

INDEPENDENT
ADVISOR
OUTLOOK
STUDY
WAVE 19

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Executive Summary

Market & Economic Outlook

- Advisor confidence in the continued upward trajectory of the S&P 500 is at a four-year low, with just over half (56%) of advisors expecting it to increase in the next six months
- The proportion of clients that advisors need to reassure that their financial goals will be met has not changed substantially since May 2013 (mean 21%)
 - For more than half of advisors, only one in five or fewer need such reassurance
- More than half of advisors (57%) say meeting client goals will be difficult - well above the 47% seen in May 2013
- Clients and advisors share similar concerns when it comes to their investments:

Top client concerns	Top advisor concerns
<ul style="list-style-type: none">▪ Market volatility (67%)▪ U.S. Presidential election (50%)▪ Another recession (48%)▪ U.S. interest rates (37%)	<ul style="list-style-type: none">▪ U.S. interest rates (49%)▪ Market volatility (39%)▪ Quality of corporate earnings (37%)▪ Another recession (31%)

Executive Summary

Business Strategy & Outlook

- Advisors report optimism about RIA growth (73%) over the next five years
- One in three (38%) advisors reports spending the majority of time thinking about how to adapt their business model for future growth of their firm
- The majority of organic growth over the next five years (46%) is expected to be driven by firm founders and principal-level equity owners
 - Most advisors report that their firms extend equity ownership beyond the founding principals or plan to do so in the future (60%)
- Over the next five years, the majority of advisors (66%) expect increased competition for securing new assets (66%)
- Two-thirds of advisors (65%) believe that the need differentiate their firm from competition will be greater than ever over the next five years
 - One in three firms (36%) considers that the Department of Labor's Fiduciary Rule will result in more competition for RIAs, and that it will create greater challenges for RIA firms to differentiate themselves from wirehouse firms (35%)
 - More than half (57%) believe the rule will drive more questions/interest from clients in an advisors' fiduciary responsibilities

Executive Summary

Asset Lifecycle & Demographics

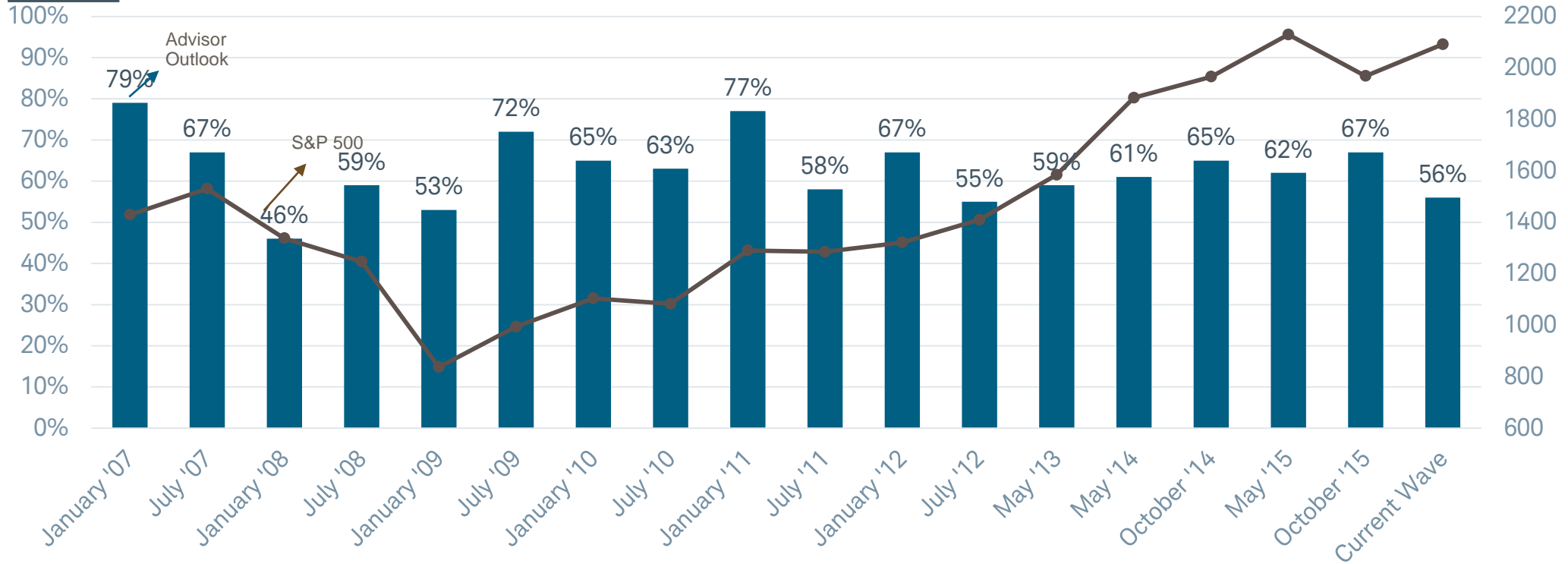
- Firms' current AUM are mostly comprised of 'mature' assets (37%), 'aging' assets (25%), and 'mid-lifecycle' assets (23%)
- Advisors feel most prepared to meet the needs of mature assets (91%), and mid-lifecycle/aging assets (88%) and less prepared to handle younger clients
 - They expect younger client assets will comprise 12% of their AUM in five years
- To address expected movement in assets among the lifecycle stages:
 - 58% of firms are investing in technology to meet a broader variety of investor needs and goals
 - 41% are adding new services for clients with varying time horizons and needs
- Most advisors (66%) are seeking to attract clients similar to the ones they have now – and are hiring accordingly
 - 37% are factoring changing demographics into their firms' succession planning
 - 35% are aiming to attract and serve younger clients
 - 29% aim to attract and serve female clients
 - 10% plan to attract and serve more ethnically diverse clients

