

Spectrum of Advisor Independence Study

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The logo for Charles Schwab, featuring the word "charles" in a lowercase, italicized serif font above the word "SCHWAB" in a bold, uppercase, sans-serif font, all contained within a blue square.

charles
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Introduction

Schwab Advisor Services' Spectrum of Advisor Independence Study surveys 152 US financial advisors that have considered becoming independent registered investment advisors (RIAs).

The data provides insights into the considerations and expectations of these advisors as they evaluate a move to independence.

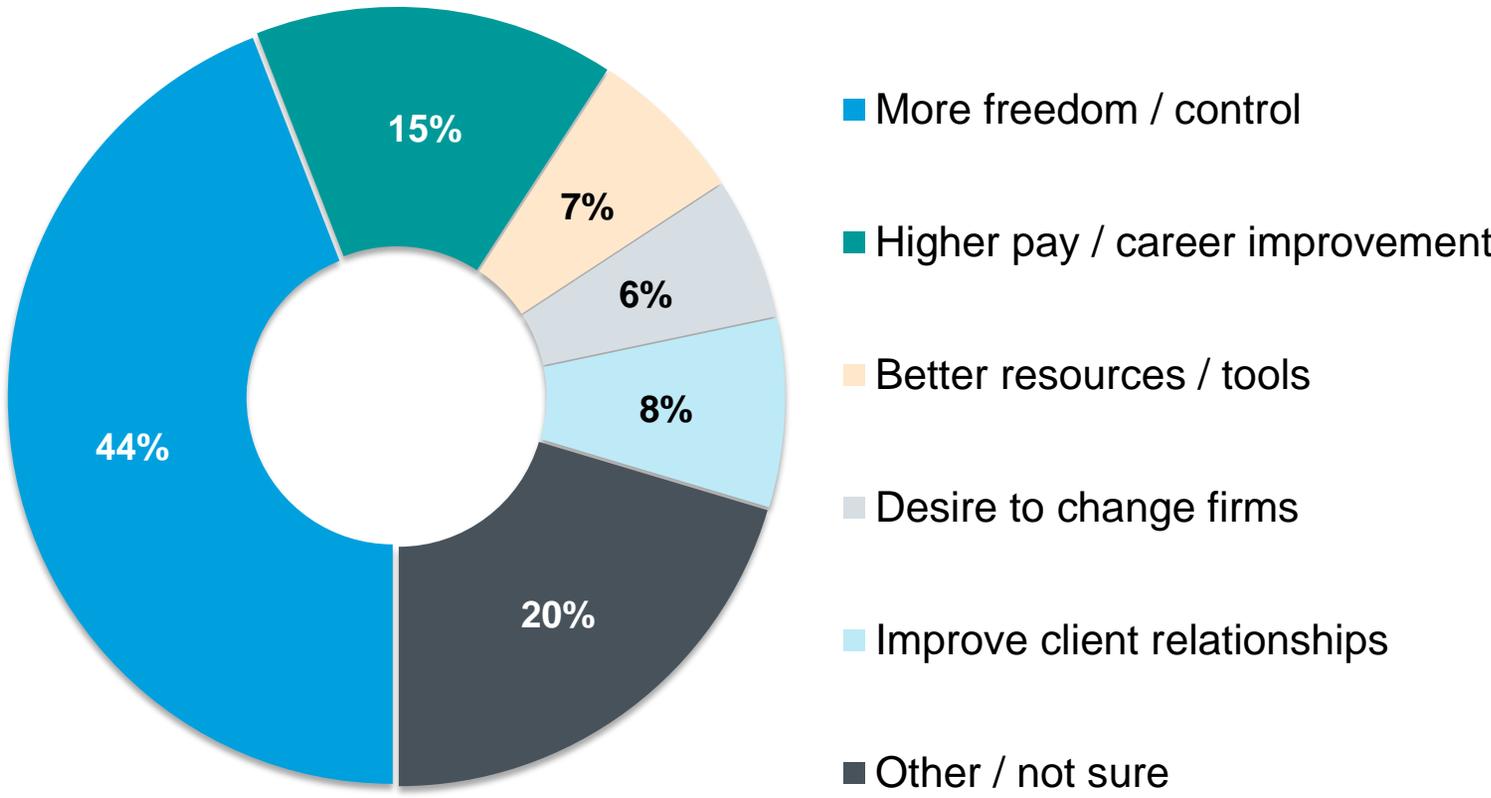
Highlights:

- Income potential and control over client service are the most important reasons advisors consider independence.
- Advisors see many benefits to joining an existing firm or affiliating with a platform and will make the move faster if they are able to find the right fit.
- Ideal partners provide scale, flexibility, autonomy and resources.
- Most advisors expect to receive some form of equity when joining a firm – either immediately or over time.
- Advisors are unsure about how the Broker Protocol will impact the industry, but its impact appears neutral in terms of individual decisions to move to the independent model.

