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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)

- **RIA industry will grow** at a slow and steady rate (55%)
- **RIA industry has not fully matured** and will continue to grow at a higher rate than the market (37%)
- **RIA industry has hit its peak growth** and will now stabilize and remain flat other than market-based fluctuations in assets (7%)
- **RIA industry is on the decline** (2%)
Industry outlook:
Preference for independent model will drive industry growth

<table>
<thead>
<tr>
<th>Growth drivers</th>
<th>1</th>
<th>Preference for independent advisor model vs. other models</th>
<th>60%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2</td>
<td>Robust RIA systems (platforms and technology) that make it easier to go independent</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Increase in the number of affluent investors</td>
<td>10%</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Barriers to growth</th>
<th>1</th>
<th>New forms of competition</th>
<th>25%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2</td>
<td>Cost of doing business</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Ability to differentiate from competitors</td>
<td>20%</td>
</tr>
</tbody>
</table>

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

Q8. How much do you expect your firm to grow by the end of 2020 in terms of net new assets?
(Base: Total Advisors; Current wave = 942.)

- Firms that expect growth: 94%
- Average expected growth: 20%

Percent of advisors expecting growth in net new assets:
- 1–5% growth rate: 18%
- 6–10% growth rate: 27%
- 11–15% growth rate: 18%
- 16%+ growth rate: 31%
- I do not expect to add any net new assets: 6%
Firm outlook:
Organic growth is expected to drive net new asset growth

Percent of organic & inorganic firm growth

- Existing clients: 90%
- New to firm clients: 51%
- M&A activity: 4%
- New advisor bringing business: 6%

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

Benefits of technology:
1. Faster service: 72%
2. Reduction in errors: 58%
3. Allowing employees to focus on more complicated tasks: 51%

Barriers of technology:
1. Client resistance: 42%
2. Cost of implementing new technology relative to the time or money saved: 29%
3. Staff resistance to adopting new technology: 17%

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.
Focus on: Clients
Client outlook:
Lead with family connections and technology to attract Millennial clients

Advisor view:
Main differentiator from competitors

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<tr>
<th></th>
<th>People/relationships</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>48%</td>
</tr>
<tr>
<td>2</td>
<td>Service model</td>
<td>16%</td>
</tr>
<tr>
<td>3</td>
<td>Focus on specific client needs</td>
<td>10%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Generations</th>
<th>Top reasons for selecting their advisor’s firm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Millennials</strong></td>
<td>Ages 23-38</td>
</tr>
<tr>
<td><strong>Gen X</strong></td>
<td>Ages 39-54</td>
</tr>
<tr>
<td><strong>Boomers</strong></td>
<td>Ages 55-73</td>
</tr>
</tbody>
</table>

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

Q15. When talking to clients representing different generations, how important is Socially Responsible Investing (SRI) and/or Environmental, Social, and Governance (ESG) investing?
(Base: Total Advisors; Current wave = 942)

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.

Advisors expect the percentage of clients who spend time away from geographic area will increase:
- Large firms ($500M or less): 58%
- Small firms (More than $500M): 67%

In 2020, the number of employees working remotely will increase:
- Large firms ($500M or less): 27%
- Small firms (More than $500M): 34%

Advisors believe the proportion of employees working remotely will increase:
- Large firms ($500M or less): 25%
- Small firms (More than $500M): 34%

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

Q19. Compared to the past, are you helping more clients who fall prey to cybercrime and online scams?
Q20. Do you have the resources you need to help clients who fall prey to cybercrime and online scams?
(Base: Total Advisors; Current wave = 942)

45% of advisors find that they are helping more clients who fall prey to cybercrime and online scams than in the past

<table>
<thead>
<tr>
<th></th>
<th>Large firms</th>
<th>Small firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than $500M</td>
<td>59%</td>
<td>39%</td>
</tr>
<tr>
<td>$500M or less</td>
<td></td>
<td></td>
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</tbody>
</table>

46% of advisors feel they have the resources they need to help these clients

<table>
<thead>
<tr>
<th></th>
<th>Large firms</th>
<th>Small firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than $500M</td>
<td>56%</td>
<td>43%</td>
</tr>
<tr>
<td>$500M or less</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Market and investing outlook
Market & investing outlook:
Advisors and their clients anticipate a possible 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)?

(40% of advisors say reaching client goals in the current environment will be difficult)

Concerned about possibility of recession

65% Advisors
83% Clients
Market & investing outlook:
More concern about a recession now than six months ago

Concerned about possibility of recession

<table>
<thead>
<tr>
<th></th>
<th>May 2019</th>
<th>Sept. 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisors</td>
<td>49%</td>
<td>65%</td>
</tr>
<tr>
<td>Clients</td>
<td>63%</td>
<td>83%</td>
</tr>
</tbody>
</table>

30% of advisors say reaching client goals in the current environment will be difficult.

40% of clients are concerned about the possibility of a 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

- **Millennials**: 78% (60% in grey)
- **Gen X**: 86% (24% in grey)
- **Boomers**: 60% (12% in grey, 10% in dark blue, 5% in light blue, 16% in light grey)
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.

- The study was conducted from September 9 through September 23, 2019.

- 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

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
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<tbody>
<tr>
<td></td>
<td>78%</td>
<td>22%</td>
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</table>

Average advisor age

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Median</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>53 years</td>
<td>57 years</td>
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</table>

Average independent advisor firm tenure

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Median</th>
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<tbody>
<tr>
<td></td>
<td>12 years</td>
<td></td>
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Primary role at firm

<table>
<thead>
<tr>
<th></th>
<th>Principal</th>
<th>Portfolio manager</th>
<th>Ops staff</th>
<th>Other</th>
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<tbody>
<tr>
<td></td>
<td>63%*</td>
<td>13%</td>
<td>9%</td>
<td>15%</td>
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</table>

Number of employees at firm

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Median</th>
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<tbody>
<tr>
<td></td>
<td>36</td>
<td>5</td>
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Assets under management at firm

<table>
<thead>
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<th></th>
<th>Mean</th>
<th>Median</th>
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<tbody>
<tr>
<td></td>
<td>$389.2M</td>
<td>$175.5M</td>
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Total AUM

$366.6B

Number of clients per firm

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<thead>
<tr>
<th></th>
<th>Mean</th>
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<tbody>
<tr>
<td></td>
<td>500</td>
<td>150</td>
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Average client age

<table>
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<th>Mean</th>
<th>Median</th>
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<tr>
<td></td>
<td>61 years</td>
<td>62 years</td>
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*76% founding