Detailed Findings

Market & Economic Outlook

Advisors' confidence that the S&P 500 will increase is at lowest level in nearly four years

OUTLOOK

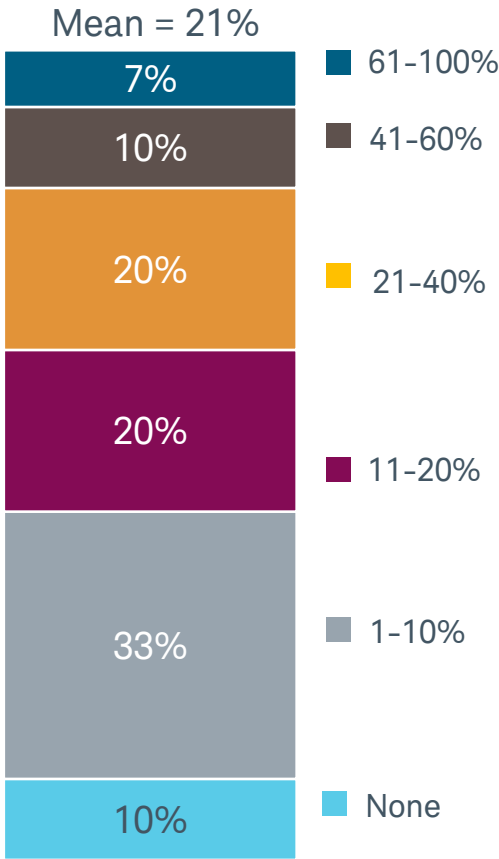


AVERAGE	AVERAGE DAILY OPENING VALUE WHILE IN FIELD & S&P 500 WILL INCREASE																	Current Wave [R]
	JAN '07 [A]	JULY '07 [B]	JAN '08 [C]	JULY '08 [D]	JAN '09 [E]	JULY '09 [F]	JAN '10 [G]	JULY '10 [H]	JAN '11 [I]	JULY '11 [J]	JAN '12 [K]	JUL '12 [L]	May '13 [M]	May '14 [N]	OCT '14 [O]	May '15 [P]	Oct '15 [Q]	
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	2091.72
Outlook	79% BCDEFGHJKL MNOPQR	67% CDEHJLMNP R	46%	59% CE	53% _C	72% BCDEFGHJKLMN OPQR	65% CDEJLMR	63% CEJLR	77% BCDEFGHJKLM NOPQR	58% CE	67% CDEHJLMNP R	55% C	59% CE	61% CELR	65% CDEJLMR	62% CELR	67% CDEJLMNR	56% C

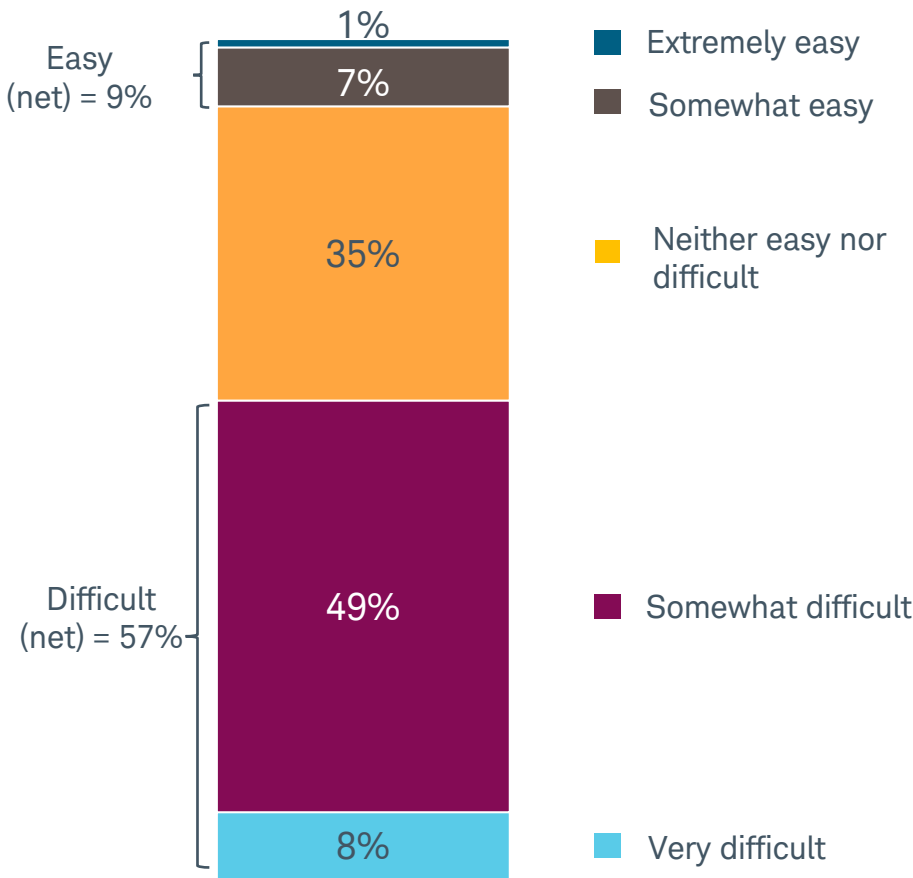
Q1: Which of the following best describes what you think will happen to the S&P 500 in the next six months? (Base: Total Advisors; Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1198; Jan '10 = 1144; July '10 = 1199; Jan '11 = 1337; July '11 = 911; Jan '12 = 882; July '12 = 839; May '13 = 1016; May '14 = 720; October '14 = 740; May '15 = 629; Oct '15 = 638; Current Wave = 930)
 Note: The standard deviation opening values for the S&P 500 during the current fielding period was 8.9
 * S&P 500: Average daily opening values per survey fielding period

