

The Independent Advisor Outlook Study from Schwab Advisor Services

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Foreword

For 12 years, Schwab Advisor Services has sought the perspective of independent advisors to better understand the current and evolving state of the industry, their firms, their investor clients, and the investment landscape. Results are released as the *Independent Advisor Outlook Study (IAOS)* and in periodic installments of the *Independent Pulse*.

In the latest IAOS, we requested advisors' opinions about a potential market downturn and how a slowdown might impact business performance. While advisors and their clients anticipate that the markets will decline, firms' five-year growth projections are bullish.

This apparent disconnect is explained by advisors indicating they are diligently prepared. The study reveals that advisors are gearing up for choppiness ahead by doubling down on pursuing new clients and serving existing clients. They are making strategic investments to promote sustained growth irrespective of the market environment. Additionally, as part of its exploration of firms' growth plans, the study examines in depth how advisors are deploying technology within their firms as a means for helping firms achieve their goals.

Key Findings

- **Fiduciary model attracts:** An increasing preference among investors and advisors for fiduciary advice, coupled with the availability of robust RIA platforms and systems that simplify the move to independence, is fueling industry growth. Meanwhile, new types of competition, the cost of doing business, and difficulty differentiating among fellow RIAs pose potential barriers to industry growth.
- **Possible downturn – or worse:** Roughly two-thirds of advisors, and more than three-quarters of clients, are concerned about the possibility of a prolonged drop in the value of major market indexes. Meanwhile, about half of advisors, and nearly two-thirds of clients, are concerned about the possibility of an extended economic contraction.
- **Still pursuing growth:** Despite advisors' trepidation about a potential market drop, 94 percent of firms expect to grow net new assets over the next five years, with an average expected growth rate of 41 percent. Advisors say that the majority of this growth will come from new clients and increased share of wallet.
- **Recession-proofing the business:** Most advisors are taking steps to prepare their firms for a potential downturn or recession. Specifically, they are streamlining operations, updating technology, and increasing sales and marketing efforts.
- **Technology is top of mind:** Nearly all firms plan to invest in existing and new technology this year (93 percent and 98 percent respectively), viewing it as essential for building scale, reducing manual work, and allowing employees to focus on high-value work. Smaller firms in particular show a preference for technology that provides greater security.

