

INDEPENDENT ADVISOR OUTLOOK STUDY WAVE 22

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

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Introduction

The Independent Advisor Outlook Study (IAOS) by Schwab Advisor Services reflects the views of independent advisors on their industry, their businesses and clients, and the general investing environment.

The semiannual study is now in its 11th year. The current iteration, Wave 22, was conducted against the backdrop of a rapidly evolving and maturing industry, alongside a number of external forces of change and debate – from politics and regulation, to technology and culture.

In this wave, Schwab also asked questions about how advisors perceive themselves: whether more as entrepreneurs or as business owners, and how this viewpoint shapes their approach to running and growing their firms.

The following report includes perspectives from Schwab Advisor Services as well as anecdotal commentary from advisors who participated in the study.



Sharing Insights

Follow @Schwab4RIAs for highlights of results as well as Schwab insights on the current wave of the *Independent Advisor Outlook Study*

Executive Summary

Don't call me an entrepreneur. I am a business owner.

“At first glance, independent advisors have many entrepreneurial characteristics: a propensity to go it alone in the face of stiffening competition, the willingness to take a calculated risk, passion for the fiduciary model, and the belief that it is a better way to serve investors.

But look closer and it's clear that independent advisors are ultimately business owners who are focused on building value and sustainability in their firms on behalf of their clients and their employees.

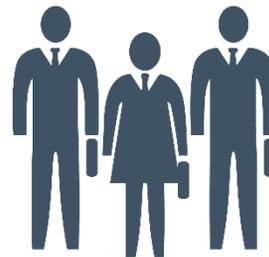
The 'business owner' mindset is a driving force behind the continued strength of the independent model.”

Bernie Clark

Executive vice president and head of Schwab Advisor Services



Schwab asked advisors who own their firms whether they considered themselves **'entrepreneurs'** (prepared to take risks, never satisfied with the status quo, following my passion) or **'business owners'** (emphasis on mitigating risk, value planning and preparation, building a stable business).



73%

Business owner



27%

Entrepreneur

The 'business owner' mindset

Deeply personal commitment



60% of 'business owner' advisors see their business more as a reflection of themselves and a part of their families, communities and personal history vs. being an asset that is being developed and prepared for market

In it for the long-term



90% of 'business owner' advisors do not plan to sell or transition their business until they are ready to retire while one in four 'entrepreneur' advisors are more likely to sell their business and start another one

Focus on clients



Advisors who see themselves as business owners versus entrepreneurs are **1.5 times** more likely to be excited by ideas that solve clients' problems versus ideas that can create significant change in the overall market

Double Dutch: Balancing organic and new-to-firm growth

In the next five years, advisors expect new assets to come from new-to-firm clients and existing clients in near equal measure.



“As the industry matures, firms face the challenge of continuing to serve and build relationships with existing clients, while also investing in the future to create a pipeline of new-to-firm assets for long-term sustainability. It will take a careful balancing act to deliver client service excellence alongside achieving scale and implementing a strategic approach to talent management and technology.”

Bernie Clark
EVP and head of Schwab Advisor Services



Investing in growth

The biggest impact on firm growth is expected to come from investment in:



33%

Sales & client acquisition

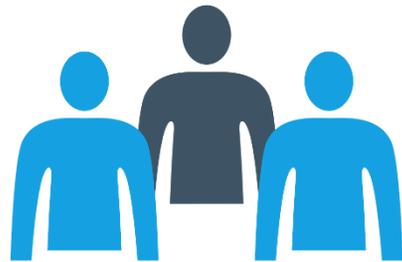


25%

Talent / hiring & development

Passive-aggressive: Indexing can allow for value-added services and help manage client expectations

Two in three advisors see passive investing as an opportunity for their business



Why?

50%

Frees up my time to provide clients with **value-added services** that fall outside the realm of traditional portfolio management

41%

Matching the performance of an index will help my clients have **more reasonable performance expectations**

39%

An opportunity to **engage a wider pool** of potential investor clients

“The shift to passive management has increased the importance of hiring talent with strong communication skills. Our business is complicated, so we need smart people. But the proliferation of index investing means it is now less critical that new hires come in with technical know-how.”

Portfolio management is just one part of how we serve clients. What’s most essential is that we earn clients’ trust and confidence by demonstrating high ethical standards and making complex issues understandable. Good communication and the ability to build a personal connection are critical to achieving this goal.”



Dave Hill
President & Managing Director
Sonata Capital

Soft skills stand out in evolving asset management environment

- 82% of advisors say they are looking for employees with people skills
- Communications, sales and consulting are considered valuable skills for financial advisor candidates

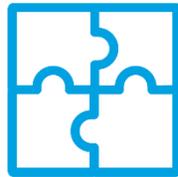
Artificial intelligence tomorrow; integration, digitization, and cloud-based systems today

In the past five years advisors have made the most progress in:



24%

#1: Digitization/
going paperless



19%

#2: Technology
integration

Emerging industries/tech developments advisors are most excited about:



30%

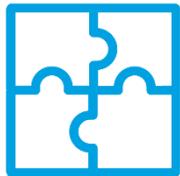
#1: Smart tech/
Internet of Things



26%

#2: Artificial
intelligence

In the past five years advisors have received the biggest benefit from:



28%

#1: Technology
integration



24%

#2: Cloud-based
systems

“When I think about technology, I think about how technology is involved in so many of our processes and procedures at the firm today. Almost every project we take on involves technology in some way, so whenever we bring a new tool into the firm, we educate and train the whole team on it to ensure that these investments achieve our intended goals.”



Susan Chase Korin

Chief Compliance Officer, Chief Operating Officer & Owner
Balasa Dinverno Foltz LLC

The bull's still running, but advisors show caution and clients seek reassurance

41% Two in five advisors expect the S&P 500 Index to decrease or stay the same in the next six months; continuing the overall trend of the past two years, even in the face of continued rising markets

80% The majority of advisors (80%) report at least some of their client base has needed reassurance in the past six months that they will be able to achieve their investment goals

35% One in three advisors believe it will be difficult to help clients achieve their goals in the current investment environment

"In times of uncertainty, we remind clients that portfolios should be built in anticipation of volatility, not in response to it. This philosophy is the guiding light that ensures our clients remain focused on their long-term goals."



Erik Christman
Managing Partner
Oxford Financial Partners

Political uncertainty is causing concern across the board

Politics – both national and global – is the top driver of concern for both advisors and their clients.

For clients, concerns about politics is followed by market volatility; while for advisors, the next most pressing concerns are tax legislation and interest rates.

