

Independent Advisor Outlook Study

January 2010

Wave 7

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Background

- Charles Schwab is a leading provider of custodial, operational and trading support for independent fee-based investment advisors. Since 1987, Schwab has supported independent investment advisors by offering support and services to help grow their businesses and help their clients reach their financial goals. As of December 31, 2009, client assets custodied with Schwab stood at \$590 billion.
- Schwab is committed to building awareness of independent investment advisors. This semi-annual study has been designed to measure advisors' views on a variety of timely subjects.

Methodology

What

- The Independent Advisor Outlook Study is an online study conducted for Charles Schwab Advisor Services by Koski Research. The study has a 2.96% margin of error.
- Koski Research is neither affiliated with, nor employed by, Charles Schwab & Co., Inc.

Who

- 1,144 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 are reported at the total sample level. When applicable, comparisons among each of the seven waves of the study are made.

When

- The study was conducted from January 19 through January 29, 2010.

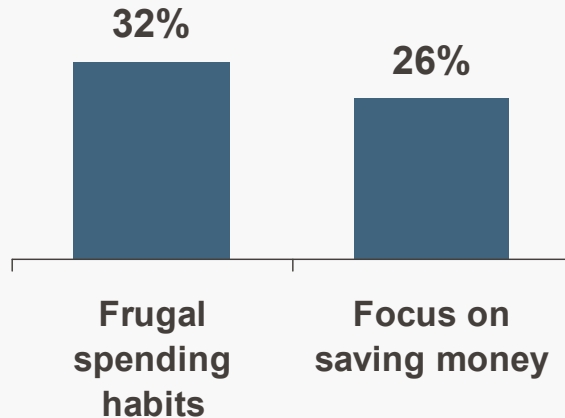
Economic Outlook

The “new normal”: increased frugality, savings and debt reduction

AMERICAN CONSUMERS: SPENDING, SAVING, & DEBT—JANUARY ‘10

All Respondents

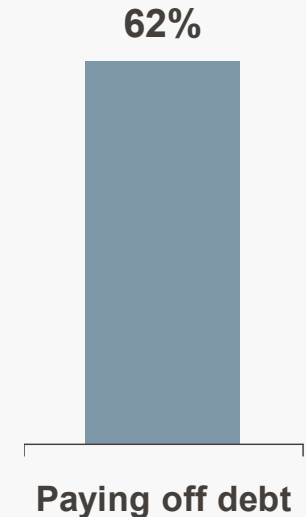
Top changes adopted by American consumers with the greatest staying power.



What will likely happen in the U.S. during the next 6 months.



What are clients doing more of in the current market environment.

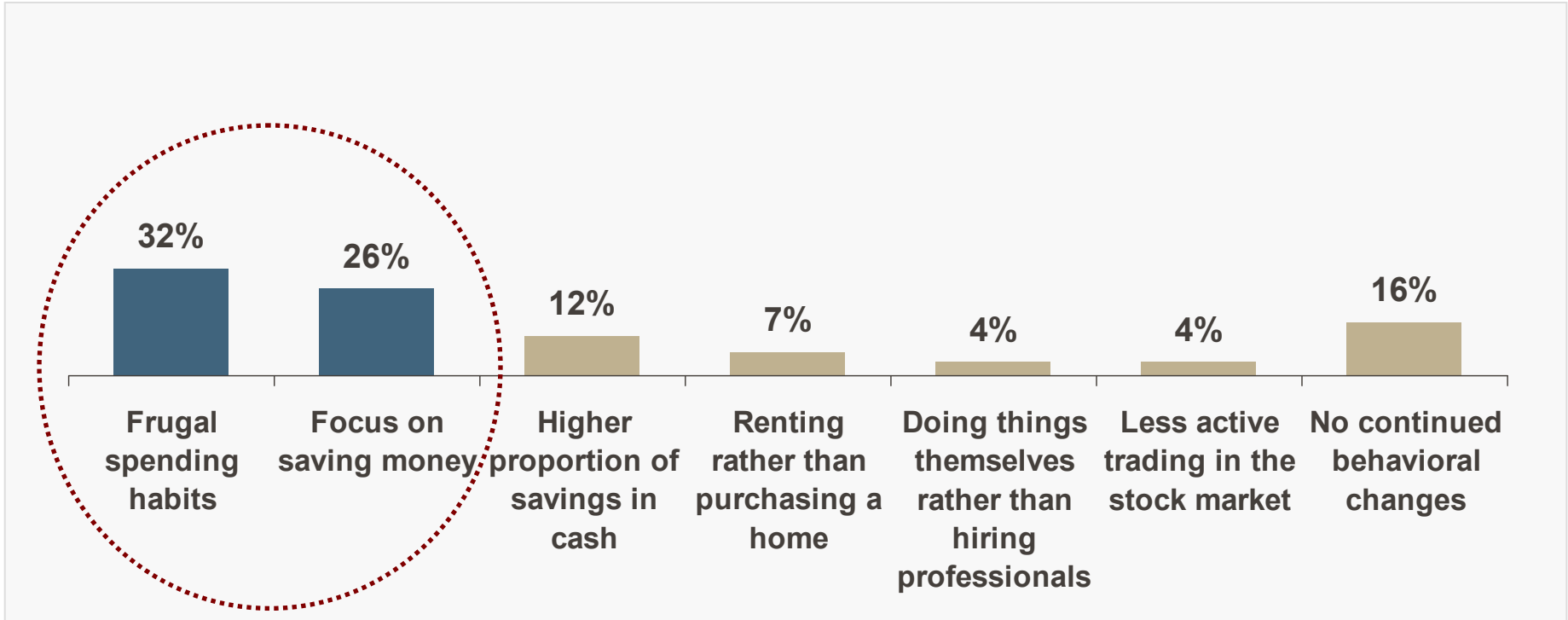


Source: Q2: Please choose the response that best describes your opinion of each of the below events occurring in the U.S. in the next six months. Q4L: Which one of the following behavioral changes adopted by American consumers in the past year will have the greatest staying power? Q22i: Which of the following, if any, are your clients doing more of in the current market environment? (Base = All respondents; Jan '10 = 1144)

Advisors expect investors' renewed fiscal responsibility to continue

STAYING POWER OF RECENT BEHAVIORAL CHANGES—JANUARY '10

All Respondents



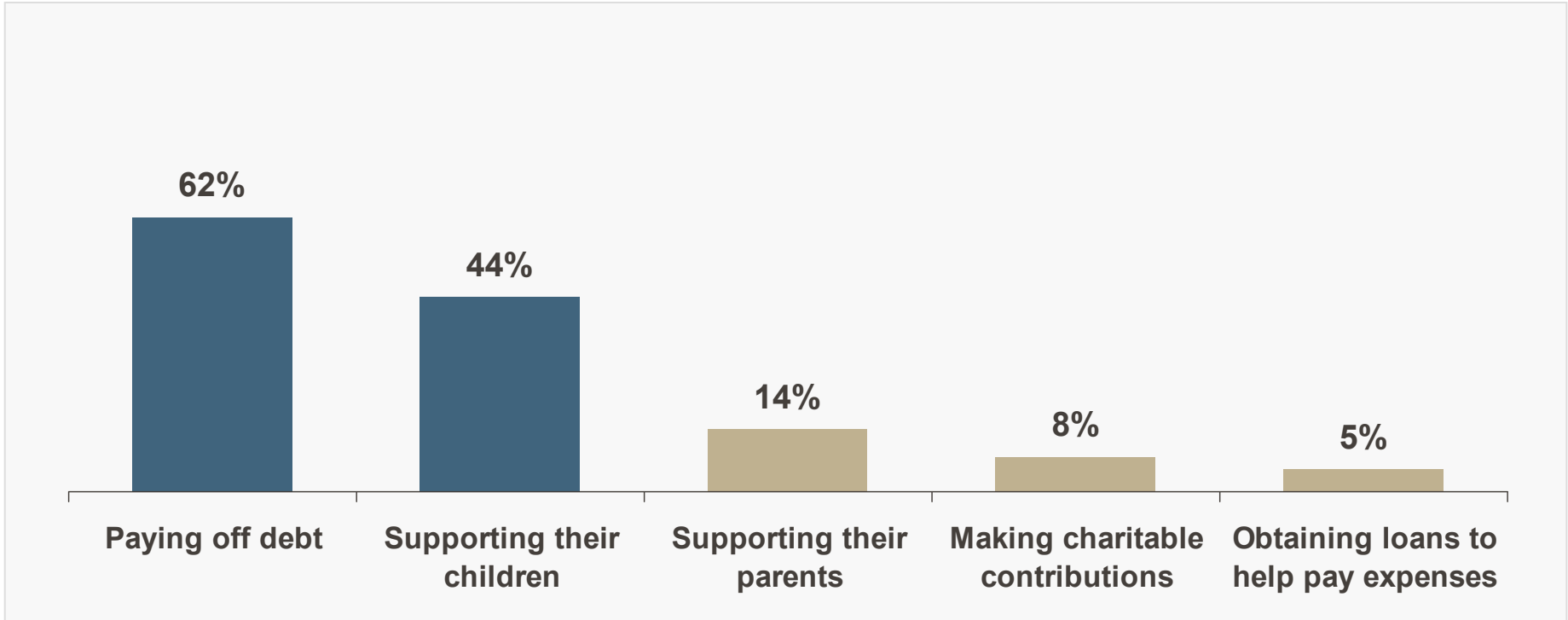
Source: Q4L. Which one of the following behavioral changes adopted by American consumers in the past year will have the greatest staying power?
(Base = All respondents; Jan '10 = 1144)

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Advisors say clients are more focused on debt reduction and helping support children