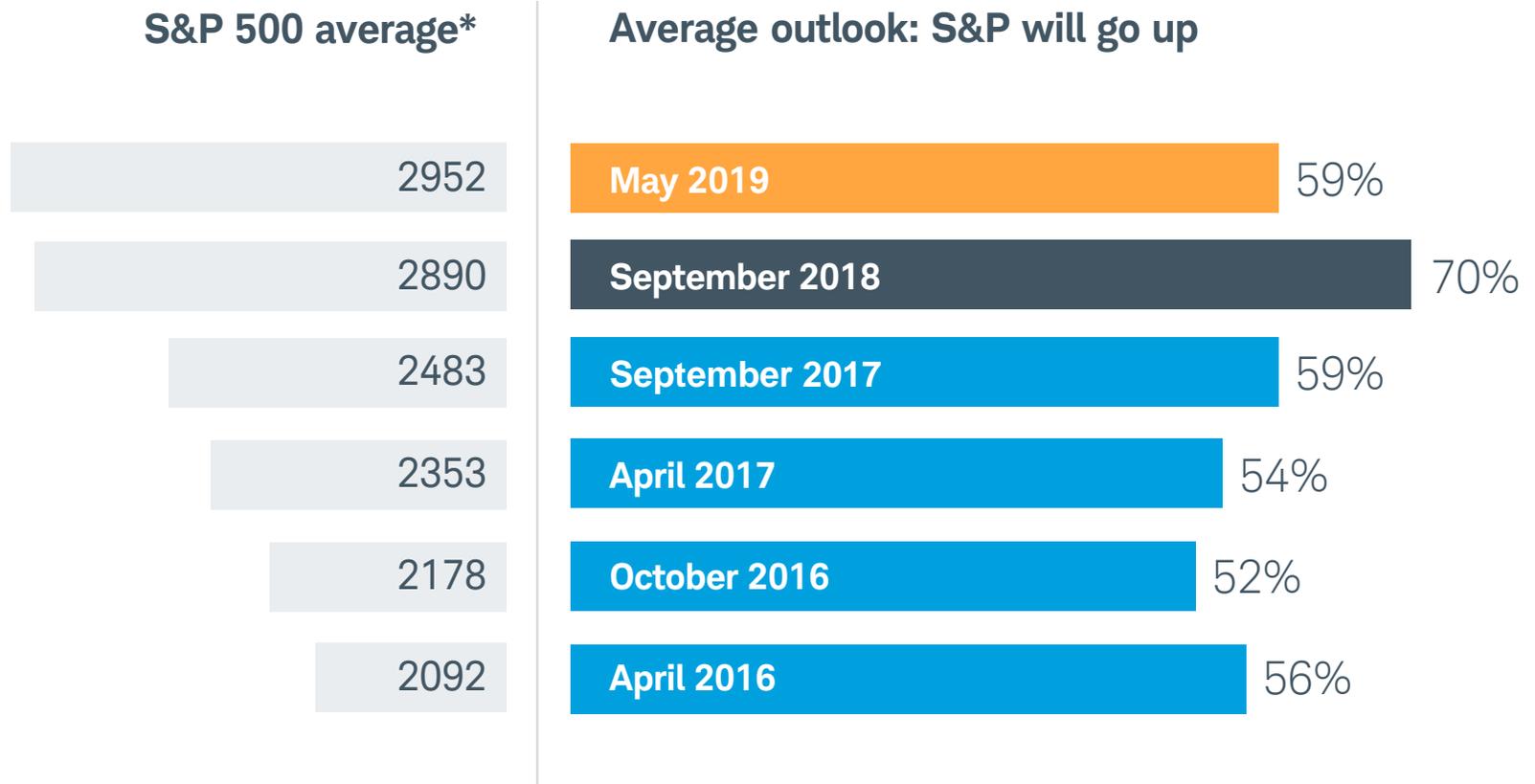
“With the prospect of a downturn looming, advisors remain **laser-focused on their clients**, while they continue building scale and driving efficiency within their firms. **Growth is a non-negotiable** for many advisors, and their goal is to thrive no matter what the markets may bring.”

Bernie Clark,
Head of Schwab Advisor
Services

Market and investing outlook

Market & investing outlook:

Advisor optimism about market performance has waned since last year

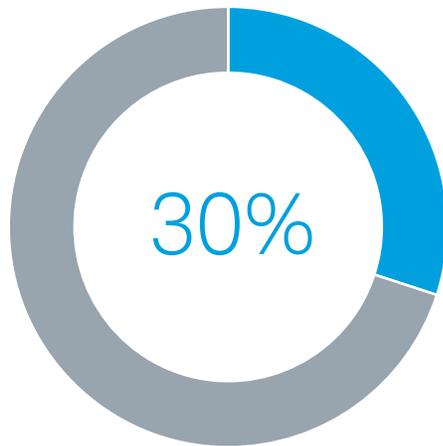


Q1. Which of the following best describes what you think will happen to the S&P 500 in the next six months? (Base: Apr '16=930; Oct '16=967; Apr '17=912; Sept '17=946; Sept '18=783; Current wave=924)

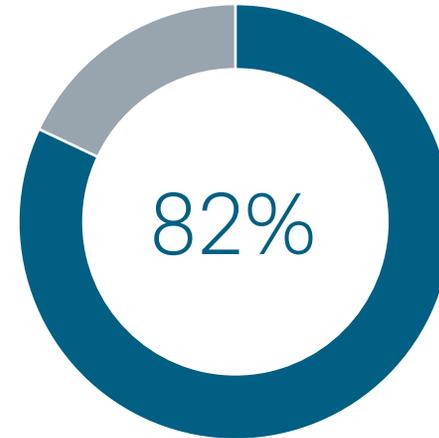
*S&P 500: Average daily opening values per survey fielding period

Market & investing outlook: investment goals

Nearly a third of advisors face challenges reaching clients' goals, as clients continue to seek reassurance.



**of advisors say reaching client goals
in the current environment will be
difficult**



**of advisors have had to reassure
some portion of their client base
about achieving investment goals in
the past six months**

Q2. In the past six months, what percent of your clients have you needed to reassure that they will achieve their investment goals?