Almost all advisors have had to reassure clients that they will achieve their investment goals; most advisors say achieving clients' goals will be difficult

Percent of Clients Needing Reassurance That They Will Achieve Their Investment Goals in Past Six Months



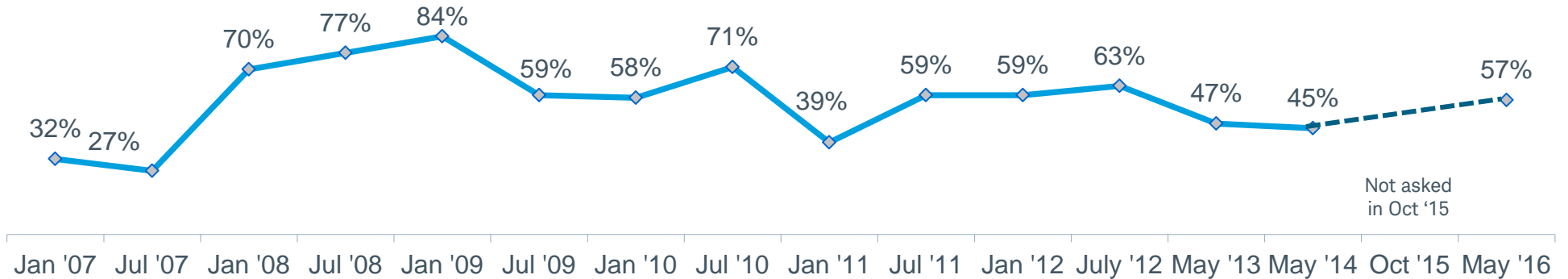
Ease/Difficulty of Achieving Clients' Investment Goals in Current Investment Environment



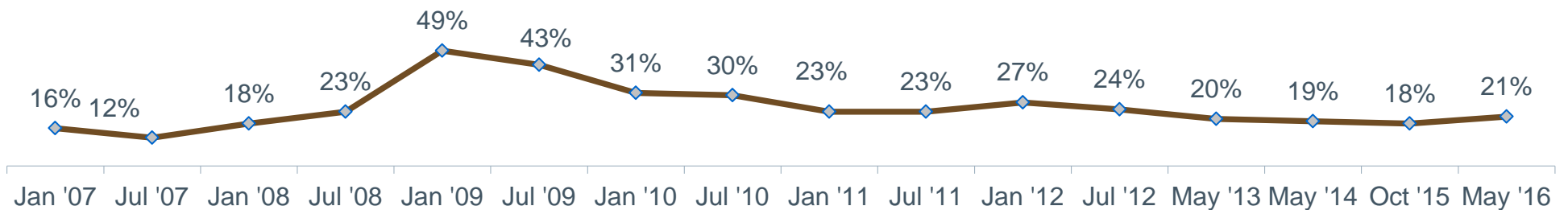
Q2 In the past six months, what percent of your clients have you needed to reassure that they will achieve their investment goals?
 Q3 Which of the following best describes how easy or difficult you think it will be to achieve your clients' investment goals in the current market environment?
 (Base: Total Advisors; Current wave = 930)

Percentage of clients needing assurance has changed little since May 2013, but percentage of advisors saying that achieving goals will be difficult has increased

Achieving Client Investment Goals In Current Market: "Difficult"



