

Independent Advisor Outlook Study

August 2009

Wave 6

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Background

- Charles Schwab & Co., Inc. 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 June 30, 2009 client assets of advisors custodied with Schwab stood at \$505 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.
 - Many of the questions are repeated in order to track and report changes in attitudes over time, and other questions appear seasonally.
 - The aggregate results are shared with the news media to help paint a more complete picture of the role played by independent investment advisors.

Methodology

What

- The Independent Advisor Outlook Study is an online study conducted for Charles Schwab by Koski Research. The study has a 2.89% margin of error.
- Koski Research is neither affiliated with, nor employed by, Charles Schwab & Co., Inc.

Who

- 1,197 advisors employed by independent investment advisor firms, whose assets are custodied at Schwab, completed the survey.
 - 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 six waves of the study are made.

When

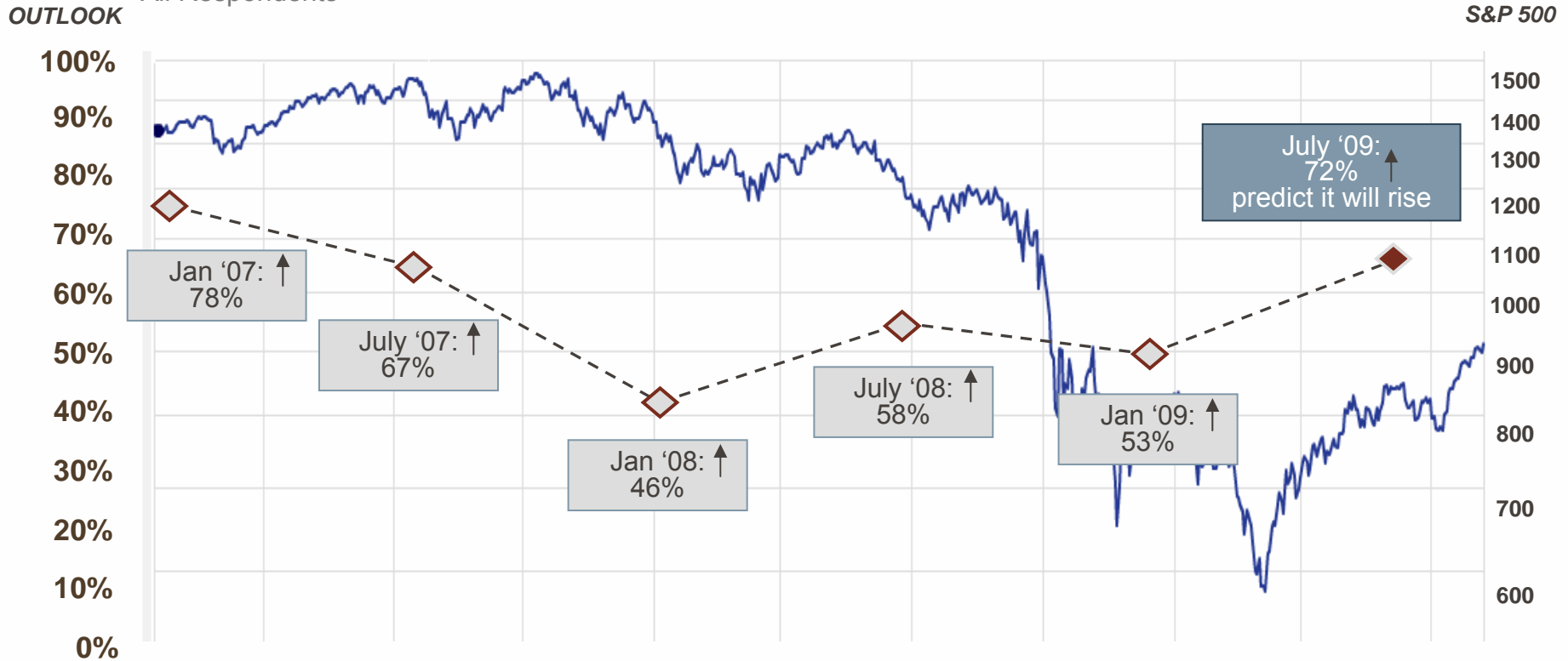
- The study was conducted from July 28 to August 7, 2009.

Economic Outlook

Advisors' six-month outlook for the S&P 500 is the most optimistic in two years

PERFORMANCE OF THE S&P 500 BY ADVISORS' PREDICTIONS IT WILL INCREASE

All Respondents



AVERAGE	AVERAGE DAILY OPENING VALUE WHILE IN FIELD						JAN '07 TO JULY '09
	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	
S&P 500	1429.28	1530.25	1337.63	1246.76	836.92	994.17*	435.11 ▼
Outlook	78%	67%	46%	58%	53%	72%	6% ▼

Source: Graph from <http://finance.yahoo.com>

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 = 1020; July '09 = 1197)

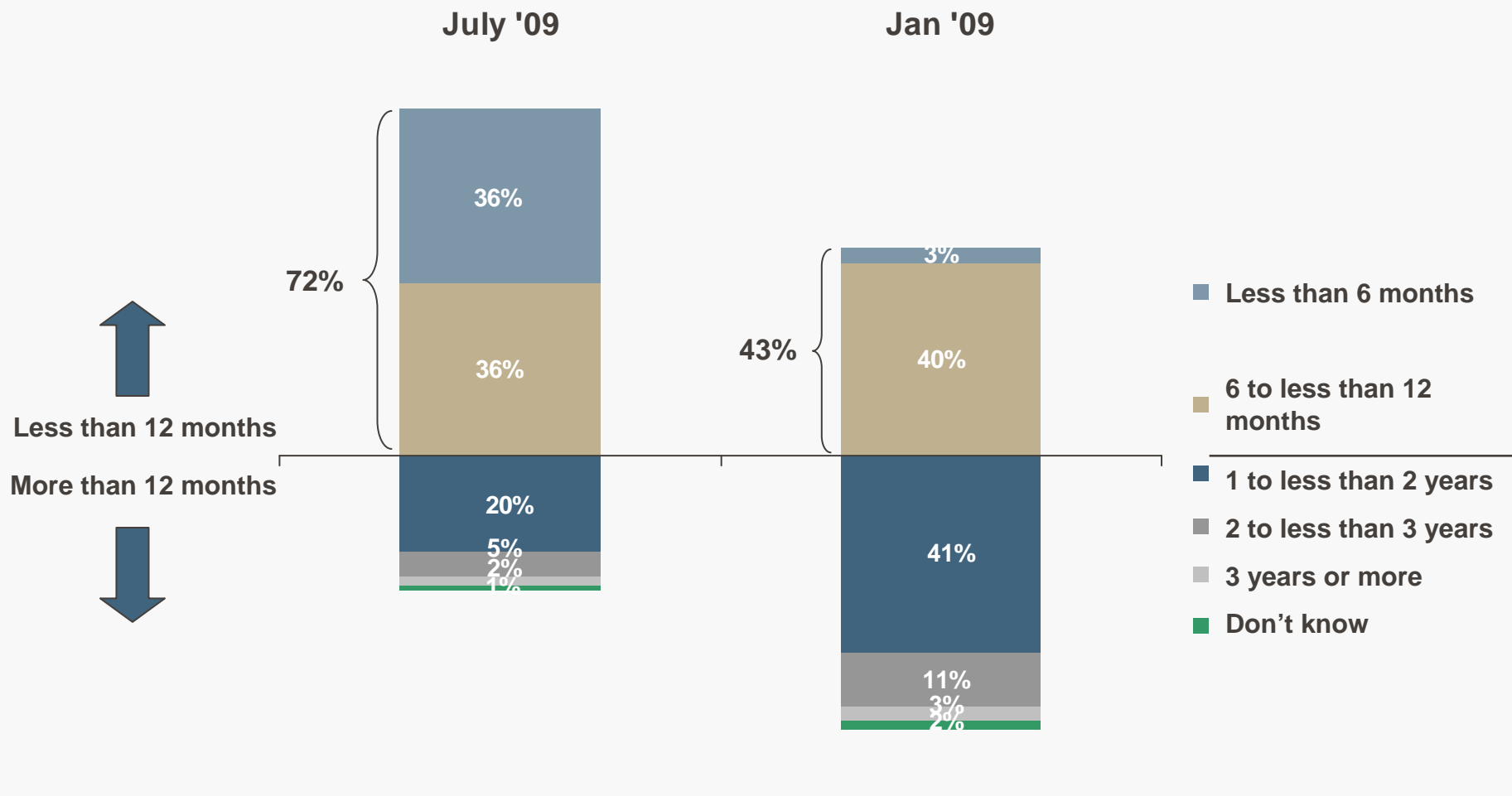
*Note: Standard deviation of opening values during the July '09 fielding period was around 12 points

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Most advisors expect the current economic recession will be over within 12 months

LENGTH OF TIME ADVISORS EXPECT CURRENT RECESSION TO LAST

All Respondents



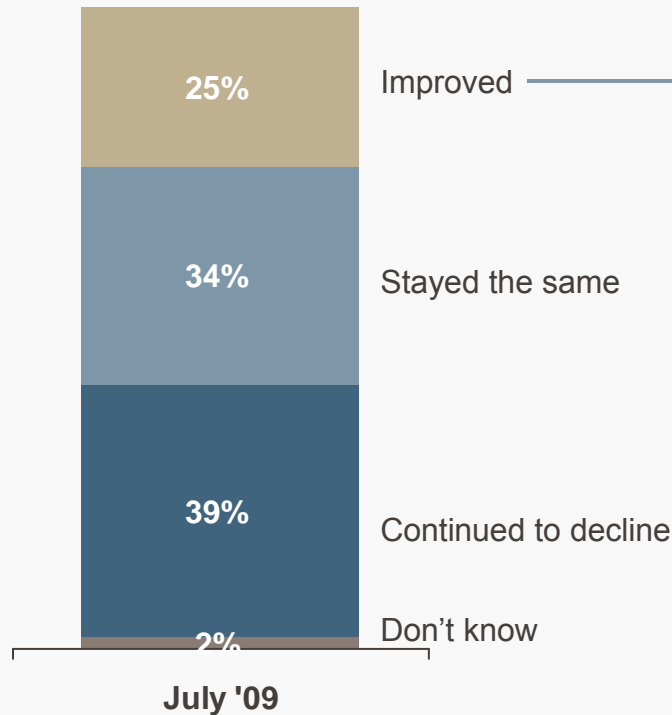
Source: Q4G: How long do you expect the current economic recession to last? (Base = All respondents; Jan '09 = 1240; July '09 = 1197)

Advisors in the Northeast and the South are more likely to say their local economies have improved

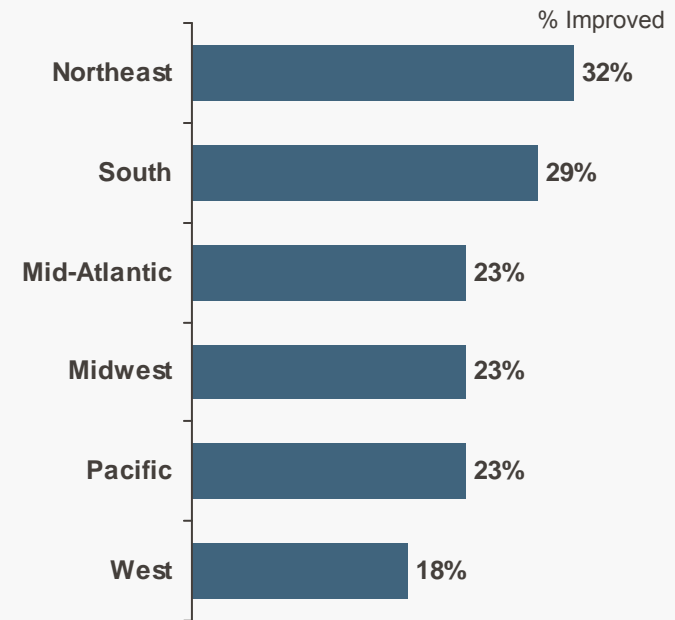
PERSPECTIVE ON LOCAL ECONOMY

All Respondents

Compared to six months ago, my local economy has...



