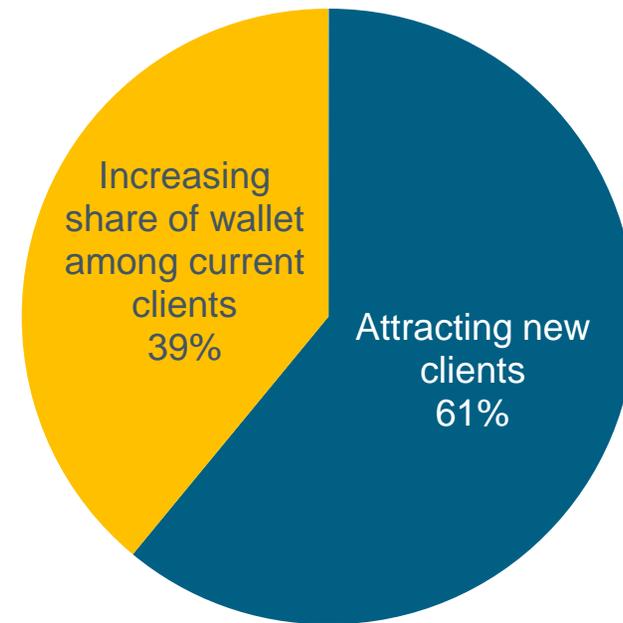
A majority of RIAs are projecting firm growth in the year ahead, and they plan to allocate more resources to attracting new clients than to increasing share of wallet with existing clients

Projected Growth Rate Over Next 12 Months
(Base: Total advisors)



Q21: What is your firm's projected growth rate over the next 12 months overall?
(Base = Total advisors; Current wave = 638)

Resource Allocation for Future Growth
(Base: Advisors whose firm's projected growth rate over the next 12 months is 5% or higher)

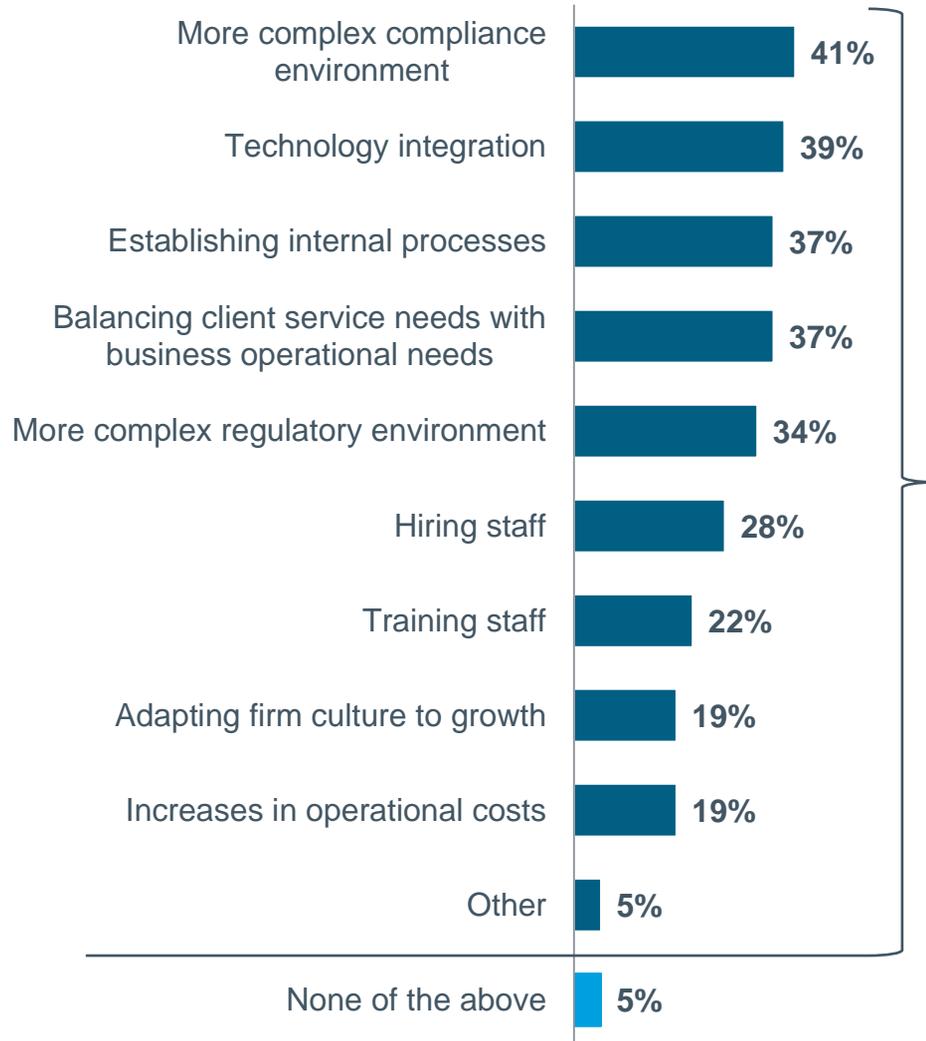


Q23: In terms of growing your assets in the future, how do you plan to allocate resources between the following?
(Base = Advisors whose firm's projected growth rate over the next 12 months is 5% or higher; Current wave = 608)