Average Percent of Advisors' Clients Who Needed Reassurance



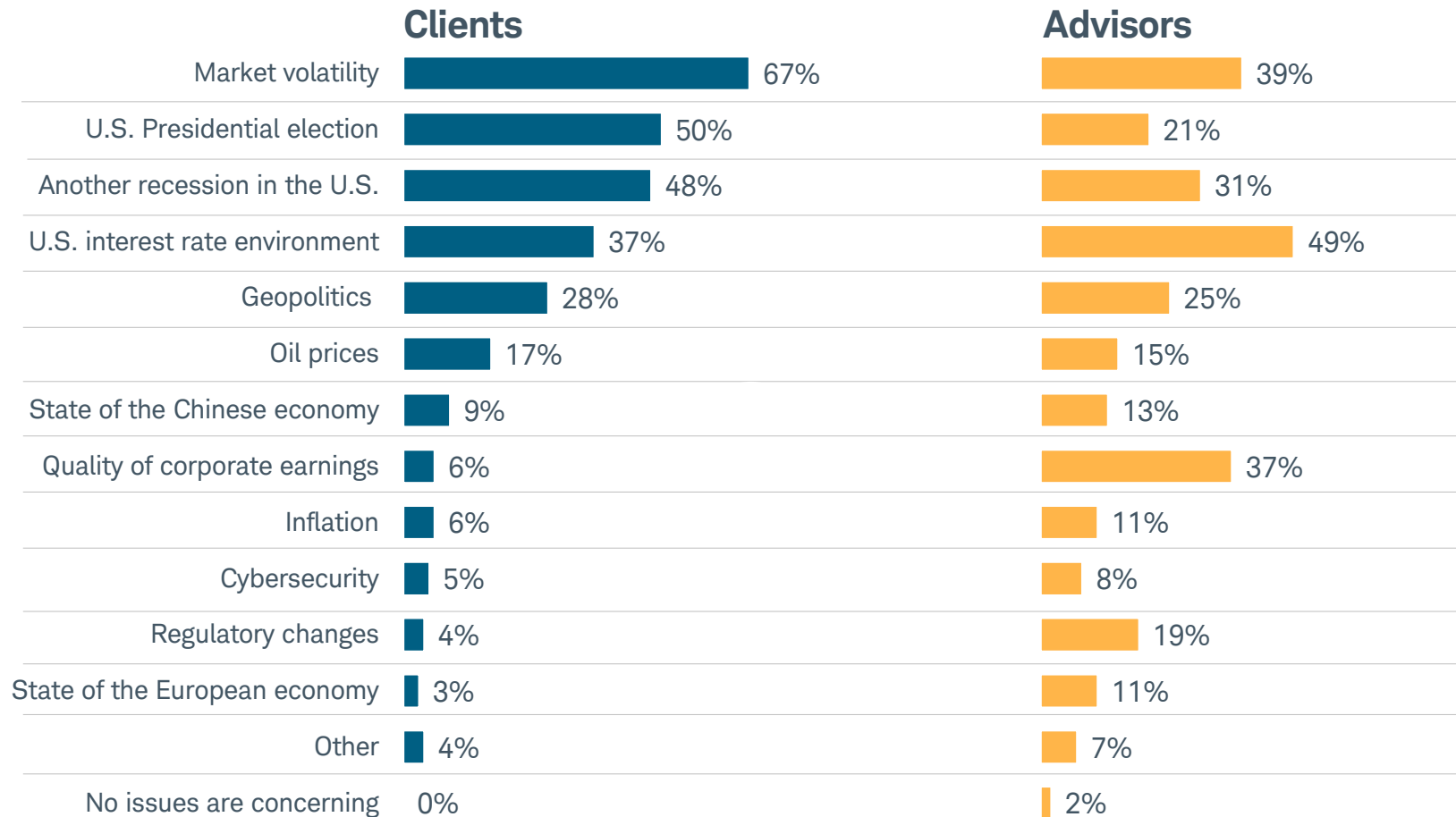
Q3 Which of the following best describes how easy or difficult you think it will be to achieve your clients' investment goals in the current market environment?

Q2 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: 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; Oct '15=638; Current wave=930)

Clients and advisors share similar concerns when it comes to their investments

Investment issues causing concern



Q4 Which three of the following issues are of most concern to your clients when it comes to their investments?

Q5 Which three of the following issues are of most concern to you when it comes to the investments you are making for your clients?

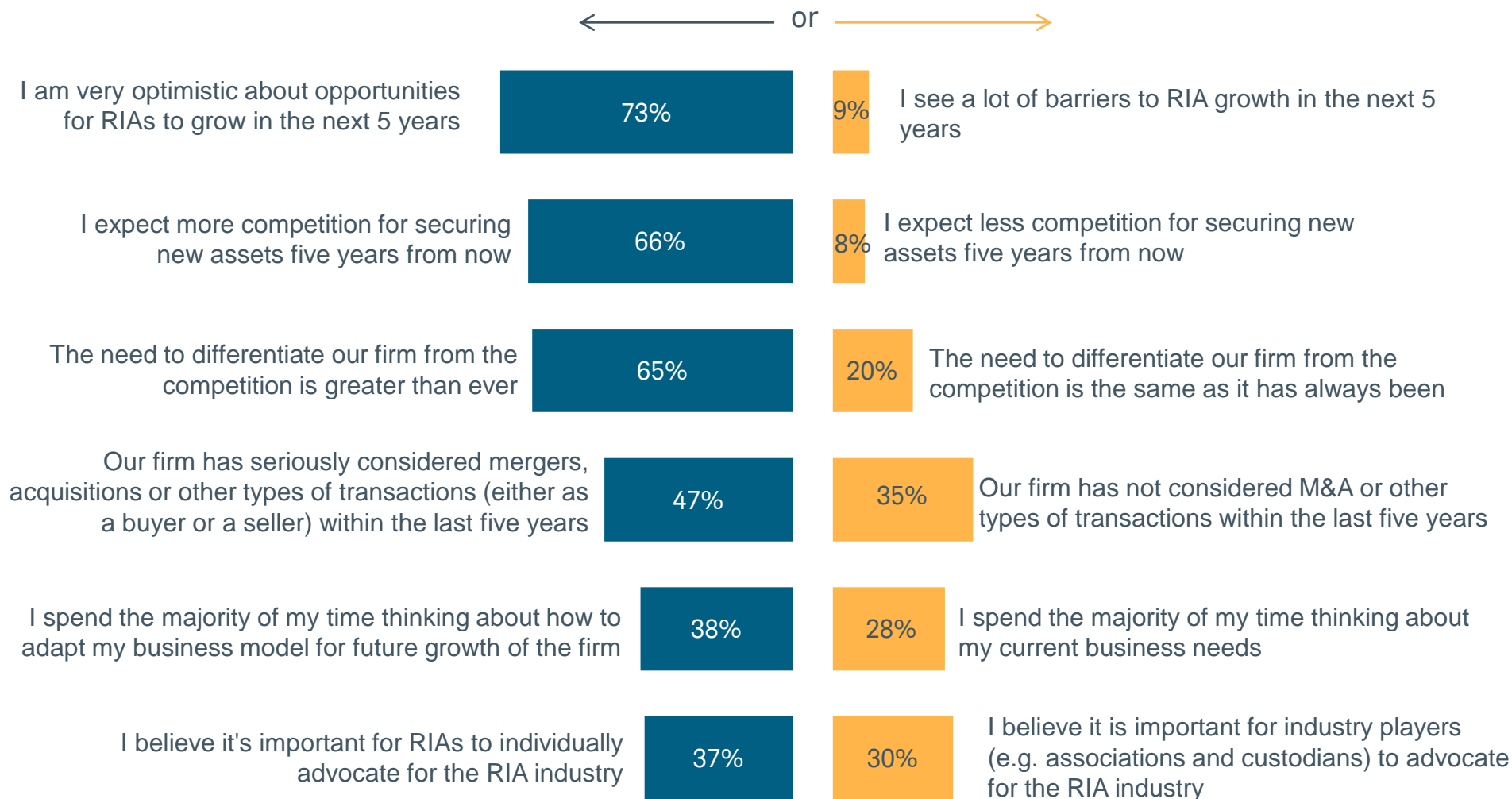
(Base: Total Advisors; Current wave = 930)

