

Schwab Advisor Services

Independent Advisor Outlook Study

November 2019

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Foreword

Each year for the past 12 years, Schwab Advisor Services has sought the perspective of independent advisors in a continuing effort to better understand the current and evolving state of the industry. Through the *Independent Advisor Outlook Study (IAOS)*, Schwab asks advisors for their opinion on numerous topics – the outlook for their firms, the state of mind of their investor clients, perspectives on the investment landscape, and numerous other issues important to them and the industry.

Results from the current study indicate advisors are **confident in their expectations for continued industry and business growth**.

According to these results, the leading factor for driving this growth is **overwhelmingly the preference by investors for the independent model** vs. other models, and this preference stands behind expectations of, on average, 20% net new asset growth in the next year.

While they are bullish about their firm prospects, **advisors are also cognizant of the potential for a recession** and the challenges with the respect to helping their clients meet their financial goals in the current market environment.

Meanwhile, advisors are managing change within their firms on multiple fronts, from the **implementation of new technology and the evolving needs of new generations of investors**, to increased levels of mobility and the geographic dispersion of both clients and staff.

“The independent advice industry remains vibrant and continues to grow. Yet, continued flow of new assets to the independent model is only one measure of that growth.

We also see many other important facets of this industry fueling growth – new ways in which advisors are leading their firms, thinking differently about how they provide value to clients, adopting new technologies that provide scale and security, and evolving client relationships to span multiple generations.

The collective growth along all these fronts creates a powerful force for continued success of the model while benefiting advisors and their clients alike.

*Bernie Clark
Executive Vice President and Head
of Schwab Advisor Services*

Industry and firm outlook

Industry outlook:

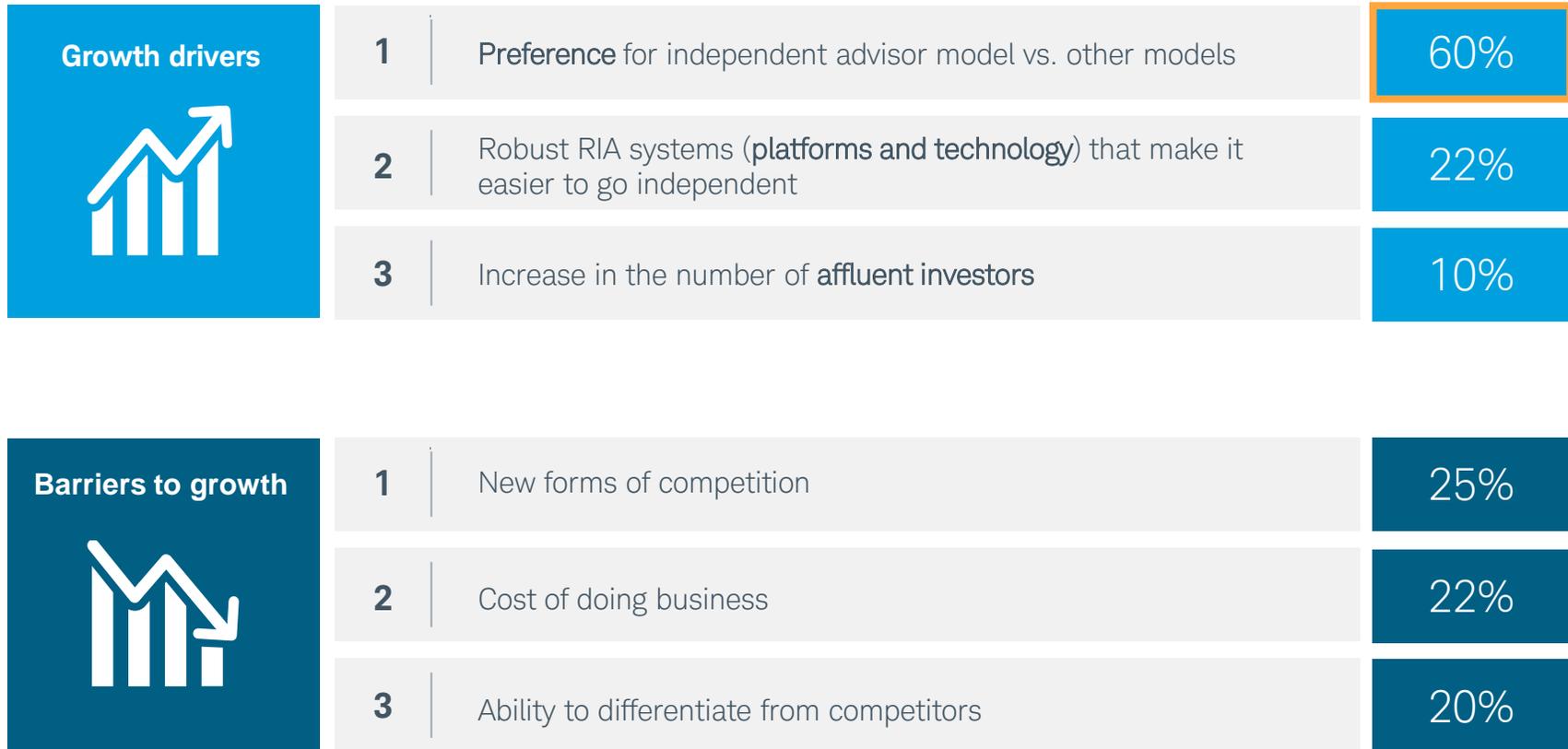
Advisors are bullish about the industry's prospects for continued growth