Investment issues causing 'a lot' of concern



US political environment
Clients: 59%
Advisors: 37%



Geopolitics
Clients: 52%
Advisors: 44%



Market volatility
Clients: 35%
Advisors: 21%



Uncertainty about tax legislation
Advisors: 23%
Clients: 20%



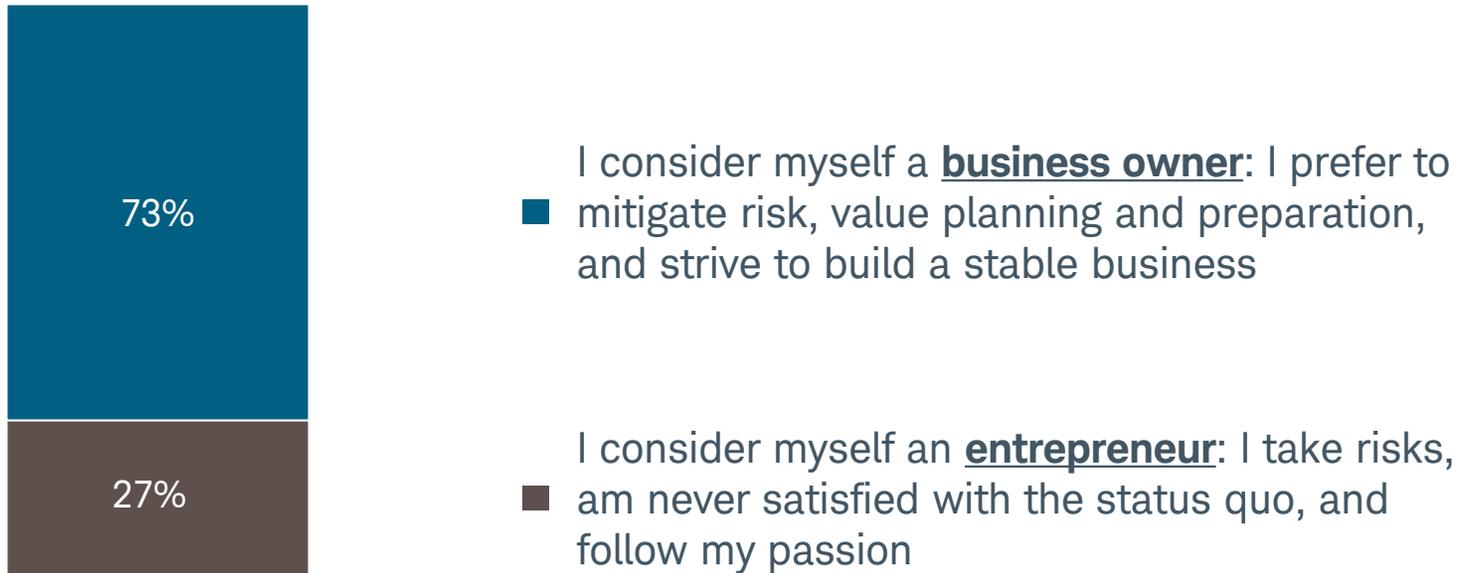
Interest rates
Advisors: 21%
Clients: 16%

Findings

Independent advisors:
Entrepreneurs or business
owners?

Advisors: I'm a business owner, not an entrepreneur

Statement best characterizing advisor Among advisors who own their firm

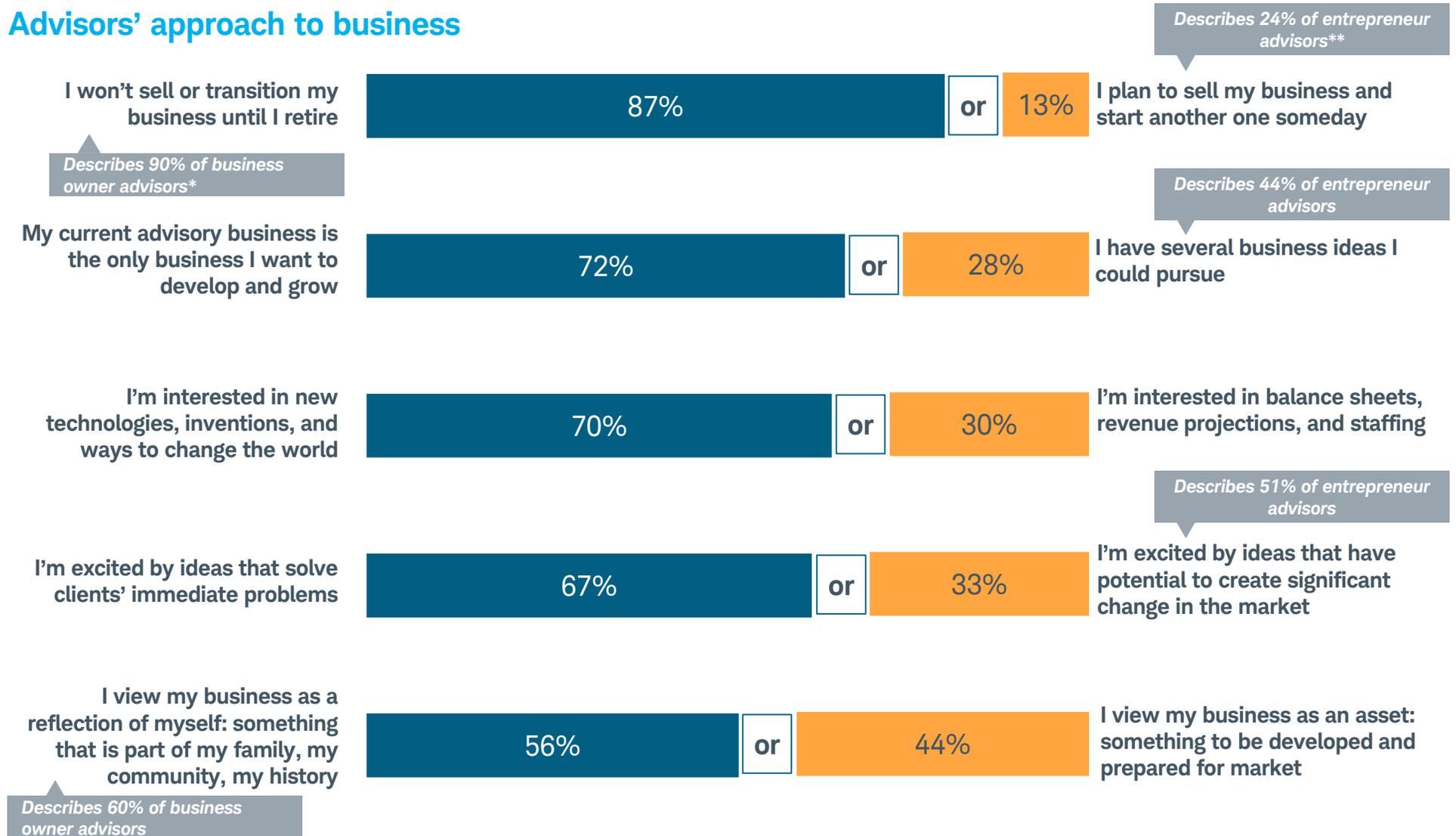


Firm AUM has no effect on whether advisors are likely to consider themselves entrepreneurs or business owners

Q18 If you had to choose, which of the following statements characterizes you best? (Base: Advisors who own firm; Current wave = 617)

The long-haul: Most plan to keep their firm until retirement

Advisors' approach to business



Q19 Select which of the following best describe your approach to your business. (Base: Advisors who own firm; Current wave = 617)

*'Business owner' advisors are those advisors who answered 'business owner' in response to Q.18 *If you had to choose, which of the following statements characterizes you best?*

**'Entrepreneur' advisors are those advisors who answered 'entrepreneur' in response to Q.18 *If you had to choose, which of the following statements characterizes you best?*