Going independent: Considerations

Move to independence means more freedom and control

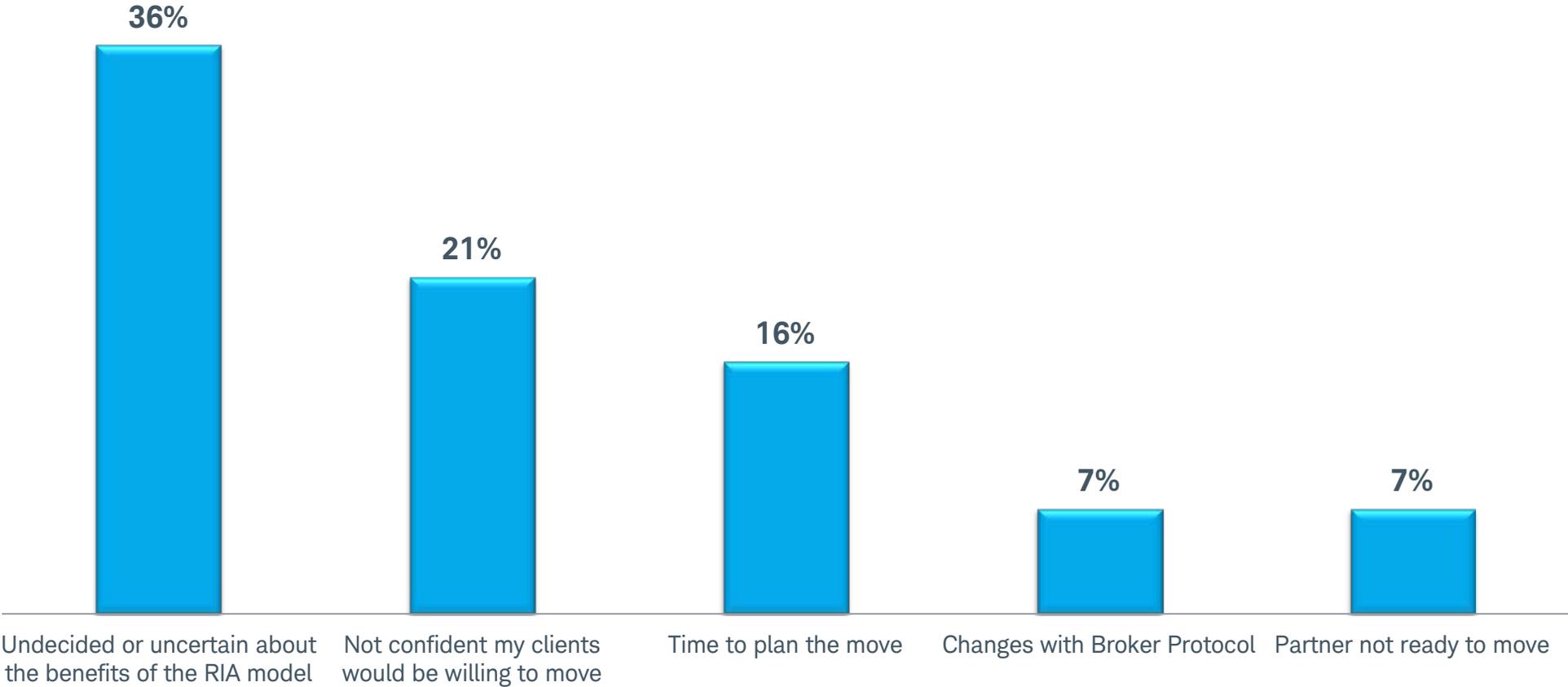
Advisor sentiment about going independent



Q: What would it mean to you personally and/or professionally to be able to join an independent advisory firm?
(n = 152)

Hesitation: Indecision or uncertainty about benefits of the RIA model

Most important reason not to go independent



Q: Which of these is the most important reason why you might not move to an independent advisory firm?
(n = 152)

Majority of advisors are looking for some level of support with operations, marketing and staffing

43%

- Errors and omission insurance
- Back office support
- Marketing and branding
- Office space and infrastructure provided

Full Support



47%

- Some back office support
- Own brand
- Co-location with established firm
- Some shared staff

Medium Support



11%

- Finding and setting up your own space
- Own brand
- Hiring your own staff

Limited Support



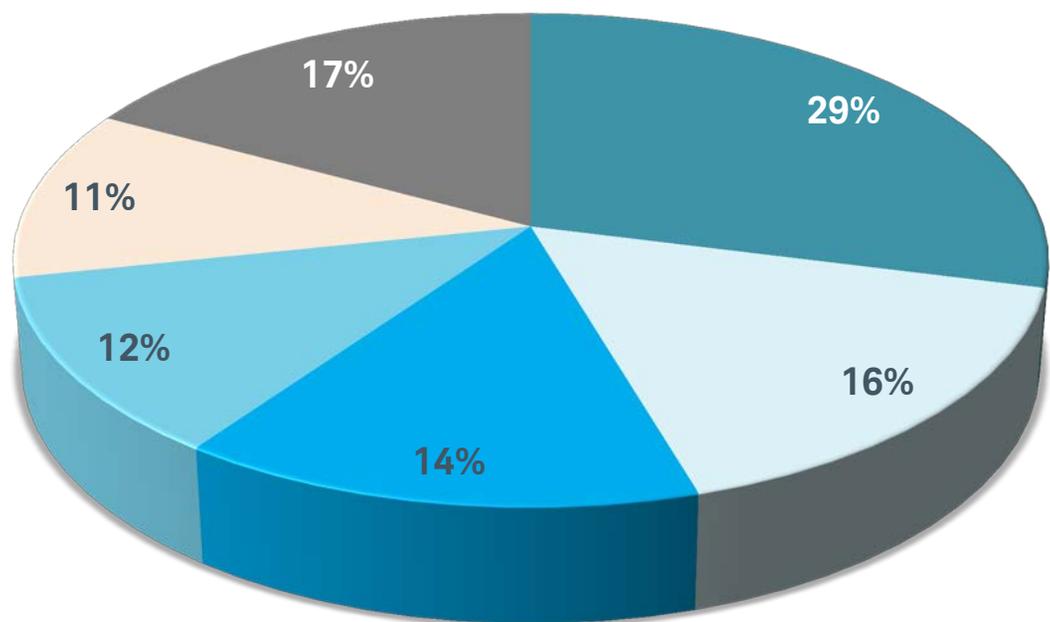
Q: What type of support model is most appealing for you?
(Note: Percentages do not equal exactly 100% due to rounding)

(n = 152)

Joins/platforms: Independent but not alone

Multiple perceived benefits of joining a firm or affiliating with the platform vs. going it alone

Reasons why joining a firm or affiliating with a platform is more appealing than going alone