Firm growth is not without its challenges – balancing client needs with business operations is the biggest

Growth Challenges Faced

(Base: Advisors whose firm's projected growth rate over the next 12 months is 5% or higher)



Q25: What growth challenges, if any, are you facing?
 (Base: Advisors whose firm's projected growth rate over the next 12 months is 5% or higher; Current wave = 608)

Biggest Growth Challenge Faced

(Base: Advisors whose firms are facing growth challenges)

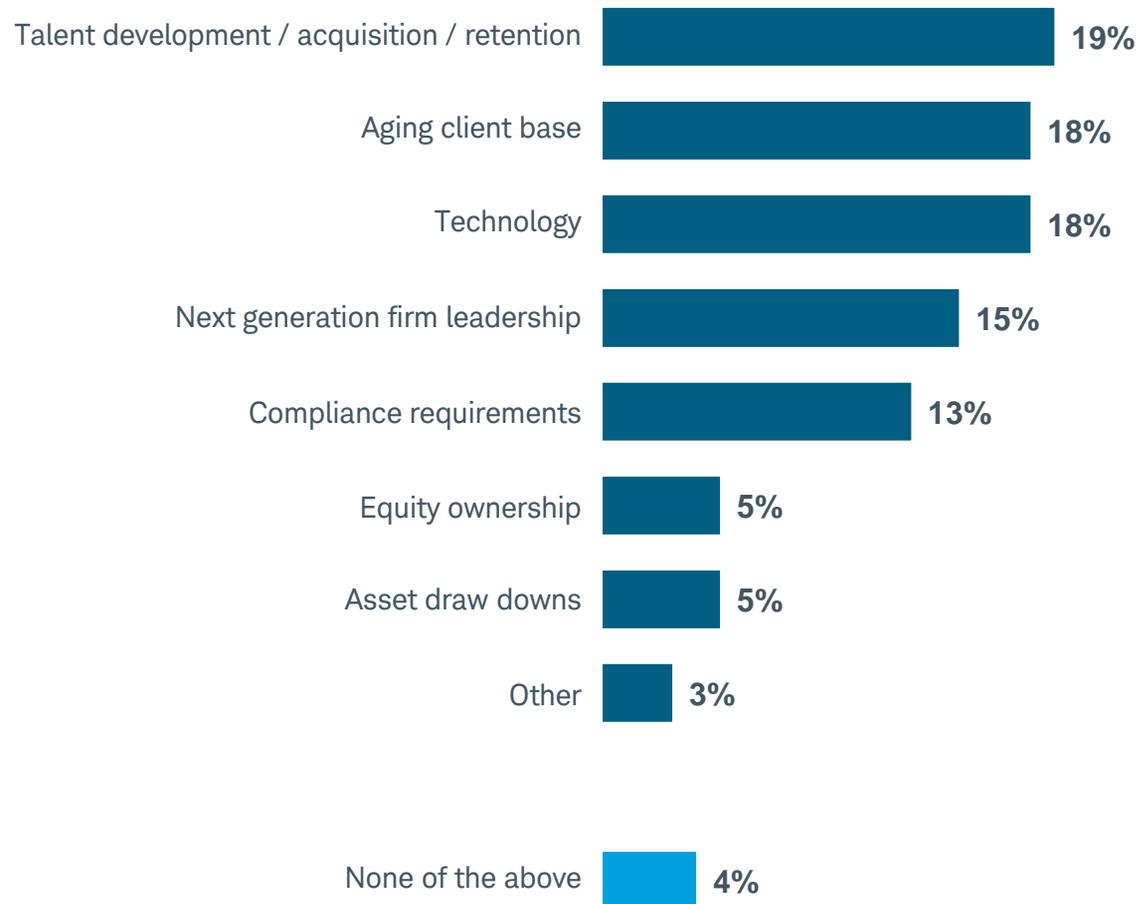


Q26: What is the single biggest growth challenge you are facing?
 (Base: Advisors whose firms are facing growth challenges; Current wave = 576)

Within firms, talent management, an aging client base and technology are the leading forces of change

Forces Shaping Change Inside Firms

(Base: Total advisors)