Compared to six months ago, my local economy has improved (by region)



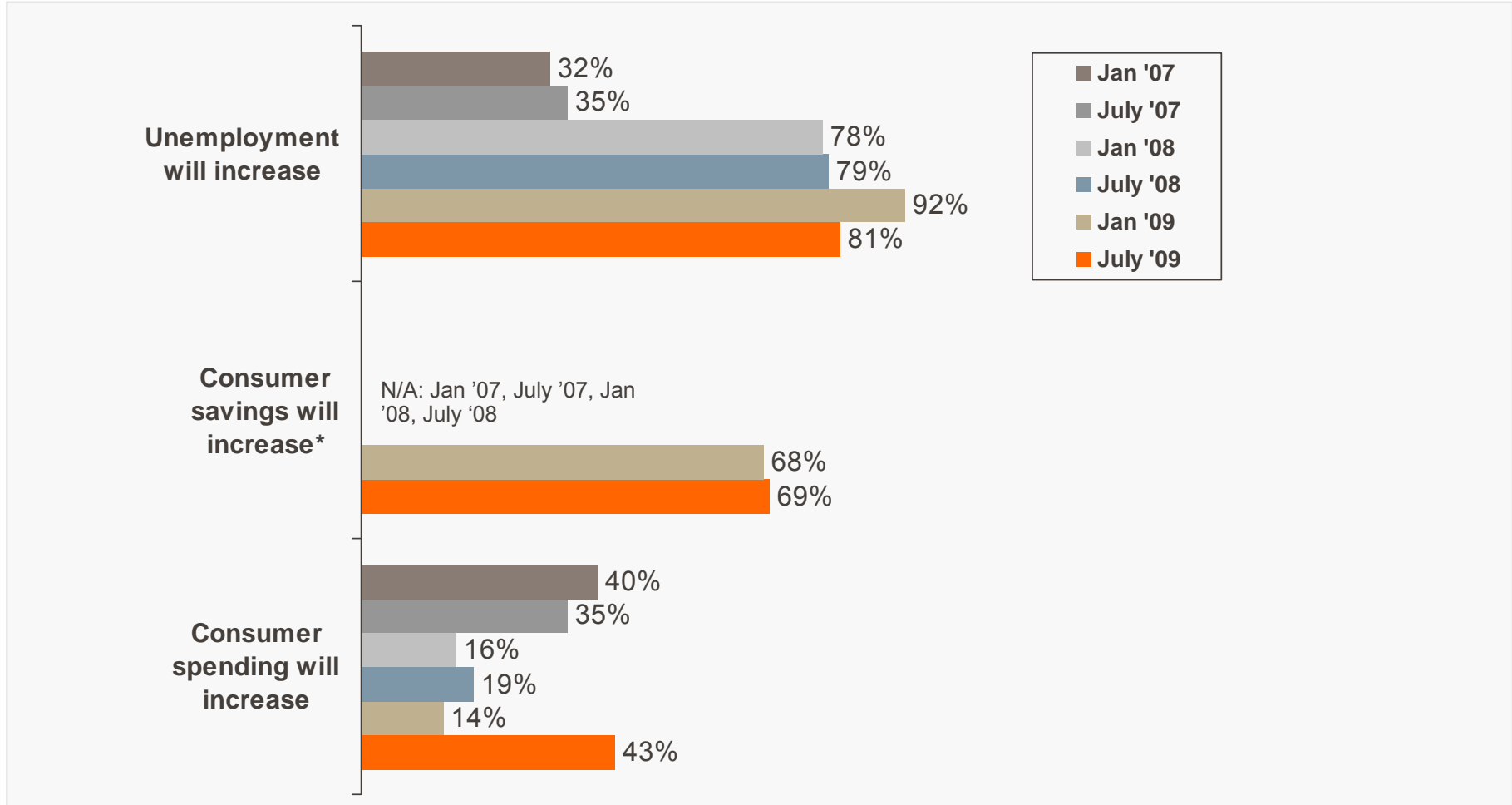
Source: 4I: Compared to six months ago, is your local economy...? (Base = All respondents; July '09 = 1197 & Geographic comparison: 88/251/131/262/254/88)

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Most advisors hold the view that unemployment is likely to increase

LIKELIHOOD THAT EVENTS WILL OCCUR IN THE U.S. DURING THE NEXT SIX MONTHS

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; Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1197)

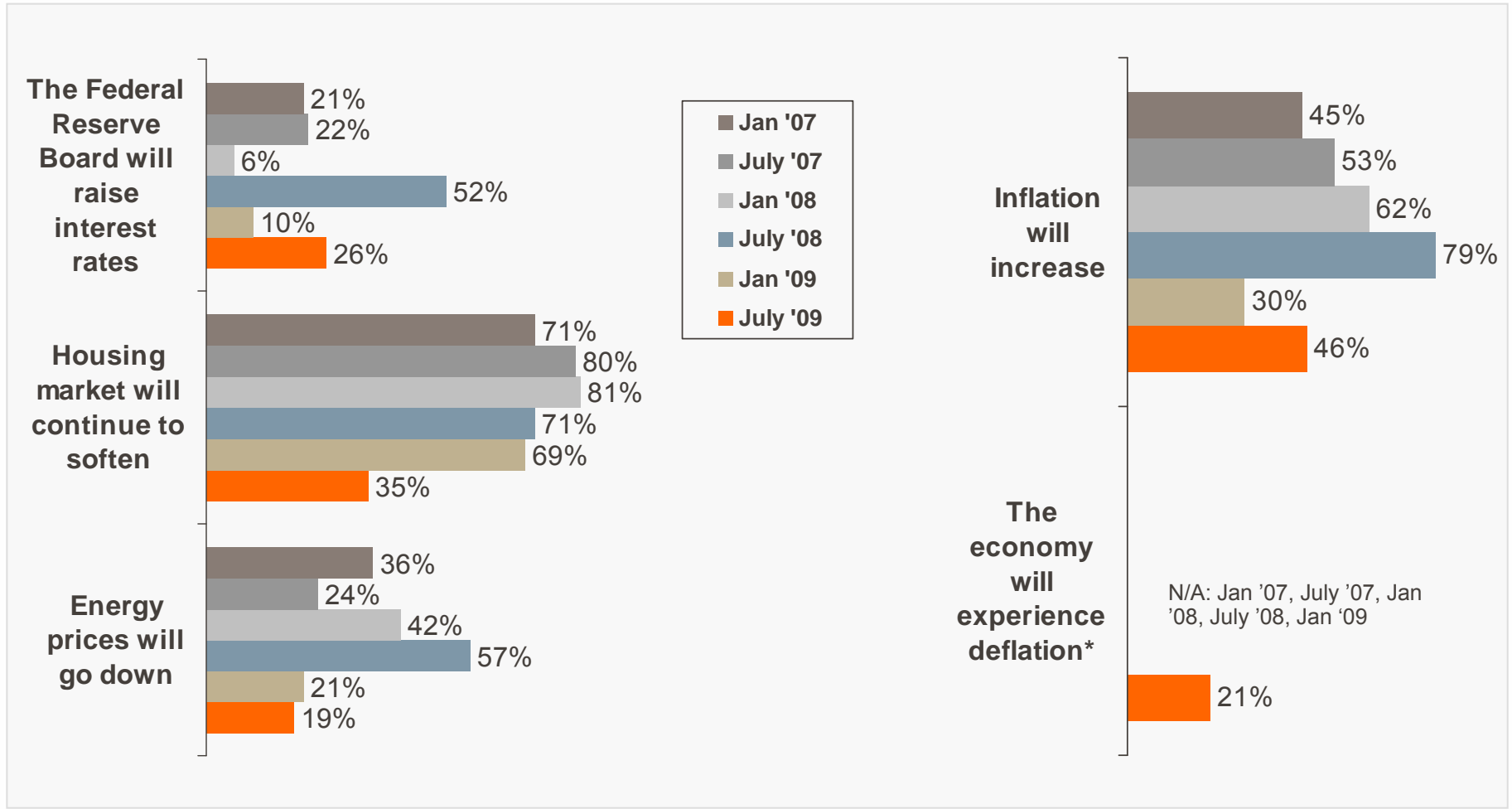
*New to Jan '09

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Fewer advisors now believe that the housing market will continue to soften

LIKELIHOOD THAT EVENTS WILL OCCUR IN THE U.S. DURING THE NEXT SIX MONTHS

All Respondents



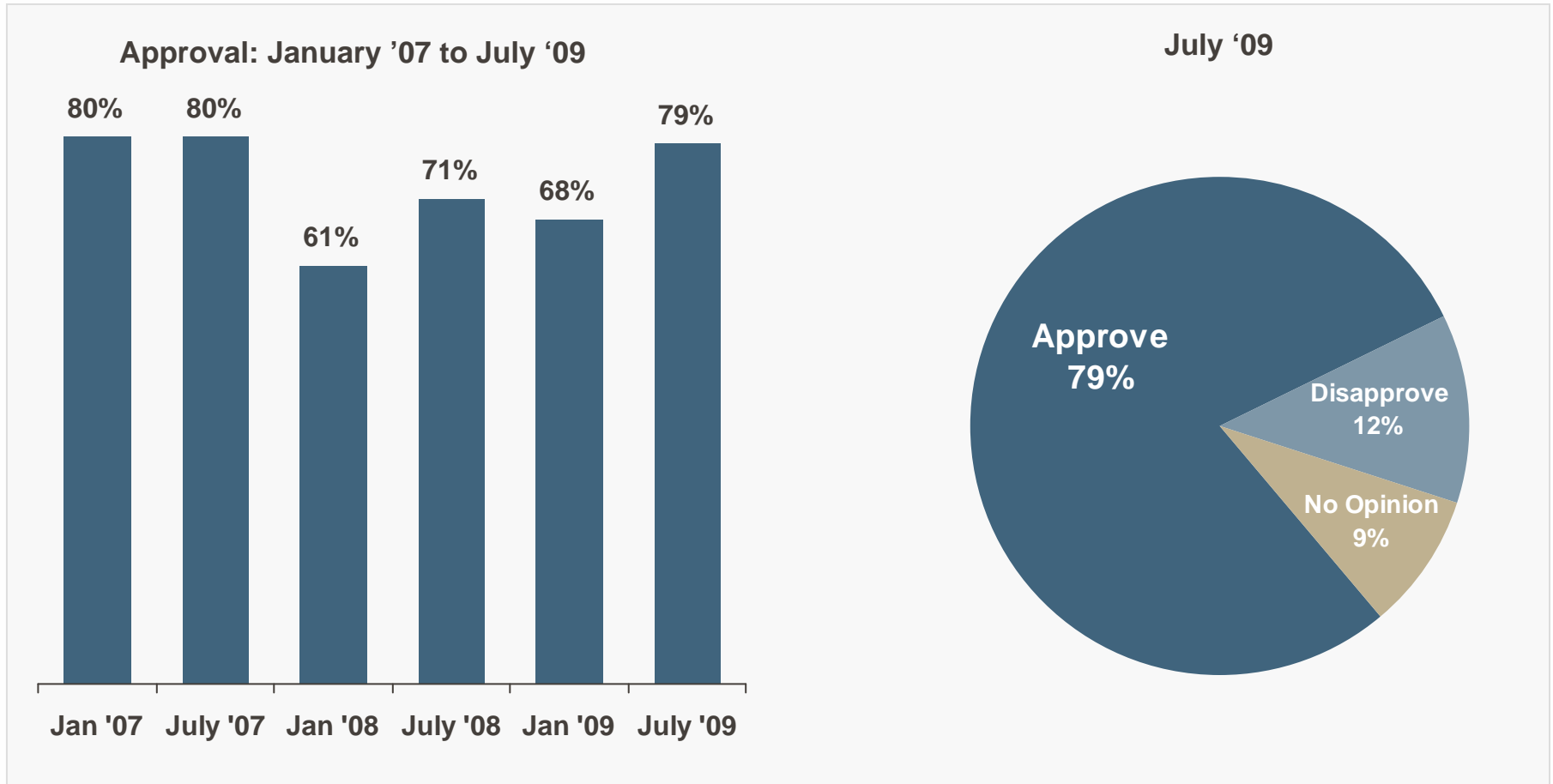
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 (Base = All respondents; Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1197)