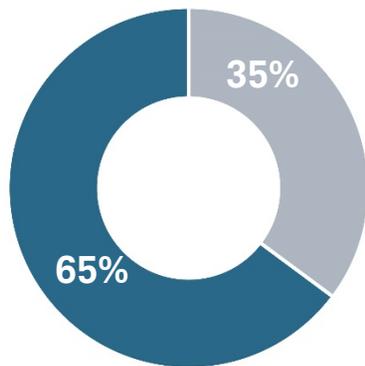
Q3. Which of the following best describes how easy or difficult you think it will be to achieve your clients' investment goals in the current market environment?

(Base: Total Advisors; Current wave = 924)

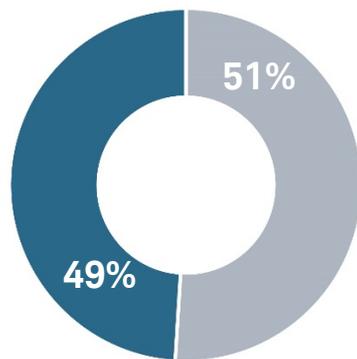
Market & investing outlook: investment goals

Advisors and clients alike are concerned about a market drop

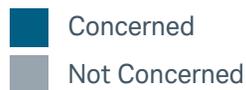
Advisors



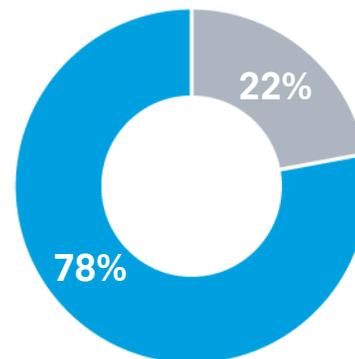
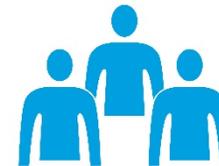
Market Downturn



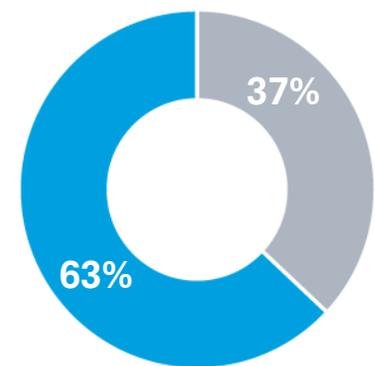
Recession



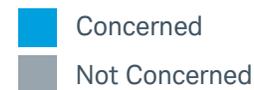
Clients



Market Downturn



Recession



Q4. How concerned are **your clients**, if at all, about the possibility of a **market downturn** (a prolonged drop in value of major market indexes)?

Q5. How concerned are **you**, if at all, about the possibility of a **market downturn** (a prolonged drop in value of major market indexes)?

Q6. How concerned are **your clients**, if at all, about the possibility of a **recession** (an extended period of economic contraction)?

