

Schwab Institutional

Recently Independent Advisor Study

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Background

- As the largest custodian of assets for independent investment advisors, Schwab Institutional is interested in gathering insights from advisors who have recently made a transition to the independent model in order to build awareness of the independent RIA industry and to educate advisors who might be considering a similar transition.

Methodology

Methodology

- Phone interviews of approximately 15 minutes each were conducted by Koski Research from September 16 to October 3, 2008.
- All respondents were clients of Schwab Institutional.
- A total of 55 interviews were completed.
- Advisors in this study manage approximately \$7.2 billion in assets.

Highlights

Highlights

- **Investment advisors are becoming independent RIAs to benefit themselves and their clients.**
 - 75% of advisors cite preferring to work for themselves as “very important” to their decision to go independent.
 - 62% of advisors cite wanting to provide clients with more personalized service as “very important” to their decision to go independent.
 - 62% cite an opportunity for greater financial success.
 - 60% cite dissatisfaction with prior employers’ business model.
 - 53% cite a desire to provide a broader set of products and services to clients.

Highlights cont.

- **Almost all advisors surveyed (98%) say they would go independent again. And...**
 - 96% state that they have more control over their practice.
 - 94% are more confident in their ability to retain clients.
 - 86% say that going independent brought them greater income than expected.
 - 80% report that their success at winning new clients is better than expected.
- **Advisors' biggest challenge is evaluating and choosing technology for their practice (51%).**

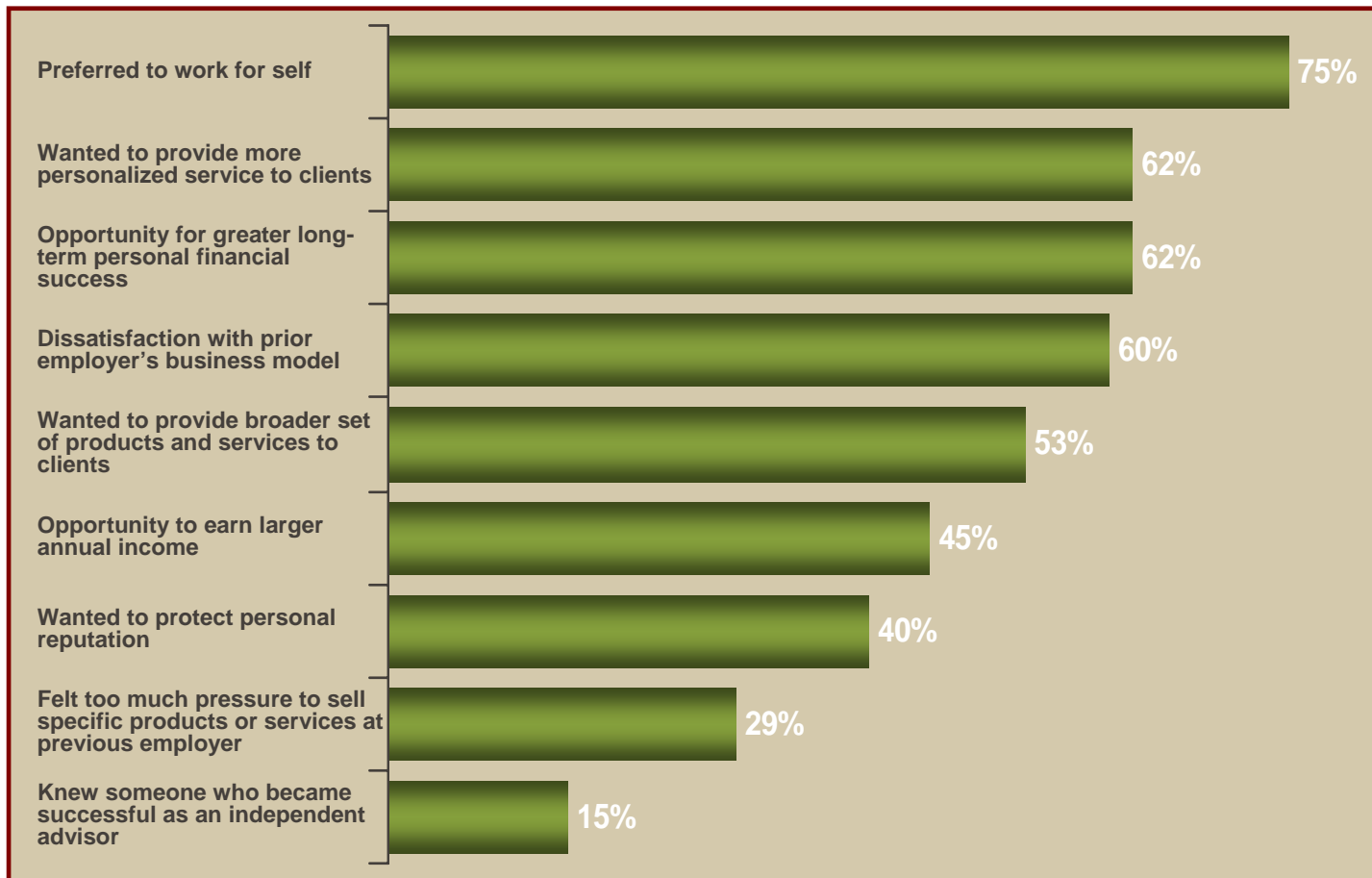
Detailed Results

Motivations

Advisors decide to go independent for both personal reasons and to become more client-focused