Findings

Business strategy & operations,
technology, and talent

New clients: The fuel for growth at most firms

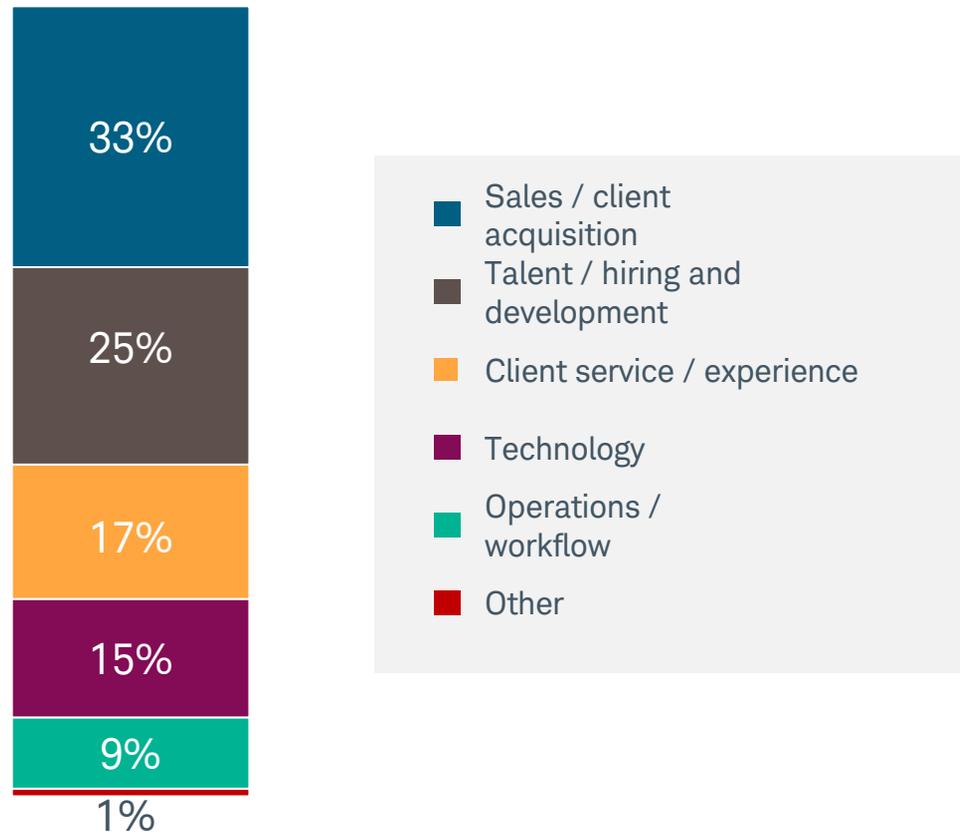
In next five years, average percent of new assets expected to come from...



Q14 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)? (Base: Total Advisors; Current wave = 946)

Sales and talent: Key investments in a growth strategy

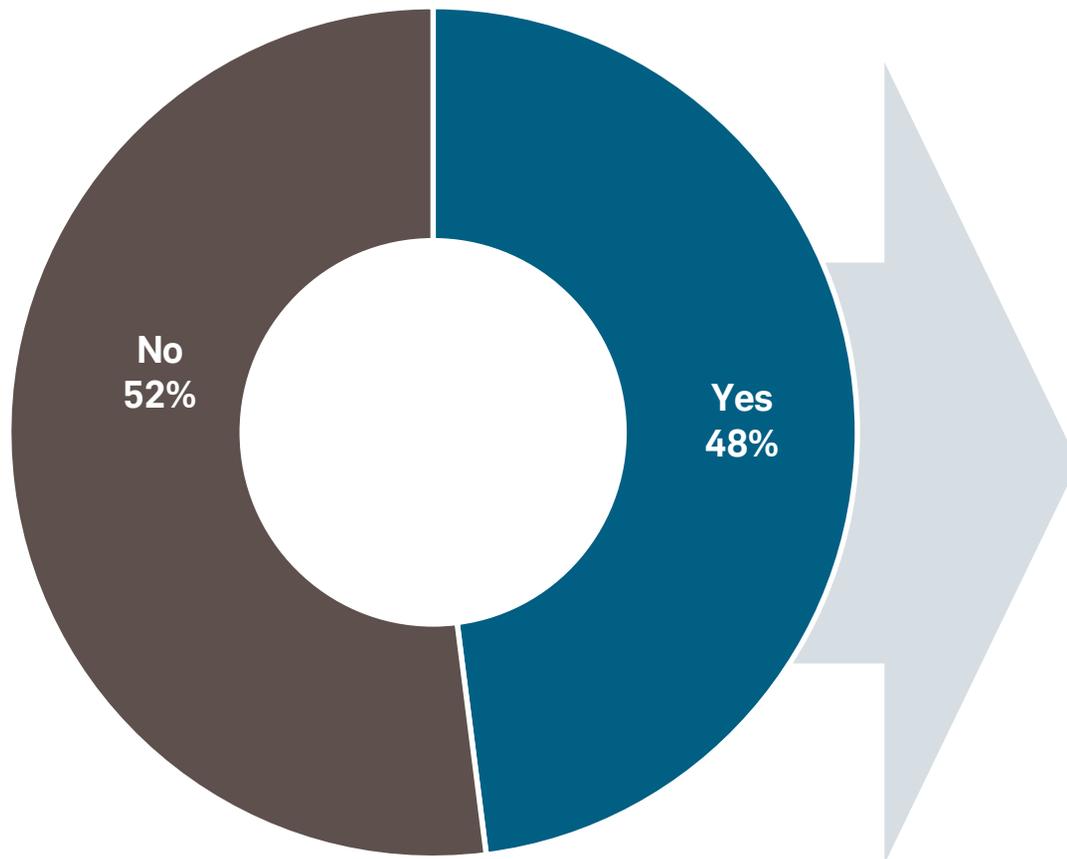
Area of investment believed to have the biggest impact on growth



Q11 If you had to choose one area to invest in your firm over the next five years that would have the biggest impact on growth, what would it be?
(Base: Total Advisors; Current wave = 946)

To market, to market: Almost half have a multi-faceted marketing plan

Whether firm has an established marketing plan



Top objectives of marketing in firm If firm has established marketing plan

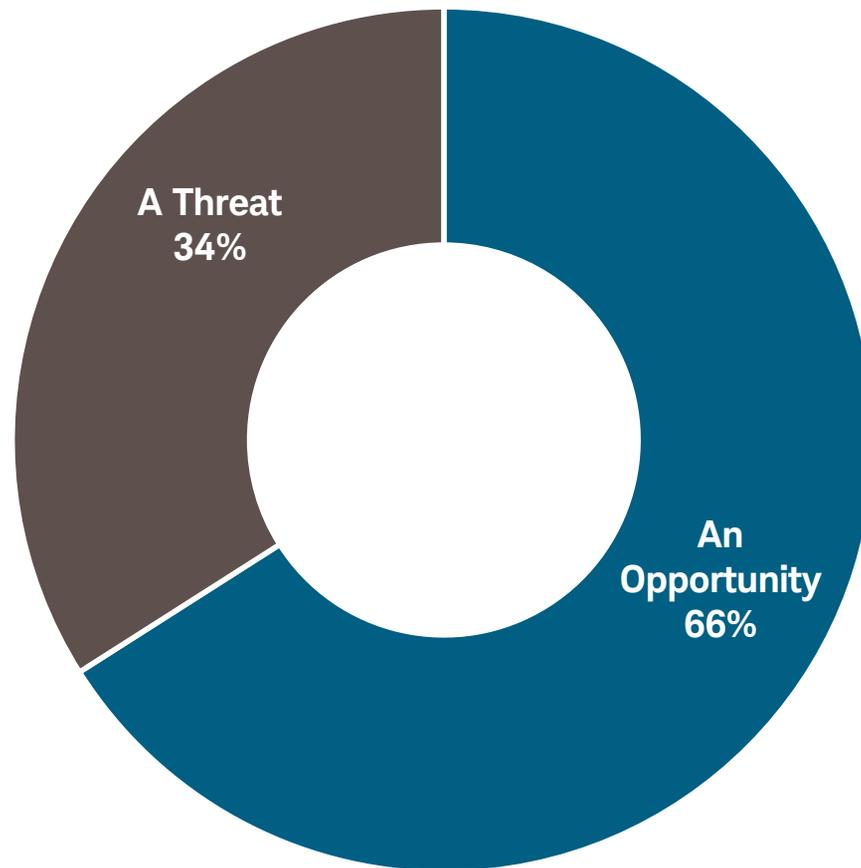


Q15 Does your firm have an established marketing plan? (Base: Total Advisors; Current wave = 946)

Q16 What do you consider to be the top objectives of marketing in your firm? (Base: Advisors who have an established marketing plan; Current wave = 450)

Passive investing: Most advisors embrace it as an opportunity

For RIAs, increased appetite among investors for passive investing products represents...