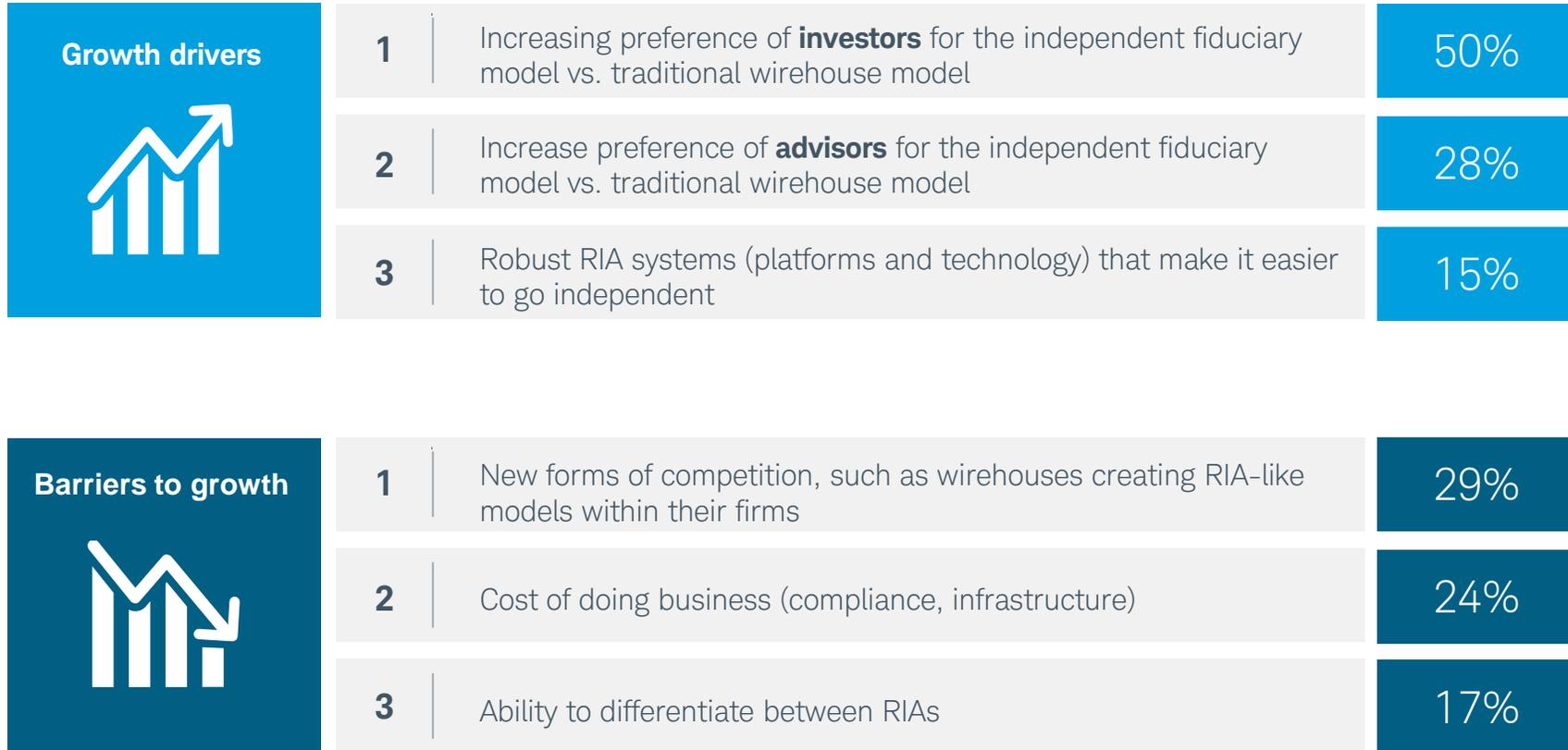
Q7. How concerned are **you**, if at all, about the possibility of a **recession** (an extended period of economic contraction)?

(Base: Total Advisors; Current wave = 924)

Industry and business outlook

Industry outlook: growth drivers & barriers

Preference for fiduciary advice powers industry growth, while new competitors pose potential challenges



Q9. What factors do you think will drive growth for the RIA industry, beyond potential market-related growth?

Q10. What will be the biggest barrier to growth for the RIA industry in the next five years, beyond a potential market downturn?

(Base: Total Advisors; Current wave = 924)

Business outlook

Firms have bullish growth projections for the next five years



Firms that expect growth

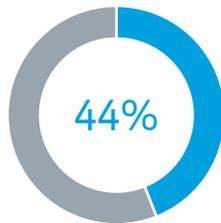
94%



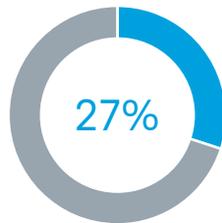
Average expected growth

41%

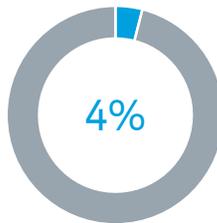
Percent of advisors expecting growth



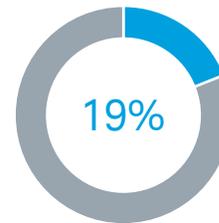
1-25%
growth rate



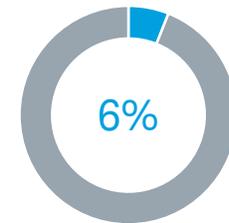
26-50%
growth rate



51-75%
growth rate



76-100%
growth rate



I do not expect to
add any net new assets

Q11. How much do you expect **your firm** to grow in the next five years in terms of net new assets?