REASONS FOR BECOMING AN INDEPENDENT ADVISOR

All Respondents: Very Important responses



Source: Q7. Next, I am going to read you a list of other potential reasons why some individuals may decide to become an independent investment advisor. For each one, please tell me if the reason was very important, somewhat important, or not at all important to your own decision. (Base = All respondents: 55)

Advisors explain in their own words that they wanted to have greater independence and the ability to serve clients better

THEME	COMMENTS ABOUT REASONS FOR GOING INDEPENDENT
<ul style="list-style-type: none"> ▪ Have Own Business 	<ul style="list-style-type: none"> ▪ <i>“The pure freedom it would offer me. Running my own business—no boss anymore.”</i> ▪ <i>“I’m not a large company person. I’m more of an independent, entrepreneurial person.”</i> ▪ <i>“I get to decide who I work with, what products I use, the strategy. I like the flexibility of working on my own.”</i> ▪ <i>“To have full independence. To be able to manage my accounts the way I wanted to, with no restrictions or limitations from a brokerage firm.”</i> ▪ <i>“Independence and flexibility.”</i> ▪ <i>“We wanted to own our own business, to have more control and to do it better.”</i>
<ul style="list-style-type: none"> ▪ More Personalized Client Service 	<ul style="list-style-type: none"> ▪ <i>“Client satisfaction. Just being able to do the best thing for my clients.”</i> ▪ <i>“Better customer service—the ability to focus on my clients and provide them with the tools that best meet their needs.”</i> ▪ <i>“To be able to choose solutions truly for the clients’ best interests. There are more benefits for our clients at our disposal.”</i> ▪ <i>“The choice to put my clients first. That freedom is tremendous.”</i>
<ul style="list-style-type: none"> ▪ More Objectivity 	<ul style="list-style-type: none"> ▪ <i>“Basically, [former firm] has products they would like you to sell. I didn’t want to sell proprietary products from the firm anymore.”</i> ▪ <i>“There’s lots of conflicts of interest at big companies, and I really wanted to get away from that. Now, I can truly give independent advice.”</i> ▪ <i>“[Former firm] is a sales organization, so you have to follow and listen to what they’re selling. When you’re independent, you can do what’s right and lose that pressure.”</i>
<ul style="list-style-type: none"> ▪ Financial Success 	<ul style="list-style-type: none"> ▪ <i>“Cutting out the overhead from a large firm. I don’t lose that money now.”</i> ▪ <i>“Unlimited potential revenue—the opportunity to make more money for me and my family.”</i> ▪ <i>“It’s more lucrative when you’re independent. More revenue, more potential income. Everyone wants to make more money.”</i>

They feel that they can now focus on clients more and serve them better through greater flexibility and objectivity

THEME	COMMENTS ABOUT BEING ABLE TO PROVIDE PERSONAL SERVICE
<ul style="list-style-type: none"> Wider Range of Products 	<ul style="list-style-type: none"> “We have a relatively unlimited number of resources at our disposal—we can provide a better number and greater variety of products.” “The fact that we can provide a better line-up of alternative investments. We can now do a lot of different things that my previous employer wouldn’t allow.” “Our products are not restricted, so we have a much larger investment platform.”
<ul style="list-style-type: none"> Increased Client Focus 	<ul style="list-style-type: none"> “It’s really a hands-on, one-on-one relationship with the client. You’re right there, doing it all and not telling someone else what to do for you instead.” “Now that I’m on my own, I do everything in person.” “I have the ability to be more thorough, to spend more time with my clients and deal with their issues.” “We have a much smaller number of clients per advisor, and can really focus on each client’s individual situation and needs.” “I have the option of working only with the people that I want to work with—so, I work with fewer people, which allows me more time per client to build that relationship.”
<ul style="list-style-type: none"> Customized Product Offerings 	<ul style="list-style-type: none"> “Things now depend on the individual’s needs. Mainly, just creating solutions that are not rigid.” “We have the ability to do more customized work and provide more customized investment portfolios.” “I get to choose the right portfolio product, select the best product offering.”
<ul style="list-style-type: none"> More Objectivity 	<ul style="list-style-type: none"> “I can use my own research to support my strategic advice without having to offer simply what my previous employer offered.” “I can really do what’s best for the clients now, especially because I’m not required to sell any specific individual products.” “We can be much more objective, and that applies to all areas of the business.”