Q7 If you had to choose, do you think an increased appetite among investors for passive investing products represents an opportunity or a threat to RIAs? (Base: Total Advisors; Current wave = 946)

Passive investing: I can offer more value-added services and better manage my clients' performance expectations

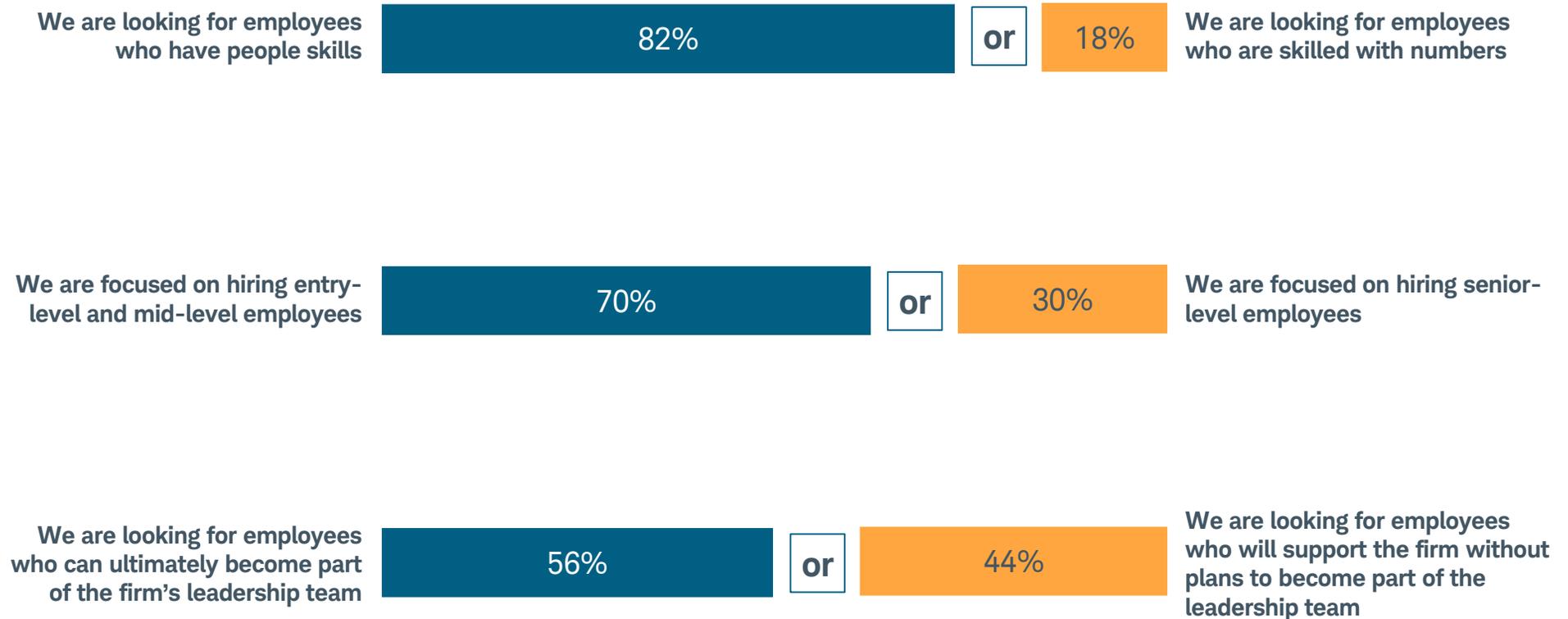
Reasons passive investing strategies could be an OPPORTUNITY for RIAs

A greater reliance on passive investing frees up my time to provide clients with value-added services that fall outside the realm of traditional portfolio management	50%
Matching the performance of an index will help my clients have more reasonable performance expectations , and relieve some pressure I feel	41%
Passive strategies present an opportunity to engage a wider pool of potential investor clients	39%
Clients will be more inclined to turn to advisors for help / Client service will still be needed	5%
Will help differentiate active investment managers / will help us stand out from the crowd	5%
Passive investing is cyclical / as cycle ends, investors will rebound to active investing	4%
Helps reduce costs and fees	4%
Other	12%

Q8 Why do you think passive investing strategies could be an opportunity for RIAs? (Base: Passive investing products seen as opportunity; Current wave = 626)

People who need people: Advisors seek people skills and entry-level employees to join their team

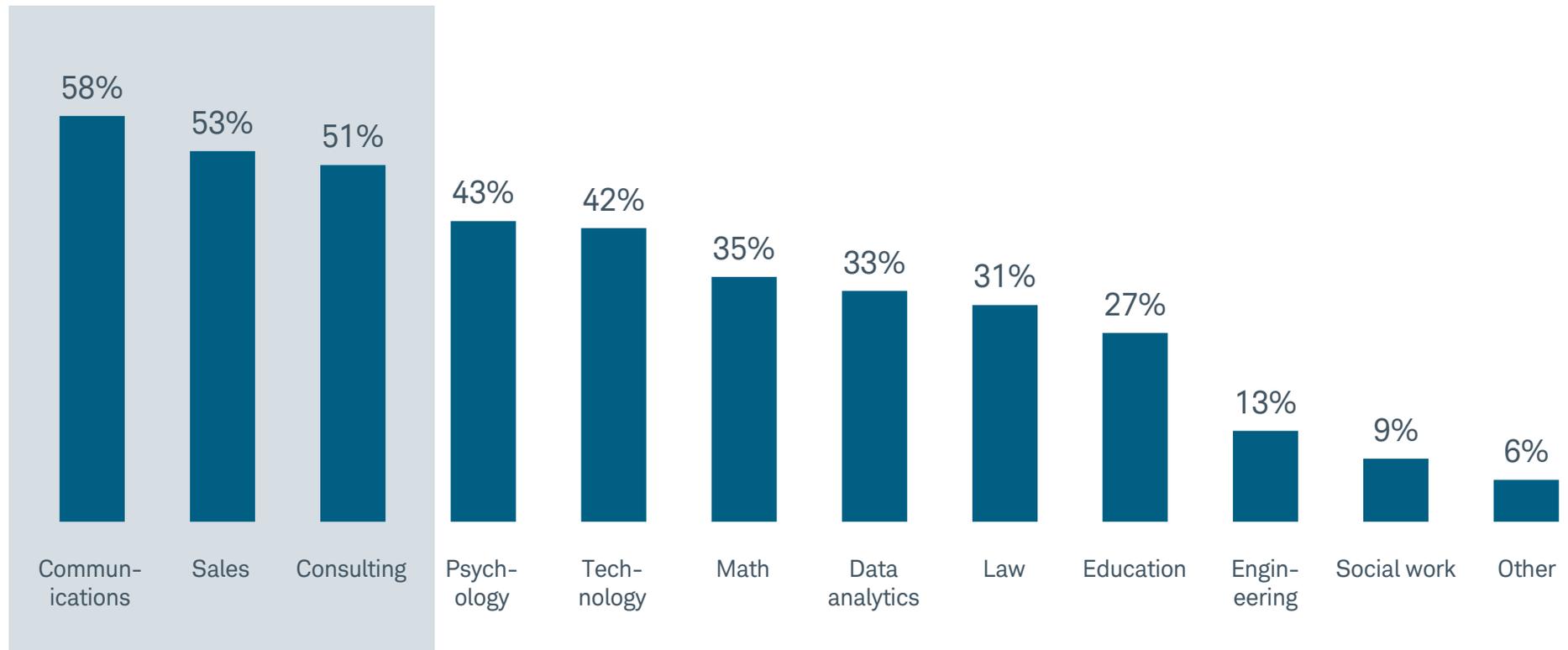
Firm's approach to hiring talent



Q12 Select which choice best describes your firm's approach to hiring talent. (Base: Total Advisors; Current wave = 946)