*New to July '09

Advisors' approval of Bernanke is back to near-record level

APPROVAL FOR BERNANKE'S FRB LEADERSHIP

All Respondents

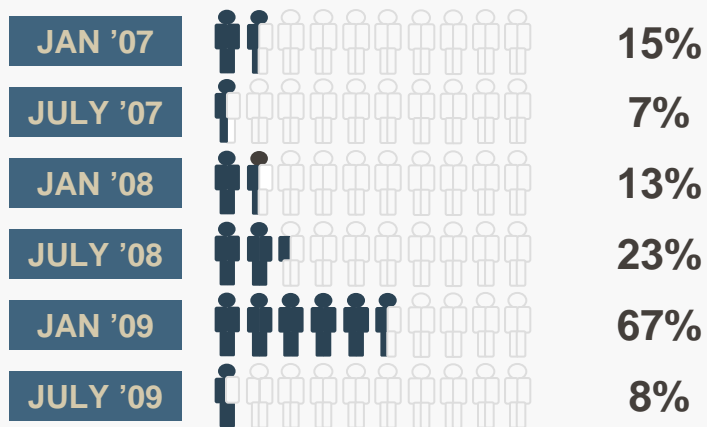


Source: Q3: Which of the following best describes your view of Chairman Bernanke's Federal Reserve Board leadership thus far? (Base = All respondents: Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010, Jan '09 = 1240; July '09 = 1197)

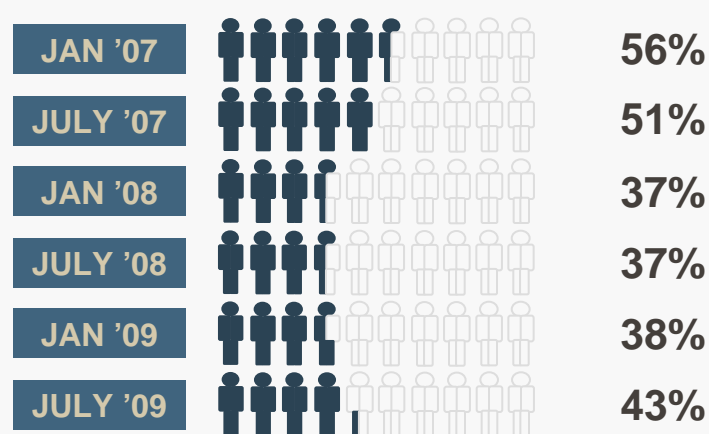
Advisors return to pessimistic perspective on the U.S. political landscape, from an optimistic peak in January

SIX-MONTH OUTLOOK ON THE POLITICAL LANDSCAPE

U.S. Will Become More United



Global Landscape Will Become More Volatile

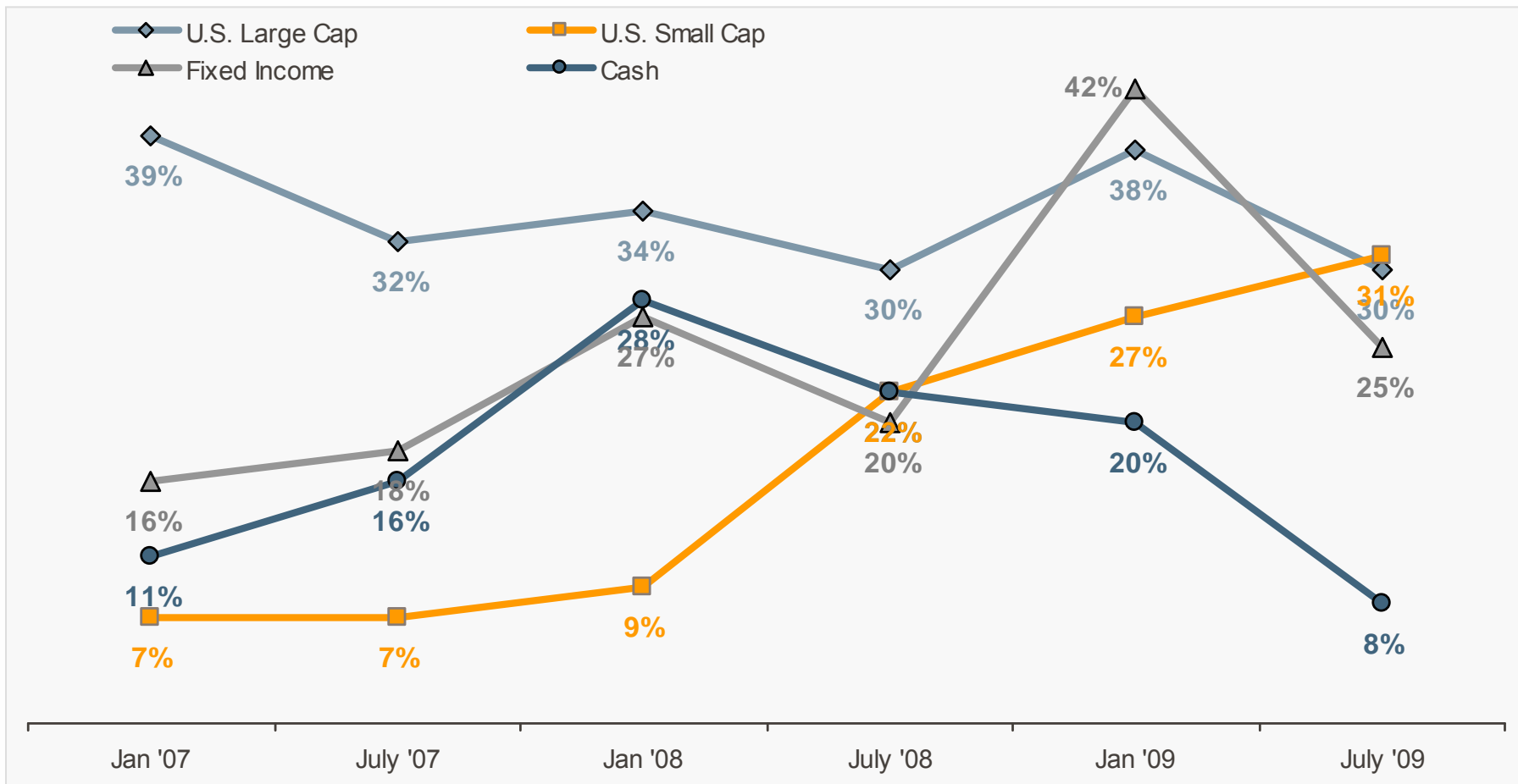


Investment Outlook

Intent to invest more in U.S. small cap equities at all-time high; moving away from cash and fixed income

LIKELIHOOD TO INVEST MORE IN U.S. LARGE CAP/SMALL CAP EQUITIES, CASH, & FIXED INCOME

All Respondents



See appendix for all asset classes per wave.

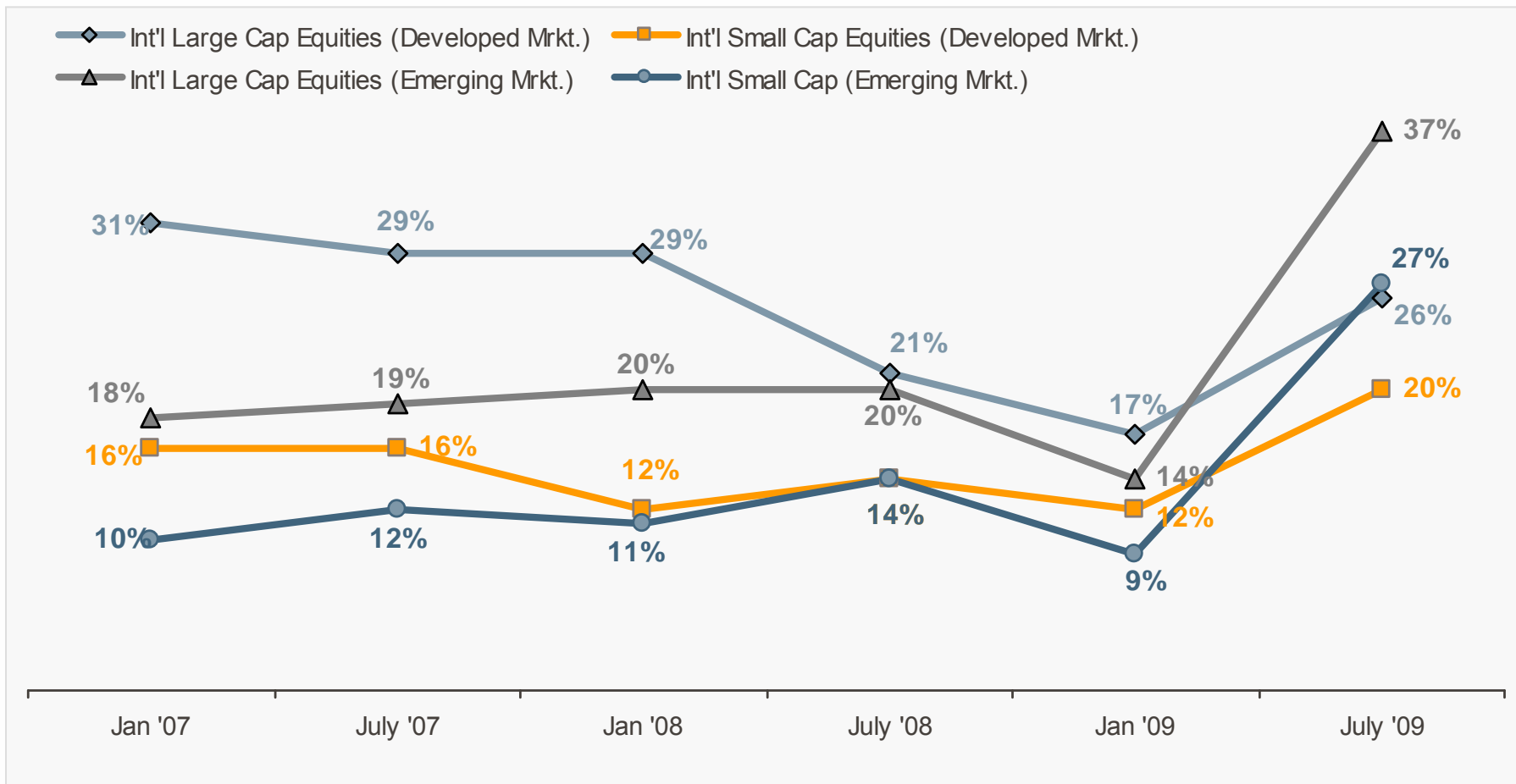
Source: Q8: For each of the following asset classes, please choose the response that best describes how you plan to invest in that asset class for your clients in the next six months. (Base = All respondents: Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 =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

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International stocks are on the upswing, led by large cap emerging markets