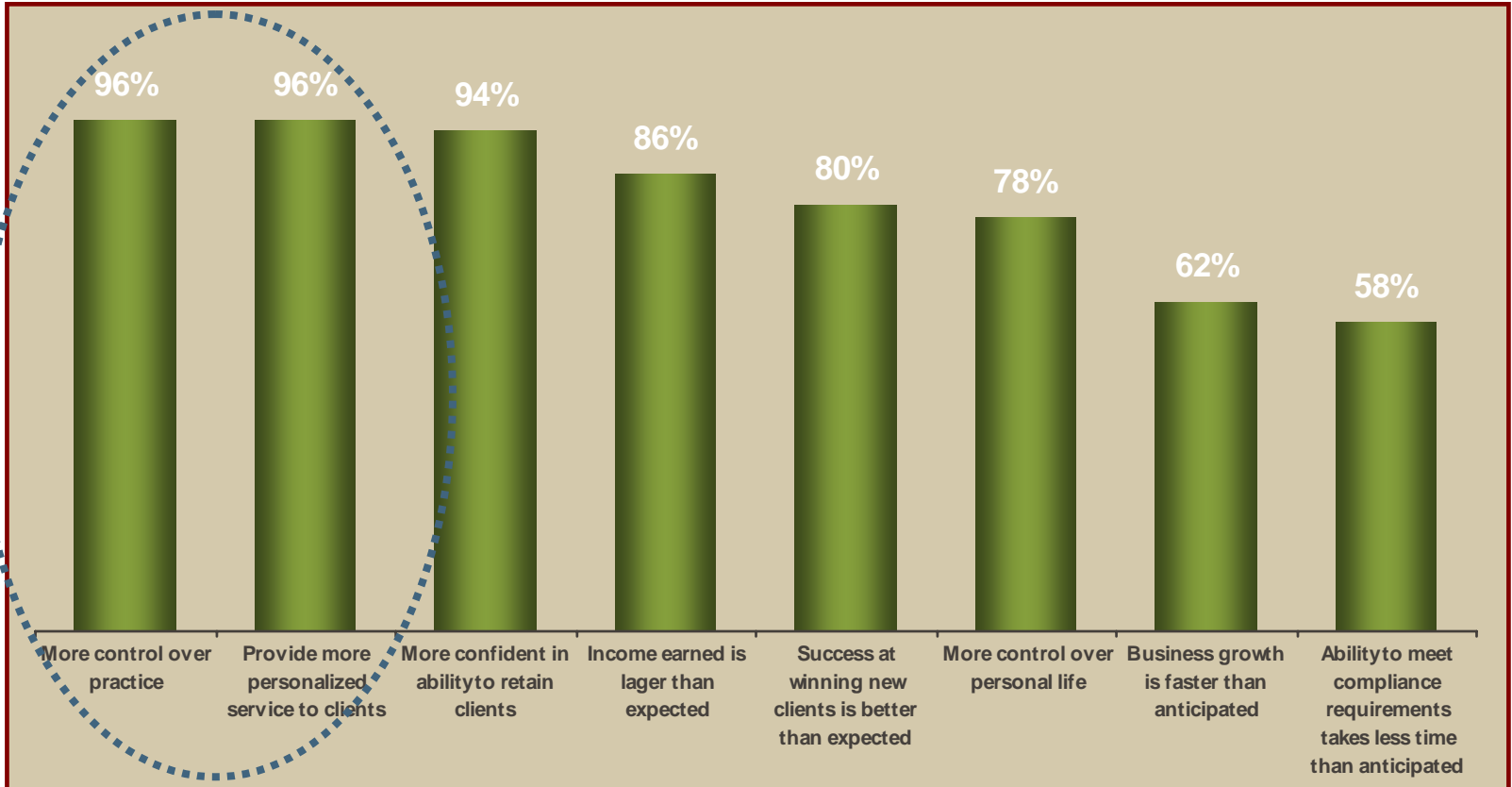
Source: Q9. You mentioned that providing personalized service was important to you. Now that you are an independent advisor, please tell me about the ways in which you are able to provide more personal service to your clients. (Base = All respondents who rated personalized service as “very important” for Q7: 48)

Attitudes about Becoming Independent

Becoming an RIA both facilitates control over the practice and allows for more personalized client service