- Leverage an existing infrastructure
- Ease of transition
- Prioritize serving clients over managing an office
- Lower start-up costs
- Less risky to clients
- All other*

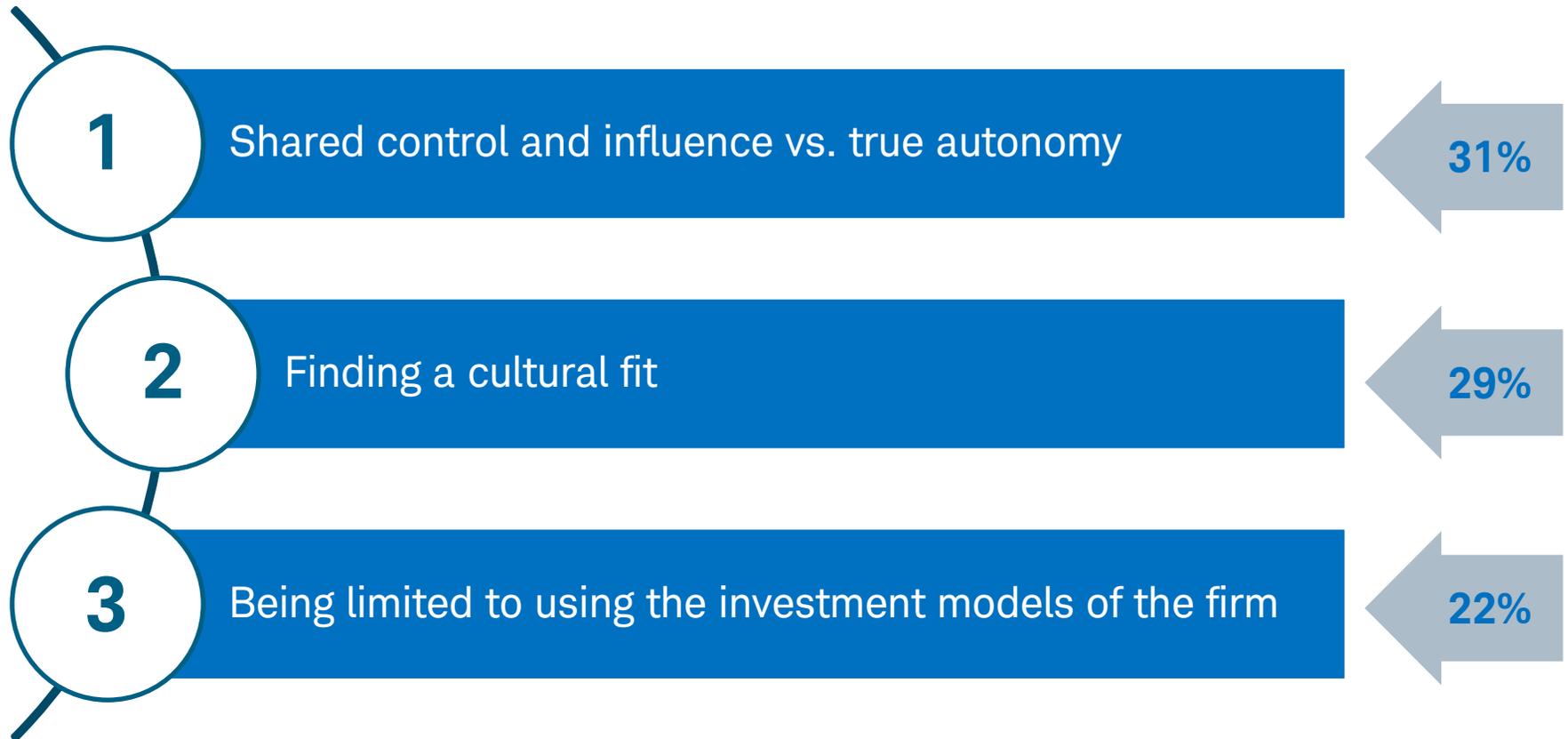
Q: What makes joining a firm or affiliating with a platform provider more appealing than launching your own RIA?

* Note: Includes a combination of "Other" and four other aided choices with low response rates

(n = 152)