CLIENT ACTIVITIES DOING “MORE” IN CURRENT MARKET ENVIRONMENT—JANUARY ‘10

All Respondents

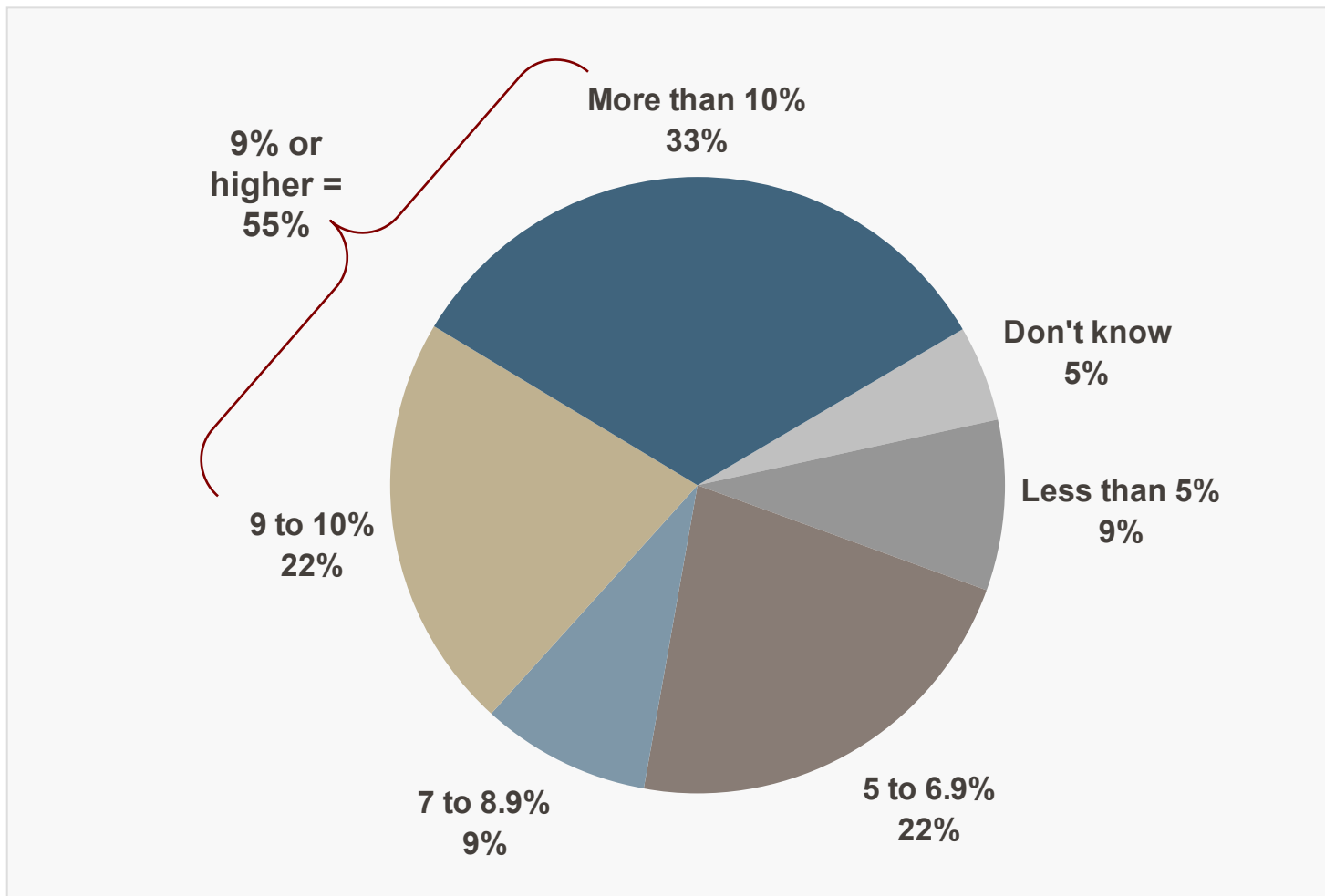


Don't know = 9%
None = 13%

Advisors want to see consumers savings rate at 9% or higher

RECOMMENDED SAVINGS RATE FOR CONSUMERS—JANUARY '10

All Respondents



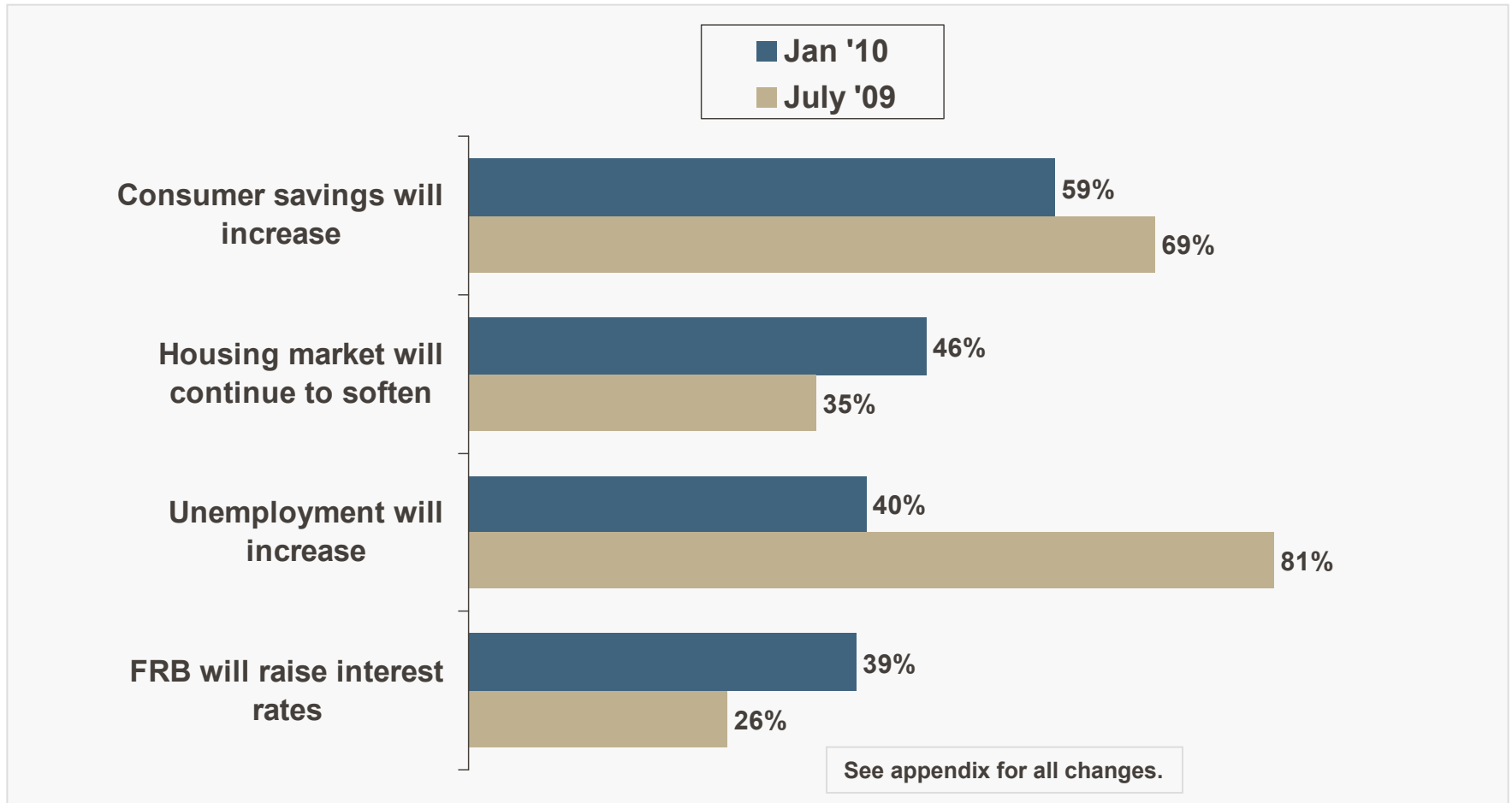
Source: Q4J. What savings rate do you recommend for the average consumer? The savings rate is defined as the percentage of after tax income that is saved. (Base = All respondents; Jan '10 = 1144)

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Darker housing market outlook remains, improved outlook regarding unemployment

CHANGES THAT ADVISORS PREDICT WILL OCCUR IN THE U.S. DURING THE NEXT SIX MONTHS— JULY '09 TO JANUARY '10

All Respondents

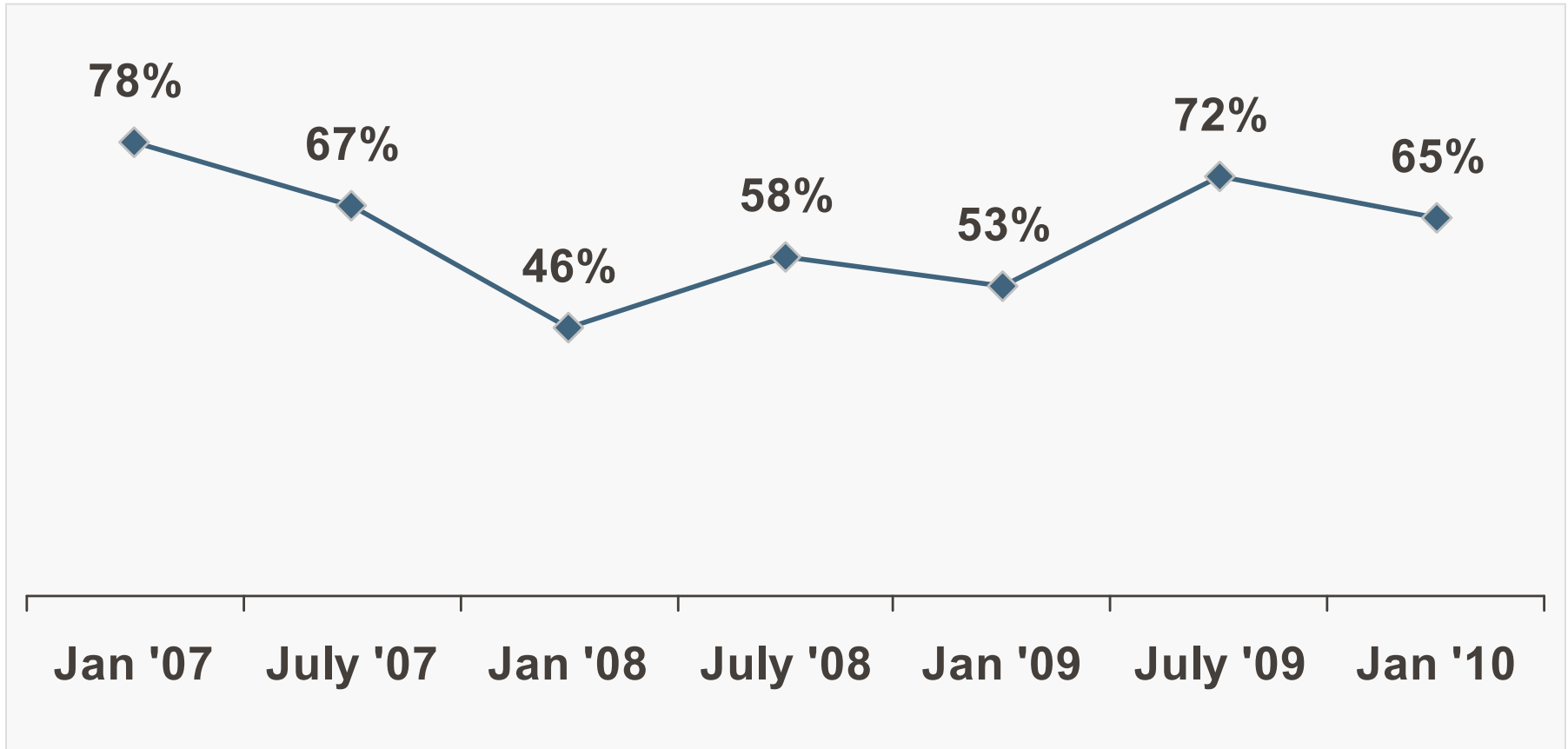


Source: Q2: Please choose the response that best describes your opinion of each of the below events occurring in the U.S. in the next six months.
(Base = All respondents; July '09 = 1197; Jan '10 = 1144)

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S&P 500 increased since the last wave, although advisors' outlook is steady

ADVISORS' PREDICTION THAT S&P 500 WILL INCREASE DURING THE NEXT SIX MONTHS All Respondents



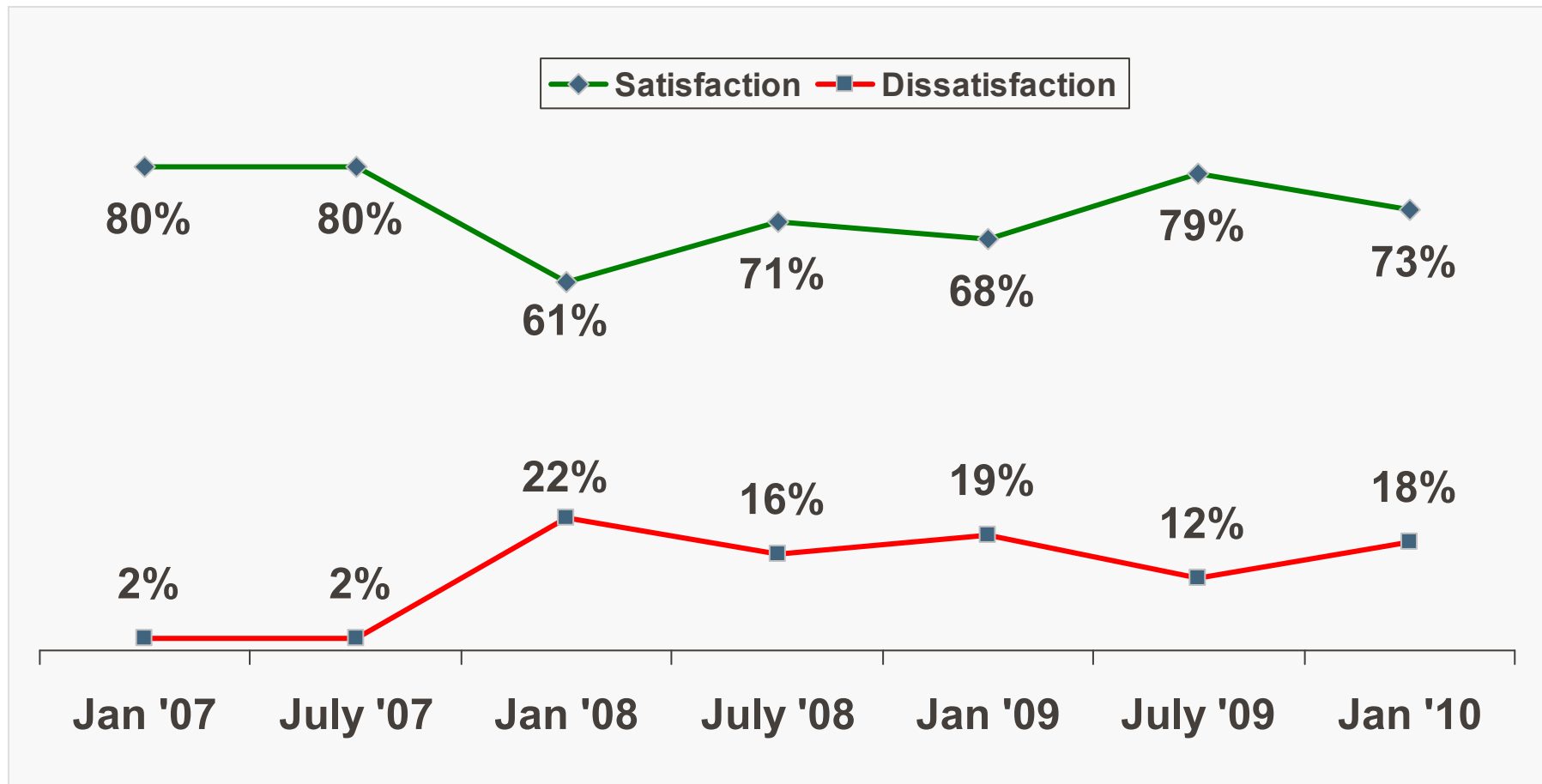
Source: Q1: Which of the following best describes what you think will happen to the S&P 500 in the next six months? (Base = All respondents; Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1197; Jan '10 = 1144)