Most valuable skill? Experience working with clients

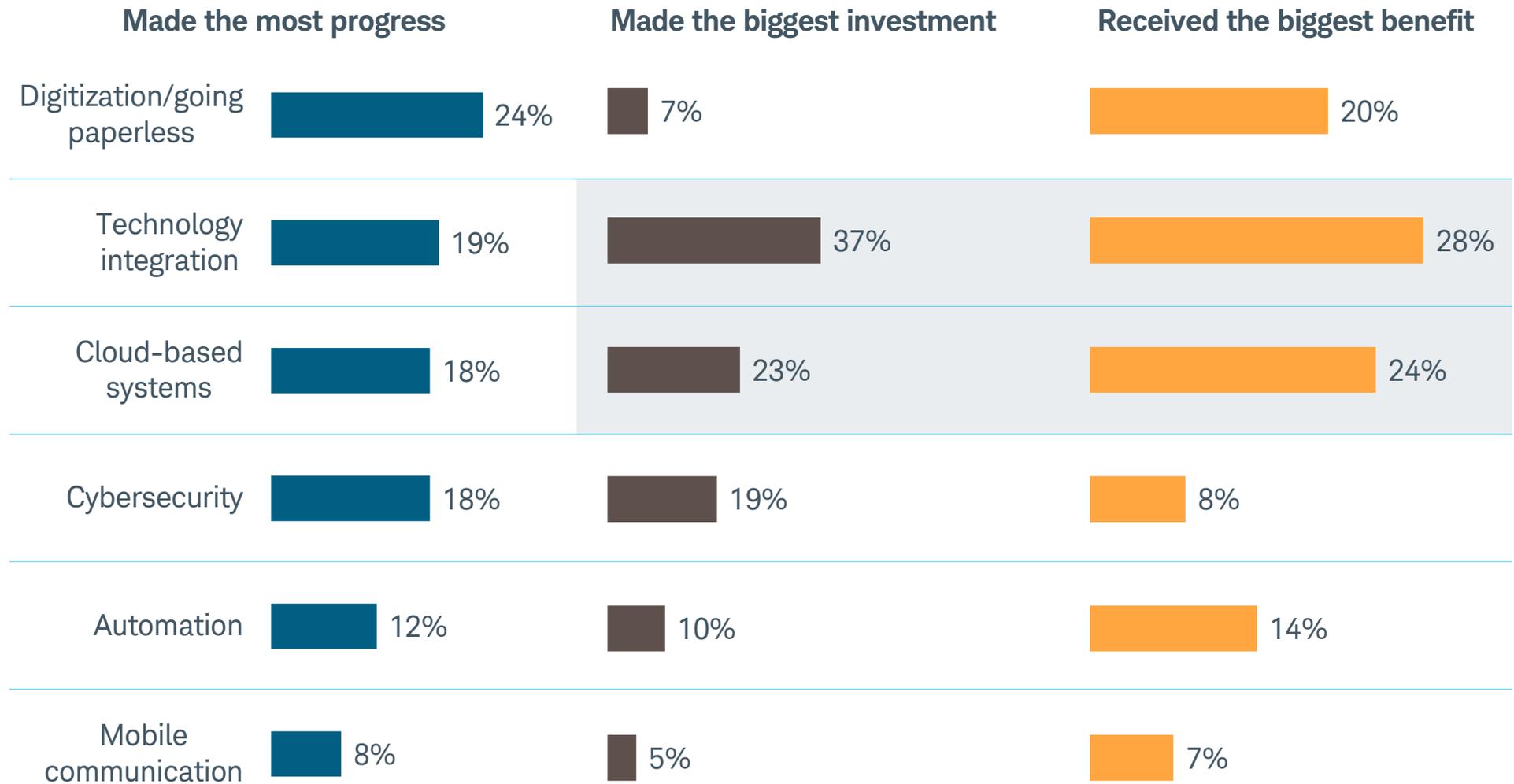
Non-finance backgrounds considered valuable for financial advisor candidates



Q13 Which professional backgrounds other than finance would you consider valuable for a financial advisor candidate? (Base: Total Advisors; Current wave = 946)

Ahead in the cloud: Investment in tech integration and cloud-based systems yields biggest benefit

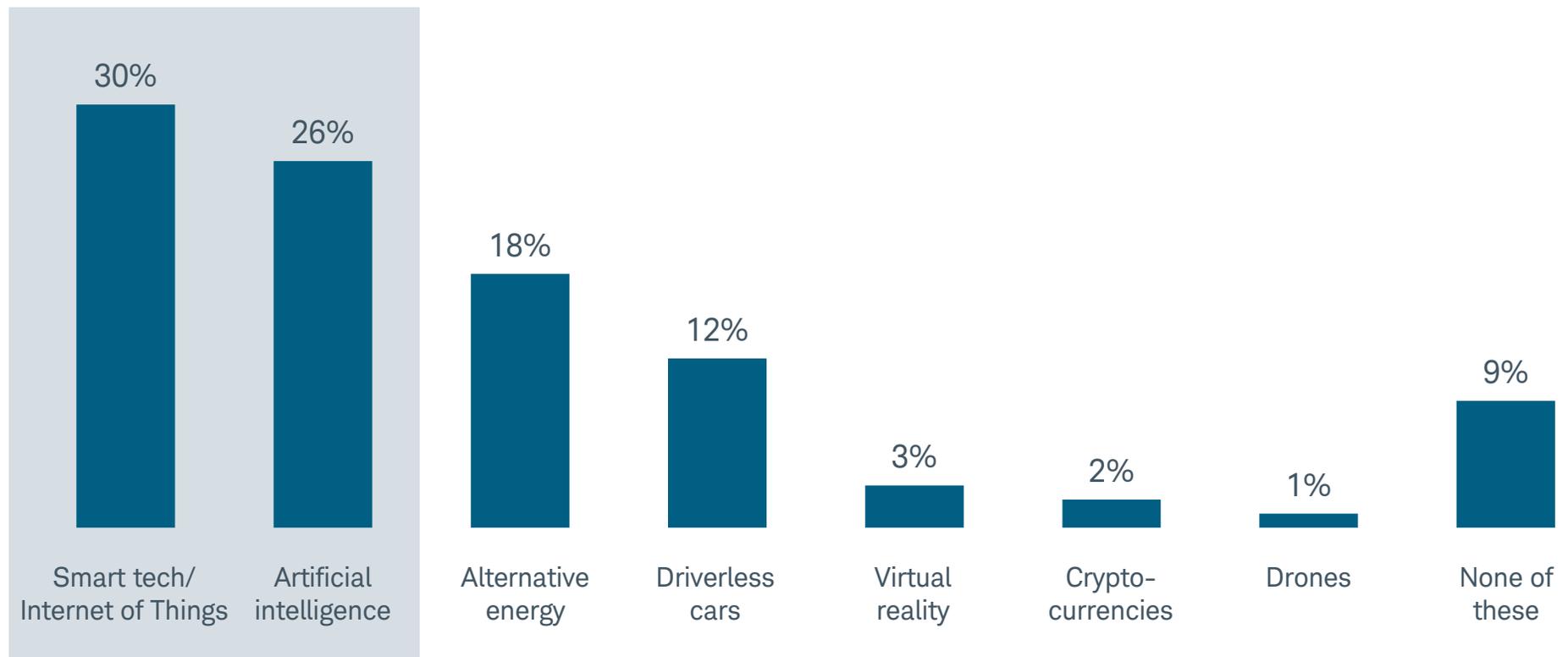
In past five years, tech areas in which firm has...