Joins have some perceived challenges too

Top three perceived challenges to joining vs. going alone

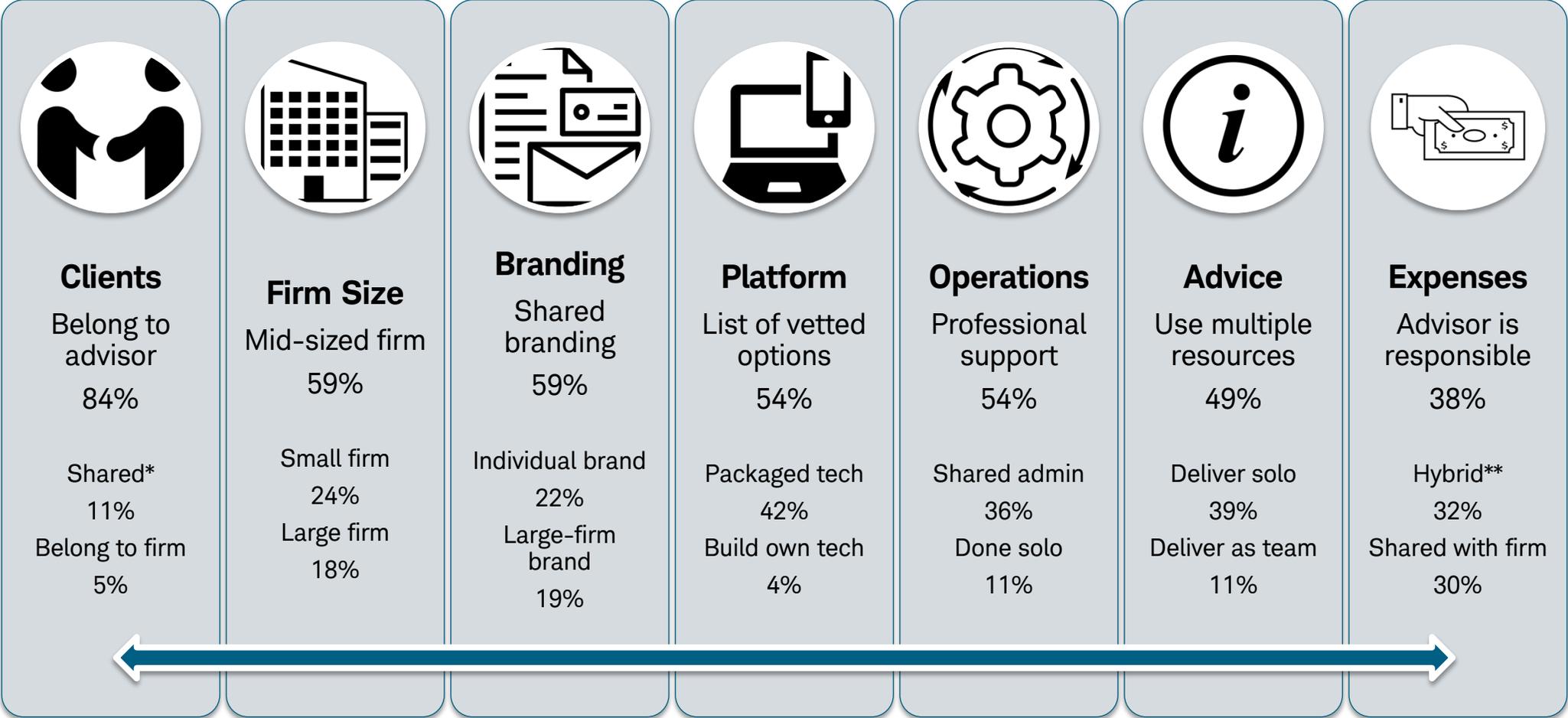


Q: What do you see as the biggest potential challenge of joining an independent investment advisory firm vs. going alone? Select one response.

(n = 152)

Ideal partners provide scale, flexibility, autonomy and resources

Most appealing firm characteristics



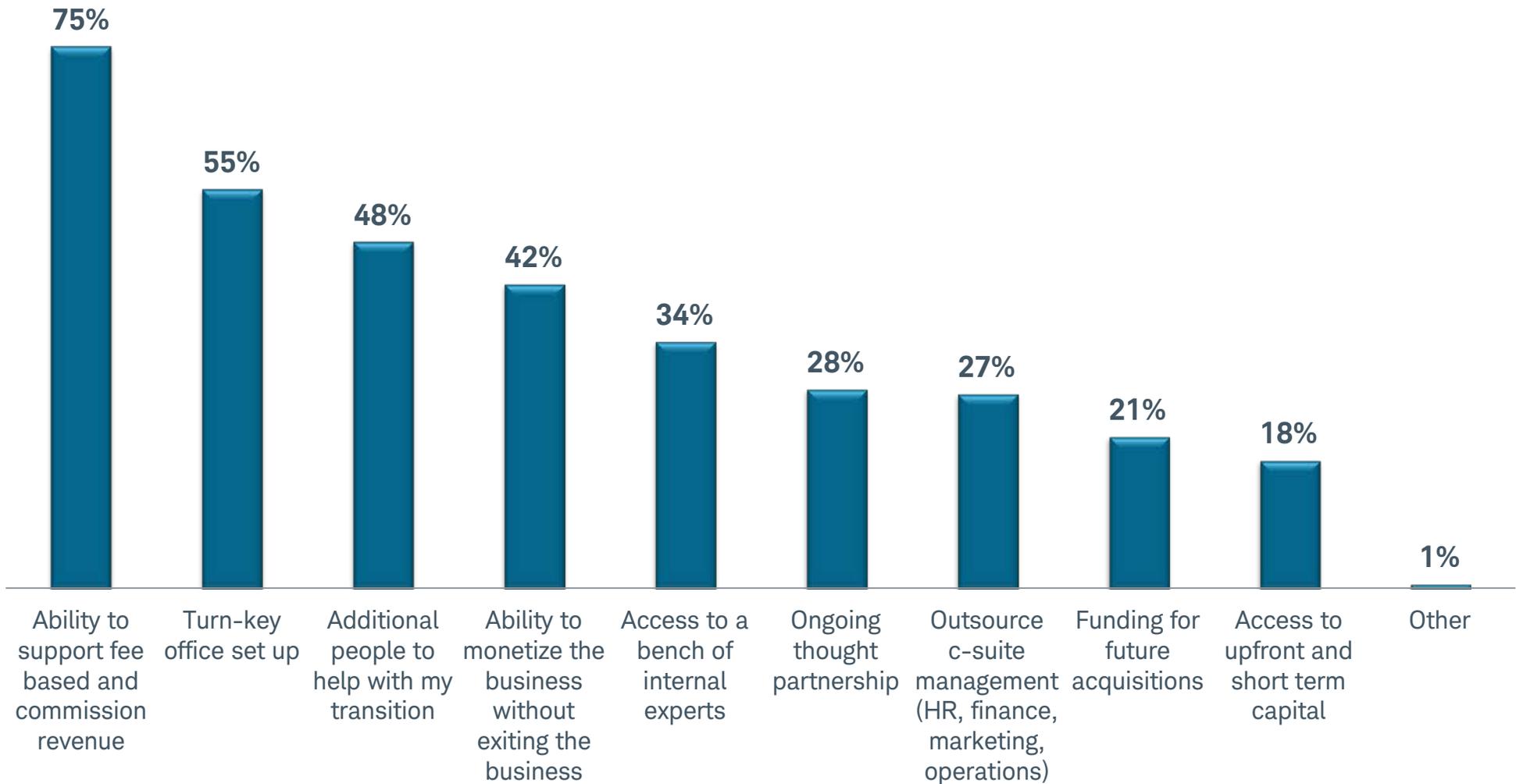
Q: When evaluating firms to join, which options are most appealing when thinking about...