(Base: Total Advisors; Current wave = 924)

Business outlook

Nearly a quarter of small firms expect outside growth over the next five years

Percent expecting 76 percent growth or more



Small firms
\$500M or less

21%



Large firms
More than \$500M

14%



Principals

22%



Non-principals

13%

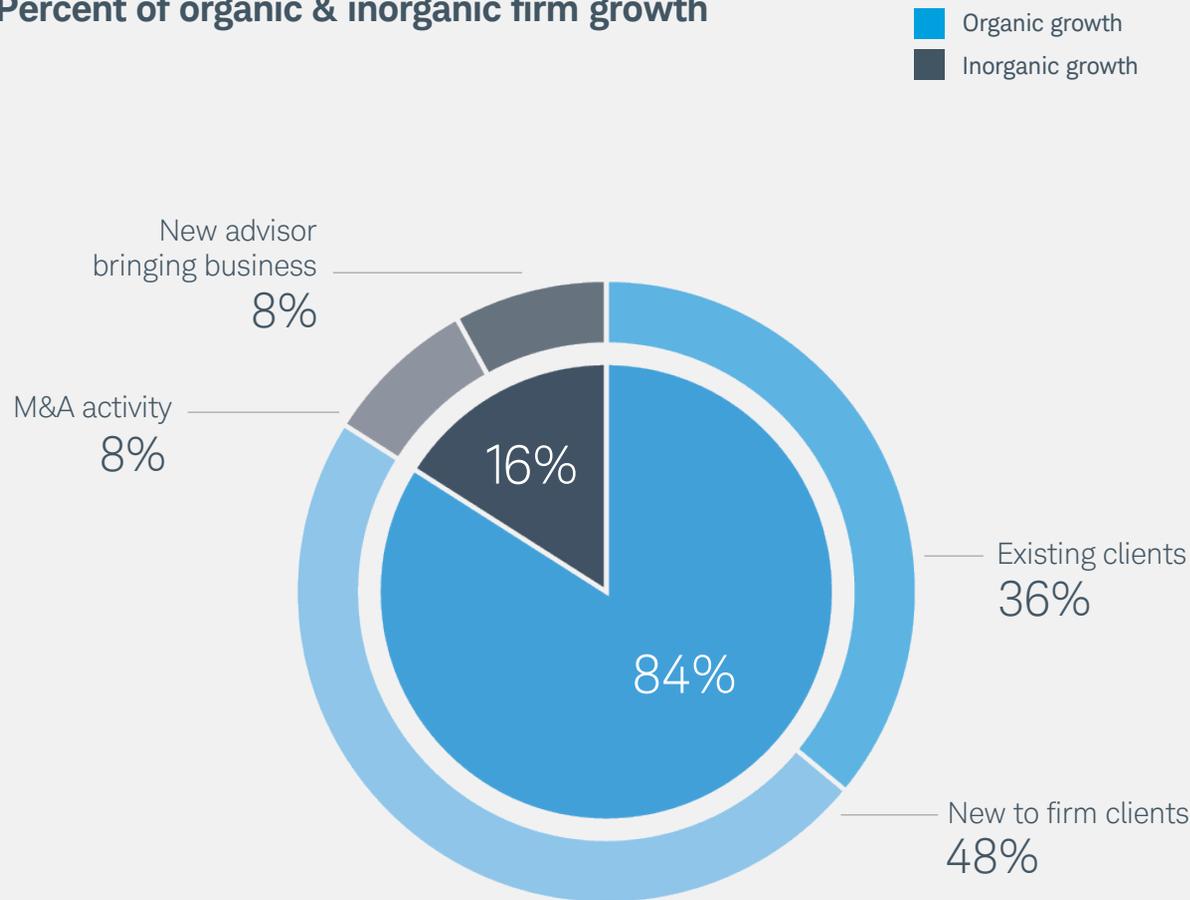
Q11. How much do you expect **your firm** to grow in the next five years in terms of net new assets?

(Base: Total Advisors; Current wave = 924; Firm AUM \$500 or below = 603; Firm AUM over \$500M = 278; Principal = 576; Non-principal = 348)

Business outlook

New-to-firm clients and existing clients drive firm growth

Percent of organic & inorganic firm growth



Who are advisors' new clients?

64%

Boomers

30%

Gen X

Q12. Thinking about the growth of your firm over the next five years 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)?