LIKELIHOOD TO INVEST MORE IN INTERNATIONAL EQUITIES

All Respondents



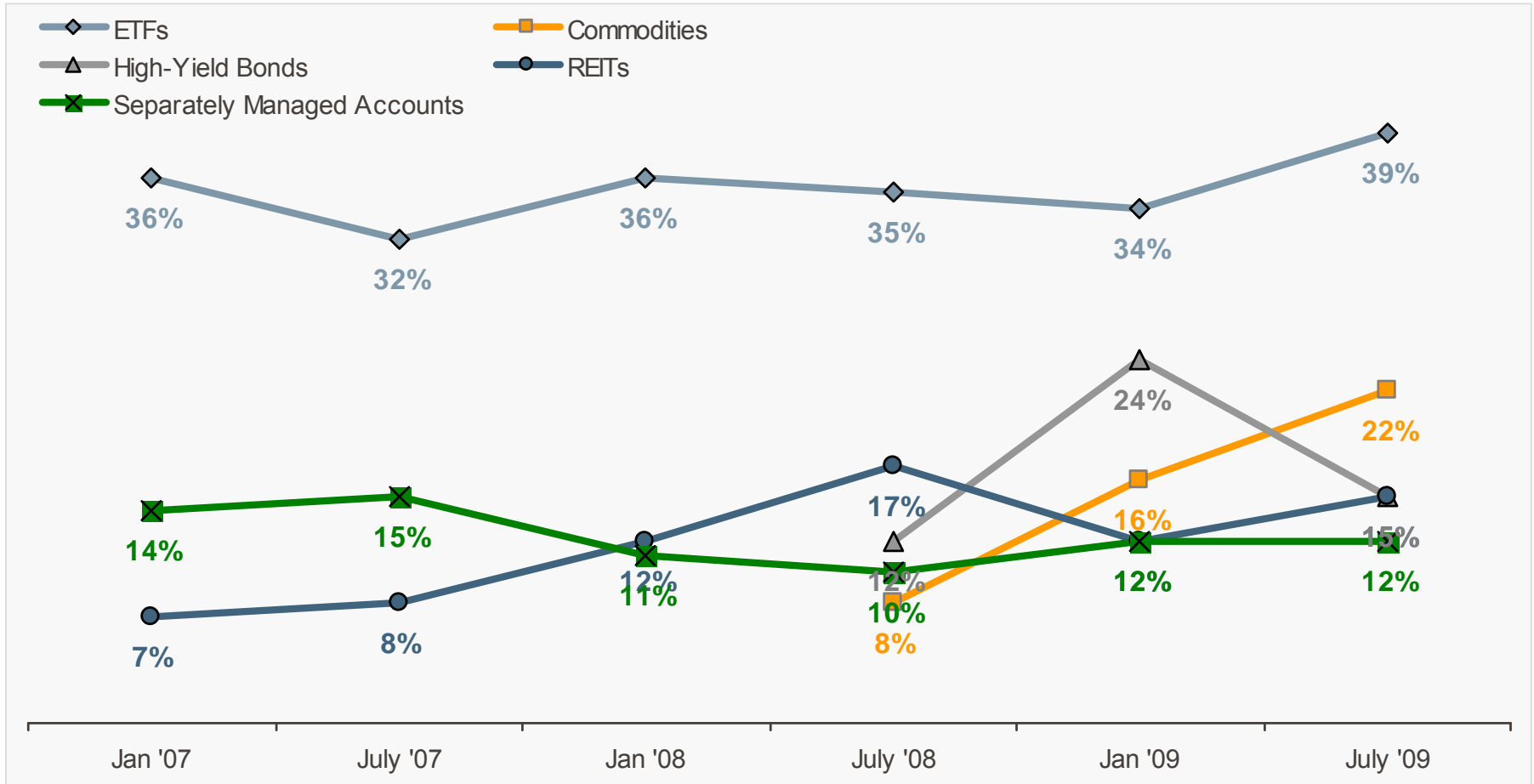
Source: Q8: For each of the following asset classes, please choose the response that best describes how you plan to invest in that asset class for your clients in the next six months. (Base = All respondents: Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 =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

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ETFs and commodities are top choices in the next six months

PLANS TO INVEST MORE IN TOP INVESTMENT VEHICLES

All Respondents



See appendix for all investment vehicles asked per wave.

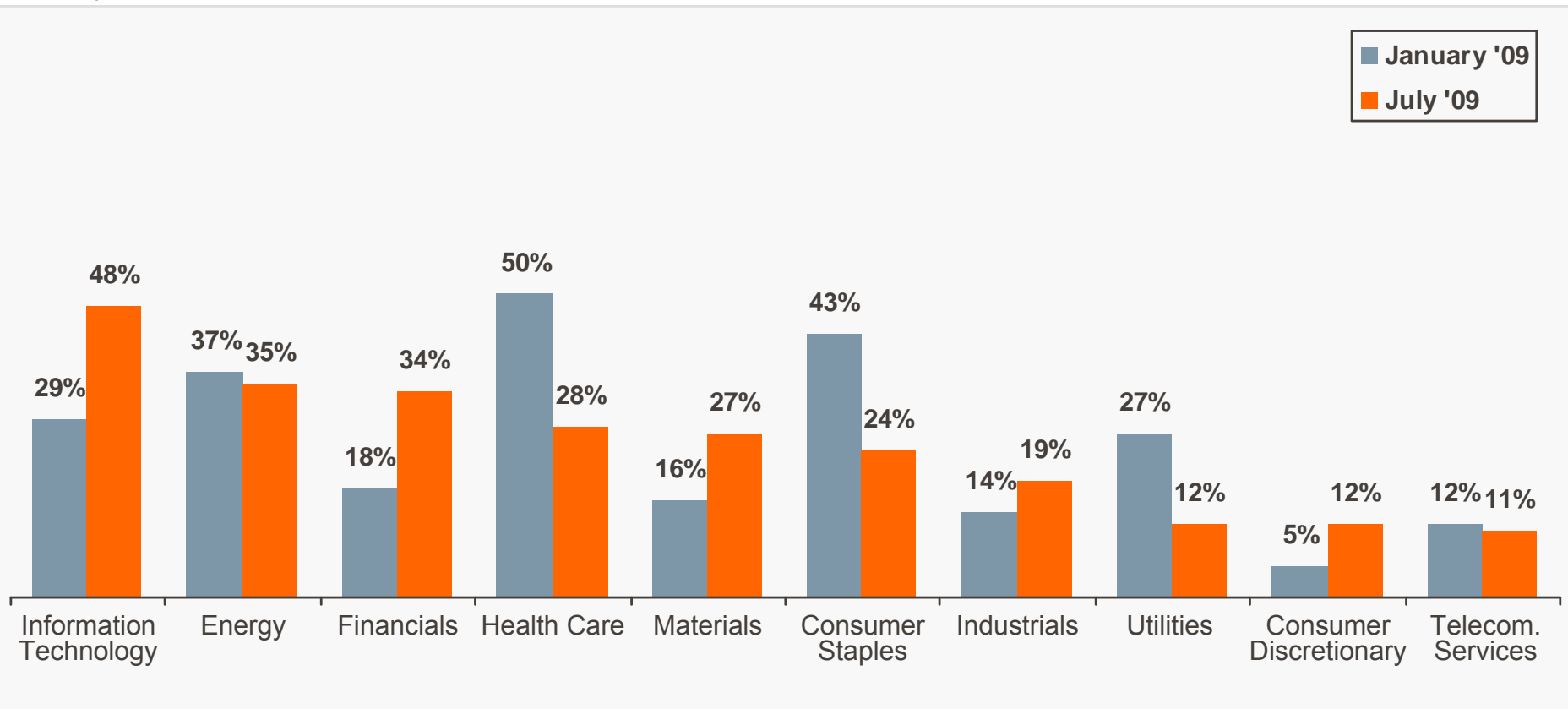
Source: Q9: For each of the following investment vehicles, please choose the response that best describes how you invest for your clients now and what your plans are for the next six months. (Base = All Respondents; July '09 = 1197)

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In a sharp shift away from health care and consumer staples, advisors move to IT, energy, and financial sectors

MARKET SECTOR PERFORMANCE IN NEXT SIX MONTHS FROM JULY '09

All Respondents



See appendix for all market sectors per wave.

Source: Q12: Which three market sectors do you think will perform best in the next six months? (Base = All respondents; July '09 = 1197)

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Client Outlook

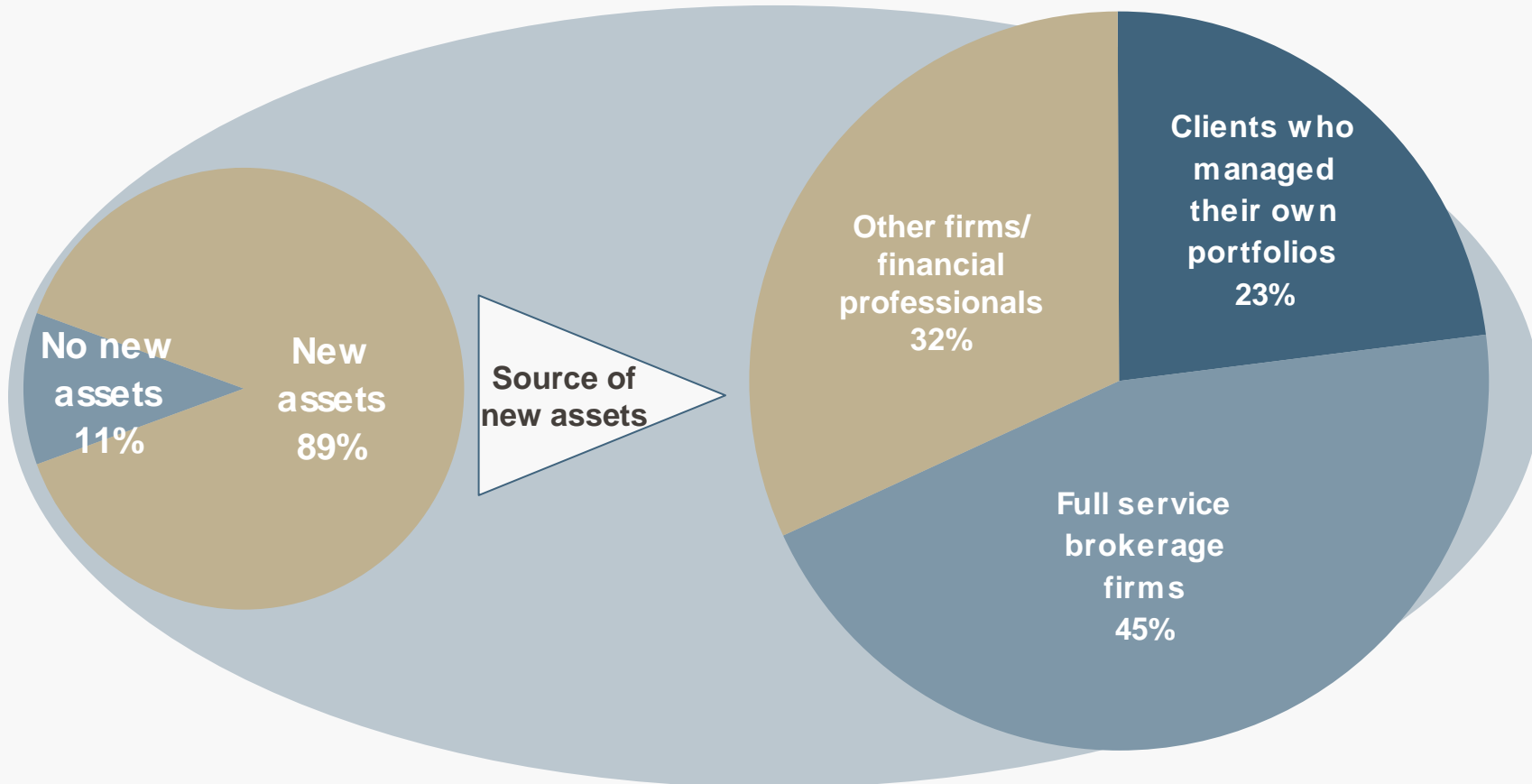
Most advisors brought in new assets during the past six months; almost half came from full service firms