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Bernanke approval remains high

APPROVAL OF BERNANKE'S FRB LEADERSHIP

All Respondents



Source: Q3: Which of the following best describes your view of Chairman Bernanke's Federal Reserve Board leadership thus far? (Base = All respondents; Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010, Jan '09 = 1240; July '09 = 1197; Jan '10 = 1144)

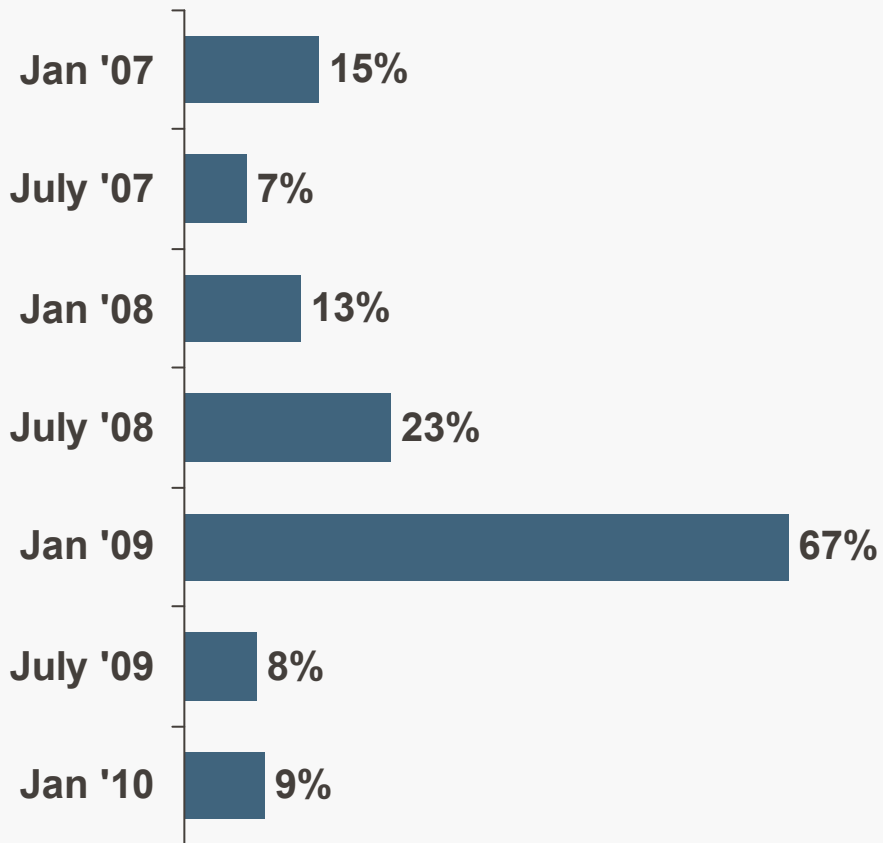
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Advisors predict political outlook to remain similar

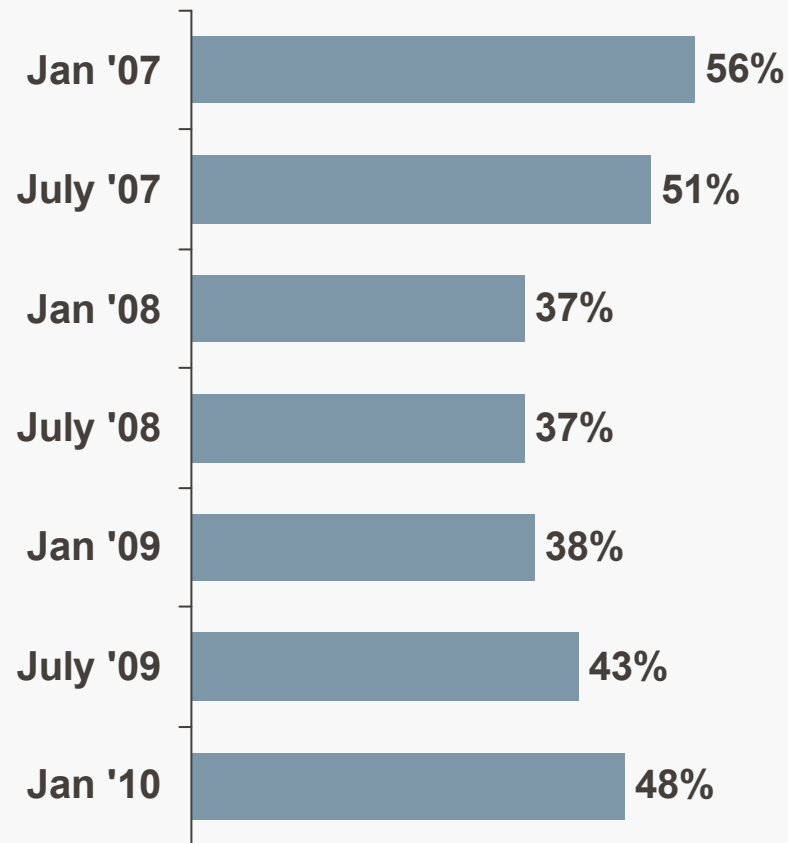
SIX-MONTH OUTLOOK ON THE POLITICAL LANDSCAPE

All Respondents

U.S. will become more united



Global landscape will become more volatile

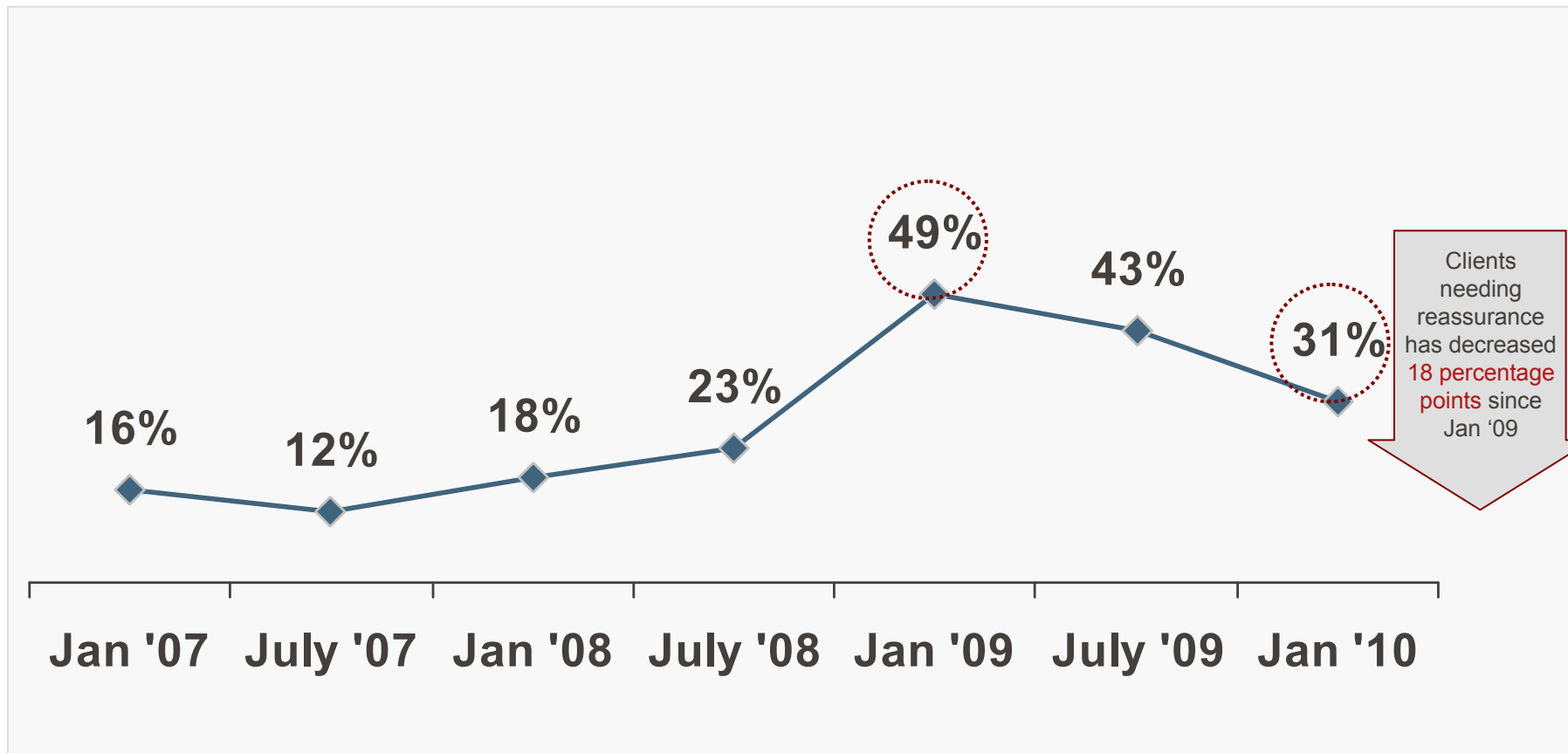


Client Outlook

Advisors see less client anxiety

AVERAGE PERCENT OF ADVISORS' CLIENTS WHO NEEDED REASSURANCE

All Respondents



Source: Q13: In the past six months, what percent of your clients have you needed to reassure that they will achieve their investment goals?
(Base = All respondents: Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1197; Jan '10 = 1144)

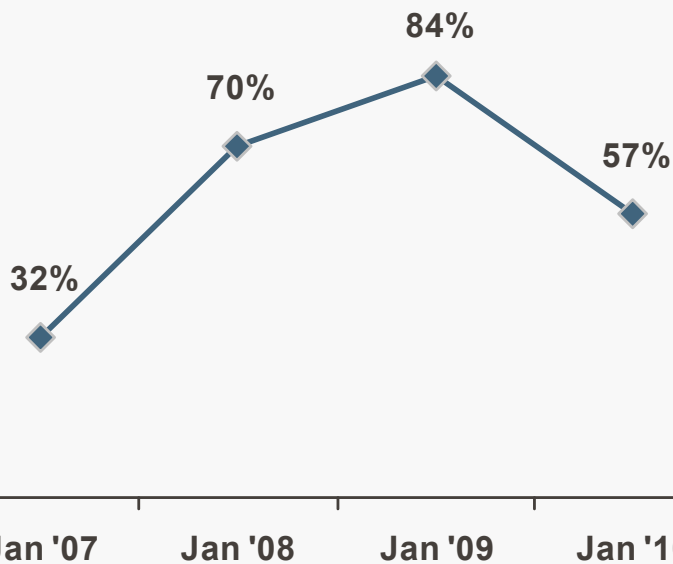
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Advisors anticipate less difficulty in achieving client investment goals