Q10 Thinking about the past five years, please select which areas of technology your firm has made the most progress in, has made the biggest investment in, and has experienced the biggest benefit to the firm. (Base: Total Advisors; Current wave = 946)

Future tense: Excited about AI and ‘things that think’

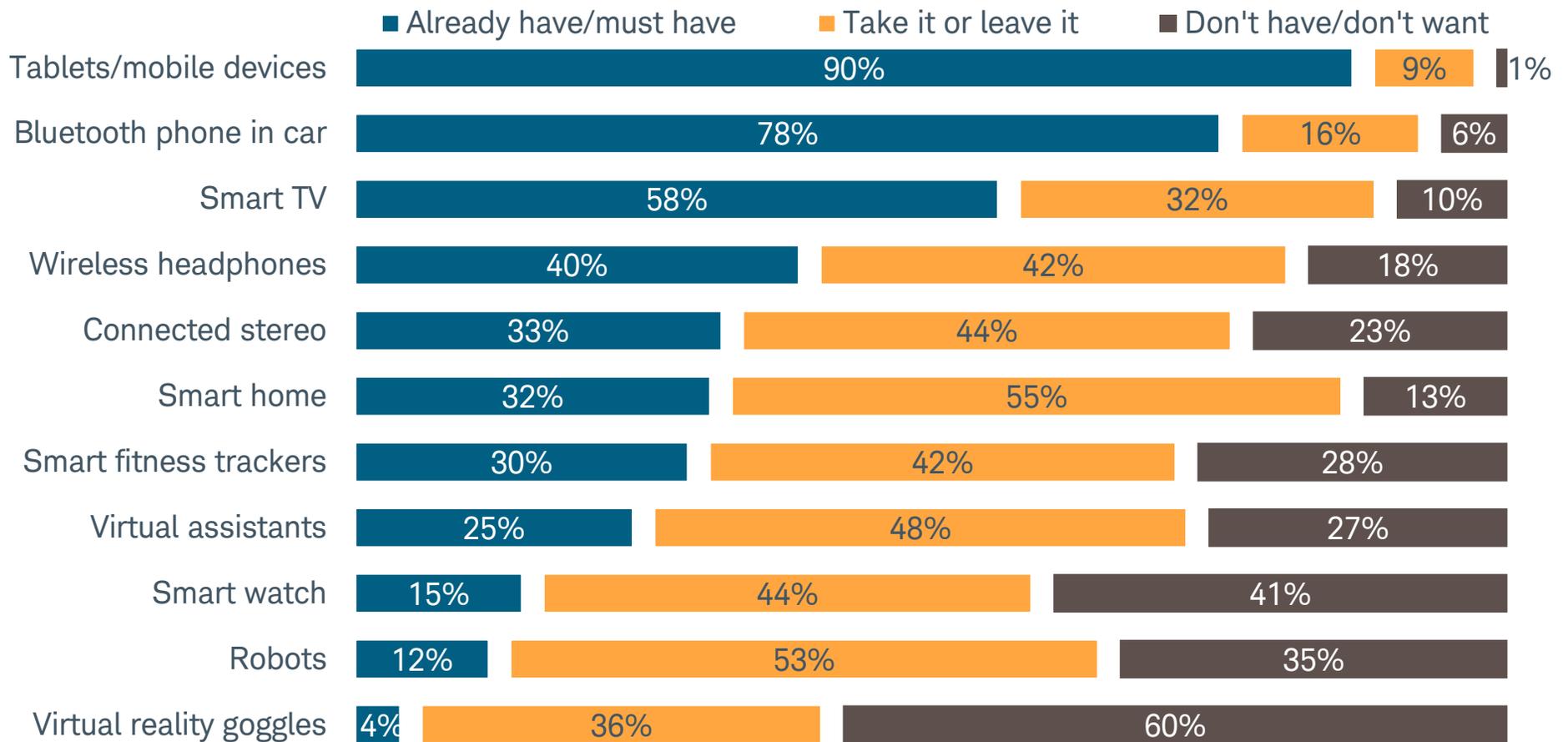
Emerging industries/tech developments most excited about



Q20 Which emerging industries and/or technological developments are you most excited about? (Base: Total Advisors; Current wave = 946)

Advisor tech life: Must have mobile device; VR goggles can wait

Importance of technologies in day-to-day life



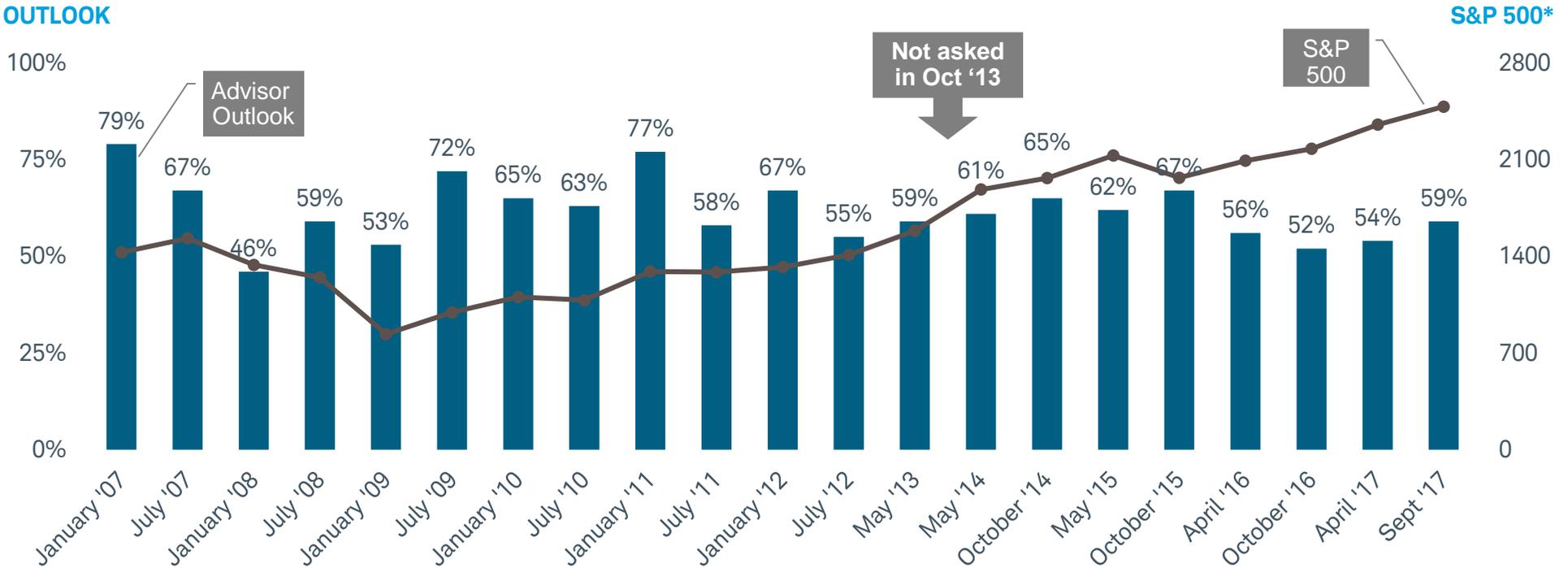
Q21 How important are the following in your day-to-day life, either inside of or outside of the office? (Base: Total Advisors; Current wave = 946)