AGREEMENT WITH POSITIVE OUTCOMES SINCE BECOMING INDEPENDENT

All Respondents: Strongly and Somewhat Agree

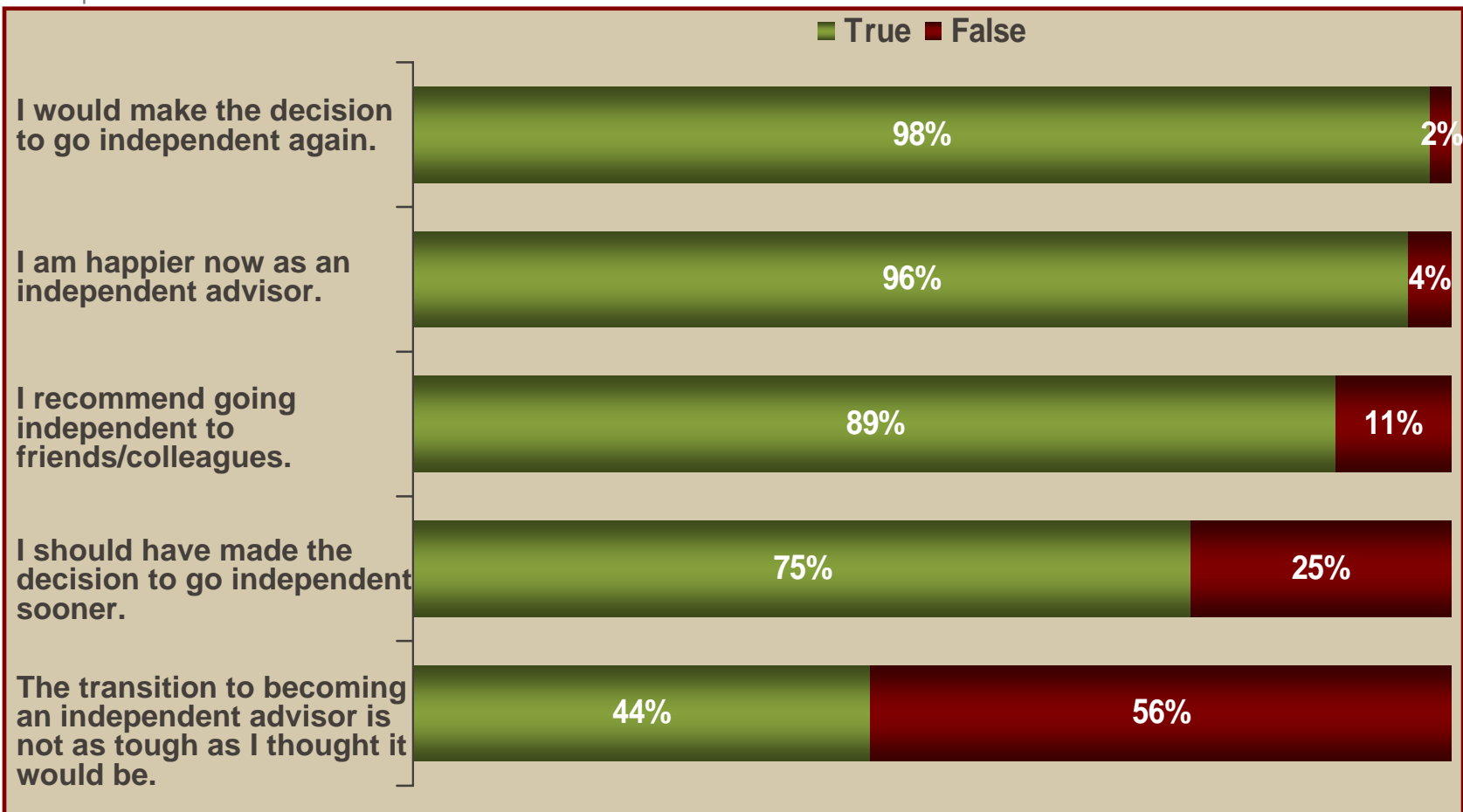


Source: Q12. Now that you are an independent investment advisor, do you strongly agree, somewhat agree, or do not agree at all that...? (Base = All respondents who started own firm and answered question: 52)

Nearly all advisors are highly satisfied with their decision, although the transition was not necessarily easy

EVALUATION OF DECISION TO GO INDEPENDENT

All Respondents



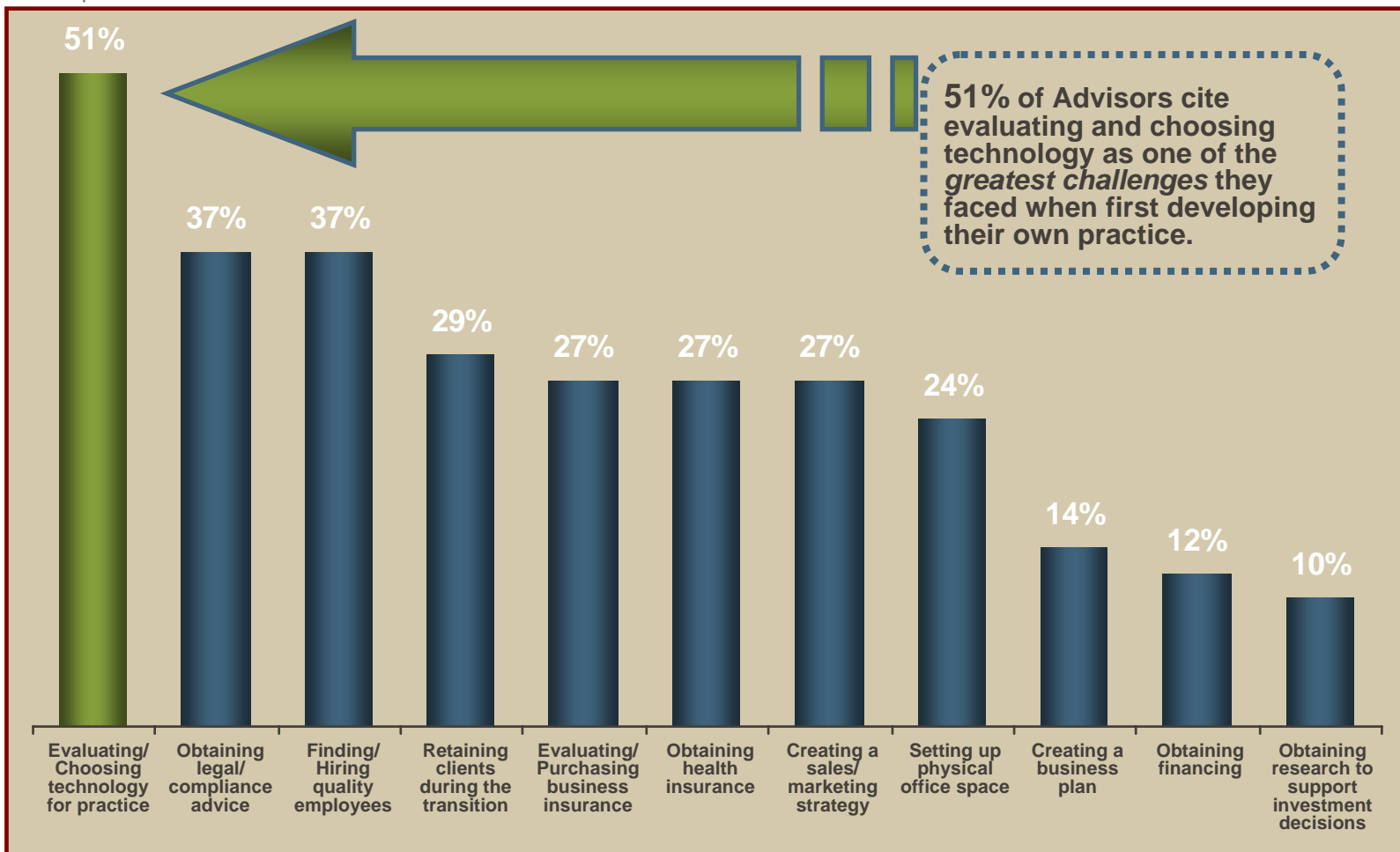
Source: Q13. For each of the following, please say true if the statement applies to you and false if it does not. (Base = All respondents: 55)