NEW ASSETS DURING PAST SIX MONTHS—JULY '09

All Respondents

AVERAGE PERCENT OF NEW ASSETS FROM EACH SOURCE—JULY '09

Those with New Assets in the Past Six Months



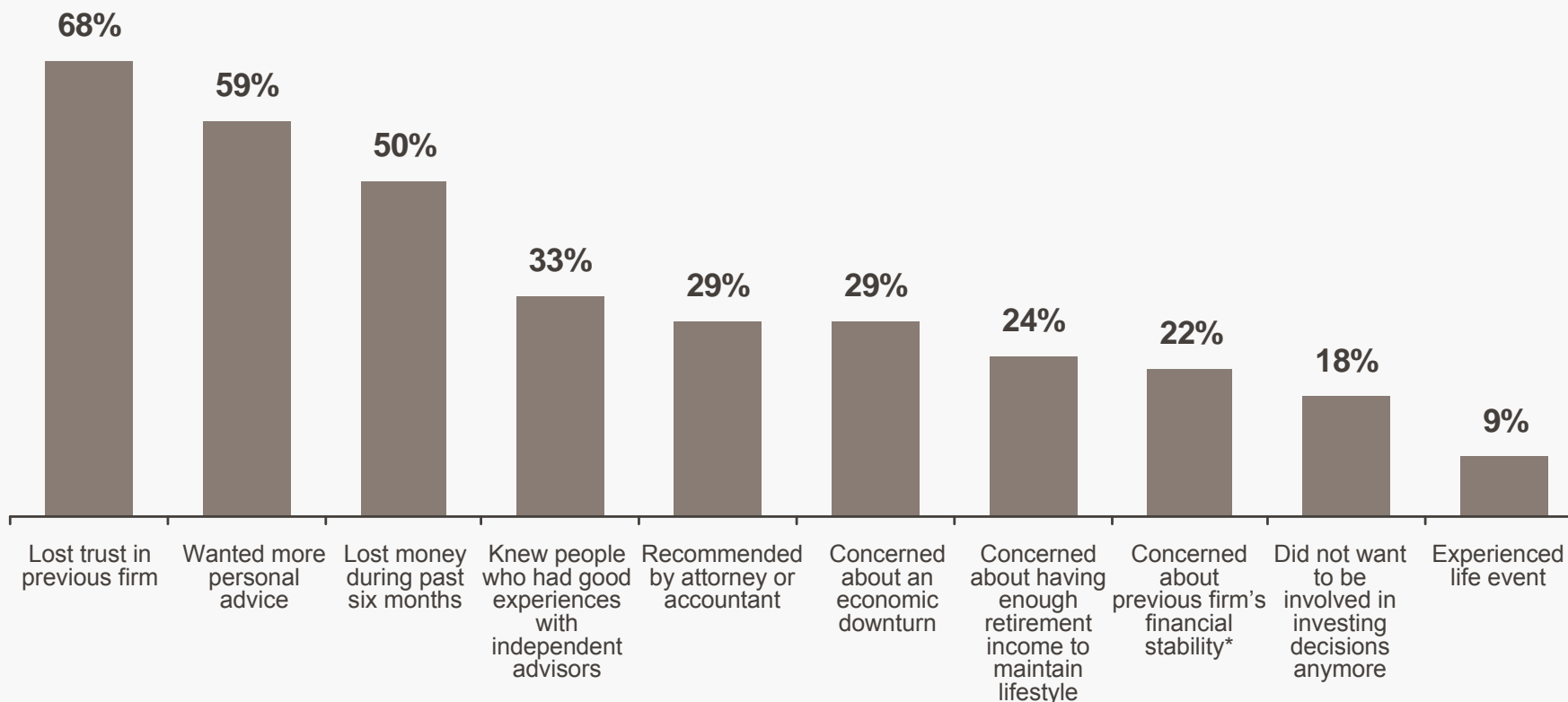
Source: Q13C.0: What percent of your new assets in the past six months came from the following sources? (Base = Those with new assets in the past six months; July '09 = 1068)

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Clients moved their assets from full service firms because they lost trust, wanted more personal advice

REASONS FOR LEAVING FULL SERVICE BROKERAGE FIRMS—JULY '09

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; July '09 = 984)

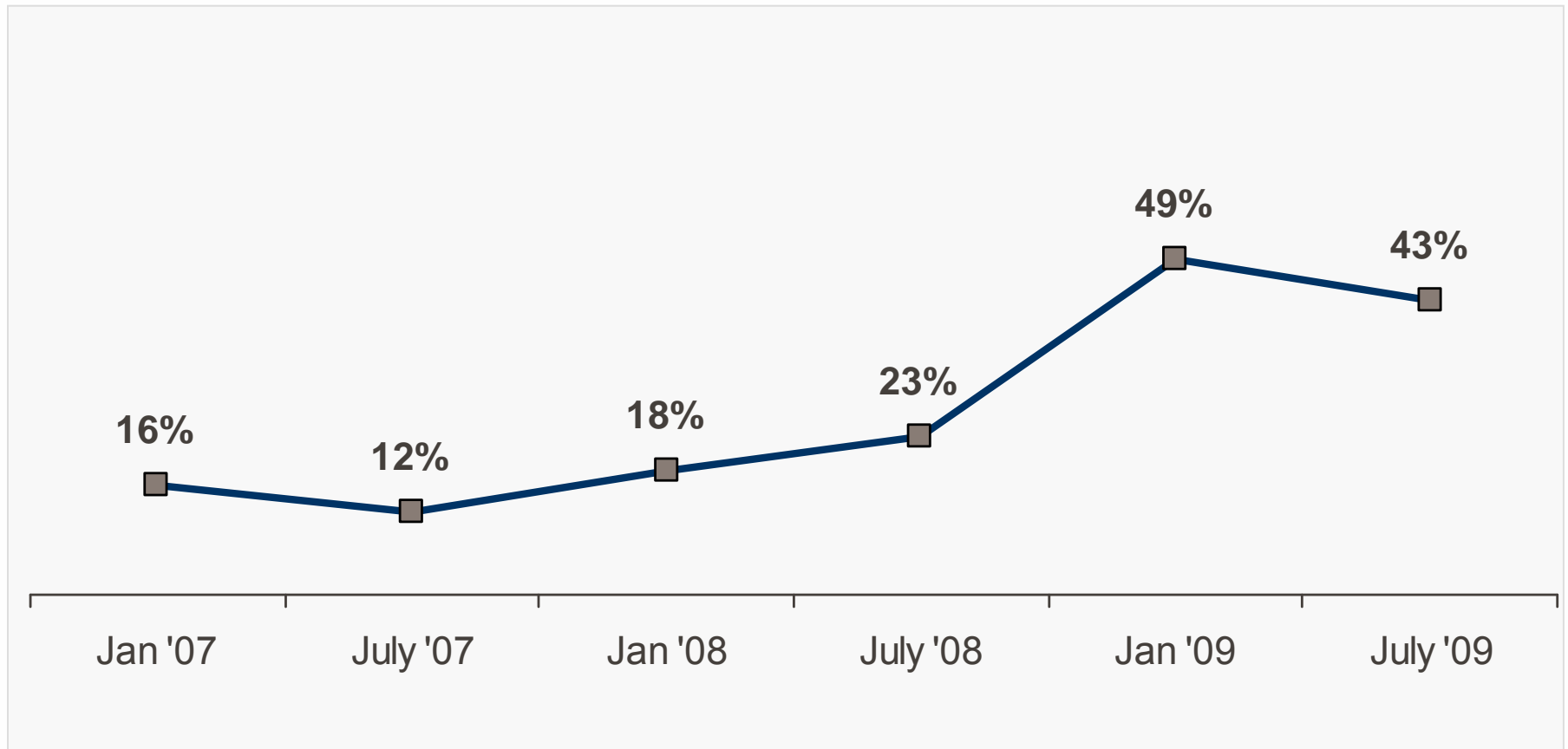
*New to July '09.

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Clients still looking to their advisors for reassurance

AVERAGE PERCENT OF ADVISORS' CLIENTS WHO NEEDED REASSURANCE

All Respondents



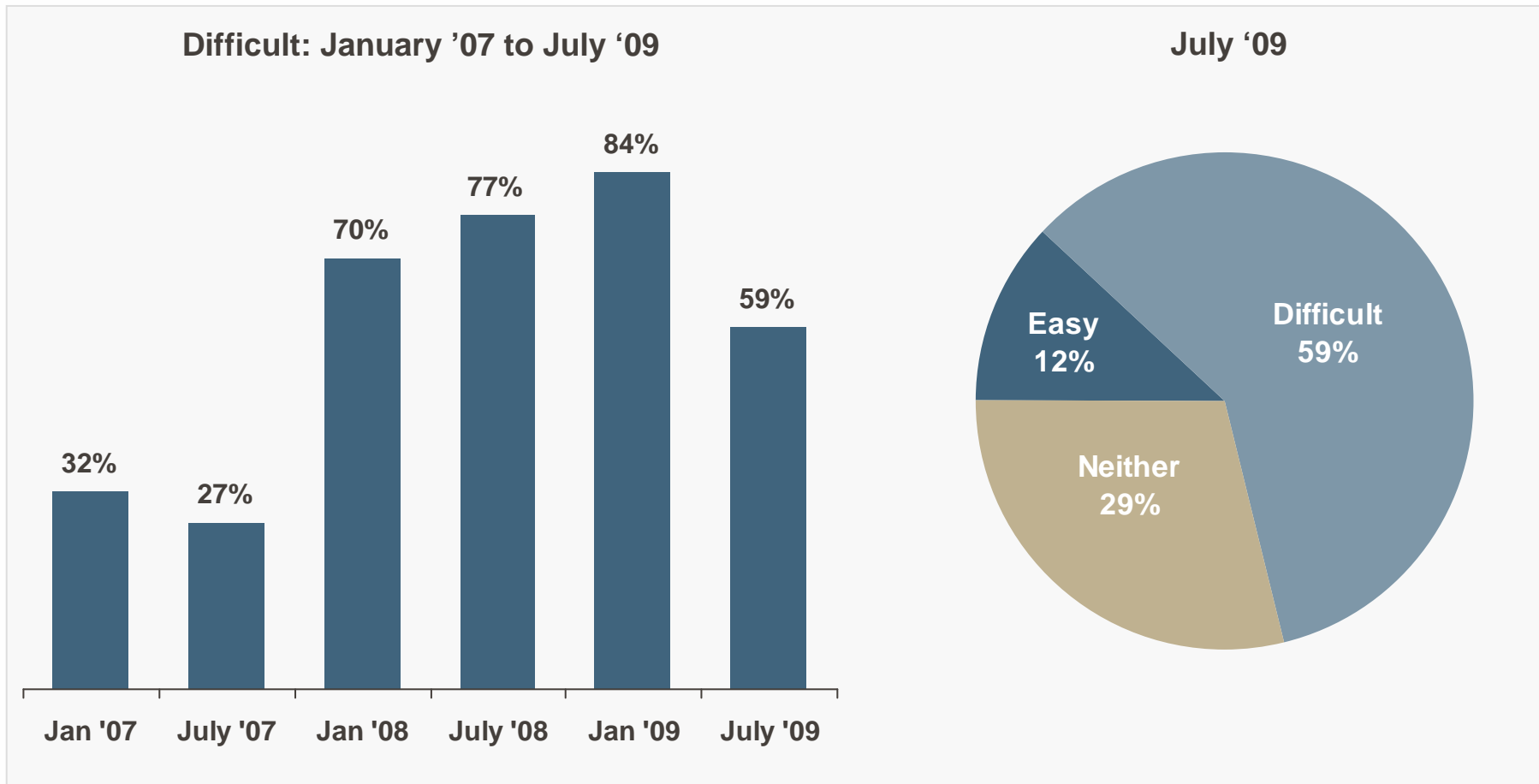
Source: Q13: In the past six months, what percent of your clients have you needed to reassure that they will achieve their investment goals? (Base = All respondents: Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1197)

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Sharp decline in advisors who think achieving client goals will be difficult in the current market