* "Existing clients belong to me/ new clients belong to the firm"
 ** "Firm pays for fixed expenses/I pay for out of pocket expenses like T&E"

(n = 152)

Must-have capability: support for fee *and* commission revenue

Importance of capabilities in selecting new platform/firm



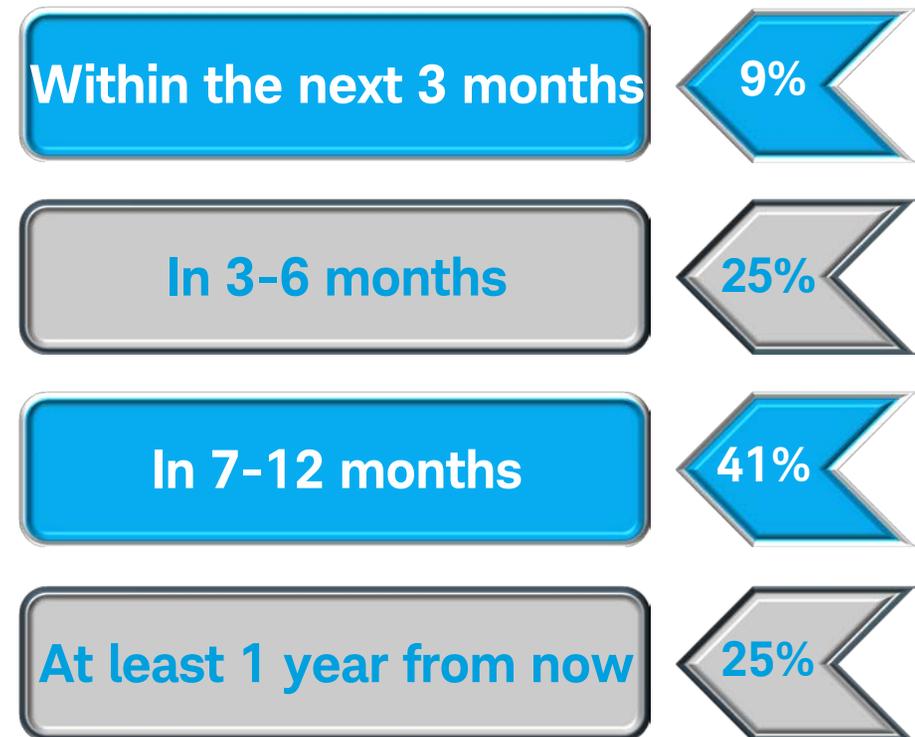
Q: What capabilities are important in selecting a platform provider or joining a firm? Please check all that apply.
(n = 152)

Advisors are willing to commit to independence once they find the “ideal firm”

General time horizon for going independent



Time horizon for going independent at the “ideal firm”