Practice Development

The greatest challenges in going independent are choosing technology, followed by obtaining legal advice and hiring employees

CHALLENGES TO ESTABLISHING INDEPENDENT PRACTICE

All Respondents



Source: Q10. In the first year of developing your practice as an independent advisor, which of the following, if any, did you find challenging? (Base = All respondents who answered question: 51)

About half of Advisors report that their assets have grown at a higher rate, since going independent

ANNUAL ASSET GROWTH RATE BEFORE VS. AFTER INDEPENDENT

All Respondents

RATING	TOTAL
Higher	49%
About the Same	35%
Lower	11%
DK/Refused/NA	5%

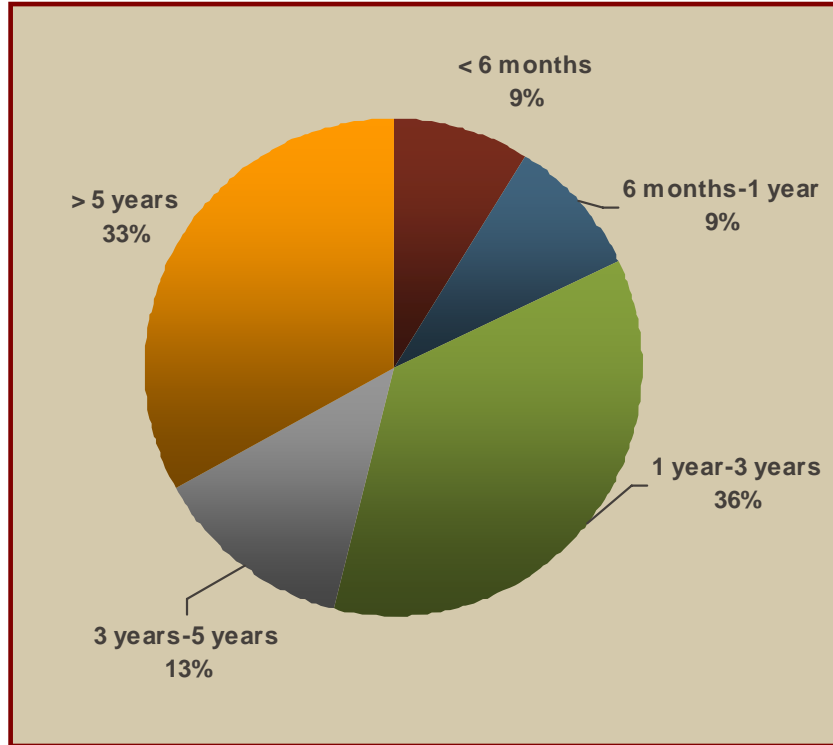
Source: Q20. Now that you are an independent investment advisor, is your annual growth rate for assets under management...than it was prior to becoming an independent investment advisor?
(Base = All respondents who answered question: 48 - 55)