Q5. Which statement best describes your opinion on the state of the RIA industry?
(Base: Total Advisors; Current wave =942)

Industry outlook:

Preference for independent model will drive industry growth



Q6. What factor do you think will drive the most growth for the RIA industry?
Q7. What will be the biggest barrier to growth for the RIA industry in the next five years?
(Base: Total Advisors; Current wave = 942)

Firm outlook:

Majority of firms expect growth in net new assets over the next year



Firms that expect growth

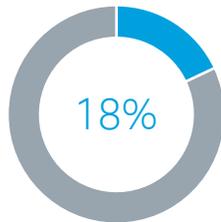
94%



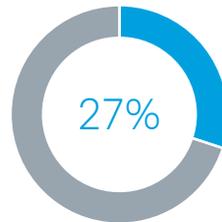
Average expected growth

20%

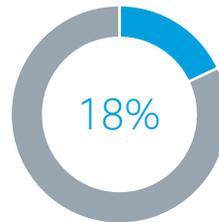
Percent of advisors expecting growth in net new assets



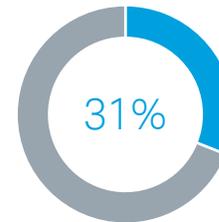
1-5%
growth rate



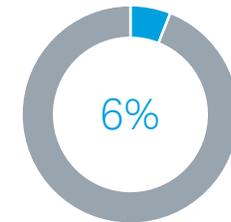
6-10%
growth rate



11-15%
growth rate



16+%
growth rate

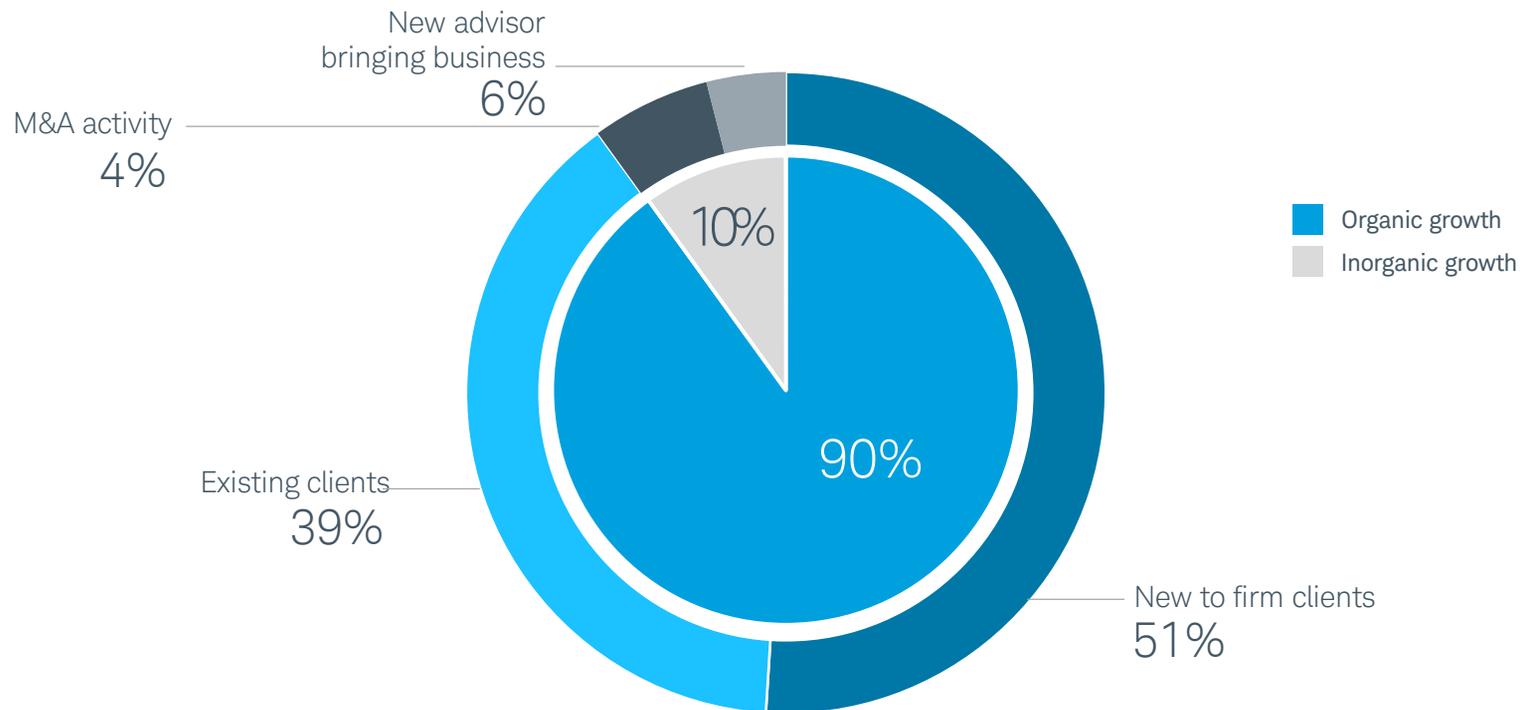


I do not expect to
add any net new assets

Firm outlook:

Organic growth is expected to drive net new asset growth

Percent of organic & inorganic firm growth



Q9. Thinking about the growth of your firm by the end of 2020 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)?
(Base: Total Advisors; Current wave = 942)

Focus on: Technology

Technology outlook:

Technology a leading consideration for investment and change next year

Top changes advisors are considering in 2020



1. Technology

36%



2. Operations/workflow

32%



3. Client acquisition model

24%

21% are not considering making any changes in 2020

Technology outlook:

Client resistance is the main barrier to implementing new technology for client service



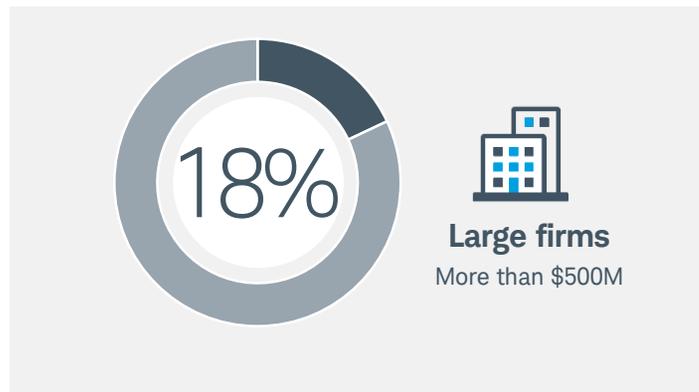