EASE / DIFFICULTY OF ACHIEVING CLIENT INVESTMENT GOALS IN CURRENT MARKET

All Respondents



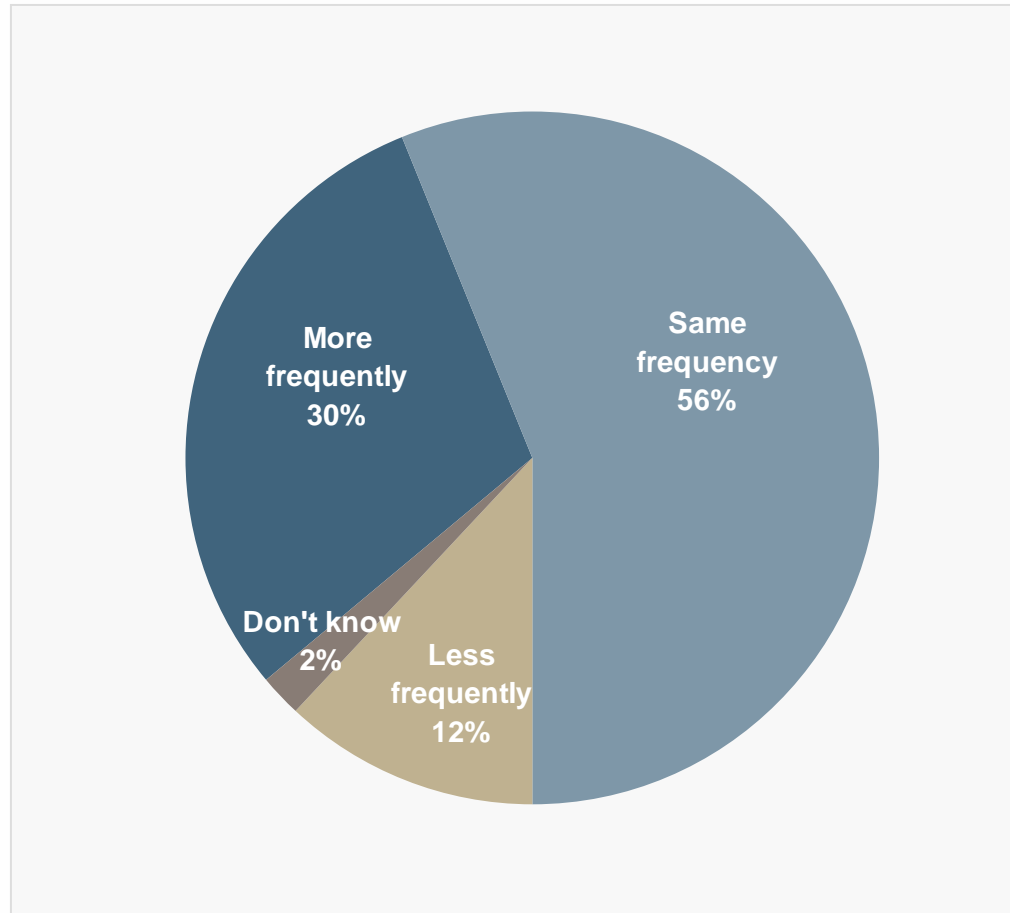
Source: Q7: Which of the following best describes how easy or difficult you think it will be to achieve your clients' investment goals in the current market environment? (Base = All respondents: Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1197)

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About one-third of advisors have been rebalancing clients' portfolios more frequently than six months ago

REBALANCING CLIENT PORTFOLIOS COMPARED TO SIX MONTHS AGO—JULY '09

All Respondents

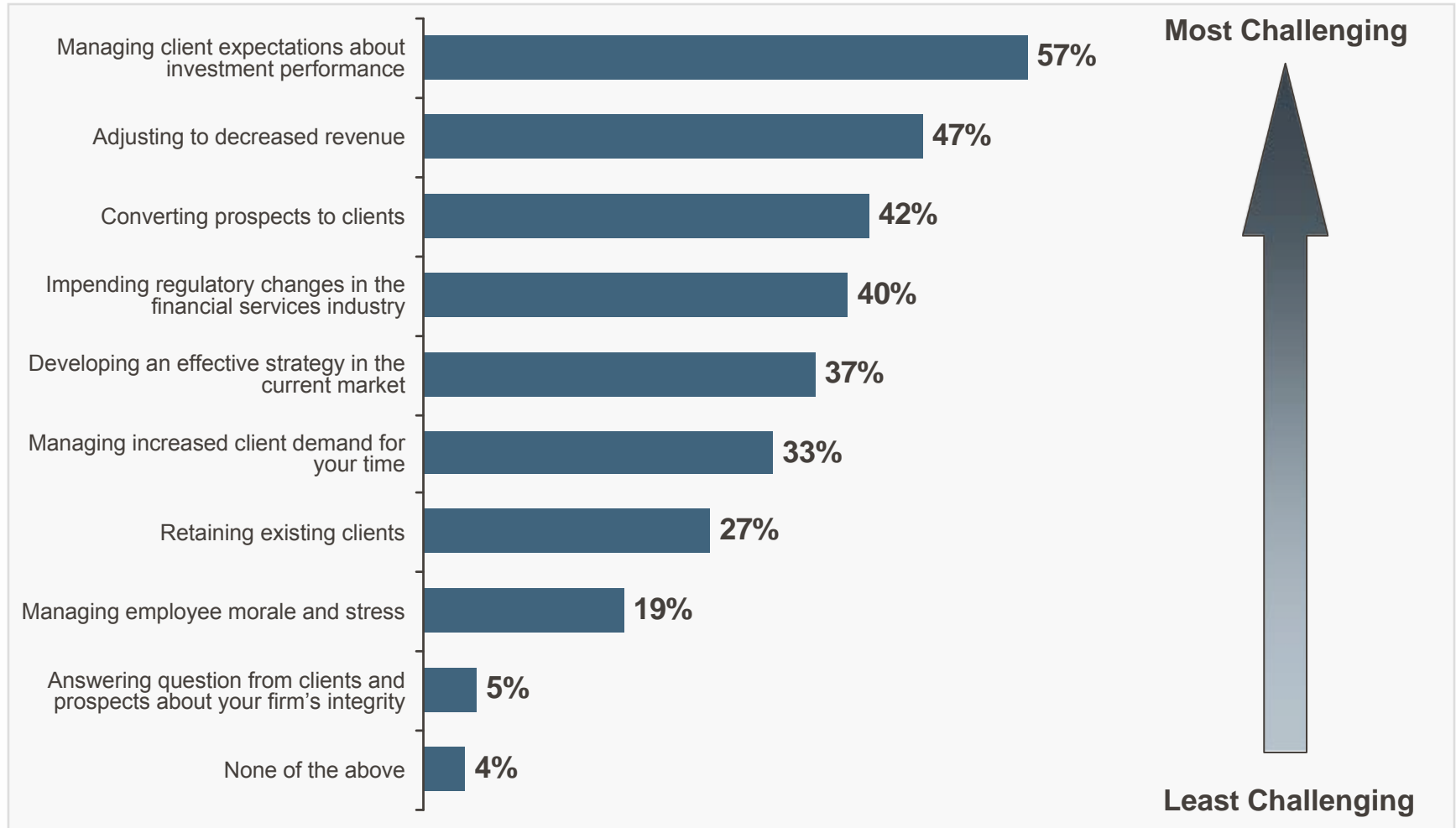


Source: Q13a1. Compared to six months ago, are you rebalancing client portfolios...? (Base = All respondents: July '09 = 1197)

Client expectations and firm revenue are advisors' greatest challenges

CHALLENGES TO FIRM IN TODAY'S ENVIRONMENT—JULY '09

All Respondents



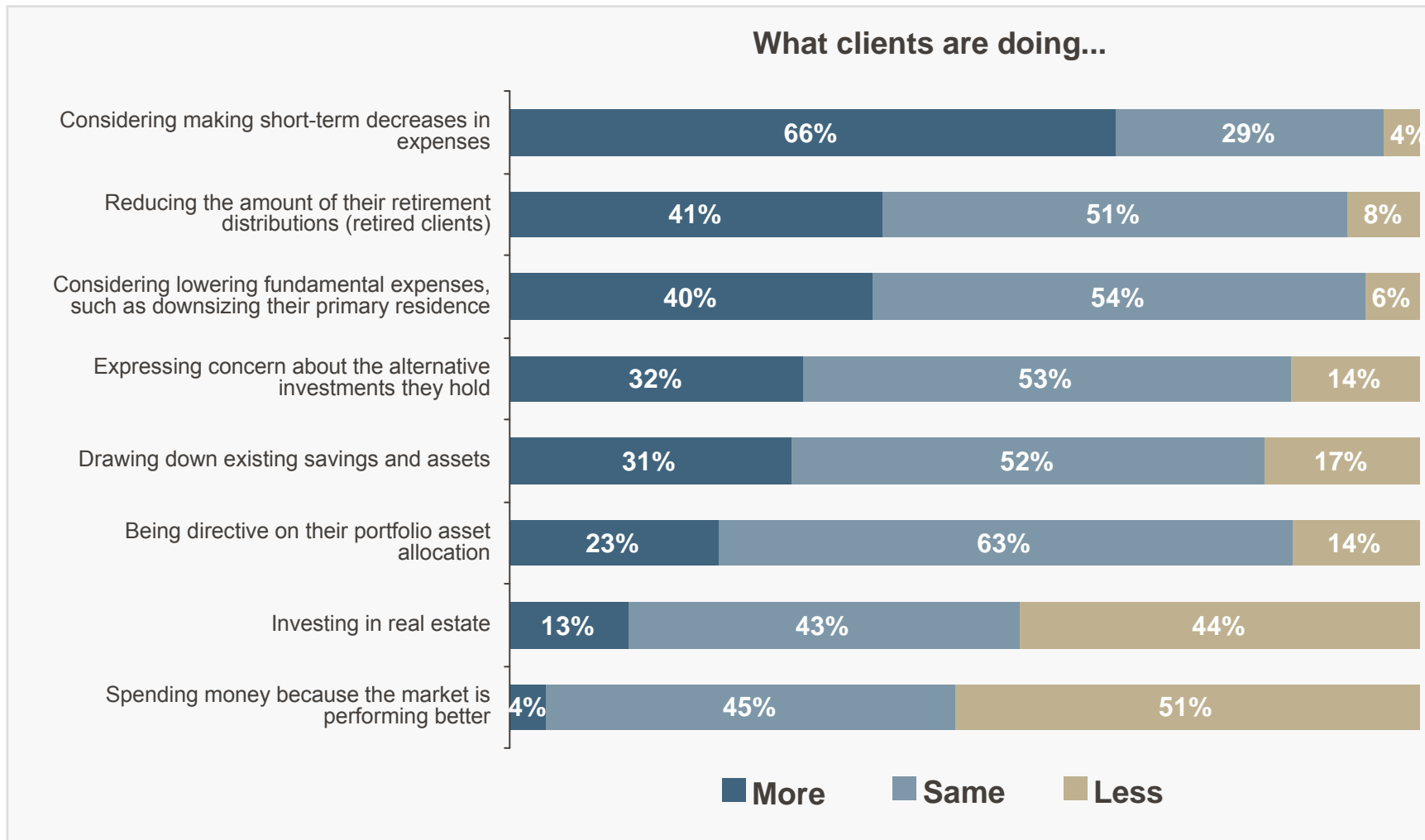
Source: Q13a2. Which of the following, if any, pose significant challenges to your firm in today's environment? (Base = All respondents: July '09 = 1197)

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Clients are decreasing expenses and reducing retirement distributions

CLIENTS' ACTIVITIES—JULY '09

All Respondents



Source: Q22h. Are your clients doing more, the same, or less of the following compared to six months ago? (Base = All respondents: July '09 = 1197)