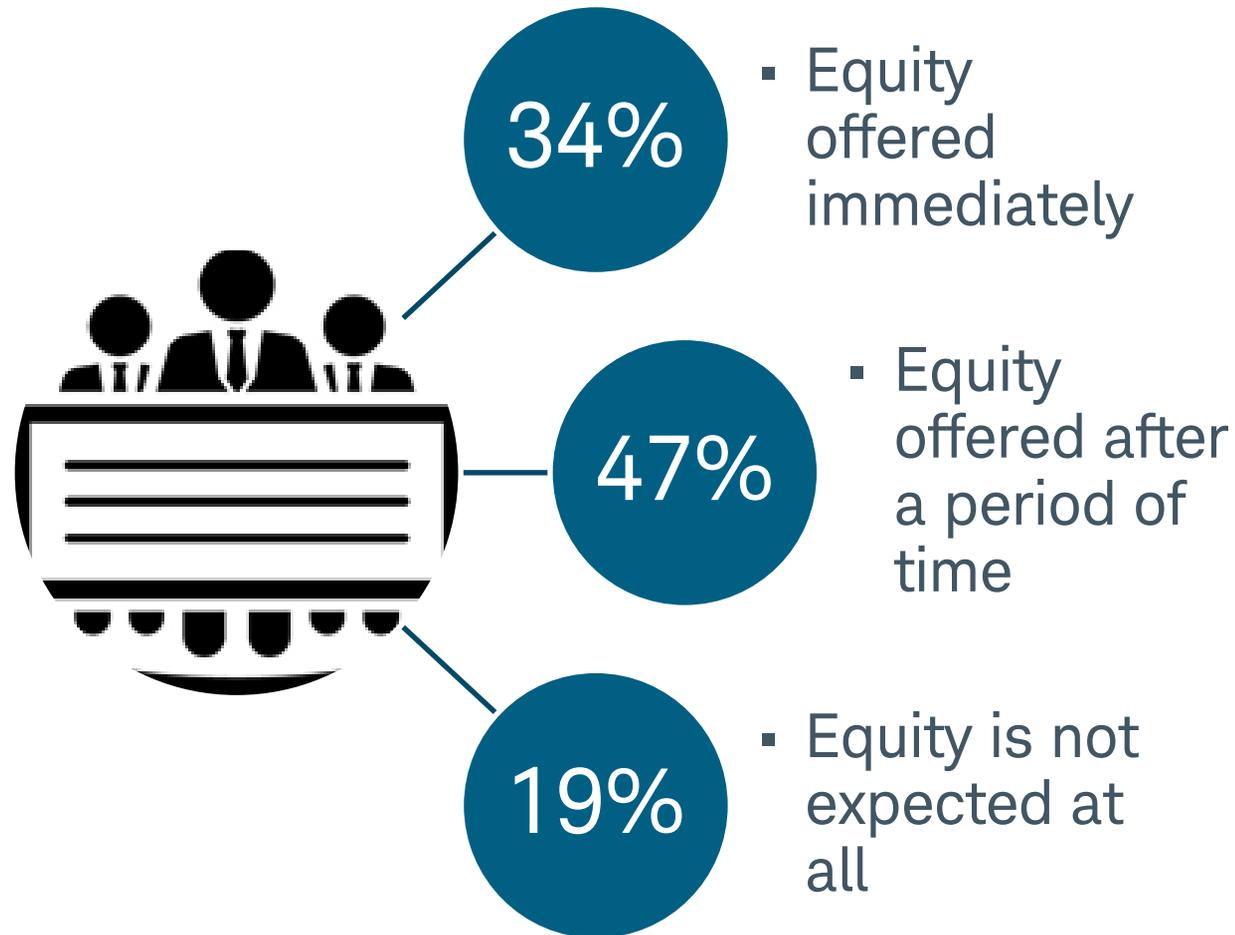


Q: If you decided to go fully independent, how soon would you like to make the transition?
(n = 152)

Q: If you found the ideal firm to join, how soon would you like to make the transition?
(n = 152)

Equity and compensation

Most advisors expect to receive some form of equity when joining a firm



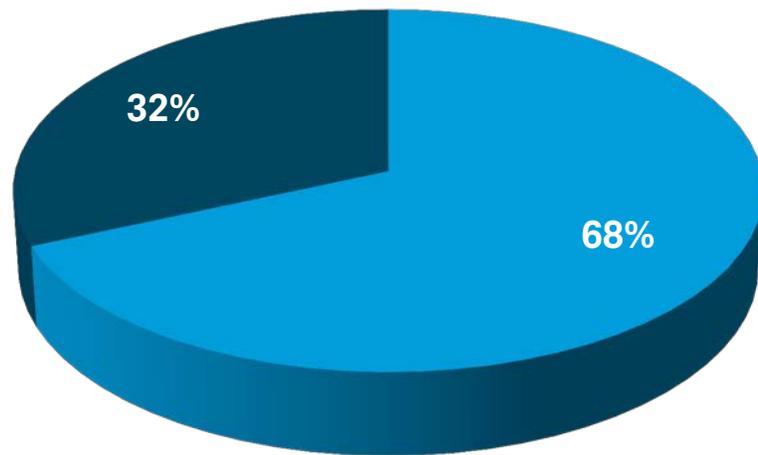
Q: What type of equity structure would you expect when joining an independent investment advisory firm?

(Note: Percentages do not equal exactly 100% due to rounding)

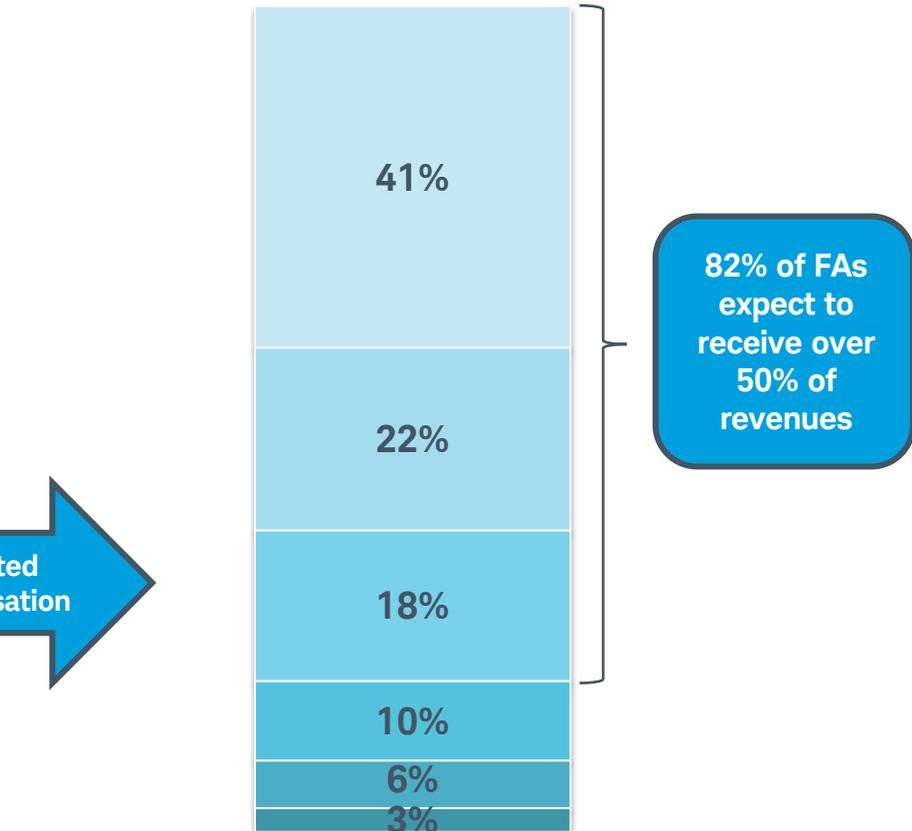
(n = 152)