Detailed Findings

Business Strategy and Outlook

Advisors remain optimistic, but believe the future holds more competition and requires a focus on differentiation

Self Description: Item comes closest to describing you



Q11 Please click the button that is closest to the statement that describes you.
(Base: Total Advisors; Current wave = 930)

Advisors in firms with AUM over \$500M more often expect competition and see the need to differentiate

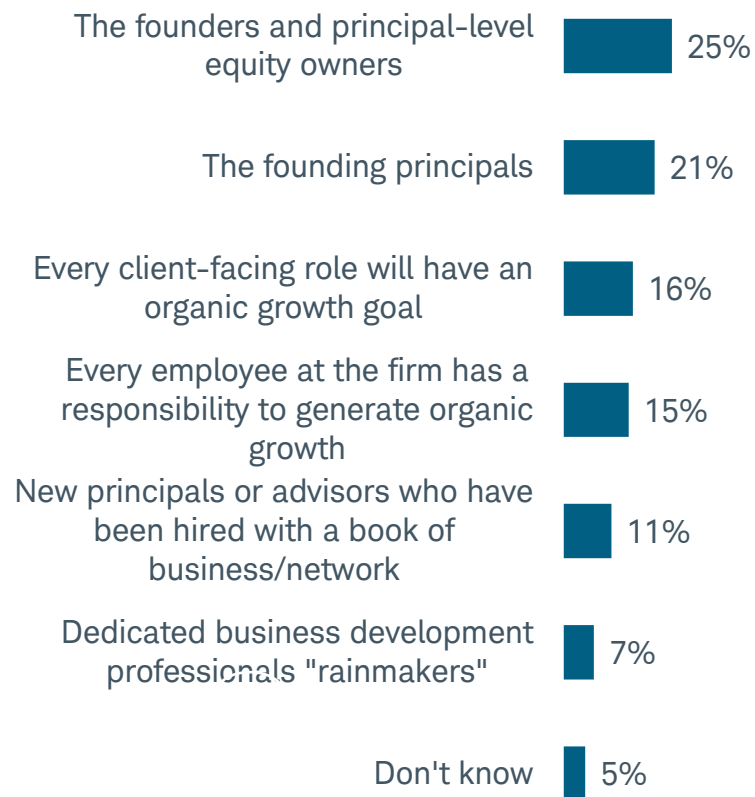
Self Description: Item comes closest to describing you

	AUM	
	>\$500M (n=263)	≤\$500M (n=621)
I expect more competition for securing new assets five years from now	76%	62%
The need to differentiate our firm from the competition is greater than ever	73%	61%
Our firm has seriously considered mergers, acquisitions or other types of transactions (either as a buyer or a seller) within the last five years	55%	44%
Our firm has not considered M&A or other types of transactions within the last five years	26%	38%
The need to differentiate our firm from the competition is the same as it has always been	16%	22%
I see a lot of barriers to RIA growth in the next five years	6%	11%

Q11 Please click the button that is closest to the statement that describes you.
(Base: Total Advisors; Current wave = 930)

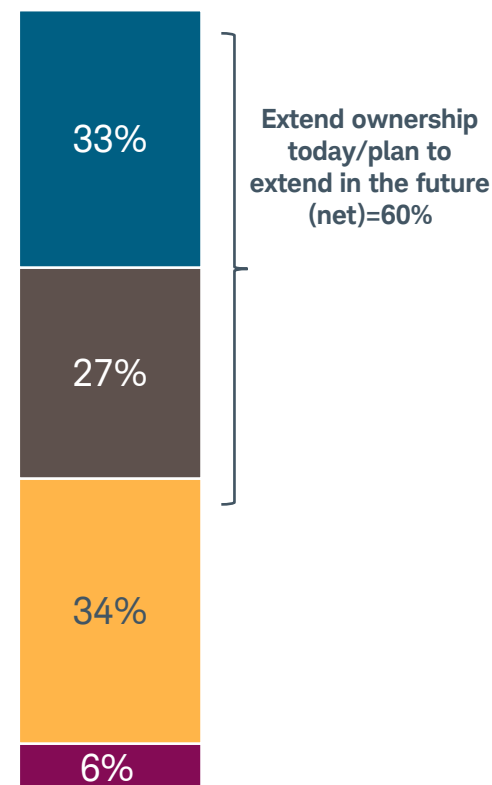
Majority of organic growth the next five years is expected to be driven by firm founders and principal-level equity owners