Findings

Markets & investing

Return of optimism? Sentiment up slightly as market continues to rise

OUTLOOK



AVERAGE	AVERAGE DAILY OPENING VALUE WHILE IN FIELD & S&P 500 WILL INCREASE																				
	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]	Apr '16 [R]	Oct '16 [S]	April '17 [T]	Current Wave [U]
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	2177.86	2352.66	2483.03
Outlook	79% BCDEFGHJ KLMNOPQR STU	67% CDEHJLMN PRSTU	46% CES	59% CES	53% C	72% BCDEGHJK LMNOPQRS TU	65% CDEJLMRS TU	63% CEJLRSTU	77% BCDEFGHJ KLMNOPQR STU	58% CES	67% CDEHJLMN PRSTU	55% C	59% CES	61% CELIRST	65% CDEJLMRS TU	62% CELIRST	67% CDEJLMNR STUV	56% C	52% C	54% C	59% CES

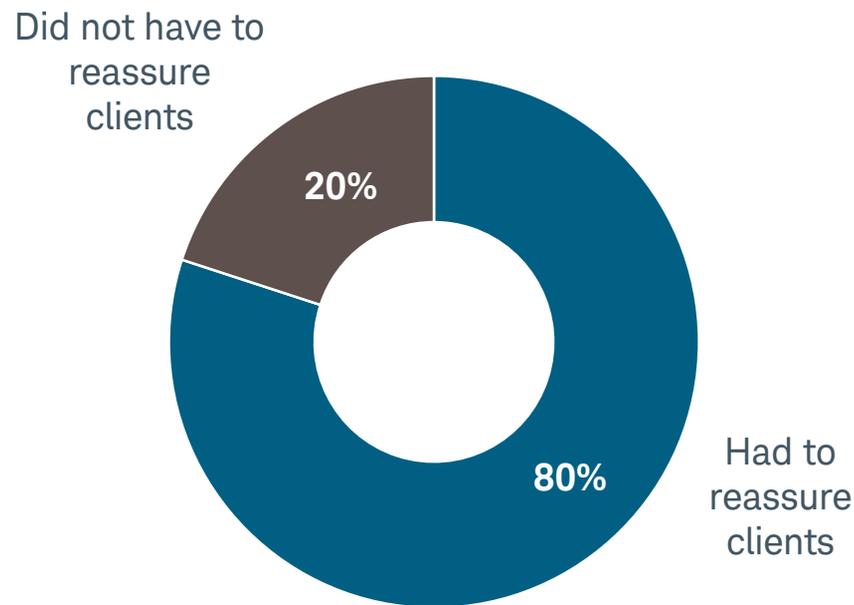
Q1 Which of the following best describes what you think will happen to the S&P 500 in the next six months? (Base: Total Advisors; Jan '07=1387; July '07=1044; Jan '08=1006; July '08=1010; Jan '09=1240; July '09=1198; Jan '10=1144; July '10=1199; Jan '11=1337; July '11=911; Jan '12=882; July '12=839; May '13=1016; Oct '13 Not Asked; May '14=720; October '14=740; May '15=629; Oct '15=638; Apr '16=930; October '16=957; April '17=912; Current wave=946)

Note: The standard deviation opening values for the S&P 500 during the current fielding period was 15.8

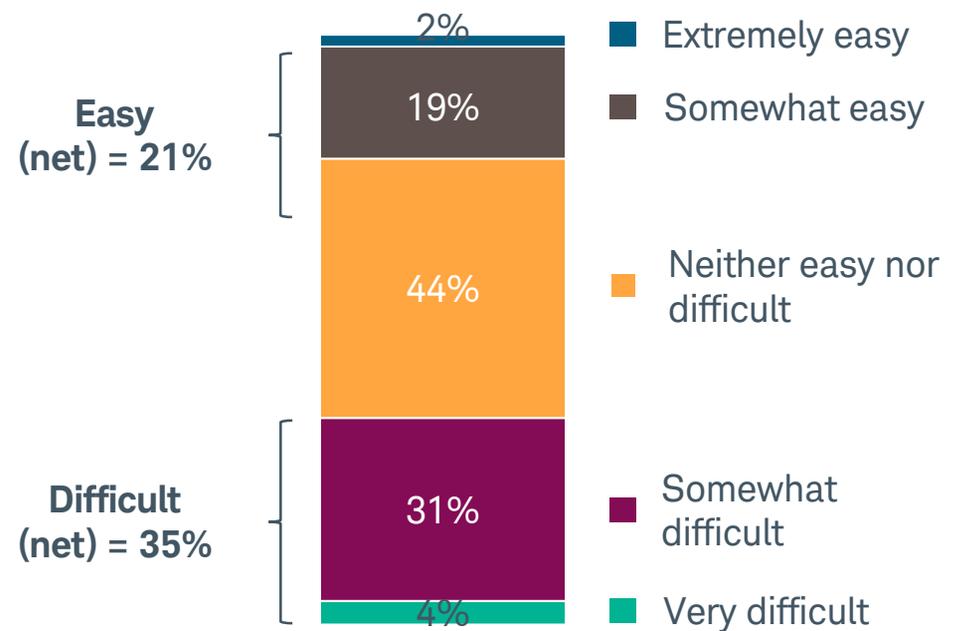
* S&P 500: Average daily opening values per survey fielding period

Seeking counsel: Advisors reassure clients, and still see difficulty ahead

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



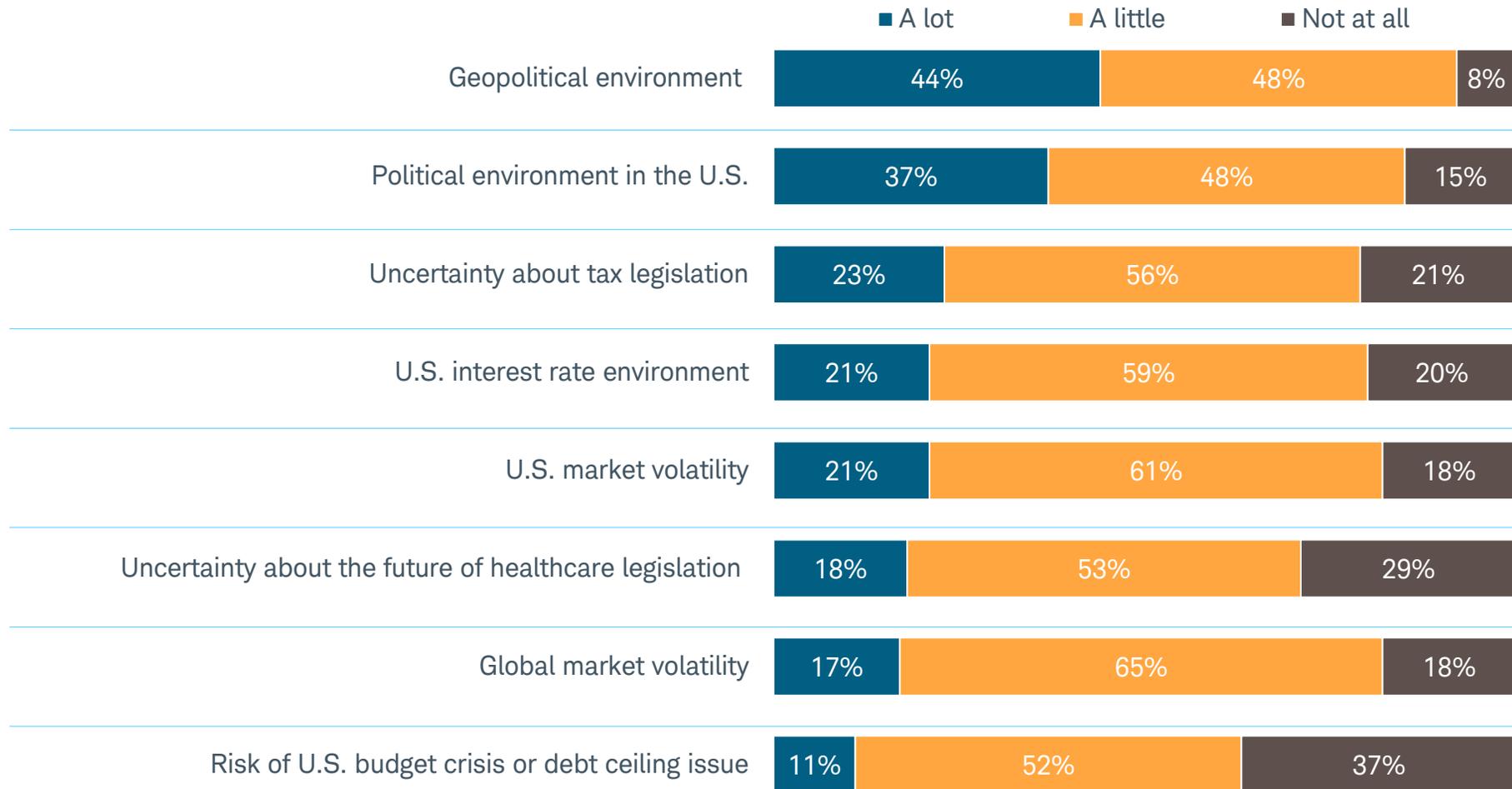
Ease/Difficulty of Achieving Clients' Investment Goals in Current Investment Environment