Q14a. Which of the following is the biggest benefits to implementing new technology for client service-related activities? (Base: Total Advisors; Current wave = 942)

Q14. Which of the following is the biggest barrier to implementing new technology for client service-related activities? (Base: Total Advisors answering; Current wave = 592)

Technology outlook:

Staff resistance to technology implementation is more than twice as likely in larger firms versus smaller firms

Staff resistance is a barrier to implementing new technology for client-service



Focus on: Clients

Client outlook:

Lead with family connections and technology to attract Millennial clients

Advisor view: Main differentiator from competitors	1	 People/relationships	48%
	2	 Service model	16%
	3	 Focus on specific client needs	10%

Client view: Top reasons for selecting their advisor's firm

Millennials Ages 23-38	Gen X Ages 39-54	Boomers Ages 55-73
 <ol style="list-style-type: none"> 1. The firm served other family members 	 <ol style="list-style-type: none"> 1. People/relationships 	 <ol style="list-style-type: none"> 1. People/relationships
 <ol style="list-style-type: none"> 2. Technology utilization 	 <ol style="list-style-type: none"> 2. Understanding unique needs 	 <ol style="list-style-type: none"> 2. Understanding unique needs
 <ol style="list-style-type: none"> 3. People/relationships 	 <ol style="list-style-type: none"> 3. Service model 	 <ol style="list-style-type: none"> 3. Service model

Q10. What will be your firm's biggest differentiator from the competition in 2020?
 Q16. Why do you think clients in each of the below generations would be most likely to choose your firm?
 (Base: Total Advisors; Current wave = 942)

Client outlook:

Engaging Millennials and Gen X about investments that are important to them can be key to the client relationship