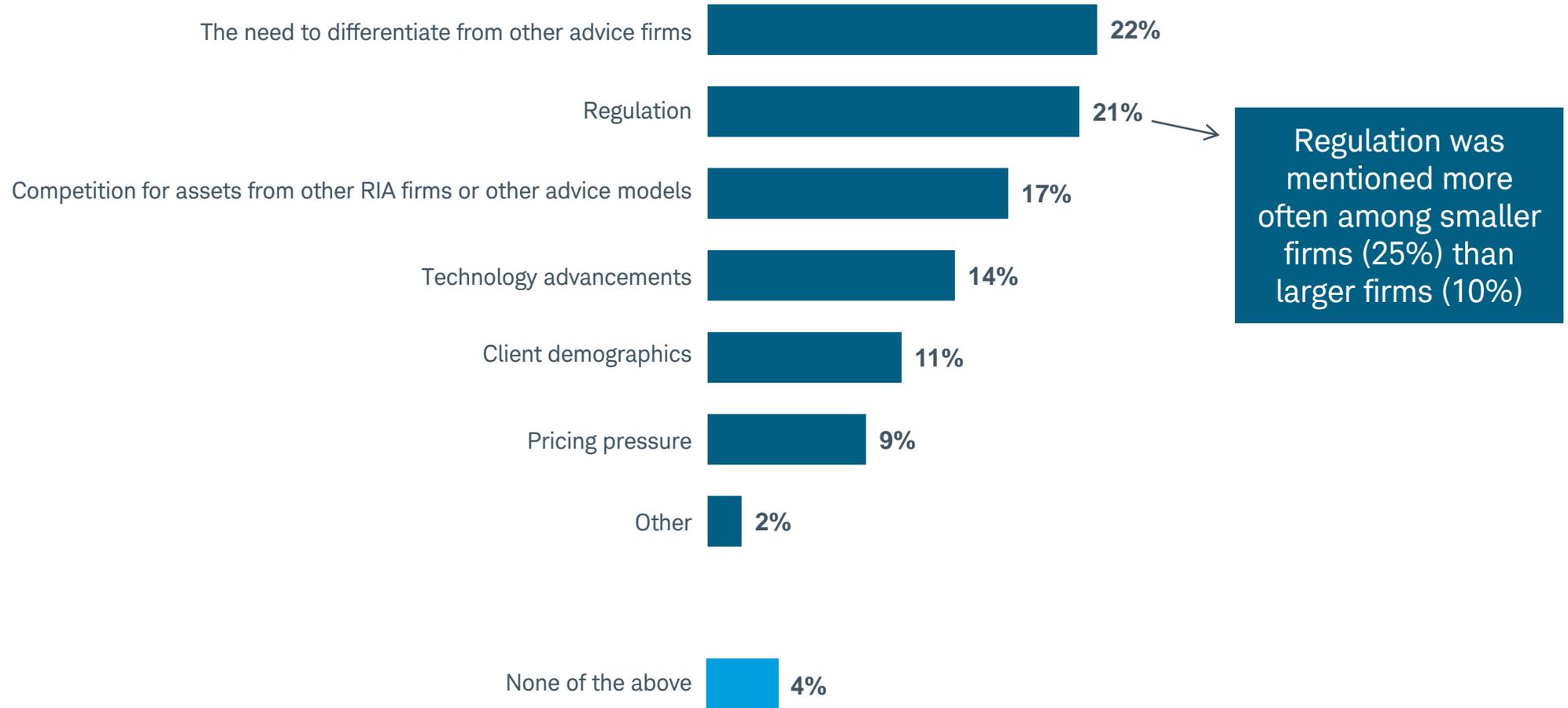
Q9: From your perspective, which of the following is having the biggest impact on shaping change **inside** your firm (i.e. to firm staffing, operations, services, etc.)?

(Base = Total advisors; Current wave = 638)

Outside firms, the need for differentiation and regulation play the largest roles in shaping change

Forces Shaping Change Outside Firms

(Base: Total advisors)

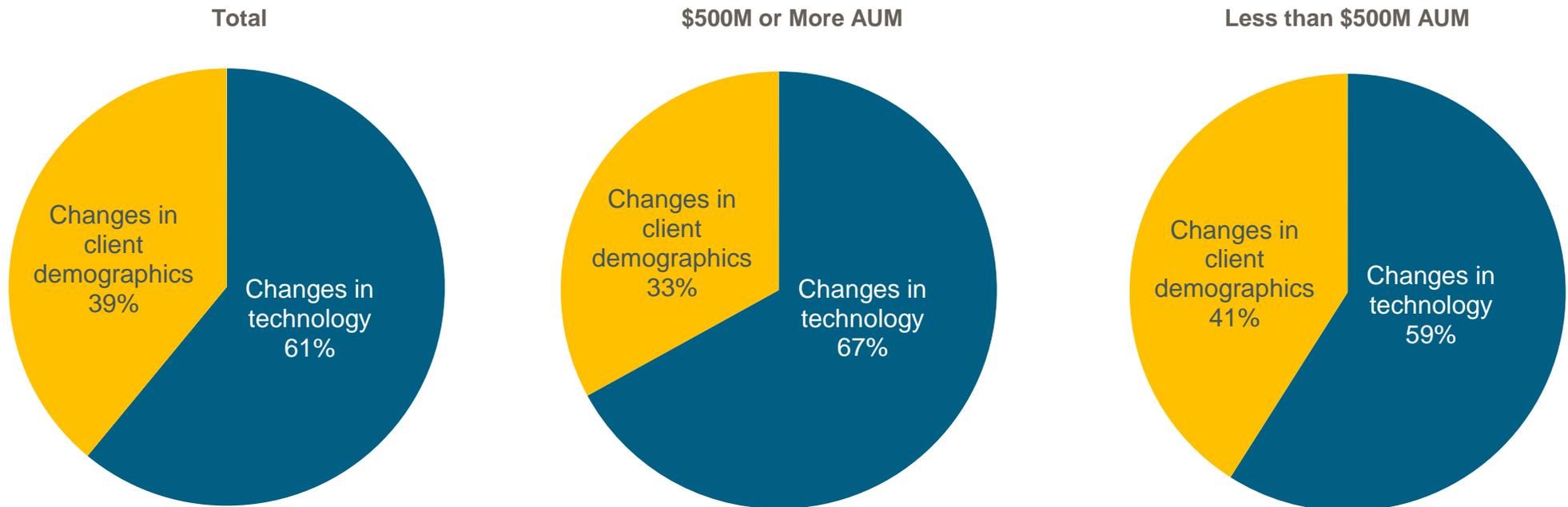


Q10: From your perspective, which of the following is having the biggest impact on shaping change **outside** your firm (i.e. in the industry and external environment overall)?
(Base = Total advisors; Current wave = 638)