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 = 946)

Political uncertainty at home and abroad has captured advisors' attention

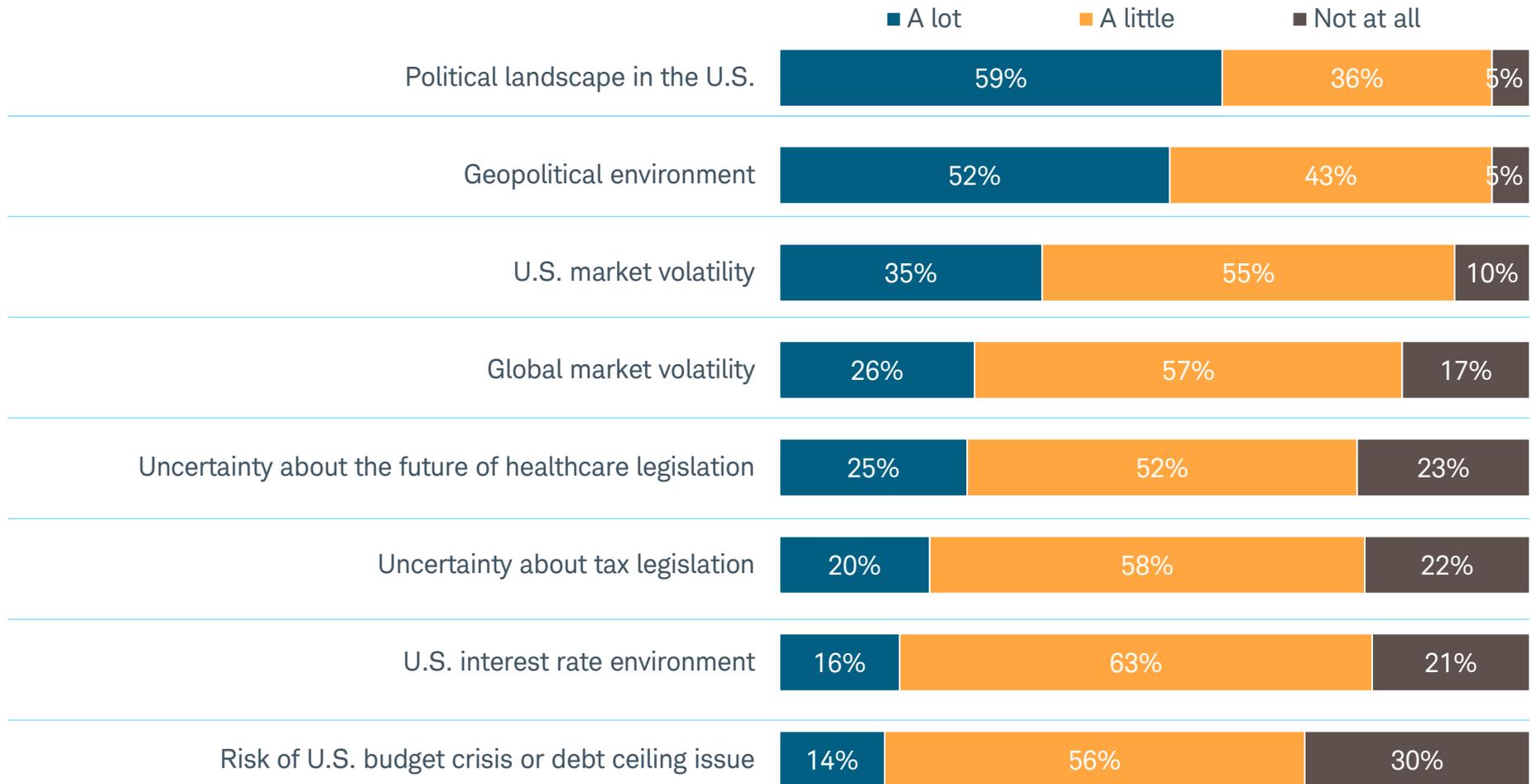
Investment Issues Causing Advisor Concern



Q4 How concerned are you about how each of the following may impact clients' investments? (Base: Total Advisors; Current wave = 946)

Geopolitics also concerning investors, though not as much as six months ago

Investment Issues Causing Clients Concern



Q5 How concerned are **your clients** about how each of the following may impact clients' investments? (Base: Total Advisors; Current wave = 946)

Appendix

Methodology

What

- 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

- The Study was conducted from September 6 to 17, 2017.

Who

- 946 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 12 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=946)
Under 50 years old	5%
50 to 54 years old	9%
55 to 59 years old	22%
60 to 64 years old	30%
65 or older	27%
Prefer not to say	7%
MEAN	61 years old
MEDIAN	62 years old
Age of Advisor Responding	(n=941)
Under 35 years old	9%
35 to 44 years old	14%
45 to 54 years old	26%
55 to 64 years old	32%
65 and older	15%
Prefer not to say	4%
MEAN	53 years old
MEDIAN	52 years old
Number of Years Worked for Independent Advisory Firm	(n=946)
5 years or less	22%
6 to 10 years	17%
11 to 15 years	15%
More than 15 years	45%
Prefer not to say	1%
MEAN	13 years
Primary Role at Firm	(n=945)
Principal	59%
Portfolio Manager	16%
Operations staff	10%
Other	15%

Advisors Responding	Base
Founding Principal (among Principals)	(n=563)
Yes	75%
Number of Employees at Firm	(n=833)
1 to 5	46%
6 to 15	30%
16 to 50	18%
51 or more	6%
MEAN	22 employees
MEDIAN	6 employees
Assets Under Management at Firm (AUM)	(n=941)
Less than \$25M	8%
\$25M to \$100M	21%
\$100.1M to \$250M	22%
\$250.1M to \$500M	13%
More than \$500M	31%
Prefer not to answer	5%
MEAN	\$369M
MEDIAN	\$229.4M
Number of Clients Per Firm	(n=946)
1 to 50	12%
51 to 100	13%
101 to 250	25%
251 or more	31%
Prefer not to answer	19%
MEAN	2,996 clients
MEDIAN	199 clients
Gender	(n=941)
Male	76%
Female	24%

Qualitative Contributors

Erik Christman
Managing Partner

Oxford Financial Partners

Susan Chase Korin
Chief Compliance Officer,
Chief Operating Officer & Owner
Balasa Dinverno Foltz LLC

Dave Hill
President & Managing Director
Sonata Capital

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