Compensation structure: Percentage of revenue preferred

Preferred compensation structure



- Percent of revenue
- Salary + incentive compensation



% of revenue expected

- <30%
- 30%-39%
- 40%-49%
- 50%-59%
- 60%-69%
- >70%

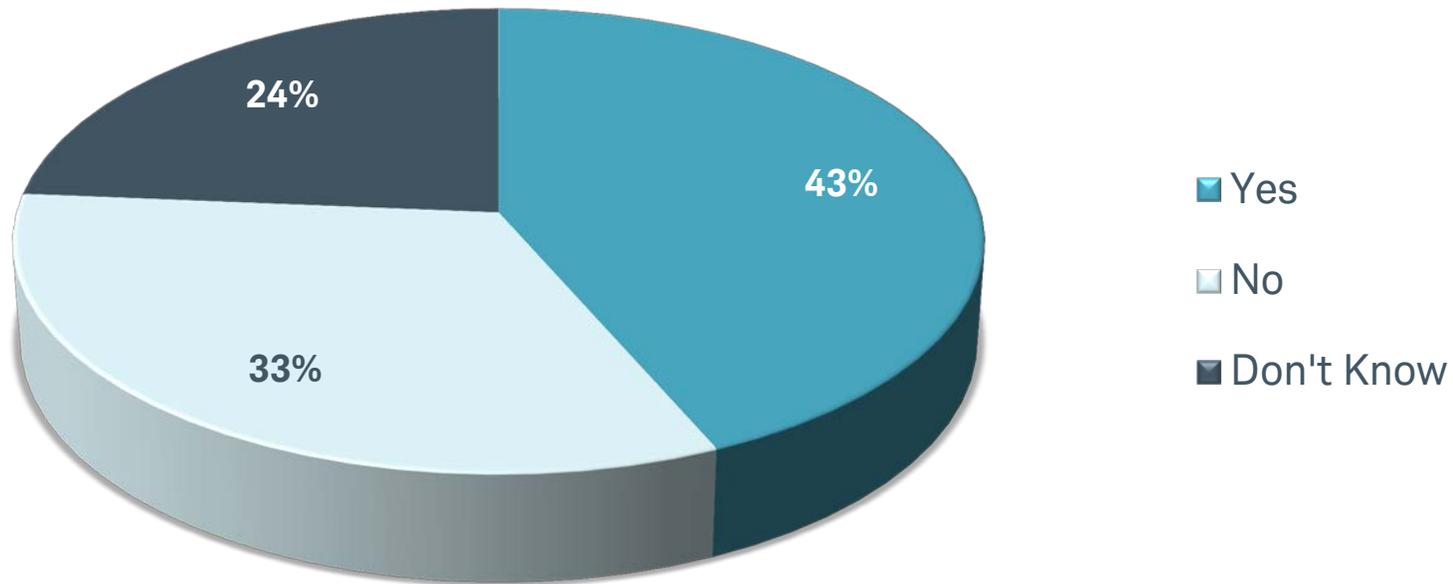
Q: What payout structure would you expect if you were to join a firm?
(n = 152)

Q: What percent of revenue would you expect, net of personal expenses?
(n = 104)

Broker Protocol: Perspectives

Almost half of advisors currently work for firms that are operating under Broker Protocol

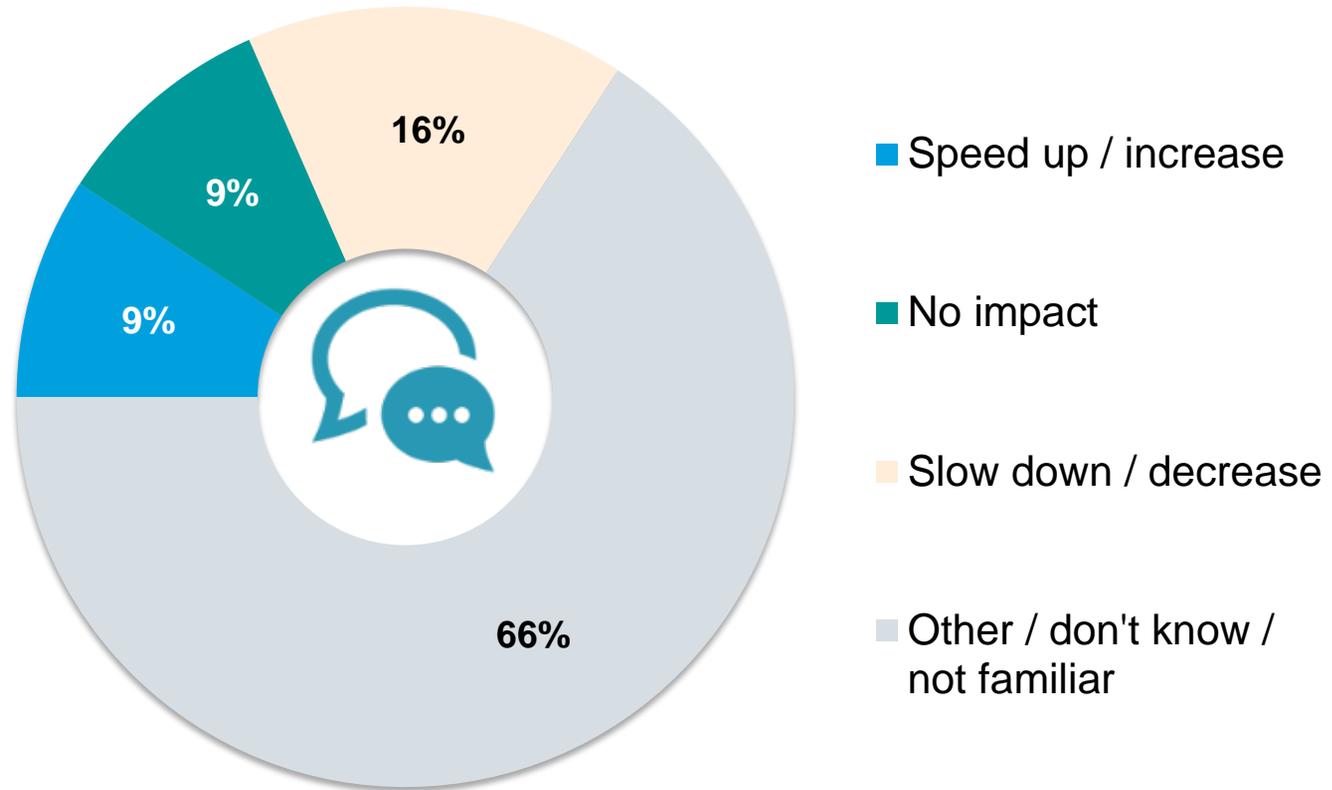
% of existing firms under Broker Protocol