Advisors report changes in technology are having a bigger impact on their firms than changes in client demographics

Trend with Greatest Impact on Firms

(Base: Total advisors)



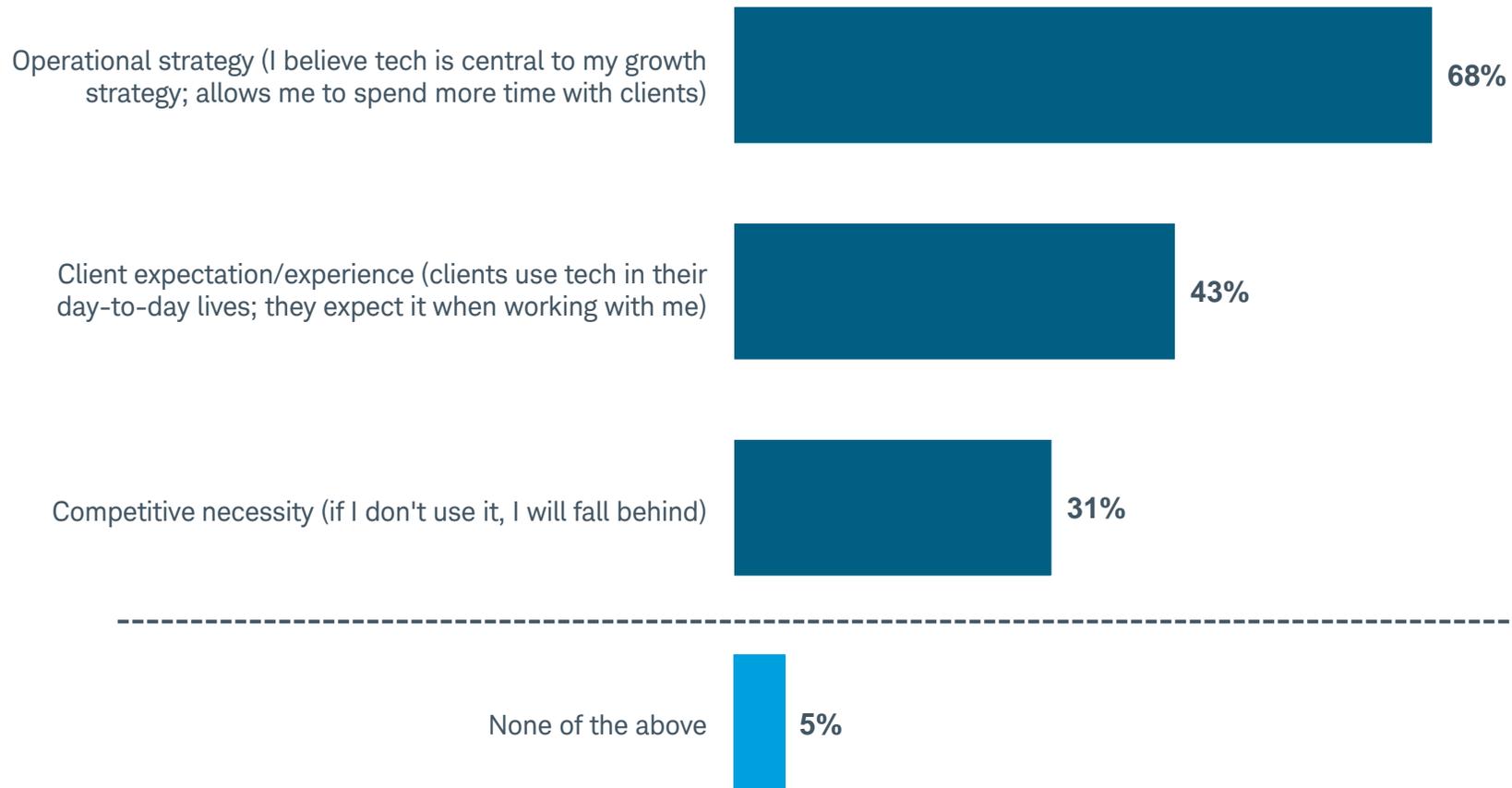
Q8: Which of the following is having a greater impact on your firm?