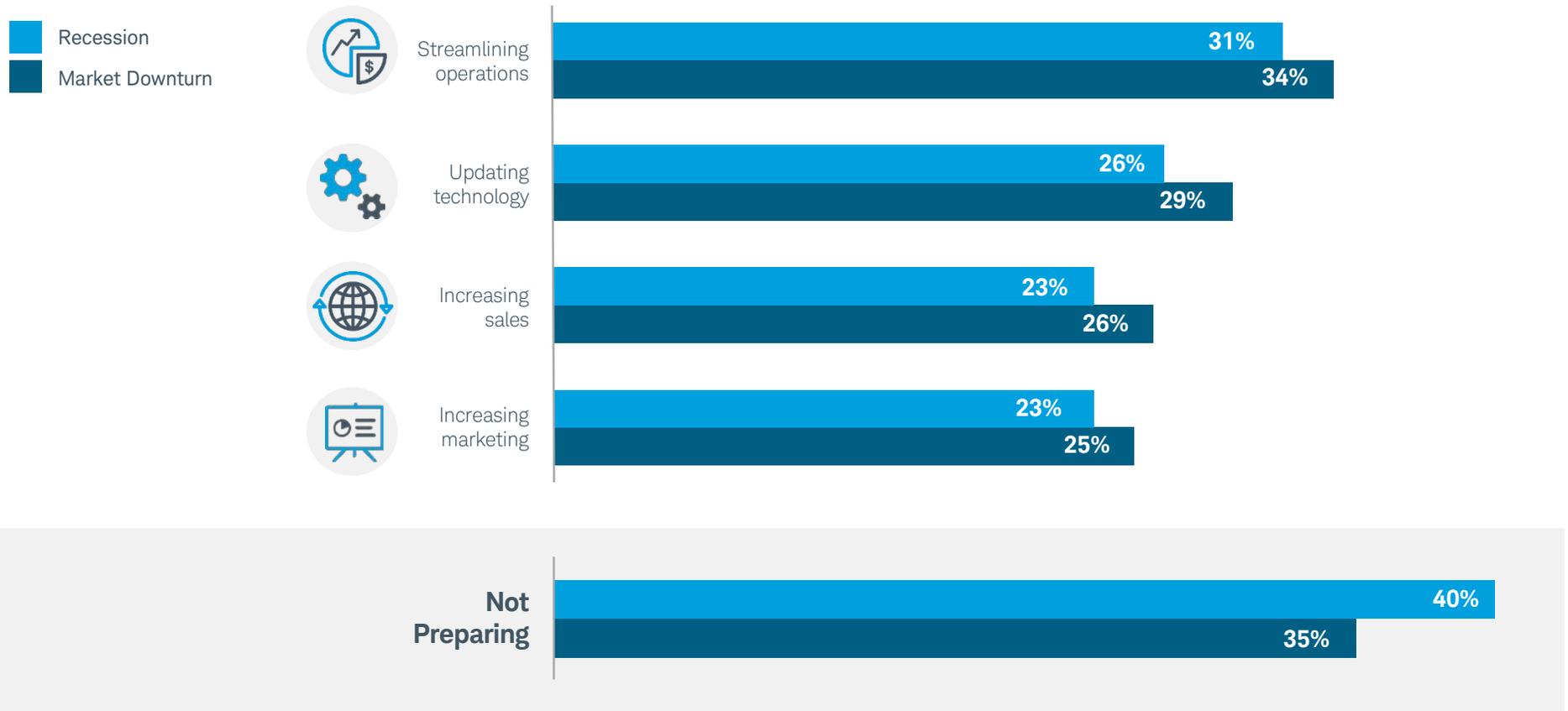
Q13. Which category best represents most of your new-to-firm clients?

(Base: Total Advisors; Current wave = 924)

Business outlook

Firms are preparing to weather weaker markets

Business preparations for possibility of...



Q15. What are you doing to prepare your business for the possibility of a recession and/or market downturn, if anything?