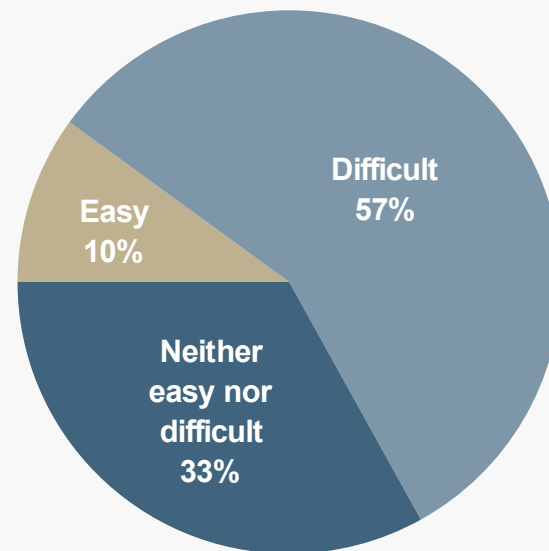
EASE OF ACHIEVING CLIENT INVESTMENT GOALS IN CURRENT MARKET

All Respondents

“Difficult” to Achieve Client Investment Goals—Jan '07 to Jan '10



Client Investment Goals—Jan '10



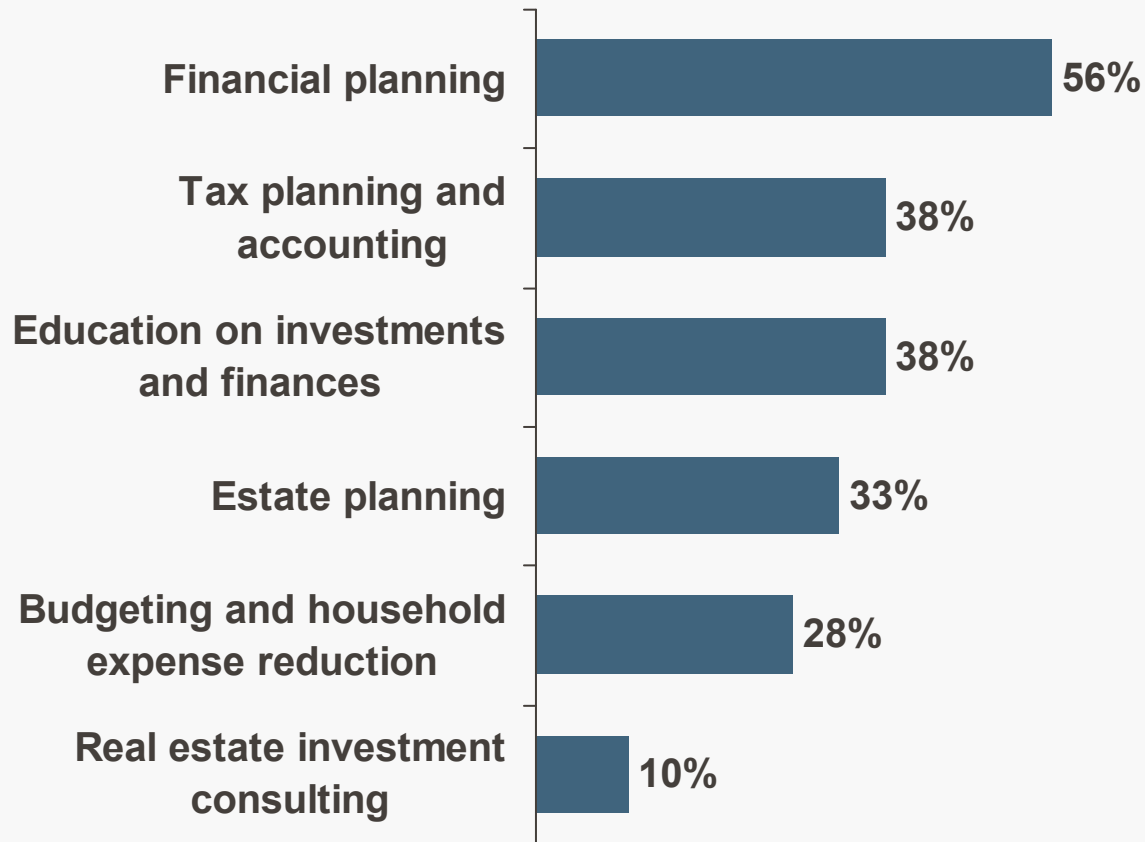
Source: Q7: Which of the following best describes how easy or difficult you think it will be to achieve your clients' investment goals in the current market environment? (Base = All respondents; Jan '07 = 1387; Jan '08 = 1006; Jan '09 = 1240; Jan '10 = 1144)

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Advisors' clients are asking for more financial planning, tax planning and investment education

SERVICES WHERE CLIENTS HAVE RECENTLY EXPRESSED INTEREST—JANUARY '10

All Respondents



Source: Q13A4: Beyond investment selection and management, which of the following services have been in greater demand among your clients and prospects during the past six months? (Base = All Respondents; Jan '10 = 1144)

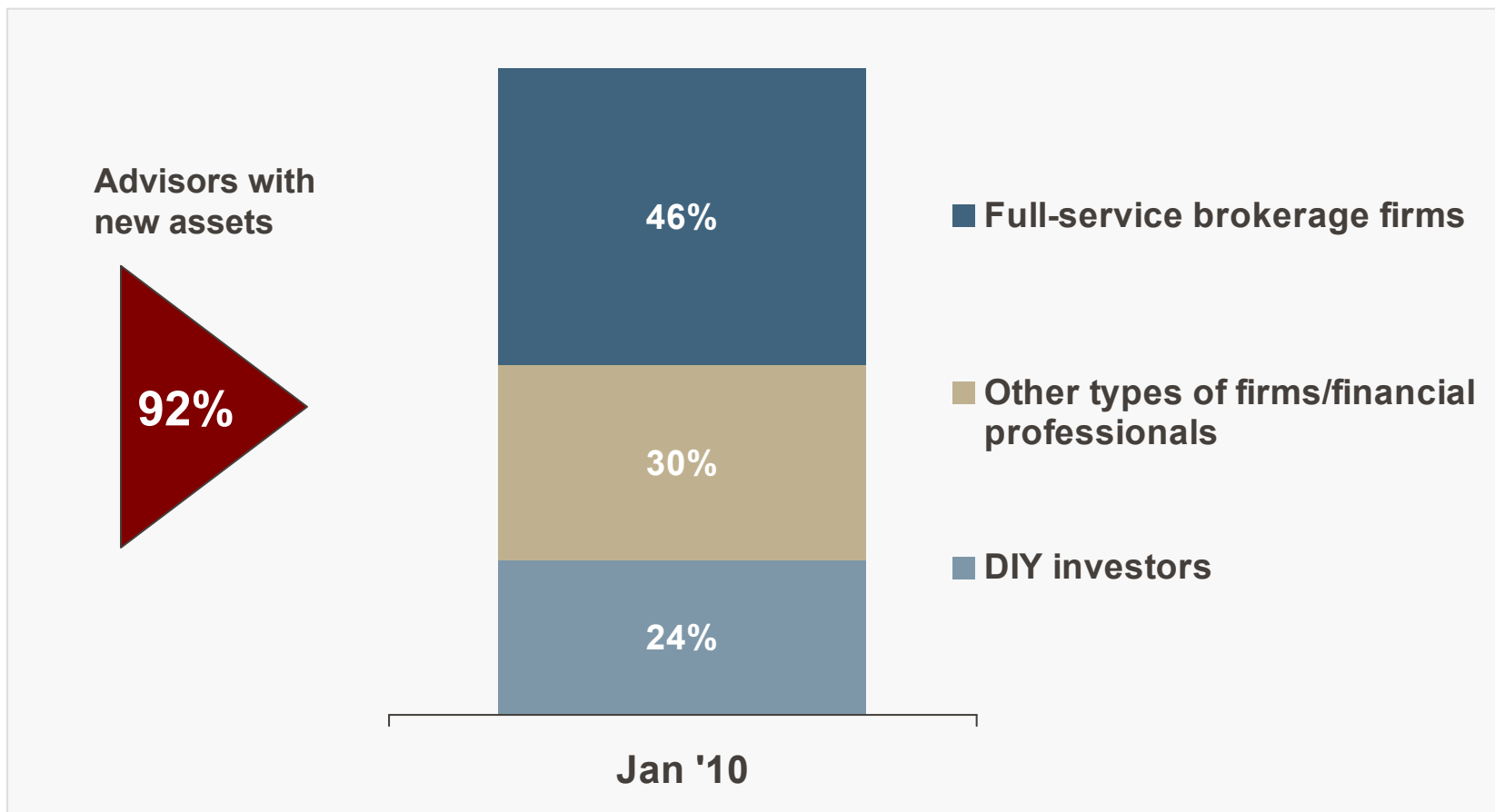
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New Client Perspective

Over 90% of advisors have new assets, which come primarily from other firms

SOURCE OF NEW ASSETS DURING PAST SIX MONTHS—JANUARY '10

All Respondents/Those with New Assets in Past Six Months

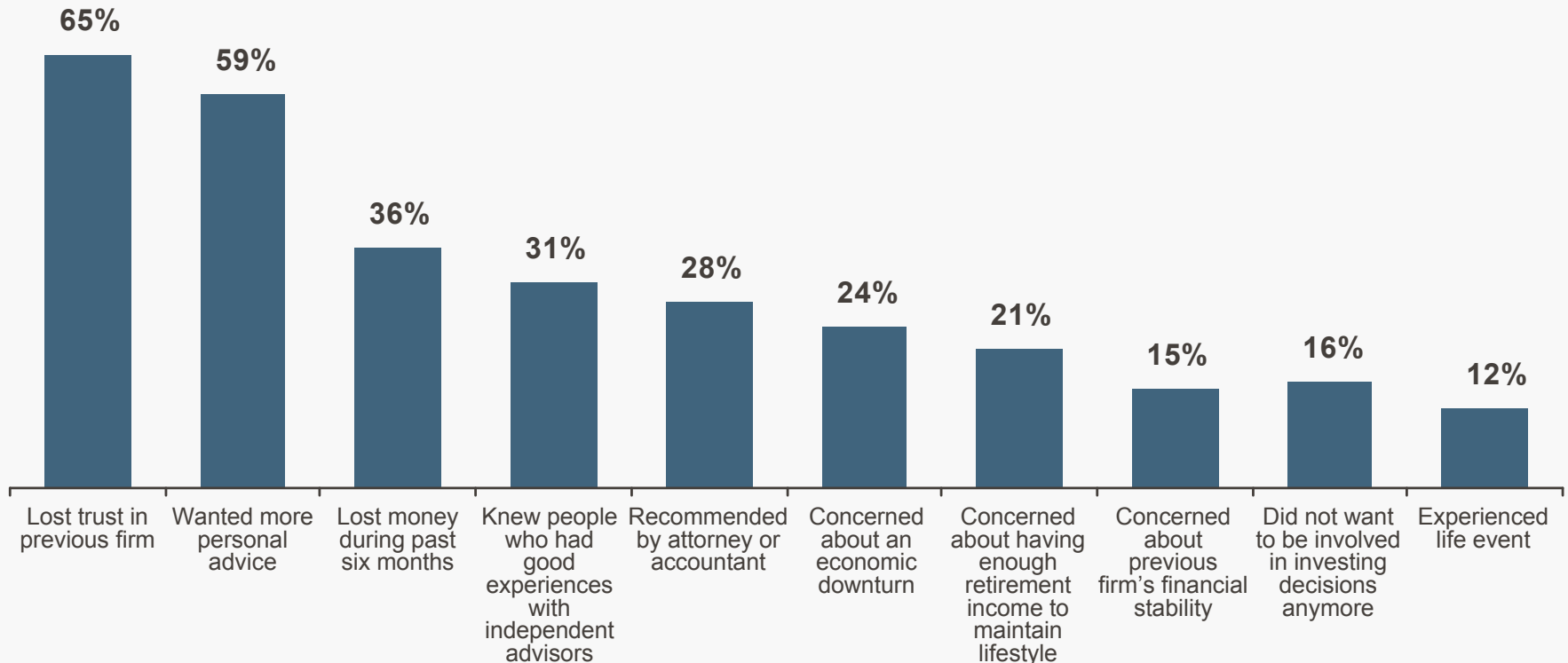


Source: Q13C0: What percent of your new assets in the past six months came from the following sources? (Base = Those with new assets in the past six months; Jan '10 = 1051)