(Base = Total advisors; Current wave = 638; Current wave: \$500M or More AUM = 163; Less than \$500M AUM = 433)

Technology adoption more often viewed as an operational strategy the drives growth versus a competitive necessity

Key Drivers of Technology Adoption

(Base: Total advisors)

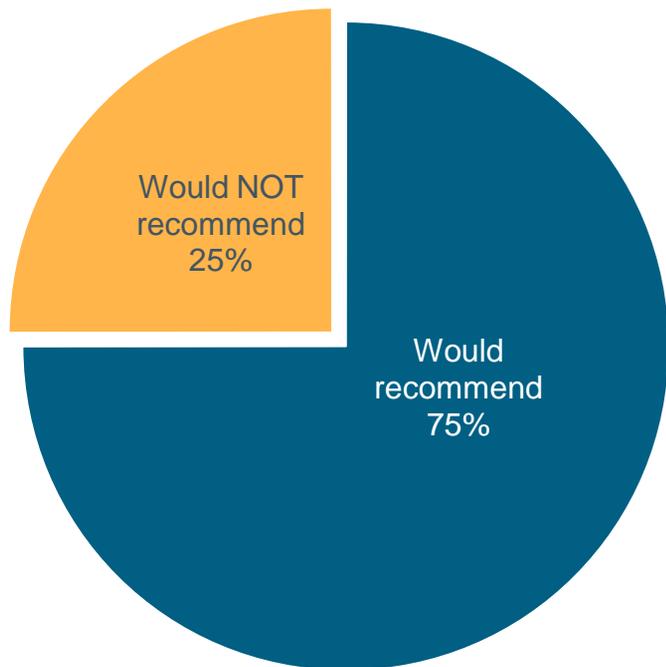


Q20: Which of the following are the key drivers of technology adoption for your firm?
 (Base = Total advisors; Current wave = 638)

Advisors would recommend automated investment management to clients who don't meet asset minimums or those with relatively simple investment needs

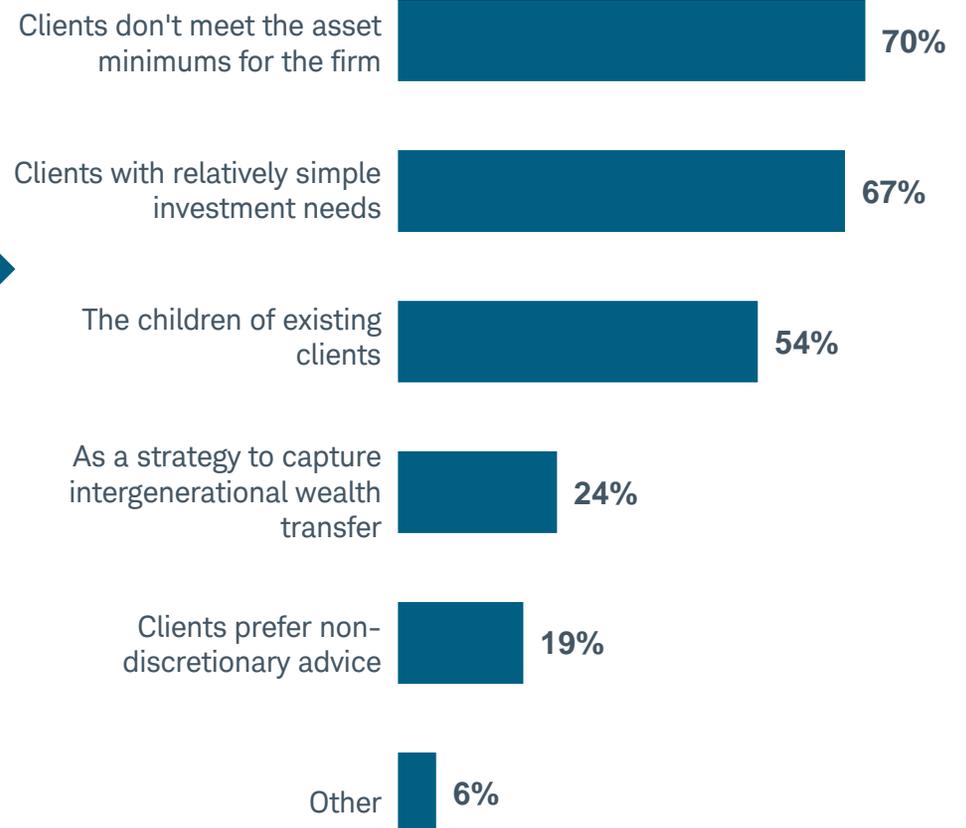
Recommend Automated Investment Management

(Base: Total advisors)



To Whom Automated Investment Management Would be Recommended

(Base: Advisors Who Would Recommend Automated Investment Management)