Recently Independent Advisor Profile

Most advisors started their own firm in past five years

TENURE AS AN INDEPENDENT ADVISOR

All Respondents

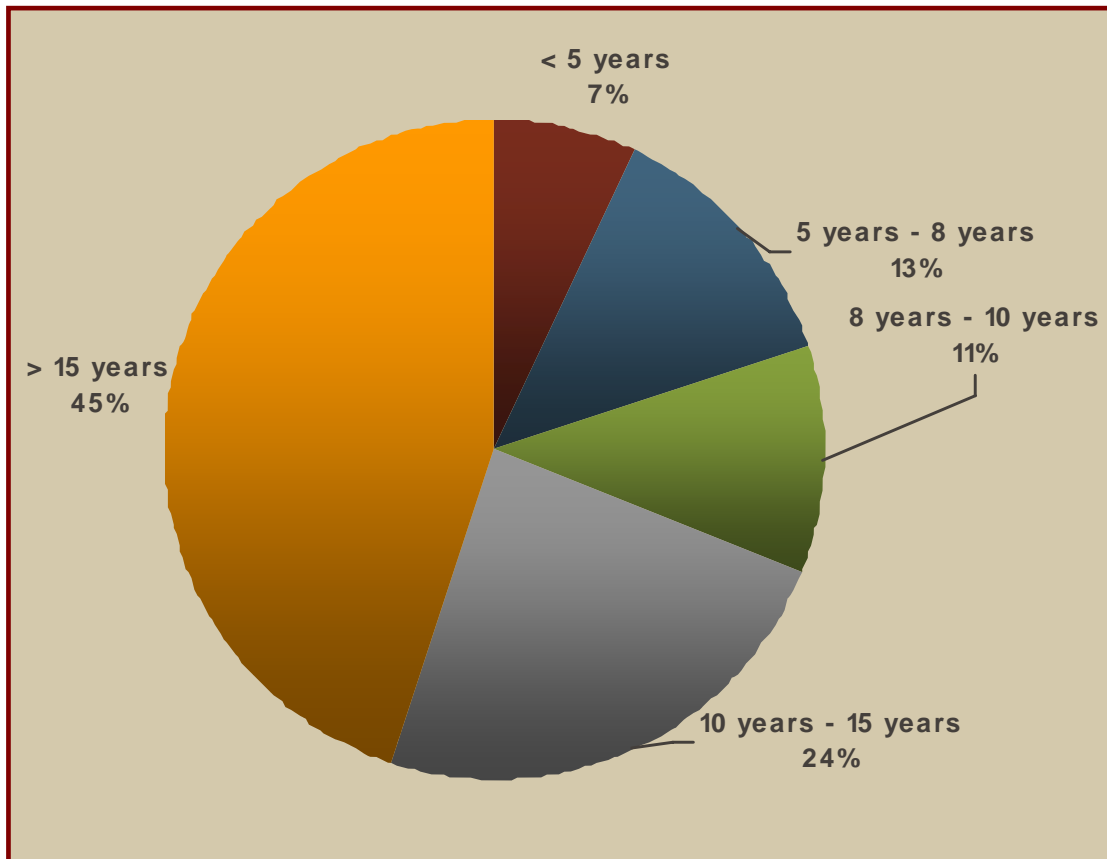


Source: Q3. How long have you been an independent investment advisor, including any time before you were working with Schwab Institutional, if any? (Base = All respondents: 55)

Almost half have more than 15 years of experience

OVERALL TENURE IN INDUSTRY

All Respondents

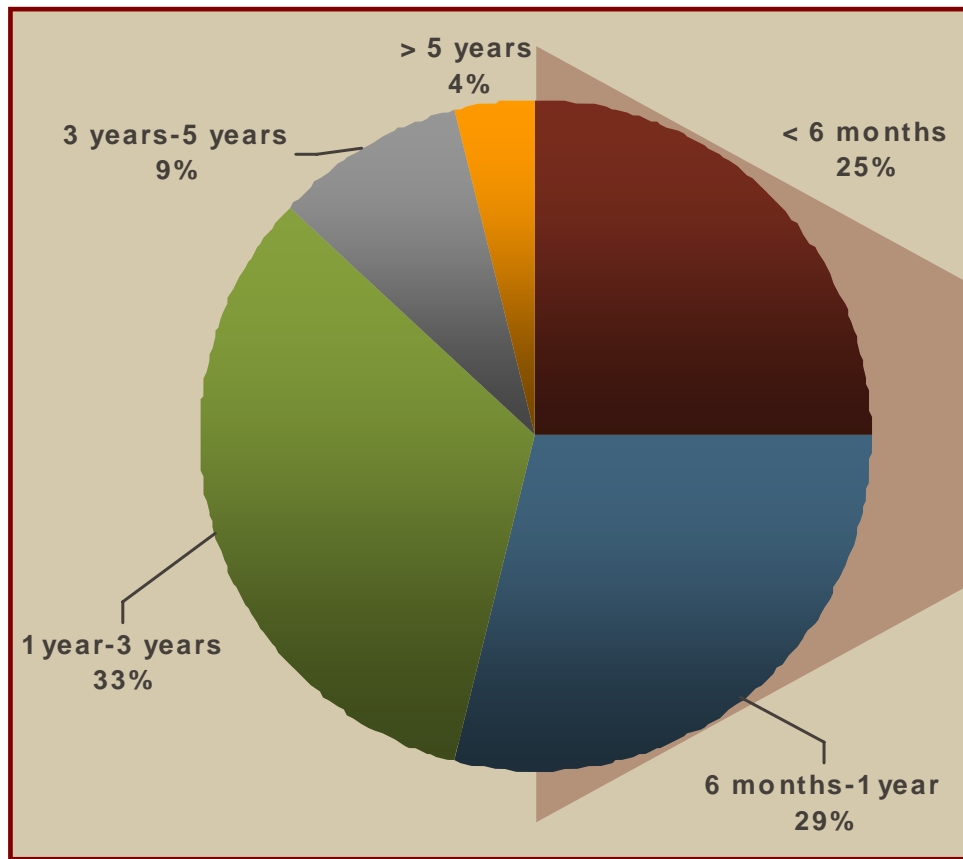


Source: Q14. How long have you worked as an investment advisor, including as a financial advisor, consultant, broker and as an independent investment advisor? Please include the time at your current firm as well as any other firms you worked with previously? (Base = All respondents: 55)

Over half took a year or less to make the decision to go independent

TIME FOR DECISION TO GO INDEPENDENT

All Respondents



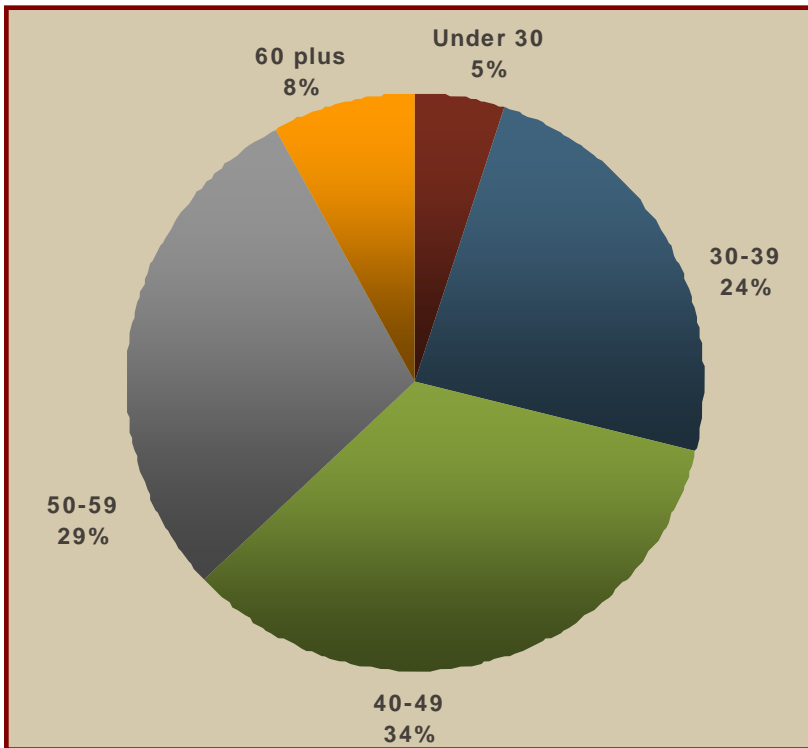
54% of advisors took less than one year to make the decision to go independent.