Advisors' opinions on why they win new clients

REASONS FOR LEAVING FULL-SERVICE BROKERAGE FIRMS—JAN '10

Advisors With New Clients From Full-Service Firms



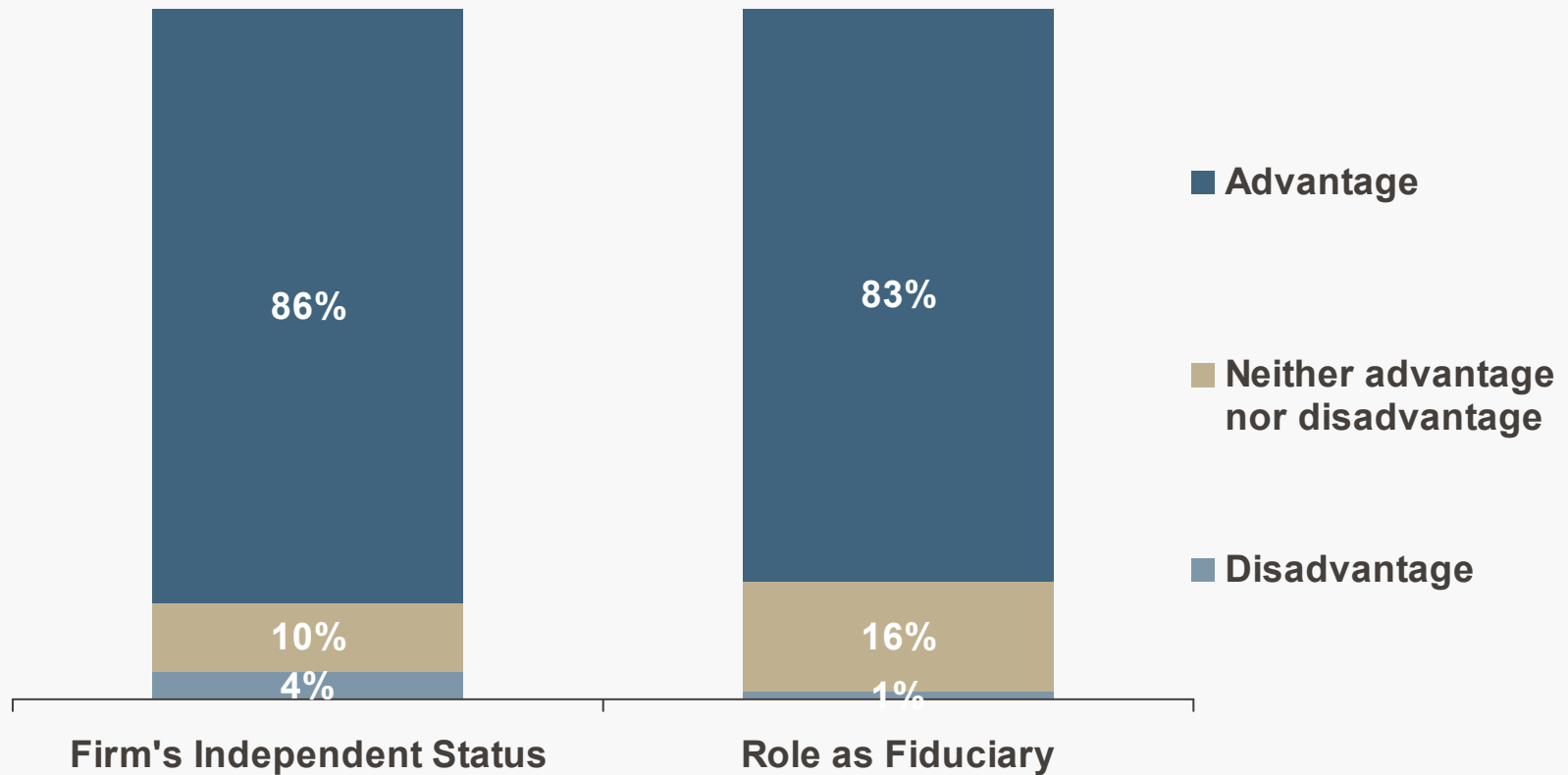
Source: Q13C.1: For which of the following reasons, if any, did your new clients from full service brokerage firms move their assets to your firm during the past six months? (Base = Have new clients from full service brokerage firms; Jan '10 = 940)

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Fiduciary and independent status are advantages in netting new business from full-service firms

ADVANTAGES OF INDEPENDENT ADVISORS GETTING NEW BUSINESS FROM BROKERAGE FIRMS AND WIREHOUSES—JANUARY '10

Respondents Answering



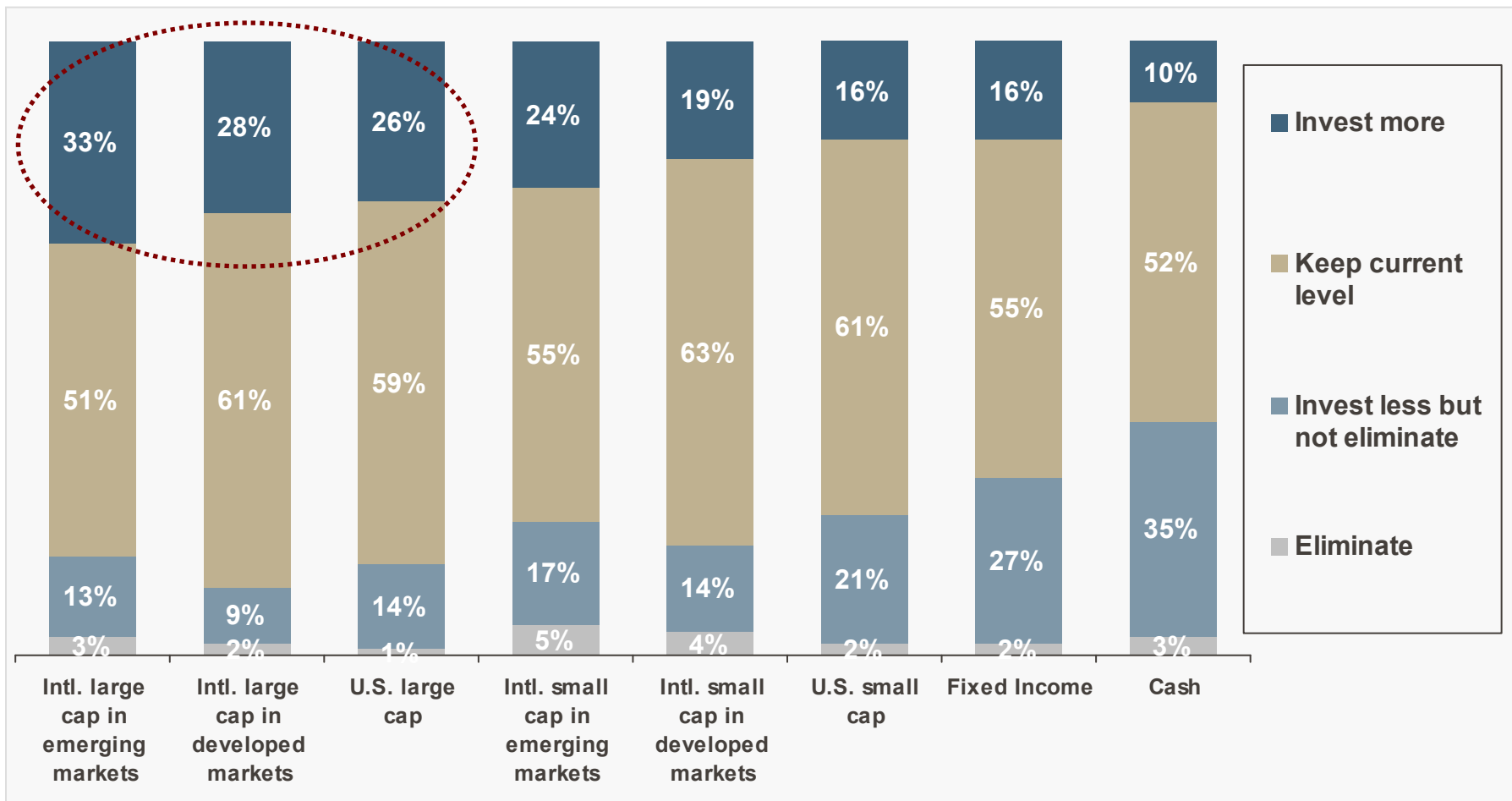
Source: Q13C4. Which of the following best describes how your role as a fiduciary provides you with an advantage in obtaining new business from large brokerage firms and wirehouses? Q13C5. Which of the following best describes how your firm's independent status and brand provides you with an advantage in obtaining new business from large brokerage firms and wirehouses? (Base = Those answering; "Don't know" responses removed; Jan '10 = 974/1049)

Investment Outlook

Advisors plan to increase investments in large cap stocks

PLANS TO INVEST IN ASSET CLASSES—JANUARY '10

All Respondents



See appendix for all investment vehicles asked per wave.

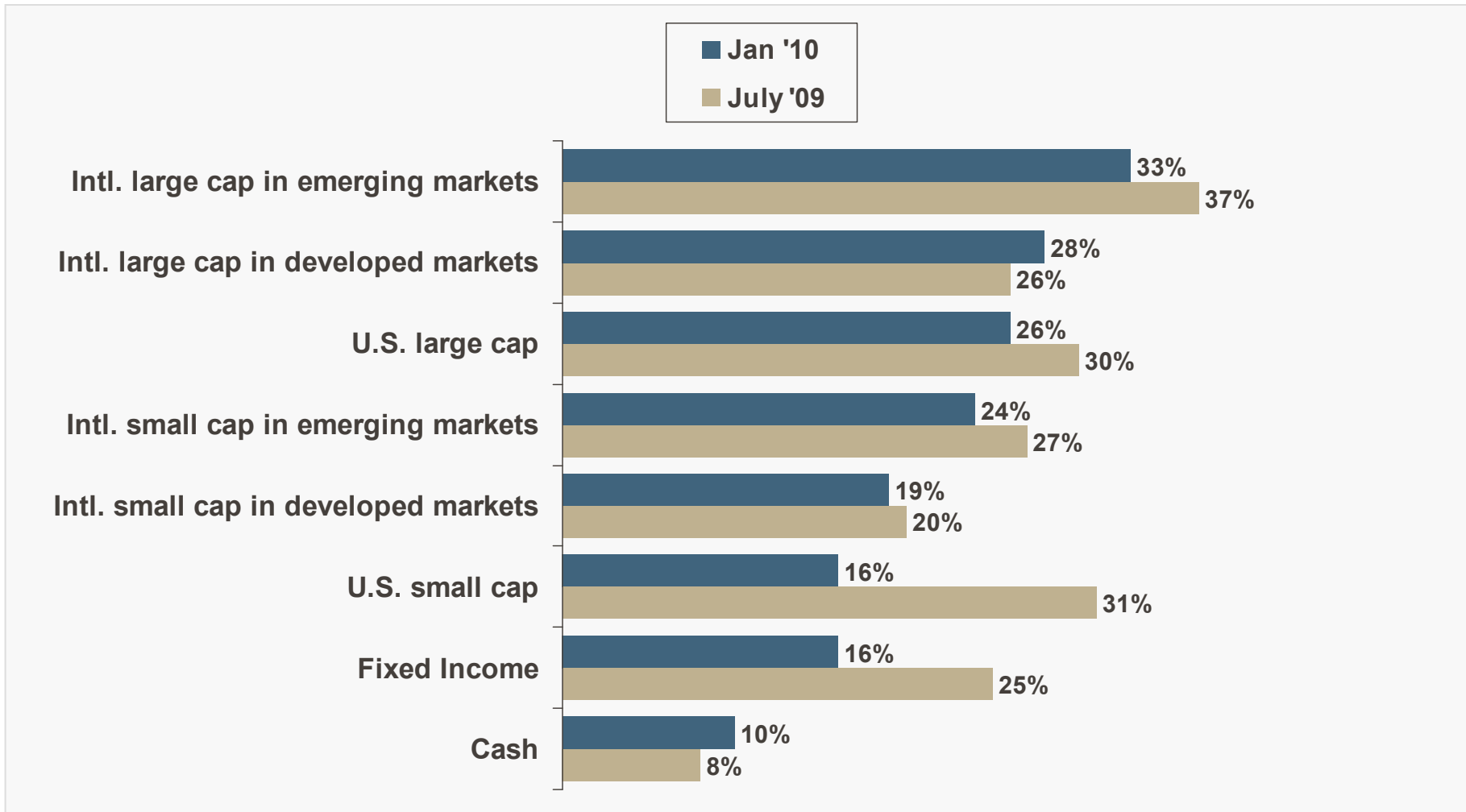
Source: Q8: For each of the following asset classes, please choose the response that best describes how you plan to invest in that asset class for your clients in the next six months. (Base = All respondents; Jan '10 = 1144)