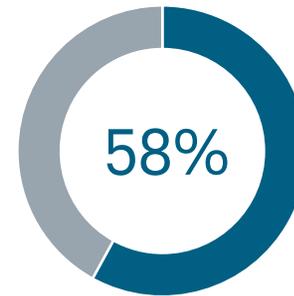
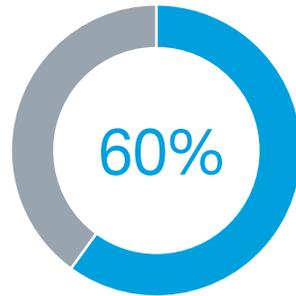
(Base: Total Advisors; Current wave = 924)

Focus on: technology

Technology

A majority of firms are focused on technology implementation

Implemented
new technology
in **2018**



Will be
implementing
new technology
in **2019**

Larger firms are more likely to implement new technology



Small firms
\$500M or less

56%

Implemented new technology in **2018**



Large firms
More than \$500M

68%



Small firms
\$500M or less

53%

Will be implementing new technology in **2019**



Large firms
More than \$500M

70%

Q17. Did you implement any new technology in 2018?

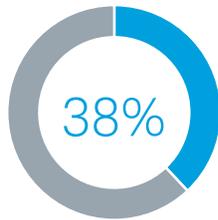
Q18. Are you implementing any new technology in 2019?

(Base: Total Advisors; Current wave = 924 – Firm AUM \$500 or below = 603; Firm AUM over \$500M = 278)

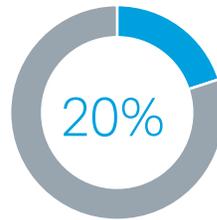
Technology

Firms invest in technology to serve more clients, reduce manual work, and focus employees on value-added tasks

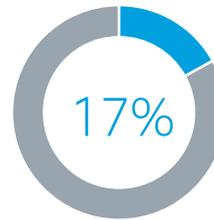
Goal of Bringing on New Technology



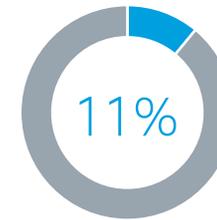
Scale to serve more clients



Reduce manual work



Move current employees to higher value work



Security

Focus on firm size

Use technology with the goal of moving current employees to higher value work



Small firms
\$500M or less

13%



Large firms
Over \$500M

24%

Use technology to focus on security



Small firms
\$500M or less

14%



Large firms
Over \$500M

7%

Q20. What will be the primary goal of bringing on new technology this year?

(Base: Advisors implementing new technology in 2019 = 533 – Firm AUM \$500 or below = 319; Firm AUM over \$500M = 194)

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 May 2 to May 18, 2019.
-

- 924 independent investment advisors who custody assets with Schwab.
- Participation is voluntary, participants are not incentivized, and the typical (median) survey length was eleven minutes.

Firmographics

Base: Total Advisors Responding

Advisors Responding	Base	Advisors Responding	Base
Average Client Age by Range	(n=924)	Founding Principal (among Principals)	(n=576)
Under 50 years old	4%	Yes	79%
50 to 54 years old	9%	Number of Employees at Firm	(n=924)
55 to 59 years old	20%	1 to 5	45%
60 to 64 years old	29%	6 to 15	27%
65 or older	31%	16 to 50	13%
Prefer not to say	7%	51 or more	6%
MEAN	62 yrs old	MEAN	33
MEDIAN	62 yrs old	MEDIAN	6
Age of Advisor Responding	(n=924)	Assets Under Management at Firm (AUM)	(n=924)
Under 35 years old	8%	Less than \$25M	9%
35 to 44 years old	12%	\$25M to \$100M	22%
45 to 54 years old	26%	\$101M to \$250M	21%
55 to 64 years old	32%	\$251M to \$500M	13%
65 and older	18%	More than \$500M	30%
Prefer not to say	4%	Prefer not to answer	5%
MEAN	54 yrs old	MEAN	\$409.9M
MEDIAN	57 yrs old	MEDIAN	\$175.5M
Number of Years Worked for Independent Advisory Firm	(n=924)	TOTAL AUM REPRESENTED	\$378.7B
5 years or less	20%	Number of Clients Per Firm	(n=924)
6 to 10 years	15%	1 to 50	13%
11 to 15 years	16%	51 to 100	16%
More than 15 years	48%	101 to 250	24%
Prefer not to say	1%	251 or more	32%
MEAN	12 yrs	MEAN	720
Primary Role at Firm	(n=924)	MEDIAN	190
Principal	62%	Gender	(n=924)
Portfolio Manager	13%	Male	75%
Operations staff	10%	Female	25%
Other	15%		

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