Source: Q4. How long did it take you to make the decision to become an independent registered investment advisor? (Base = All respondents: 55)

The majority are males, 40 to 59 years of age

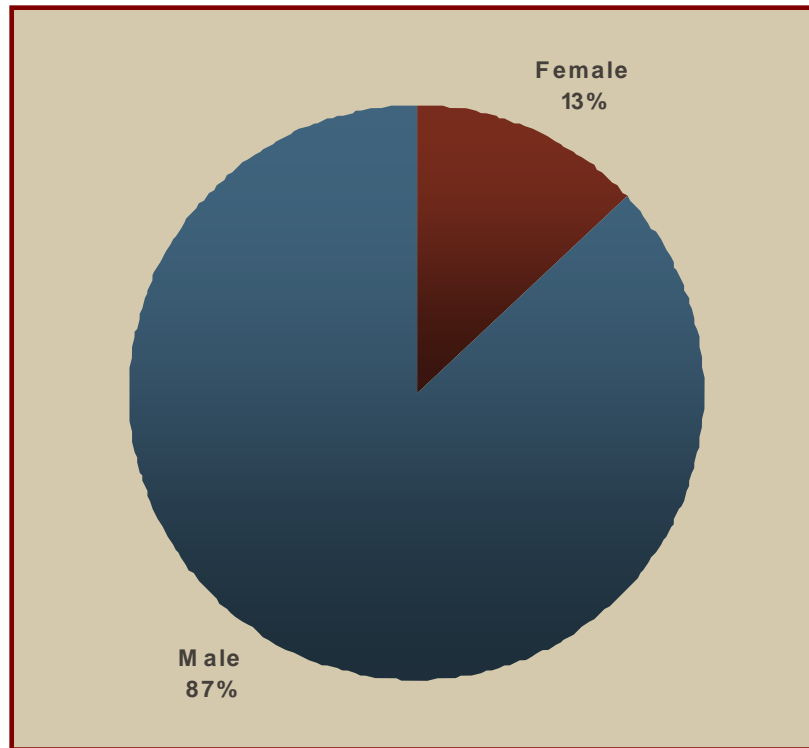
AGE

All Respondents



GENDER

All Respondents



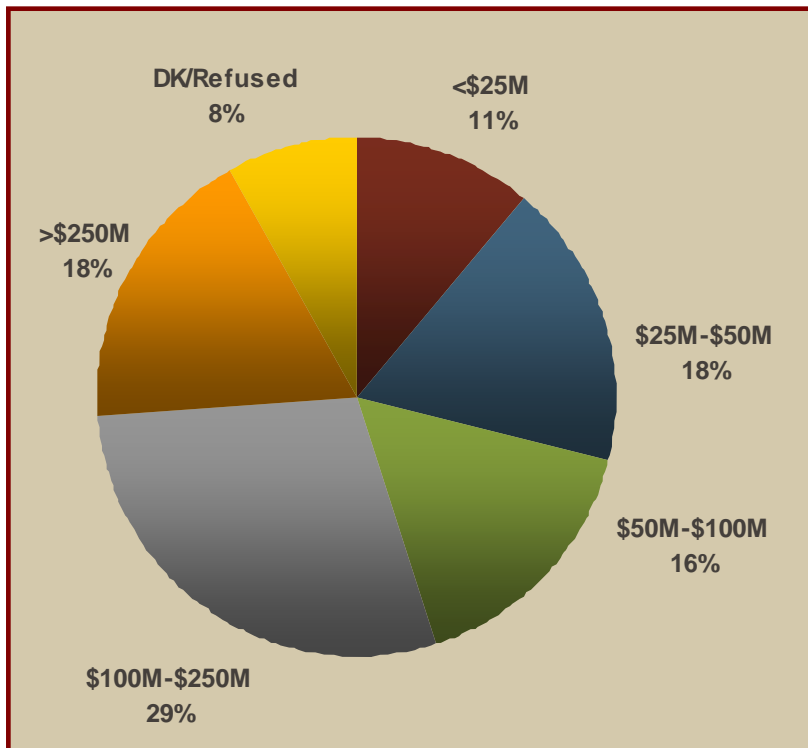
Source: Q22. Is your age...? Q23: Gender... (Base = All respondents: 55)

Firmographics

Most firms manage \$25 - \$250M in assets, and have an average client account size of under \$5M