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Advisors are pulling away from U.S. small-caps and fixed income

ASSET CLASSES LIKELY TO INVEST MORE—JULY '09 TO JANUARY '10

All Respondents



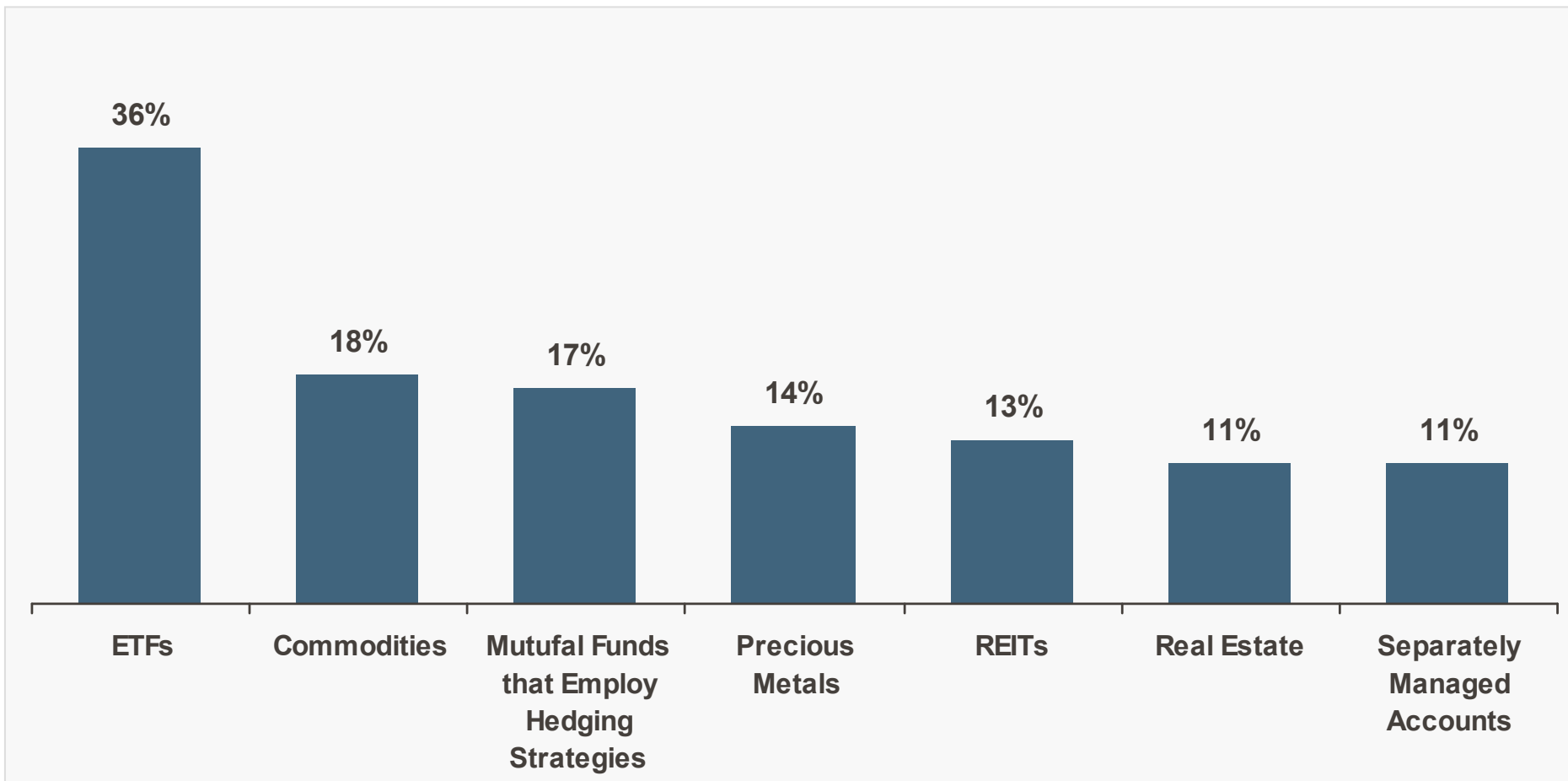
Source: Q8: For each of the following asset classes, please choose the response that best describes how you plan to invest in that asset class for your clients in the next six months. (Base = All respondents; July '09 = 1197; Jan '10 = 1144)

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ETFs remain top candidates for more investment dollars

PLANS TO INVEST MORE PER INVESTMENT VEHICLE—JAN '10

All Respondents



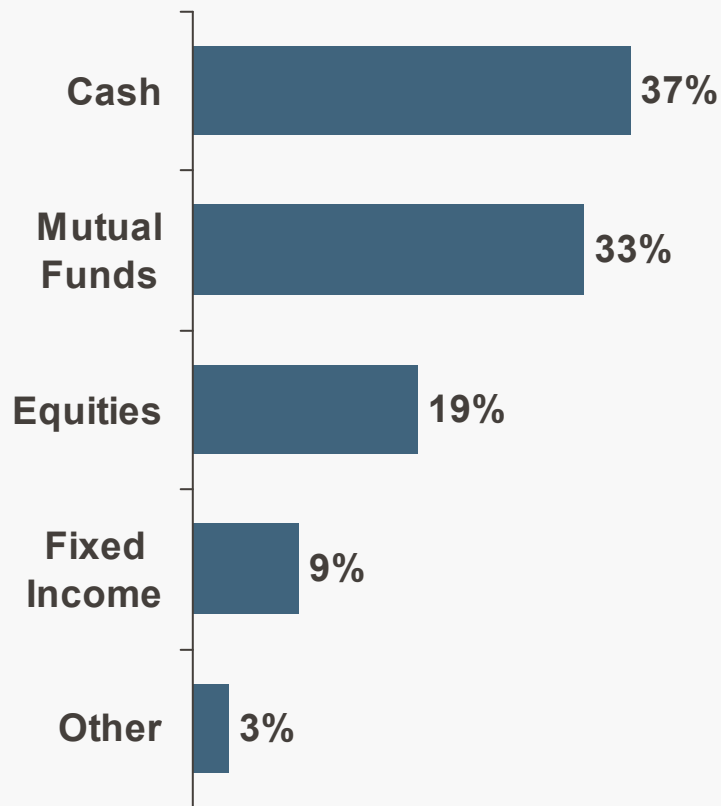
See appendix for all investment vehicles asked per wave.

Source: Q9: For each of the following investment vehicles, please choose the response that best describes how you invest for your clients now and what your plans are for the next six months. (Base = All Respondents; Jan '10 = 1144)

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New ETF money to come from cash and mutual funds

VEHICLES FROM WHICH ADVISORS WILL ALLOCATE ASSETS TO INVEST IN ETFs—JANUARY '10 Those planning to invest in ETFs

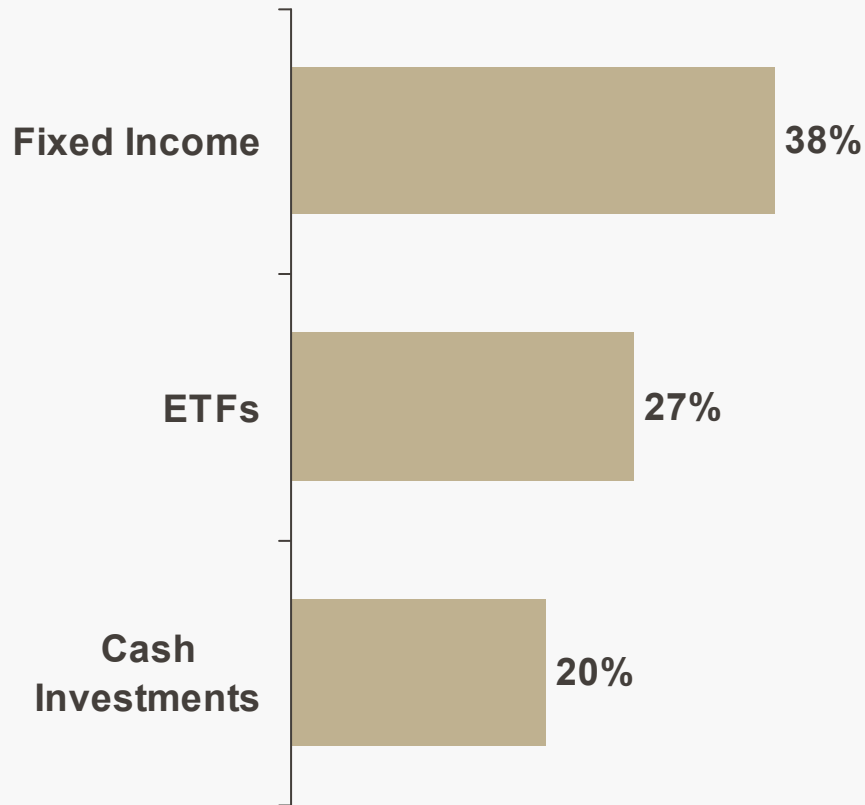


Source: Q11A: If you are allocating more client assets in the next six months to ETFs, from which investment vehicle are the assets most likely to come? (Base = Will invest more, keep current investment level, or will begin to invest in ETFs; excluding "Don't know"; Jan '10 = 723)

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Advisors say interest in fixed income and ETFs is high among investors

TOP 3 PRODUCTS WHERE CLIENTS HAVE RECENTLY EXPRESSED INTEREST —JANUARY '10 All Respondents



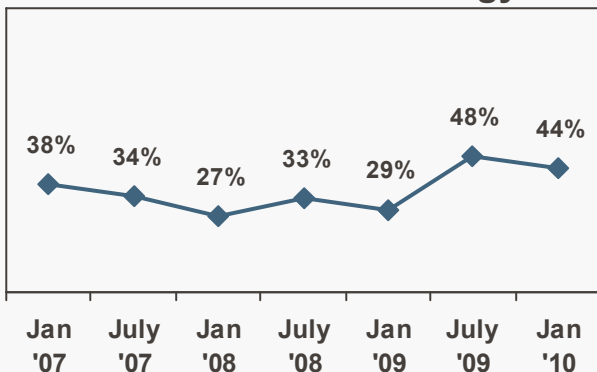
Source: Q11B: Which of the following products, if any, have clients expressed greater interest in during the past six months, as compared to before six months ago? (Base = All Respondents; Jan '10 = 1144)

IT is again ranked as the top market sector; more faith in Health Care, less in Financials

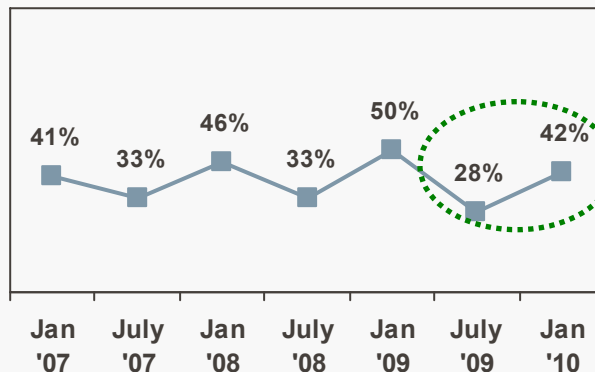
TOP RANKED MARKET SECTORS

All Respondents

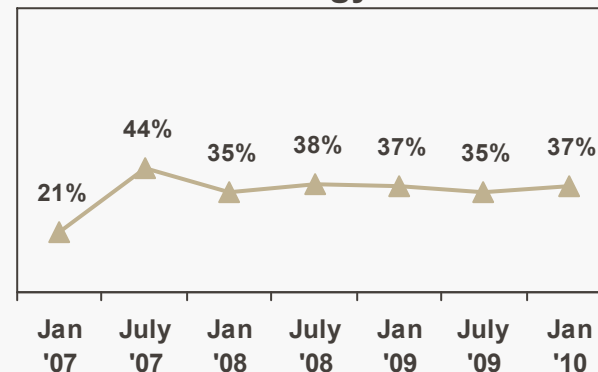
Information Technology



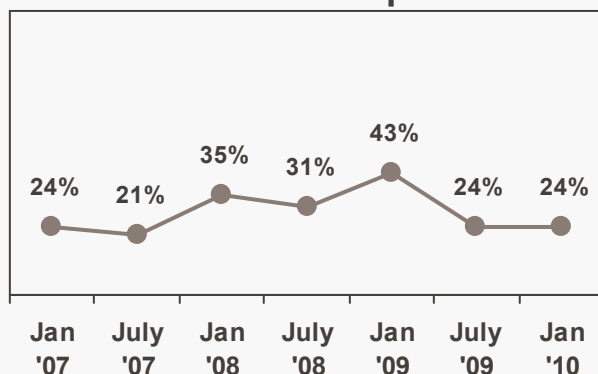
Health Care



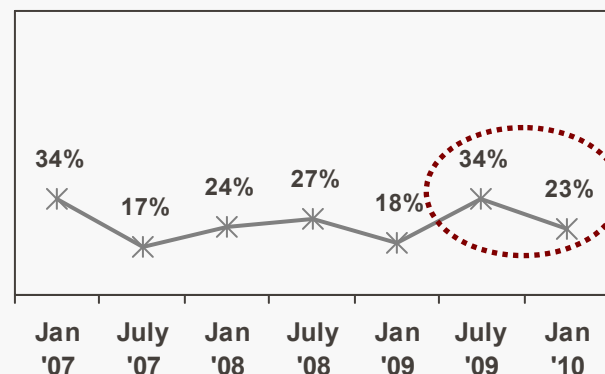
Energy



Consumer Staples



Financials



See appendix for all market sectors per wave.