Who Will Generate Majority of Organic Growth Over Next Five Years



Equity Ownership Extended Beyond Founding Principals

- Yes, we do this today
- No, we don't do this today and are looking into offering this in the future
- No, we don't do this today and don't plan to
- Don't know



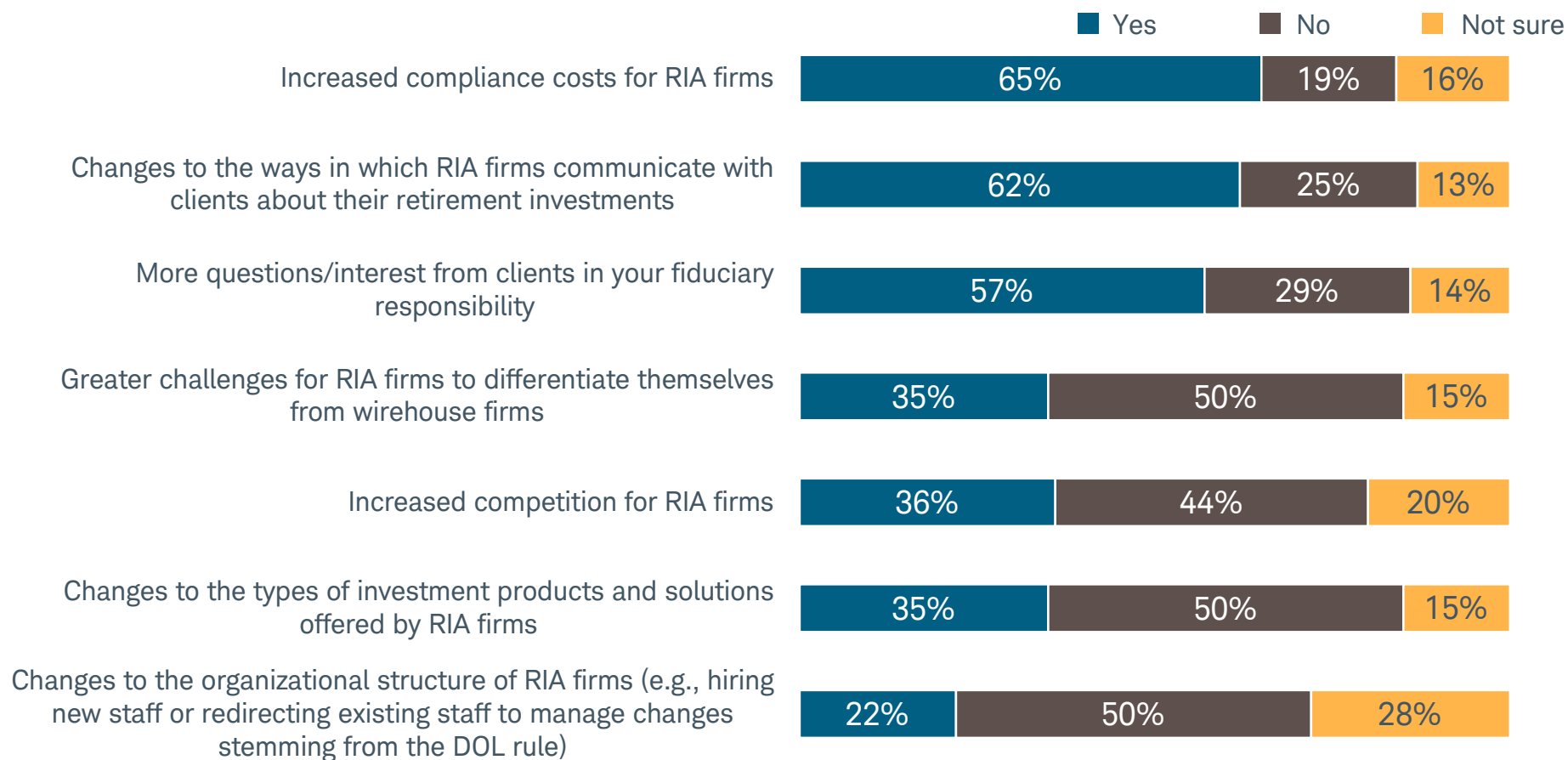
Q.9 Has your firm extended equity ownership in the firm beyond the founding principal(s)?

Q10 When you think about how your firm will grow over the next five years, who will generate the majority of organic growth?