Important to discuss SRI and ESG investing with clients



Millennials
Ages 23-38

74%



Gen X
Ages 39-54

61%



Boomers
Ages 55-73

40%

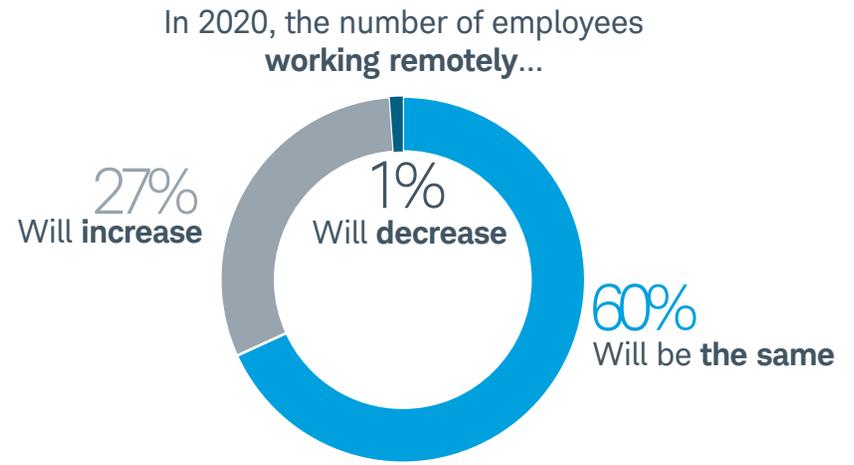
Client outlook:

Increases in client mobility and more flexible work arrangements



60%

of advisors expect the percentage of clients who spend most of their time outside of their geographic area to increase



27%
Will increase

1%
Will decrease

60%
Will be the same

Advisors expect the percentage of clients who spend time away from geographic area **will increase**



Large firms

More than \$500M

67%



Small firms

\$500M or less

58%

Advisors believe the proportion of employees working remotely **will increase**



Large firms

More than \$500M

34%



Small firms

\$500M or less

25%

Q18. In the next five years, do you expect the percentage of your clients who spend most of their time outside your local geographical area to...?

Q21. In 2020, which will be true of your firm's employees?

(Base: Total Advisors; Current wave = 942)

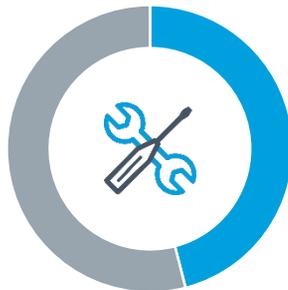
Client outlook:

Advisors are helping more clients with the impact of cybercrime, and they need more resources to provide this help



45%

of advisors find that they are helping more clients who fall prey to cybercrime and online scams than in the past



46%

of advisors feel they have the resources they need to help these clients



Market and investing outlook

Market & investing outlook:

Advisors and their clients anticipate a possible recession

Concerned about possibility of recession



Q1. 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. How concerned are **your clients**, if at all, about the possibility of a **recession** (an extended period of economic contraction)?

Q3. How concerned are **you**, if at all, about the possibility of a **recession** (an extended period of economic contraction)?

(Base: Total Advisors; Current wave = 942)

Market & investing outlook:

More concern about a recession now than six months ago

Concerned about possibility of recession



Q1. 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. How concerned are **your clients**, if at all, about the possibility of a **recession** (an extended period of economic contraction)?

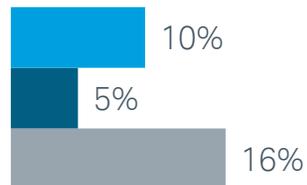
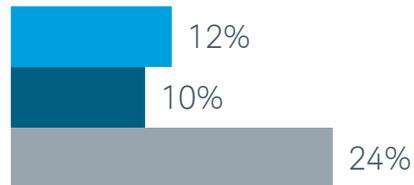
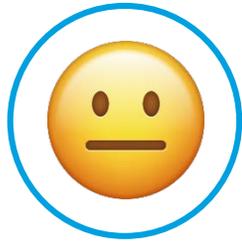
Q3. How concerned are **you**, if at all, about the possibility of a **recession** (an extended period of economic contraction)?

(Base: Total Advisors; Current wave =942)

Market & investing outlook:

Market volatility is generally not causing client anxiety, except among Boomers

Best represents how clients feel about current market volatility



Appendix

Methodology

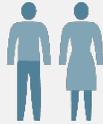
- The Independent Advisor Outlook Study (IAOS) is an online study conducted for Charles Schwab by Logica Research.
 - Logica Research is neither affiliated with, nor employed by, Charles Schwab & Co., Inc.
 - The sampling error is +/- 3 percentage points at the 95% confidence level.
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- The study was conducted from September 9 through September 23, 2019.
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- 942 independent investment advisors who custody assets with Schwab representing a total of \$366B in assets under management (AUM) |
- Participation is voluntary, participants are not incentivized, and the typical (median) survey length was 16 minutes.

Firmographic Snapshot

Advisor gender



Male	Female
78%	22%

Average advisor age



Mean	Median
53 years	57 years

Average independent advisor firm tenure



Mean
12 years

Primary role at firm



Principal
63%*



Portfolio manager
13%



Ops staff
9%



Other
15%

*76% founding

Number of employees at firm



Mean	Median
36	5

Assets under management at firm



Mean	Median
\$389.2M	\$175.5M

Total AUM

\$366.6B

Number of clients per firm



Mean	Median
500	150

Average client age



Mean	Median
61 years	62 years