Appendix

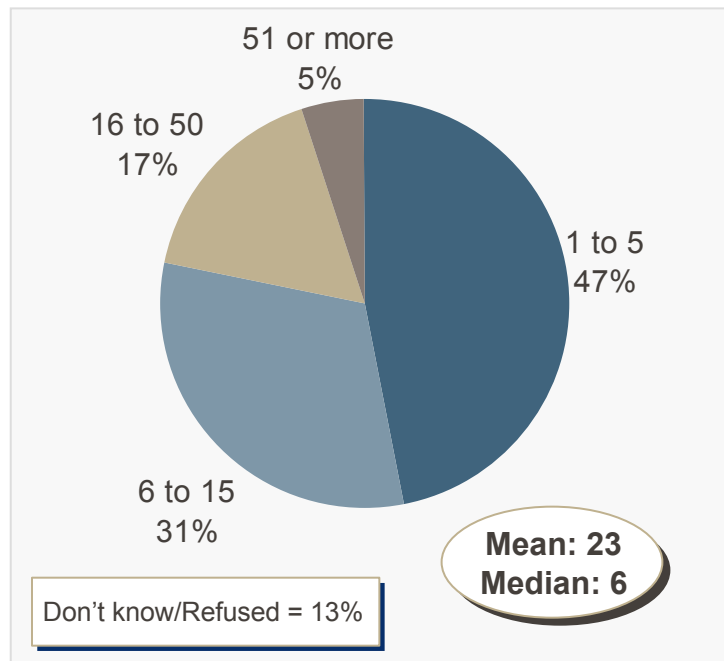
Economic outlook at-a-glance

All Respondents

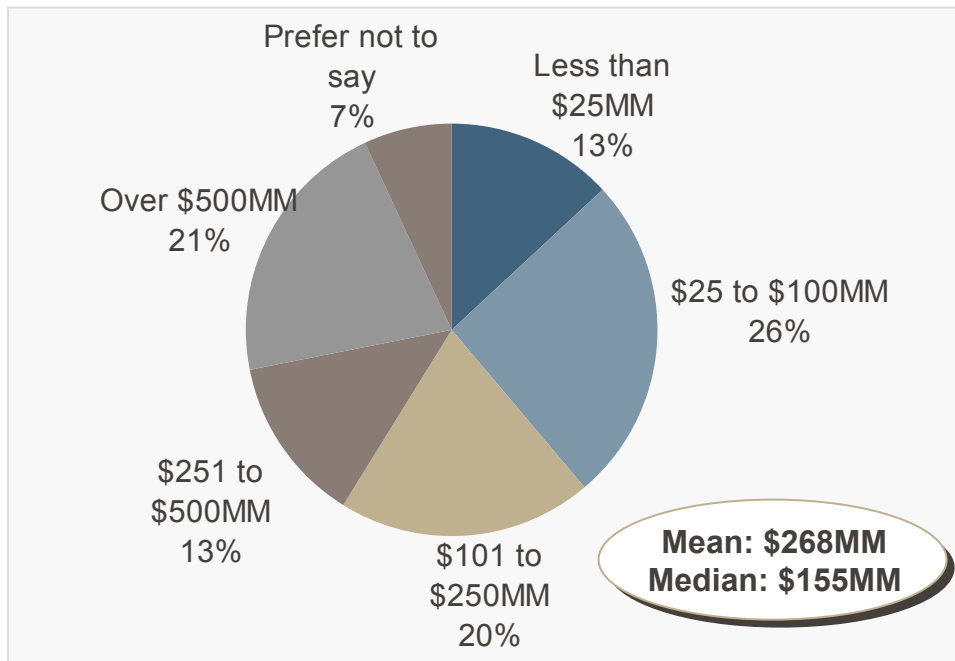
	▲ ▼	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '10	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '10	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '10
S&P 500		UP—MORE/LESS THAN 10%							STAY THE SAME							DOWN—MORE/LESS THAN 10%						
Which of the following best describes what you think will happen to the S&P 500 in the next six months?	▼	78%	67%	46%	58%	53%	72%	65%	10%	15%	13%	14%	19%	11%	13%	12%	17%	41%	28%	28%	17%	22%
DOMESTIC POLITICAL LANDSCAPE		MUCH/SOMEWHAT MORE UNITED							STAY THE SAME							MUCH/SOMEWHAT MORE DIVIDED						
Which of the following best describes your perspective on the United States' domestic political landscape during the next six months?	◀▶	15%	7%	13%	23%	67%	8%	9%	32%	27%	33%	31%	20%	26%	25%	53%	66%	54%	46%	13%	66%	66%
GLOBAL POLITICAL LANDSCAPE		MUCH/SOMEWHAT MORE STABLE							STAY THE SAME							MUCH/SOMEWHAT MORE VOLATILE						
Which of the following best describes your perspective on the global-political landscape during the next six months?	▼	11%	9%	14%	17%	27%	19%	10%	33%	39%	49%	46%	35%	38%	42%	56%	51%	37%	37%	38%	43%	48%
CHAIRMAN BERNANKE		HIGHLY/MODERATELY APPROVE							NO OPINION							HIGHLY/MODERATELY DISAPPROVE						
Which of the following best describes your view of Chairman Bernanke's Federal Reserve Board leadership thus far?	▼	80%	80%	61%	71%	68%	79%	73%	18%	18%	17%	13%	13%	9%	9%	2%	2%	22%	16%	19%	12%	18%
ACHIEVING CLIENTS' INVESTMENT GOALS		EXTREMELY/SOMEWHAT EASY							NEITHER							VERY/SOMEWHAT DIFFICULT						
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?	◀▶	21%	29%	5%	5%	4%	12%	10%	47%	44%	25%	18%	12%	29%	33%	32%	27%	70%	76%	84%	59%	57%
EVENTS		EXTREMELY/SOMEWHAT LIKELY							NEITHER							EXTREMELY/SOMEWHAT UNLIKELY						
Please choose the response that best describes your opinion of each of the below events occurring in the U.S. in the next six months.																						
Consumer savings will increase	▼	N/A	N/A	N/A	N/A	68%	69%	59%	N/A	N/A	N/A	N/A	14%	19%	22%	N/A	N/A	N/A	N/A	18%	12%	19%
Inflation will increase	▲	45%	53%	62%	79%	30%	46%	49%	30%	28%	19%	13%	18%	22%	19%	25%	19%	19%	8%	52%	32%	31%
Consumer spending will increase	▲	40%	35%	16%	19%	14%	43%	47%	30%	28%	23%	21%	17%	22%	23%	30%	37%	61%	60%	68%	35%	30%
Housing market will continue to soften	▲	71%	80%	81%	71%	69%	35%	46%	15%	12%	10%	17%	18%	26%	24%	14%	8%	9%	12%	13%	39%	38%
Unemployment will increase	▼	32%	35%	78%	79%	92%	81%	40%	34%	35%	13%	13%	3%	10%	27%	34%	30%	9%	8%	5%	9%	33%
Federal Reserve Board will raise rates	▲	21%	22%	6%	52%	10%	26%	39%	26%	29%	4%	20%	15%	19%	18%	53%	49%	90%	28%	76%	55%	43%
Energy prices will go down	◀▶	36%	24%	42%	57%	21%	19%	17%	24%	19%	17%	12%	34%	29%	25%	40%	57%	41%	31%	45%	52%	58%

Most advisors work at small firms; average AUM is \$268 million

NUMBER OF EMPLOYEES AT FIRM—JAN '10
Firm Level



ASSETS UNDER MANAGEMENT (AUM) AT FIRM—JAN '10
Firm Level

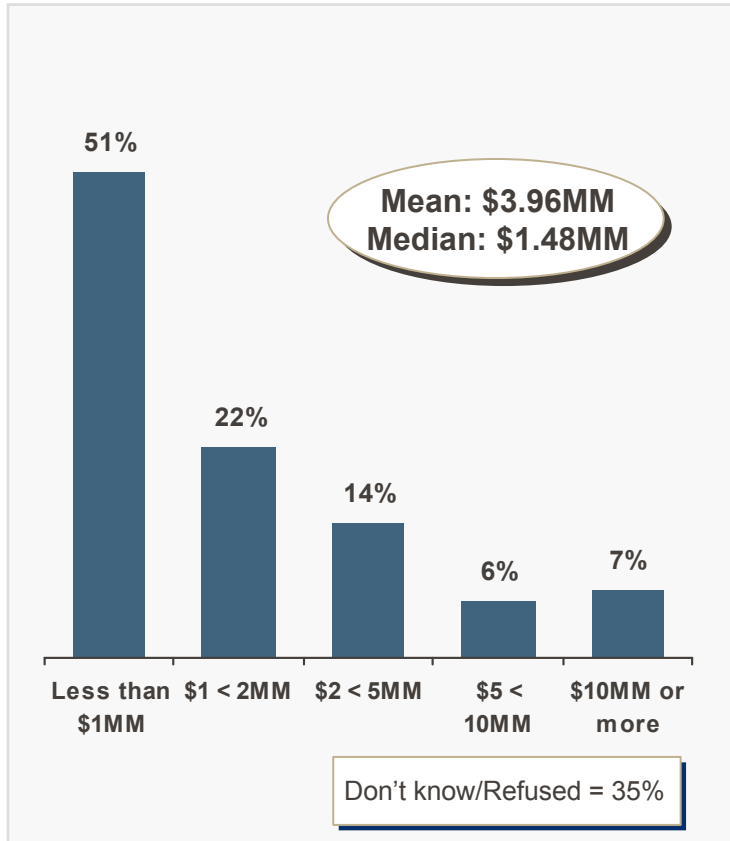


Source: Q23: How many employees, including yourself, are at your firm? Q25: Approximately, what is the total value of assets managed by your firm? Please include assets under management that are custodied at Charles Schwab and at other custodians. (Base = Firm level; Jan '10 = 819/939)

Advisors' firms have on average just over 300 clients whose age is typically around 60

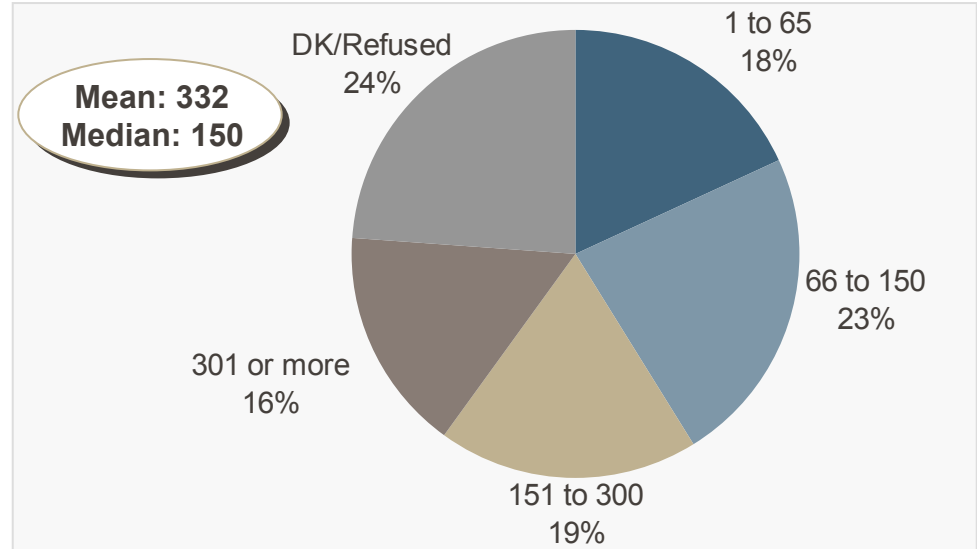
AVERAGE CLIENT ACCOUNT SIZE BY ASSET RANGE—JAN '10