(Base: Total Advisors; Current wave = 930)

Advisors consider the DOL's 'Fiduciary' Rule will lead to increased compliance costs, changes to client communications, and questions about fiduciary responsibility

Potential Changes Due to DOL Action



Q13 Do you believe that the DOL action will lead to...? (Base: Total Advisors; Current wave = 930)

Detailed Findings

Asset Lifecycle & Demographics

Advisors report being less prepared to meet the needs of emerging and young assets than of mature and aging assets even though AUM is shifting in that direction

Lifecycle of Assets (Base: Total Advisors)	% of Current AUM	% of AUM 5 Years From Now	Top 2 Box* Preparedness to Meet Needs
Emerging assets (e.g., investors in initial stages of building wealth)	5.8%	7.1%	57%
Young assets (e.g., investor's long-term goals are starting to form and there is a long runway to meet objectives)	9.5%	11.8%	68%
Mid-lifecycle assets (e.g., wealth is steadily building, but investor's needs have become more complex; more demands on the assets)	23.3%	24.7%	88%
Mature assets (e.g., investor is focused on maintaining and protecting wealth)	36.5%	33.3%	91%
Aging assets (e.g., investor is focused on spending as well as planning for the distribution of assets to heirs)	25.0%	23.1%	88%

* Based on a scale where 5=extremely prepared and 1=extremely unprepared

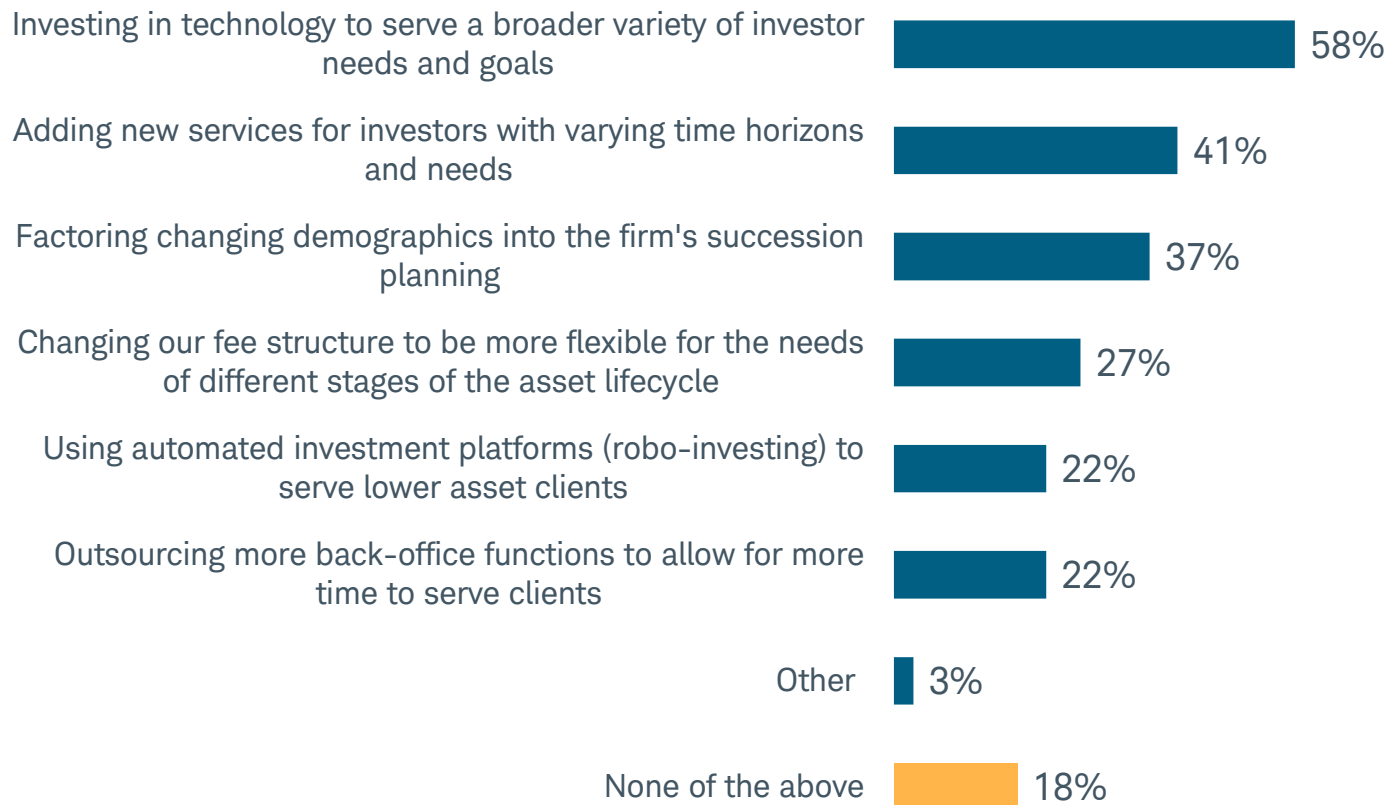
Q14a Please fill in the grid to describe the make-up of your firm's assets under management now, as well as your expectations for five years from now.

Q14b Please rate your firm's level of preparedness to meet the needs of these different asset lifecycle stages.

(Base: Total Advisors; Current wave = 930)

To prepare for the movement of assets across the various lifecycle stages, most advisors are investing in technology