TOTAL ASSETS MANAGED BY FIRM

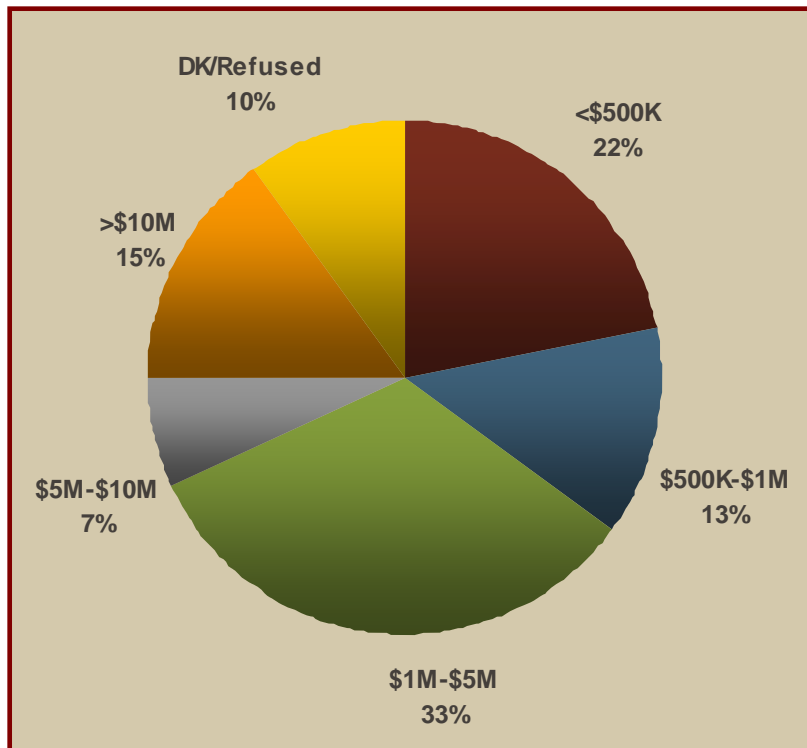
All Respondents



- Mean = \$131.5M
- Median = \$175M

AVERAGE "END-CLIENT" ACCOUNT SIZE

All Respondents



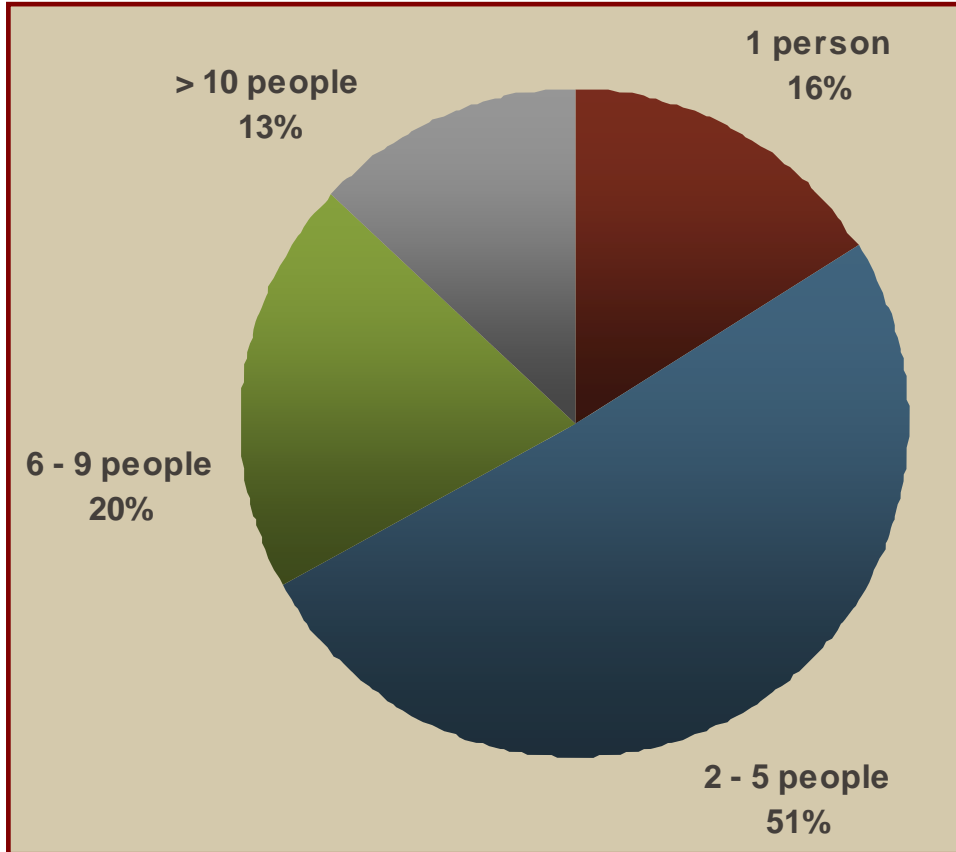
- Mean = \$4.2M
- Median = \$2.5M

Source: Q16. Approximately, what is the total value of assets managed by your firm today? Q21. What is the average account size of the majority of your clients? (Base = All respondents: 55)

Half of recently independent advisors have between two and five employees at their current firm

NUMBER OF EMPLOYEES AT FIRM

All Respondents



- Mean = 5 employees
- Median = 3 employees

Previous employers mainly include full service firms, as well as IBDs and Bank/Trusts

COMPANY TYPE	TOTAL
▪ Full Service	44%
▪ IBD	18%
▪ Bank/Trust	18%
▪ Other	20%

Source: Q5. Where did you work just prior to becoming an independent investment advisor? (Base = All respondents: 55)