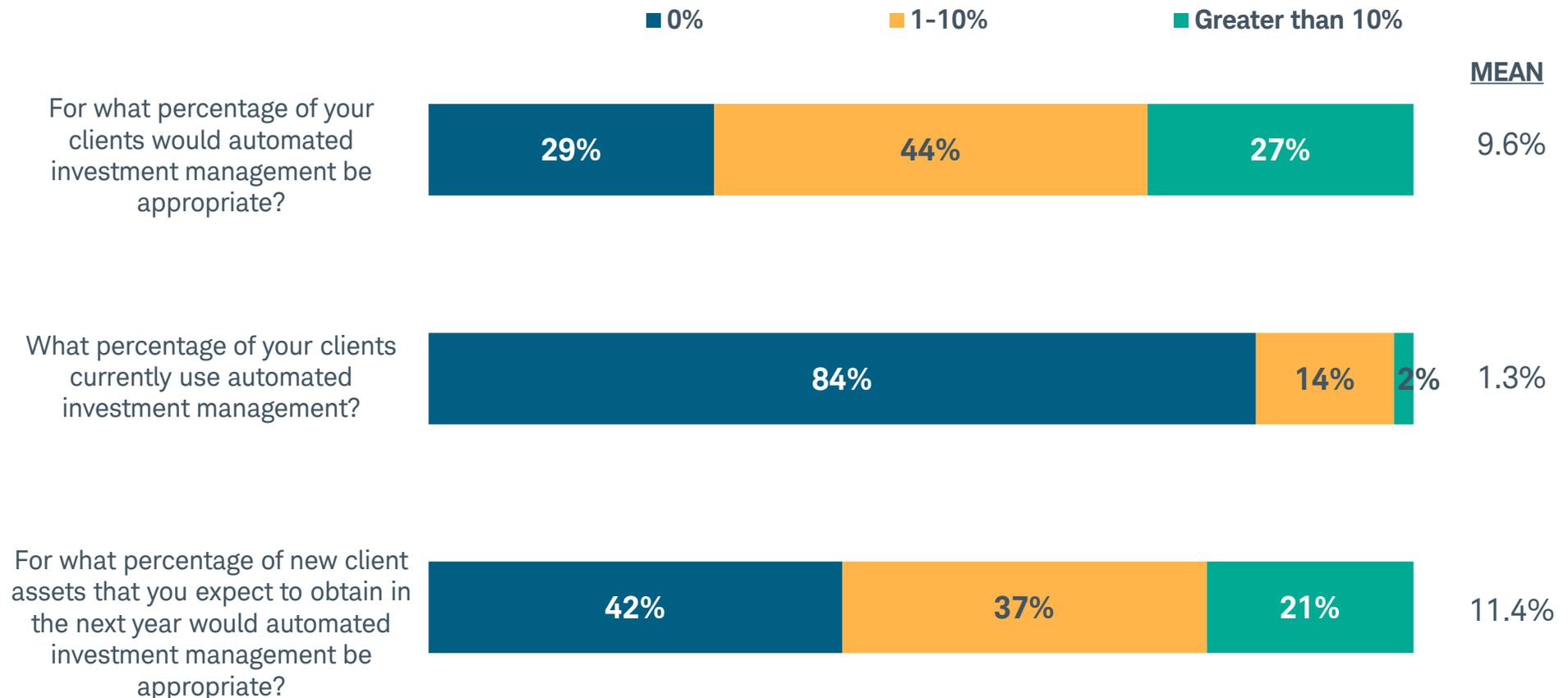
Q18: What are the different situations in which you would recommend automated investment management to a client?

(Base = Total advisors; Current wave = 638)

Situation in which would recommend (Base = Advisors who would recommend automated investment management to a client; Current wave = 482)

Advisors estimate that automated investing would be appropriate for about 10 percent of current or future clients

Current and Projected Use of Automated Investment Management (Base: Total advisors)

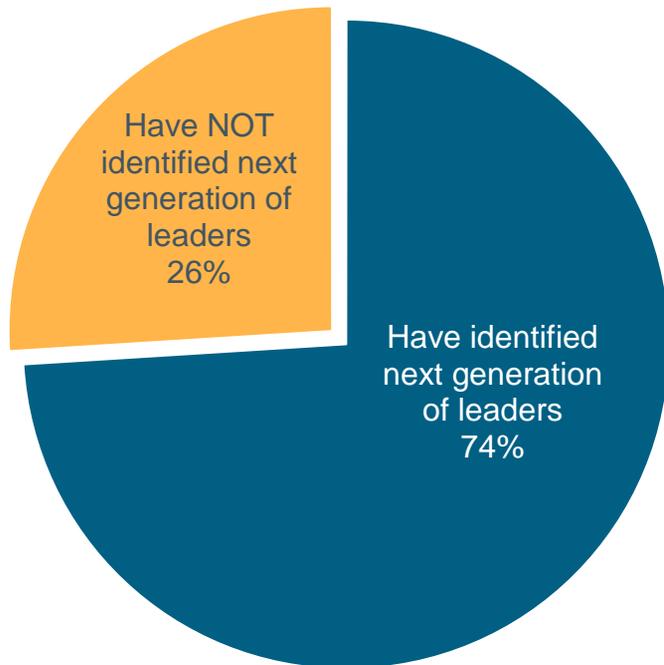


Q17: Please fill in the blanks below.
(Base = Total advisors; Current wave = 638)

Most firms have identified future leaders and are actively preparing them with hands-on experience