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Appendix

Economic outlook at-a-glance

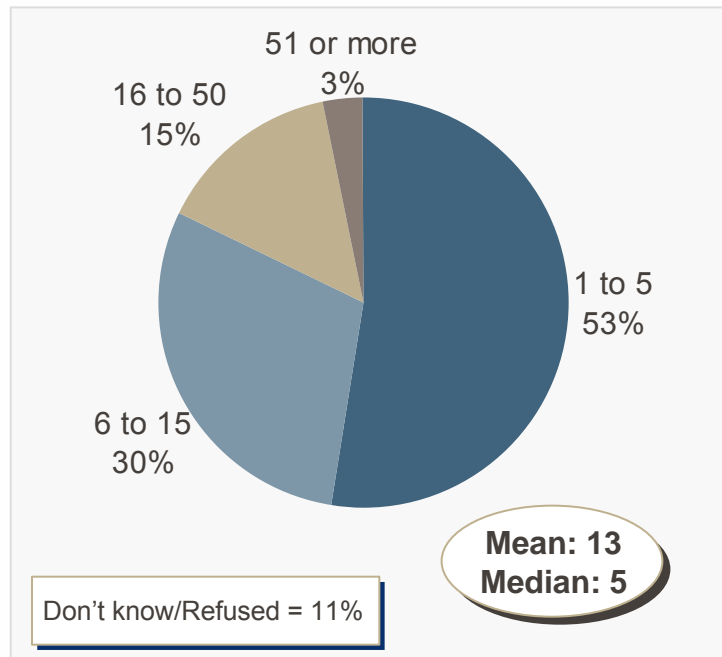
All Respondents

S&P 500	UP—MORE/LESS THAN 10%						STAY THE SAME						DOWN—MORE/LESS THAN 10%						
	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	
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%	10%	15%	13%	14%	19%	11%	12%	17%	41%	28%	28%	17%
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%	32%	27%	33%	31%	20%	26%	53%	66%	54%	46%	13%	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%	33%	39%	49%	46%	35%	38%	56%	51%	37%	37%	38%	43%
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%	18%	18%	17%	13%	13%	9%	2%	2%	22%	16%	19%	12%
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%	47%	44%	25%	18%	12%	29%	31%	27%	70%	76%	84%	59%
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.																			
Unemployment will increase	▼	32%	35%	78%	79%	92%	81%	34%	35%	13%	13%	3%	10%	34%	30%	9%	8%	5%	9%
Consumer savings will increase	◀▶	N/A	N/A	N/A	N/A	68%	69%	N/A	N/A	N/A	N/A	14%	19%	N/A	N/A	N/A	N/A	18%	12%
Inflation will increase	▲	45%	53%	62%	79%	30%	46%	30%	28%	19%	13%	18%	22%	25%	19%	19%	8%	52%	32%
Consumer spending will increase	▲	40%	35%	16%	19%	14%	43%	30%	28%	23%	21%	17%	22%	30%	37%	61%	60%	68%	35%
Housing market will continue to soften	▼	71%	80%	81%	71%	69%	35%	15%	12%	10%	17%	18%	26%	14%	8%	9%	12%	13%	39%
Federal Reserve Board will raise rates	▲	21%	22%	6%	52%	10%	26%	26%	29%	4%	20%	15%	19%	53%	49%	90%	28%	76%	55%
Economy will experience deflation	N/A	N/A	N/A	N/A	N/A	N/A	21%	N/A	N/A	N/A	N/A	N/A	28%	N/A	N/A	N/A	N/A	N/A	51%
Energy prices will go down	◀▶	36%	24%	42%	57%	21%	19%	24%	19%	17%	12%	34%	29%	40%	57%	41%	31%	45%	52%

Most advisors work for firms with just over 10 people and have around \$235 million AUM

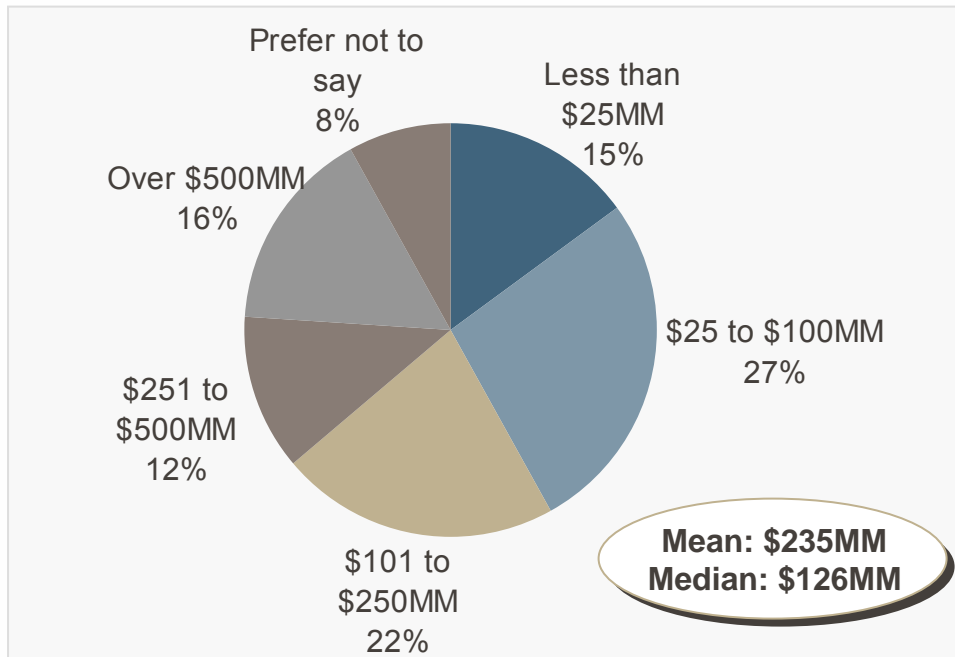
NUMBER OF EMPLOYEES AT FIRM—JULY '09

Firm Level



ASSETS UNDER MANAGEMENT (AUM) AT FIRM—JULY '09

Firm Level



TYPE OF FIRM—JULY '09

Firm Level

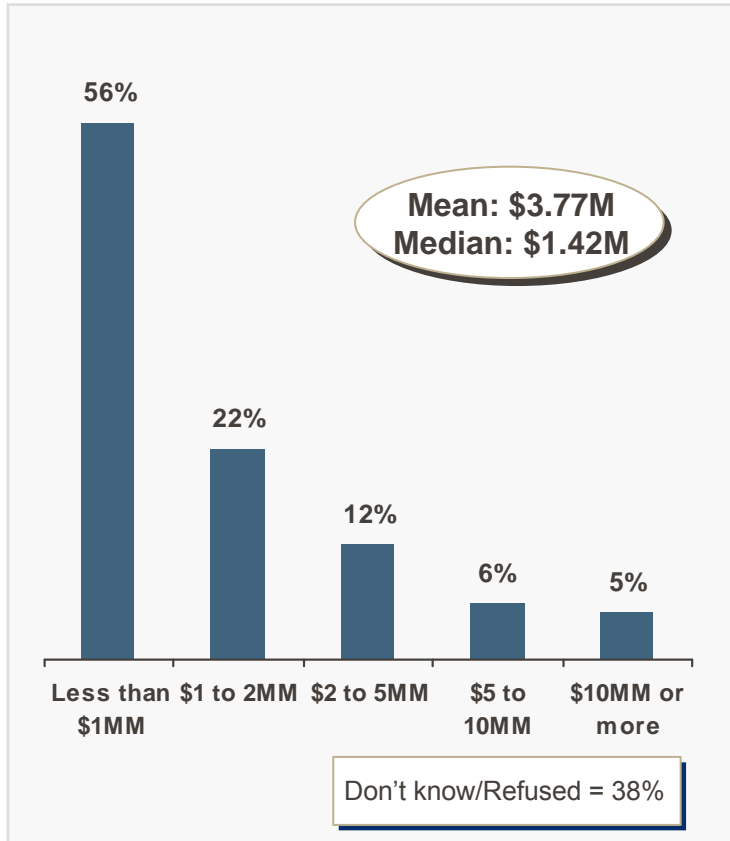
FIRM	PERCENTAGE OF RESPONDENTS
<i>Wealth Manager</i> : Firm provides a broad range of services to address the financial needs of clients	50%
<i>Money Manager</i> : Firm's primary focus is managing assets and investment performance	36%
<i>Financial Planner</i> : Firm's primary service is financial planning and investment management	14%

Source: Q23: How many employees, including yourself, are at your firm? (Base = Firm level; July '09 = 847); 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; July '09 = 944); Q30: Which of the following best describes your type of firm? (Base = Firm level; July '09 = 952)

Advisor's firms have on average around 300 clients whose age is typically around 60

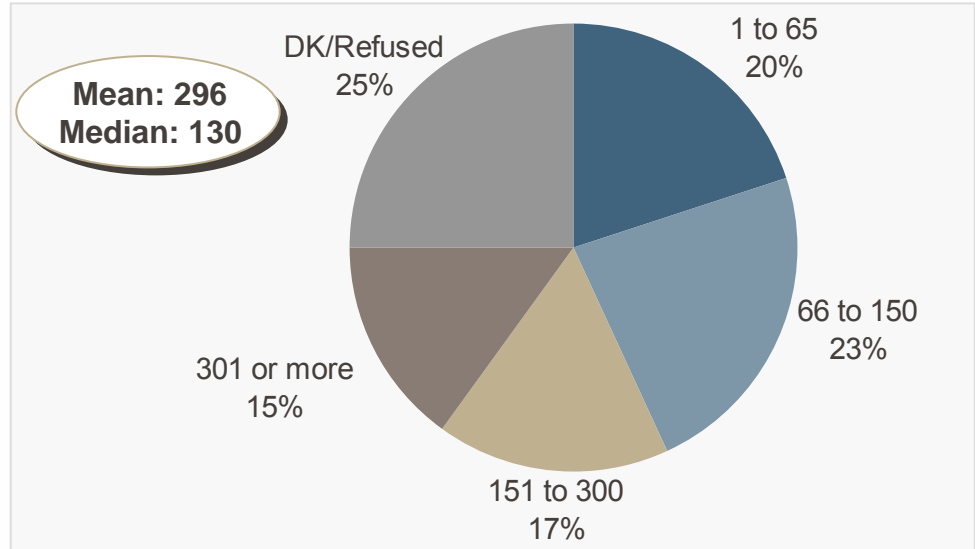
AVERAGE CLIENT ACCOUNT SIZE BY ASSET RANGE—JULY '09

Advisors Responding



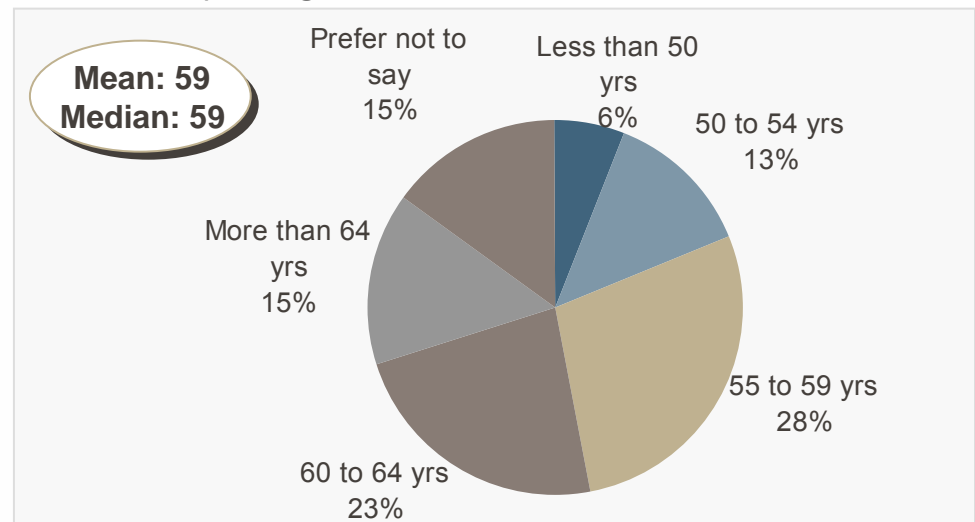
AVERAGE NUMBER OF CLIENTS PER FIRM—JULY '09