Q: Are you part of a firm that is under Broker Protocol?
(n = 152)

Widespread uncertainty about how Broker Protocol will impact future advisor industry movement

Perceived impact of Broker Protocol on advisor movement

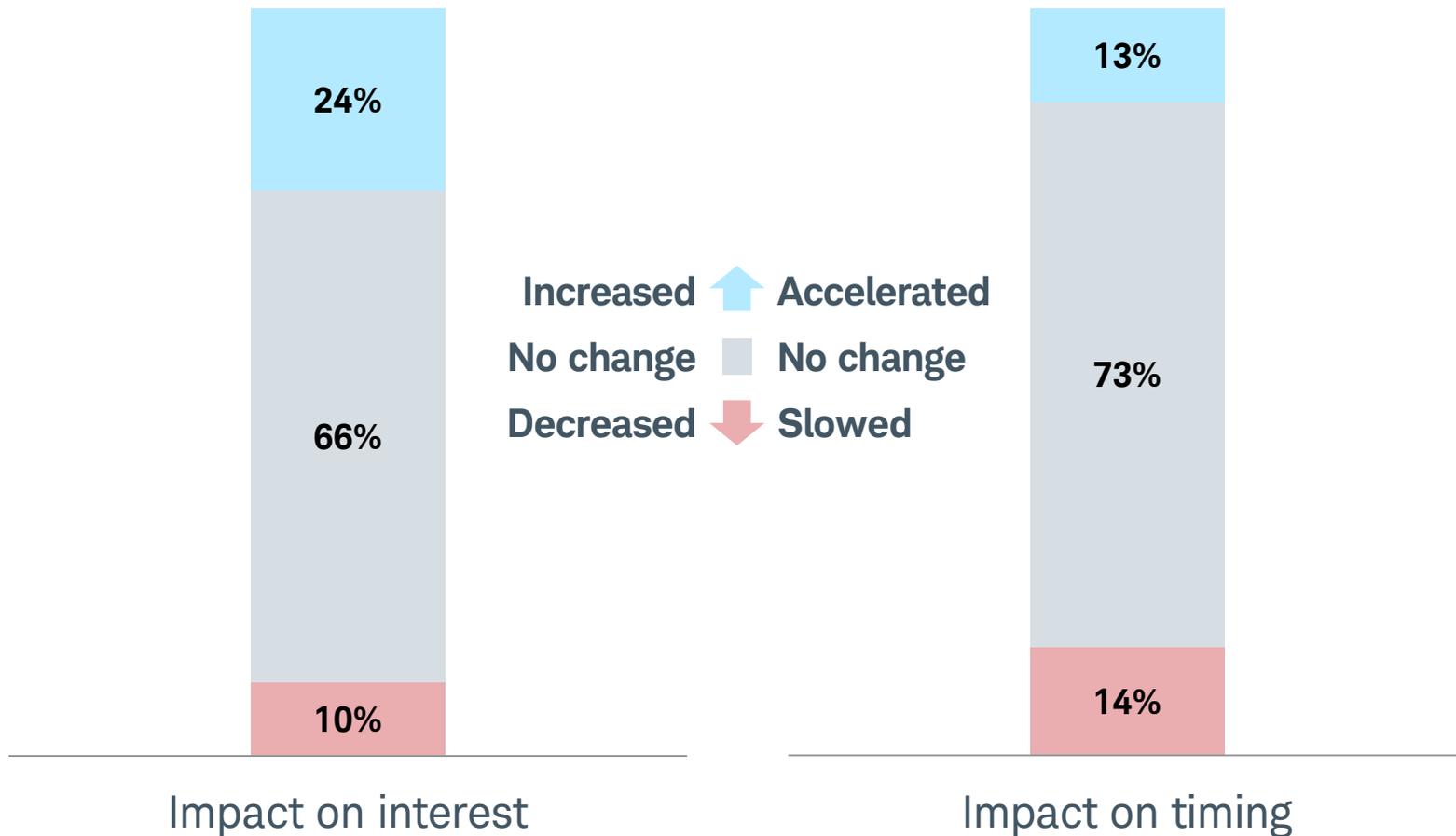


Q: Can you share any additional feedback on how you think Broker Protocol may impact advisor movement?

(Unaided write-in – data is subjectively coded to highlight key themes)

(n = 152)

Broker Protocol has had largely neutral impact on the move to independence



Q: Have the changes to Broker Protocol decreased or increased your interest in going independent?

Q: Have the changes to Broker Protocol accelerated or slowed down the timing of your plans to go independent?

(n = 152)

Appendix

Methodology

- Schwab designed the Spectrum of Advisor Independence Study to capture insights on factors that are top of mind for financial advisors who have considered becoming independent RIAs.
- Fielded from April to May 2018, the study contains self-reported data from 152 qualified US financial advisors that previously indicated consideration for moving to an independent RIA firm.
- Respondents include only wirehouses, regionals, banks, independent and insurance broker-dealers – existing independent or hybrid/dually registered RIAs did not qualify.

Firm demographics

	Total Sample
n=	152
Total amount of assets under management	
Less than \$10M	8%
\$10M to less than \$25M	16%
\$25M to less than \$50M	22%
\$50M to less than \$100M	26%
\$100M to less than \$350M	21%
\$350M to less than \$500M	4%
\$500M to less than \$750M	1%
\$750M to less than \$1B	1%
\$1B+	2%
Percentage of current AUM that is fee-based	
90 - 100%	9%
80 - 89%	10%
70 - 79%	17%
60 - 69%	23%
< 60%	41%