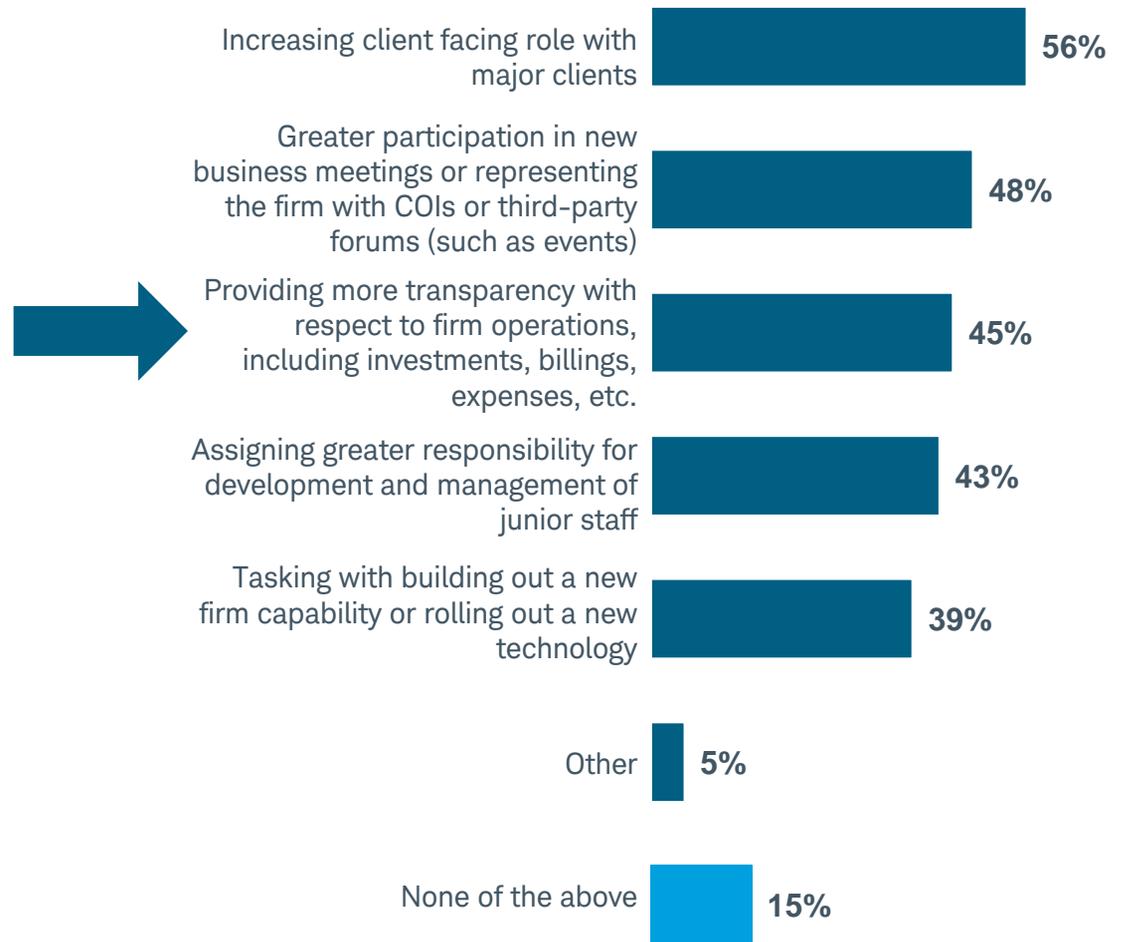
Identified Next Generation of Leaders

(Base: Total advisors)



How Next Generation of Leaders Being Prepared

(Base: Advisors Who Have Identified the Next Generation of Leaders)



Q15: Assuming you have identified individuals in your firm who will be the next generation of leaders, how are you preparing them to take on more leadership responsibility?

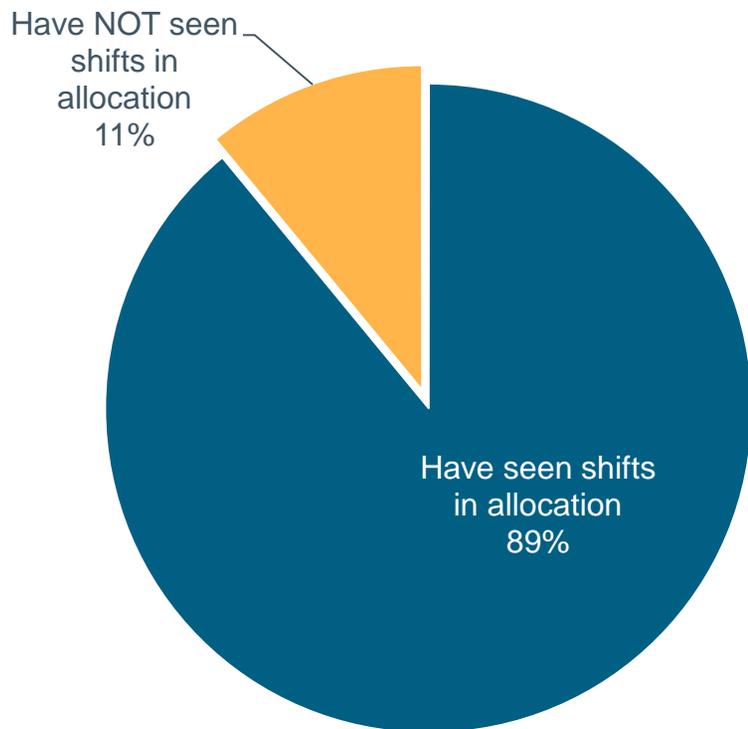
(Base = Total advisors; Current wave = 638;

How next generation of leaders are being prepared (Base=Advisors who have identified the next generation of leaders; Current wave = 470)

Most firms have seen a shift in the allocation of staff time toward learning how to use new technology and interacting with clients