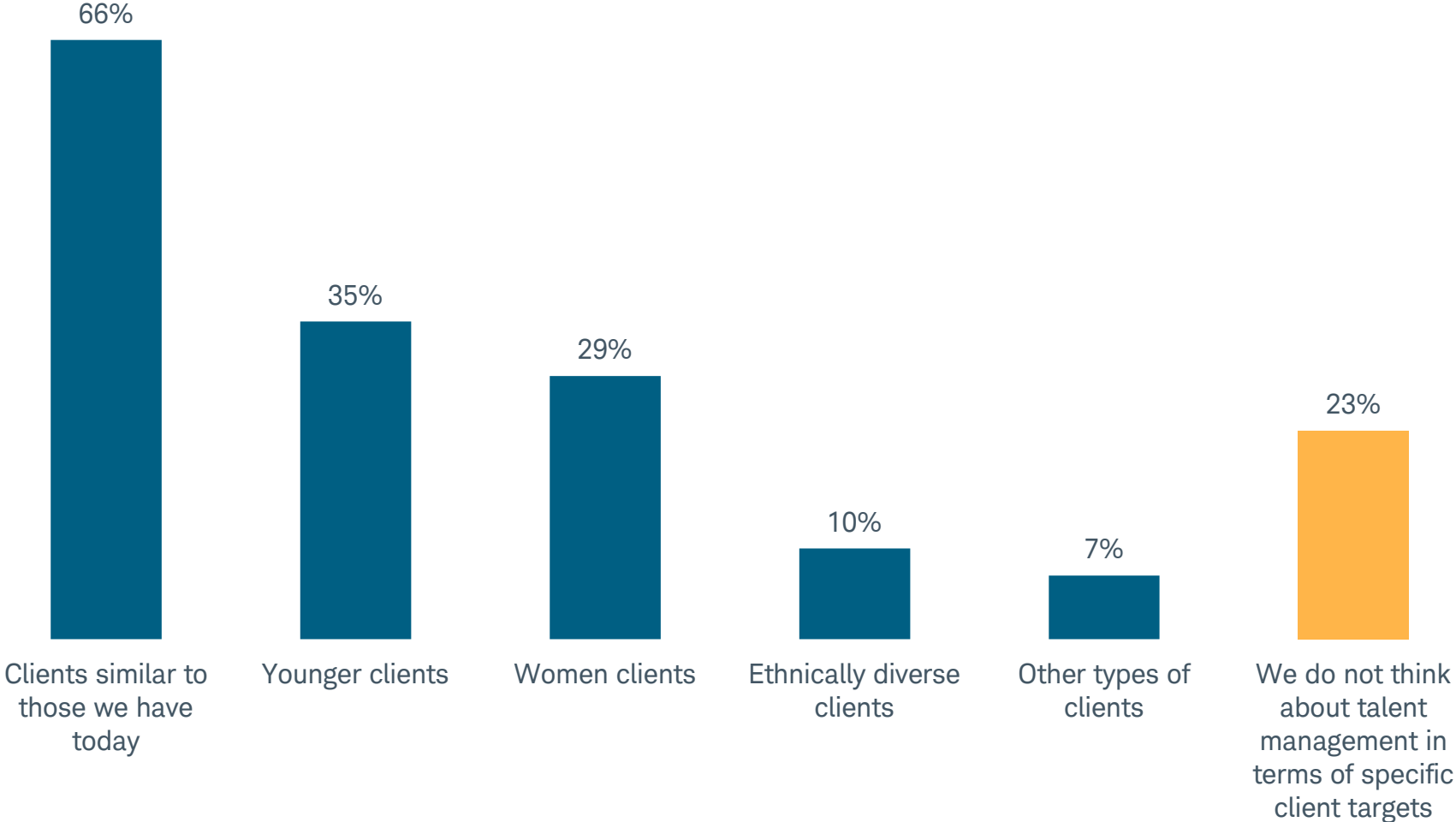
How Firms are Preparing for Movement in Assets



Q15 How is your firm preparing for the movement of assets across different lifecycle stages?
(Base: Total Advisors; Current wave = 930)

Most RIA firms are seeking to attract clients similar to those they have today – and they are hiring accordingly

Types of Clients Aiming to Attract/Serve



Q16 When managing your firm's talent/people strategy, what types of clients are you aiming to attract and serve?
(Base: Total Advisors Responding; Current wave = 928)

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 +/-3.2 percentage points at the 95% confidence level
When	<ul style="list-style-type: none">• The Study was conducted from April 19 to May 1, 2016
Who	<ul style="list-style-type: none">• 930 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

(Base: Total Advisors Responding)

Advisors Responding	Base
Average Client Age by Range	(n=922)
Less than 50 years old	5%
50 to 54 years old	14%
55 to 59 years old	23%
60 to 64 years old	30%
65 or older	22%
MEAN	60 years old
Age of Advisor Responding	(n=919)
Under 35	11%
35 to 44 years old	15%
45 to 54 years old	29%
55 to 64 years old	28%
65 to 74 years old	12%
75 or older	2%
MEAN	51 years old
Number of Years Worked for Independent Advisory Firm	(n=923)
5 years or less	25%
More than 5 to 10 years	18%
More than 11 to 15 years	14%
More than 15 years	43%
MEAN	13 years
Primary Role at Firm	(n=923)
Principal	62%
Portfolio Manager	17%
Operations staff	9%
Other	12%

Advisors Responding	Base
Founding Principal (among Principals)	(n=572)
Yes	76%
No	24%
Number of Employees at Firm	(n=927)
1 to 5	46%
6 to 15	33%
16 to 50	15%
51 or more	6%
MEAN	25 employees
Assets Under Management at Firm (AUM)	(n=919)
Less than \$25M	9%
\$25M to \$100M	25%
\$100.1M to \$250M	20%
\$250.1M to \$500M	14%
More than \$500M	29%
MEAN	\$346M
MEDIAN	\$210M
Number of Clients Per Firm	(n=926)
1 to 50	13%
51 to 100	16%
101 to 250	23%
251 or more	29%
MEAN	504 clients
MEDIAN	160 clients
Gender	(n=917)
Male	81%
Female	19%