Advisors Responding



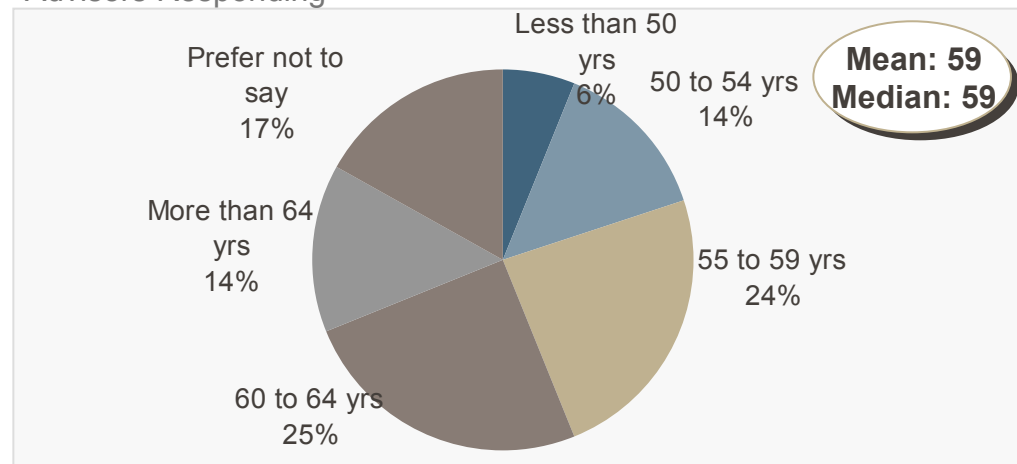
AVERAGE NUMBER OF CLIENTS PER FIRM—JAN '10

Firm Level



AVERAGE CLIENT AGE BY RANGE—JAN '10

Advisors Responding

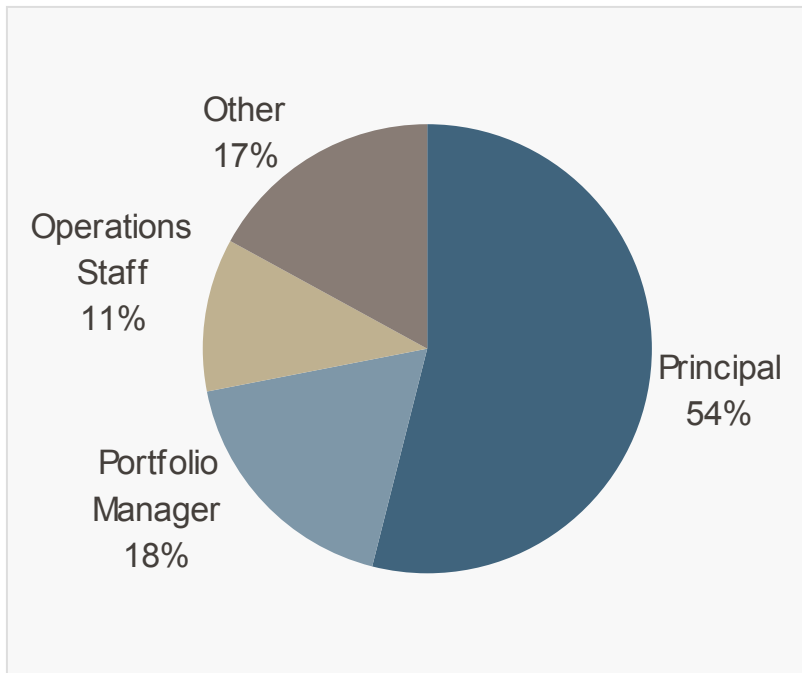


Source: Q26: Approximately how many clients does your firm have in total? (Base = Firm level; Jan '10 = 939); Q27: Approximately what percent of your clients have account sizes in each of the following asset ranges? Q28: Which of the following categories best represents the average age range of your clients? (Base = Advisors responding; Jan '10 = 1135/1132)

More than half are principals; three-quarters are male

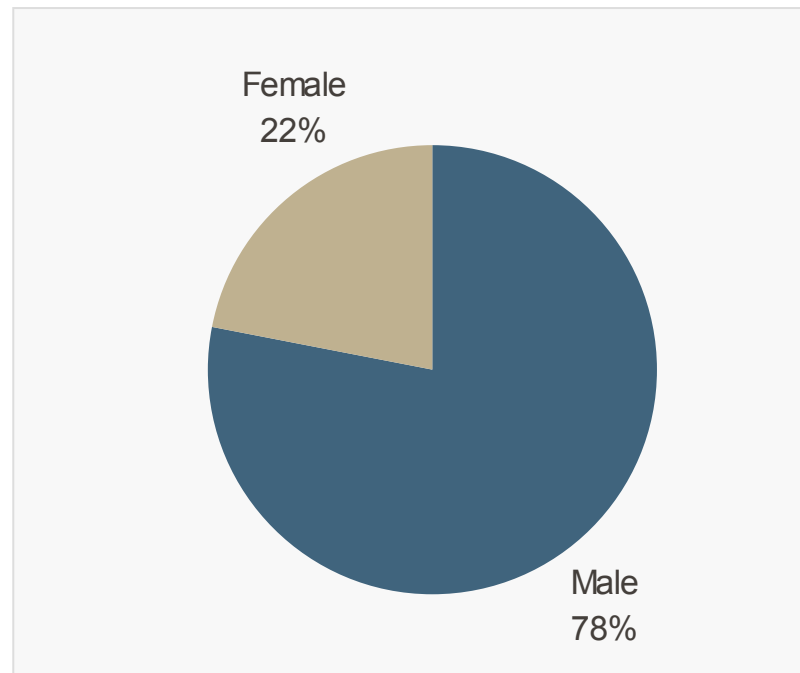
PRIMARY ROLE AT FIRM—JAN '10

Advisors Responding



GENDER—JAN '10

Advisors Responding



Source: Q29: Which of the following best describes your primary role in the Firm? Q32: Are you...? (Base = Advisors responding; Jan '10 = 1123/1125)

Key market sectors

EXPECTED TOP PERFORMING MARKET SECTORS IN THE NEXT SIX MONTHS

All Respondents

SECTOR	FIRST THREE MENTIONS						
	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '10
Information Technology	38%	34%	27%	33%	29%	48%	44%
Health Care	41%	33%	46%	33%	50%	28%	42%
Energy	21%	44%	35%	38%	37%	35%	37%
Consumer Staples	24%	21%	35%	31%	43%	24%	24%
Financials	34%	17%	24%	27%	18%	34%	23%
Materials	10%	20%	12%	20%	16%	27%	21%
Utilities	11%	11%	30%	23%	27%	12%	19%
Industrials	14%	19%	10%	15%	14%	19%	14%
Telecommunication Services	21%	17%	12%	10%	12%	11%	13%
Consumer Discretionary	10%	7%	5%	9%	5%	12%	11%
No View	25%	26%	21%	20%	16%	16%	17%

Source: Q12: Which three market sectors do you think will perform best in the next six months? (Base = All respondents; Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1197)

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Plans for investing per investment vehicle

PLANS FOR INVESTING DURING THE NEXT SIX MONTHS: INVESTMENT VEHICLES—JANUARY '10

All Respondents

INVESTMENT VEHICLES	INVEST NOW AND PLAN TO...					DO NOT INVEST NOW BUT PLAN TO...	
	TOTAL CURRENTLY INVEST	INVEST MORE	CURRENT INVESTMENT LEVEL	INVEST LESS	ELIMINATE	WILL BEGIN TO INVEST	WILL NOT BEGIN TO INVEST
ETFs	81%	36%	40%	4%	1%	3%	15%
High-Yield Bonds	69%	7%	37%	21%	4%	2%	29%
REITs	64%	13%	39%	9%	3%	8%	29%
Commodities	63%	18%	37%	6%	2%	4%	33%
Precious Metals**	56%	14%	33%	7%	2%	3%	41%
Real Estate	52%	11%	31%	8%	2%	5%	43%
Mutual Funds that Employ Hedging Strategies	51%	17%	26%	5%	3%	4%	44%
Separately Managed Accounts	47%	11%	30%	4%	2%	2%	51%
Foreign Currency/Foreign Currency Money Market Funds	35%	9%	19%	4%	3%	5%	60%
Hedge Funds	33%	7%	16%	5%	5%	2%	65%
Options	31%	7%	17%	4%	3%	3%	66%
Private Equity	31%	7%	16%	5%	3%	3%	67%
Donor-advised Funds	31%	3%	22%	3%	3%	2%	66%
Structured Products**	28%	4%	15%	5%	4%	3%	69%
Mutual Fund Wrap Products	28%	3%	17%	3%	5%	1%	71%
ETF Wrap Products*	25%	7%	12%	3%	3%	2%	72%
Unified Managed Accounts**	21%	3%	11%	3%	4%	2%	77%

Source: Q9: For each of the following investment vehicles, please choose the response that best describes how you invest for your clients now and what your plans are for the next six months. (Base = All Respondents; Jan '10 = 1144)

*New to Jan '09.

**New to July '09.

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Plans for investing per asset class

PLANS FOR INVESTING DURING THE NEXT SIX MONTHS: ASSET CLASSES—JANUARY '10

All Respondents

ASSET CLASS	INVEST MORE							KEEP CURRENT LEVEL							INVEST LESS BUT NOT ELIMINATE							ELIMINATE						
	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '10	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '10	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '10	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '10
International Large Cap Equities in Emerging Markets	18%	19%	20%	20%	14%	37%	33%	60%	63%	58%	61%	50%	49%	51%	18%	15%	18%	15%	25%	10%	13%	5%	3%	4%	3%	11%	4%	3%
International Large Cap Equities in Developed Markets	31%	29%	29%	21%	17%	26%	28%	62%	64%	59%	66%	55%	60%	61%	6%	6%	11%	12%	23%	12%	9%	1%	1%	1%	1%	4%	2%	2%
U.S. Large Cap Equities	39%	32%	34%	30%	38%	30%	26%	54%	58%	52%	56%	48%	57%	59%	7%	9%	14%	13%	12%	13%	14%	1%	<1%	1%	1%	1%	1%	1%
International Small Cap Equities in Emerging Markets	10%	12%	11%	14%	9%	27%	24%	58%	61%	55%	61%	49%	55%	55%	25%	20%	25%	19%	26%	13%	17%	7%	6%	9%	6%	16%	5%	5%
International Small Cap Equities in Developed Markets	16%	16%	12%	14%	12%	20%	19%	64%	66%	58%	65%	52%	61%	63%	17%	16%	25%	18%	26%	16%	14%	3%	2%	4%	3%	10%	4%	4%
U.S. Small Cap Equities	7%	7%	9%	22%	27%	31%	16%	58%	59%	49%	57%	54%	56%	61%	33%	32%	38%	19%	16%	11%	21%	2%	2%	4%	2%	3%	2%	2%
Fixed Income	16%	18%	27%	20%	42%	25%	16%	68%	66%	58%	60%	45%	55%	55%	15%	15%	14%	19%	12%	19%	27%	1%	2%	1%	1%	1%	1%	2%
Cash	11%	16%	28%	22%	20%	8%	10%	68%	69%	55%	54%	46%	41%	52%	19%	13%	16%	23%	32%	48%	35%	2%	1%	1%	1%	2%	3%	3%

Source: Q8: For each of the following asset classes, please choose the response that best describes how you plan to invest in that asset class for your clients in the next six months. (Base = All respondents: Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1197; Jan '10 = 1144)

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