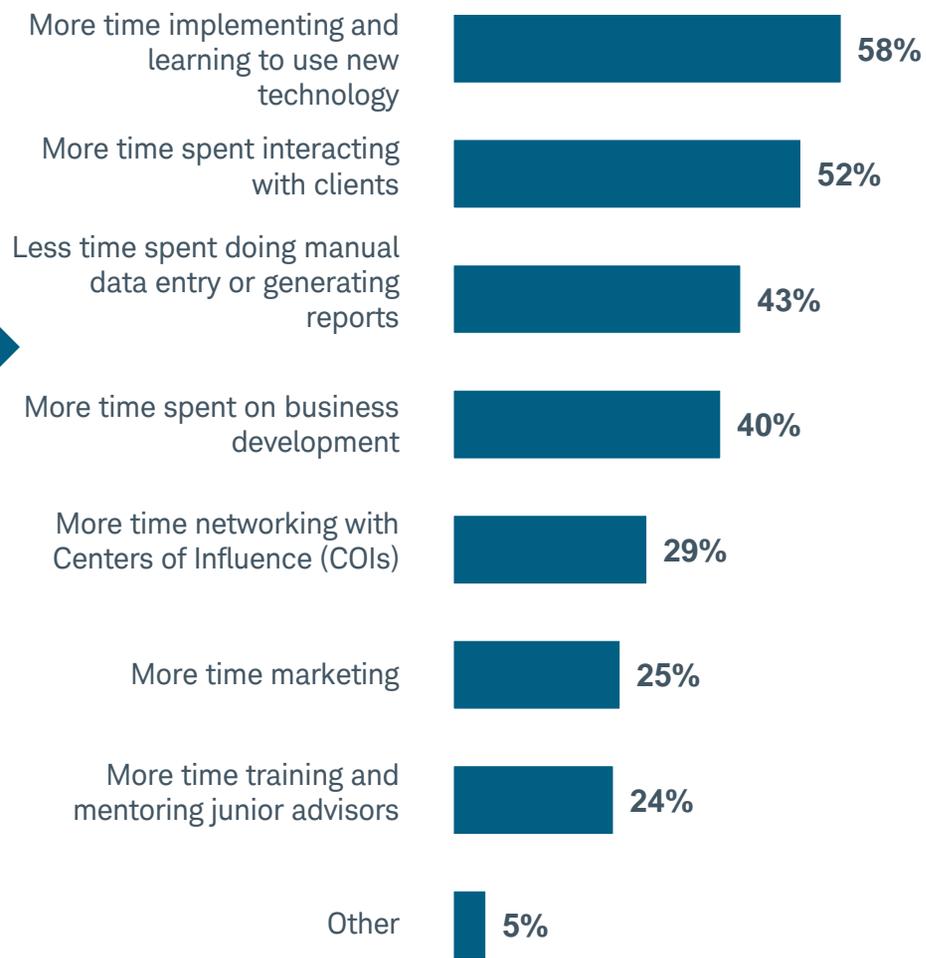
Shifts in Allocation of Staff Time

(Base: Advisors whose firm's projected growth rate over the next 12 months is 5% or higher)



How Staff Time Allocation Has Shifted

(Base: Advisors Who Have Seen a Shift in Allocation)



Q24: Over the last five years, what shifts, if any, have you seen in the allocation of staff time at your firm? (Base = Advisors whose firms projected growth rate over the next 12 months is 5% or higher; Current wave = 608; How staff time allocation has shifted (Base = Advisors who have seen a shift; Current wave = 540)



CORPORATION

APPENDIX

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 +/-3.8 percentage points at the 95% confidence level.
When	<ul style="list-style-type: none">• The study was conducted from September 9th to September 18th, 2015.
Who	<ul style="list-style-type: none">• 638 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.

Firmographics/Demographics

(Base: Total Advisors Responding)

Advisors Responding	Base
Average Client Age by Range	(n=637)
Less than 50 years old	5%
50 to 54 years old	11%
55 to 59 years old	24%
60 to 64 years old	31%
65 or older	34%
MEAN	60 years old
Age of Advisor Responding	(n=636)
Under 35	12%
35 to 44 years old	17%
45 to 54 years old	28%
55 to 64 years old	26%
65 to 74 years old	10%
75 or older	1%
MEAN	51 years old
Number of Years Worked for Independent Advisory Firm	(n=637)
5 years or less	25%
More than 5 to 10 years	17%
More than 11 to 15 years	16%
More than 15 years	41%
MEAN	12 years
Primary Role at Firm	(n=636)
Principal	64%
Portfolio Manager	15%
Operations staff	8%
Other	14%
Founding Principal (among Principals)	(n=404)
Yes	75%
No	25%

Advisors Responding	Base
Whether Respondent Future Principal (among Non-Principals)	(n=103)
Yes	60%
No	40%
Number of Employees at Firm	(n=562)
1 to 5	50%
6 to 15	33%
16 to 50	12%
51 or more	5%
MEAN	17 employees
Assets Under Management at Firm (AUM)	(n=634)
Less than \$25M	11%
\$25.1M to \$100M	23%
\$100.1M to \$250M	21%
\$250.1M to \$500M	14%
More than \$500M	26%
MEAN	\$329M
MEDIAN	\$196M
Number of Clients Per Firm	(n=638)
1 to 50	16%
51 to 100	13%
101 to 250	25%
251 or more	27%
MEAN	483 clients
MEDIAN	153 clients
Gender	(n=632)
Male	79%
Female	21%