Firm Level



AVERAGE CLIENT AGE BY RANGE—JULY '09

Advisors Responding

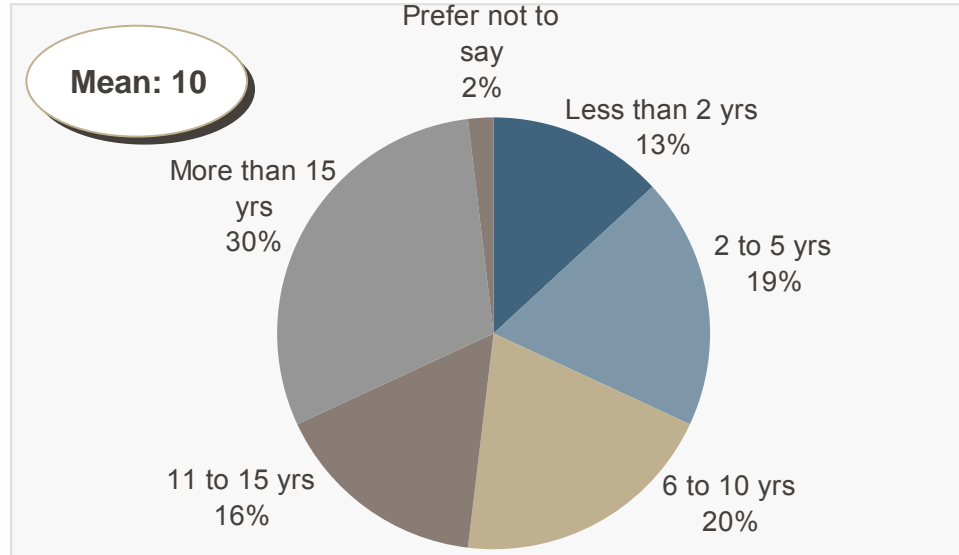


Source: Q26: Approximately how many clients does your firm have in total? (Base = Firm level; July '09 = 955); Q27: Approximately what percent of your clients have account sizes in each of the following asset ranges? (Base = Advisors responding; July '09 = 738); Q28: Which of the following categories best represents the average age range of your clients? (Base = Advisors responding; July '09 = 1181)

On average, advisors of this study have worked for an independent firm for 10 years; more than half are principals

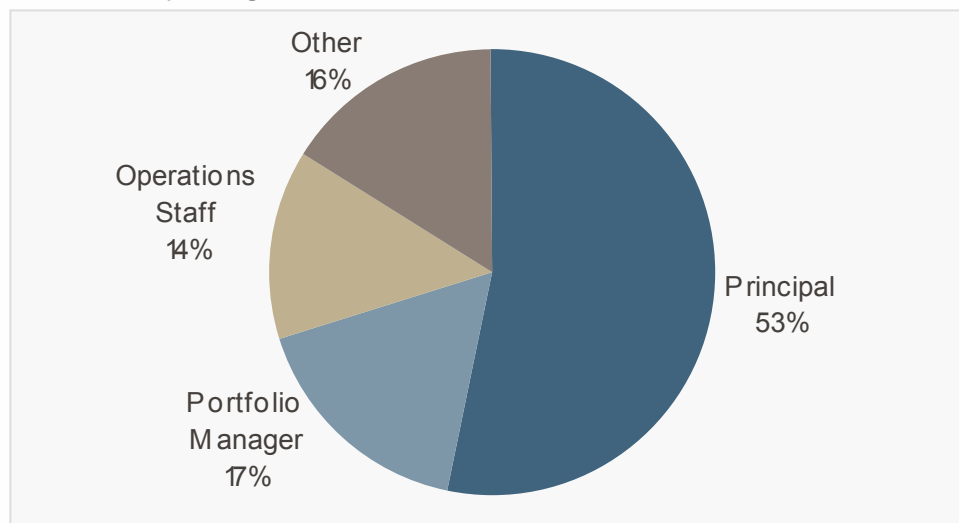
NUMBER OF YEARS WORKED FOR INDEPENDENT ADVISORY FIRM—JULY '09

Advisors Responding



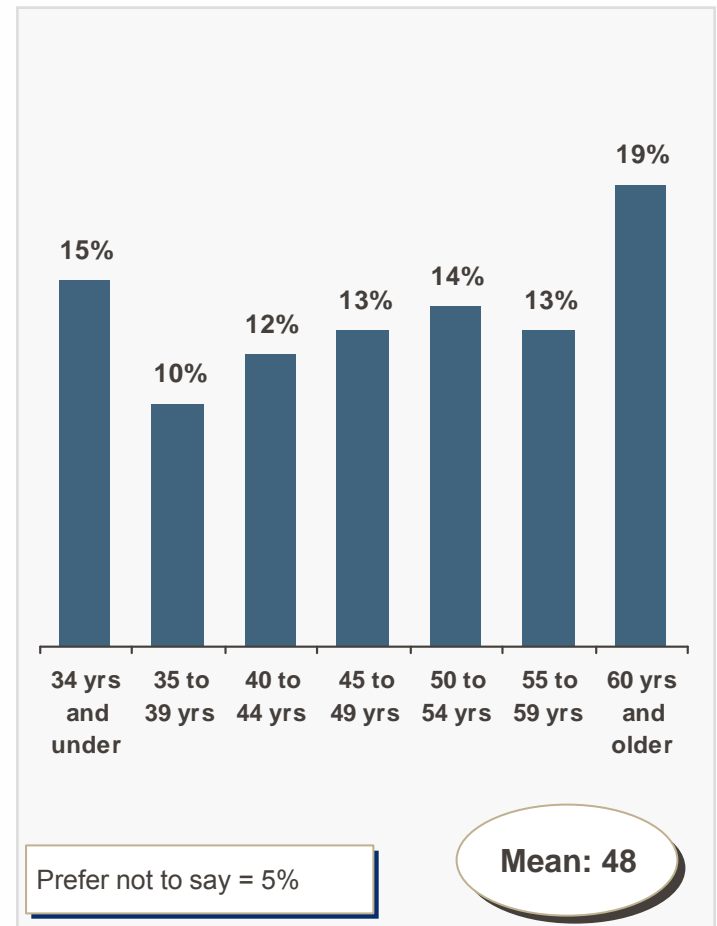
PRIMARY ROLE AT FIRM—JULY '09

Advisors Responding



ADVISOR AGE BY RANGE—JULY '09

Advisors Responding



Source: Q24: How long have you worked for an independent investment advisory firm? Please include the time at your current firm, as well as any time with other investment advisory firms (Base = Advisors responding; July '09 = 1188); Q29: Which of the following best describes your primary role in the firm? (Base = Advisors responding; July '09 = 1176); Q31: Into which of the following ranges does your age fall? (Base = Advisors responding; July '09 = 1181)

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Most advisors of this study are Republican males

PRIMARY OFFICE LOCATION—JULY '09

Firm Level

AREA	
South: (AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, TX, VA, WV)	22%
Pacific: (AL, CA, HI, OR, WA)	22%
Midwest: (IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI)	21%
Mid-Atlantic: (DE, DC, MD, NJ, NY, PA)	12%
West: (AZ, CO, ID, MT, NV, NM, OK, UT, WY)	8%
New England: (CT, ME, MA, NH, RI, VT)	8%

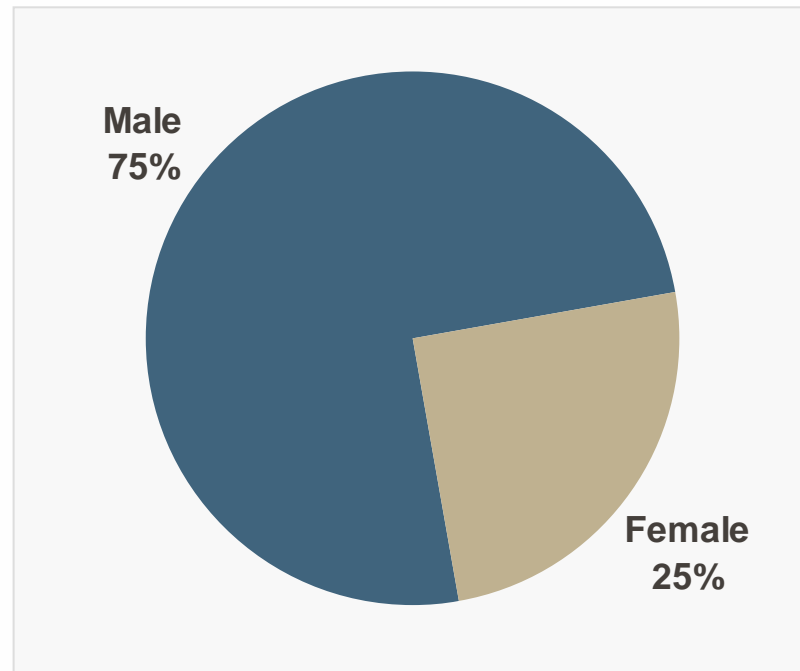
REGISTERED POLITICAL PARTY—JULY '09

Advisors Responding

POLITICAL PARTY	PERCENTAGE OF RESPONDENTS
Republican	43%
Democrat	13%
Independent	16%
None	13%
Other	2%
Prefer not to say	13%

GENDER—JULY '09

Advisors Responding



Source: Q32: Are you...? (Base = Advisors responding; July '09 = 1175); Q33: With which political party are you registered? (Base = Advisors responding; July '09 = 1178); Q34: In what state is your primary office or headquarters? (Base = Firm level; July '09 = 951)

Key market sectors: Expected top performers

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

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—JULY '09

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	83%	39%	39%	4%	1%	3%	14%
High-Yield Bonds	69%	15%	41%	11%	2%	4%	28%
REITs	63%	15%	36%	9%	3%	8%	29%
Commodities	62%	22%	34%	5%	1%	6%	33%
Precious Metals**	53%	13%	31%	7%	2%	4%	42%
Real Estate	51%	12%	29%	8%	2%	6%	43%
Mutual Funds that Employ Hedging Strategies	47%	12%	26%	6%	3%	5%	49%
SMA	44%	12%	26%	4%	2%	1%	54%
Foreign Currency/Foreign Currency Money Market Funds	33%	9%	18%	4%	2%	4%	64%
Donor-advised Funds	33%	4%	22%	4%	3%	2%	66%
Private Equity	31%	6%	17%	5%	3%	3%	66%
Options	31%	8%	16%	3%	4%	3%	67%
Hedge Funds	30%	6%	15%	4%	5%	2%	68%
Mutual Fund Wrap Products	29%	4%	17%	4%	4%	1%	70%
Structured Products**	28%	5%	15%	5%	3%	4%	68%
ETF Wrap Products*	27%	6%	15%	3%	3%	2%	71%
Unified Managed Accounts**	21%	2%	13%	3%	3%	1%	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; July '09 = 1197)

*New to Jan '09.

**New to July '09.

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Plans for investing in asset classes

PLANS FOR INVESTING DURING THE NEXT SIX MONTHS: ASSET CLASSES

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 '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09
International Large Cap Equities in Emerging Markets	18%	19%	20%	20%	14%	37%	60%	63%	58%	61%	50%	49%	18%	15%	18%	15%	25%	10%	5%	3%	4%	3%	11%	4%
U.S. Small Cap Equities	7%	7%	9%	22%	27%	31%	58%	59%	49%	57%	54%	56%	33%	32%	38%	19%	16%	11%	2%	2%	4%	2%	3%	2%
U.S. Large Cap Equities	39%	32%	34%	30%	38%	30%	54%	58%	52%	56%	48%	57%	7%	9%	14%	13%	12%	13%	1%	<1%	1%	1%	1%	1%
International Small Cap Equities in Emerging Markets	10%	12%	11%	14%	9%	27%	58%	61%	55%	61%	49%	55%	25%	20%	25%	19%	26%	13%	7%	6%	9%	6%	16%	5%
International Large Cap Equities in Developed Markets	31%	29%	29%	21%	17%	26%	62%	64%	59%	66%	55%	60%	6%	6%	11%	12%	23%	12%	1%	1%	1%	1%	4%	2%
Fixed Income	16%	18%	27%	20%	42%	25%	68%	66%	58%	60%	45%	55%	15%	15%	14%	19%	12%	19%	1%	2%	1%	1%	1%	1%
International Small Cap Equities in Developed Markets	16%	16%	12%	14%	12%	20%	64%	66%	58%	65%	52%	61%	17%	16%	25%	18%	26%	16%	3%	2%	4%	3%	10%	4%
Cash	11%	16%	28%	22%	20%	8%	68%	69%	55%	54%	46%	41%	19%	13%	16%	23%	32%	48%	2%	1%	1%	1%	2%	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)

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