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# 2014 ETF Investor Study by Charles Schwab

June 2014

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# About the Study

<b>What</b>	<ul style="list-style-type: none"><li>▪ Charles Schwab commissioned an online study to gauge U.S. individual investors' perceptions and knowledge of investing in exchange-traded funds (ETFs)</li><li>▪ Similar studies were conducted in previous years, and certain questions were repeated for benchmark purposes</li></ul>
<b>How</b>	<ul style="list-style-type: none"><li>▪ An online study was fielded by Koski Research<ul style="list-style-type: none"><li>▪ 1,102 completed interviews of U.S. investors</li><li>▪ Margin of error for a sample size of 1,102 is 3%; higher for subgroups</li></ul></li></ul> <p><i>Koski is neither affiliated with, nor employed by, Charles Schwab</i></p>
<b>When</b>	<ul style="list-style-type: none"><li>▪ The study fielded from May 8 through 14, 2014</li></ul>
<b>Who</b>	<ul style="list-style-type: none"><li>▪ 1,012 U.S. individual investors who:<ul style="list-style-type: none"><li>▪ Purchased an ETF in the past two years or would consider doing so in the next two years</li><li>▪ Are 25 to 75 years old</li><li>▪ Have a minimum of \$25,000 in investable assets</li><li>▪ Have some familiarity with ETFs</li></ul></li></ul>

# Embracing Innovation and Choice

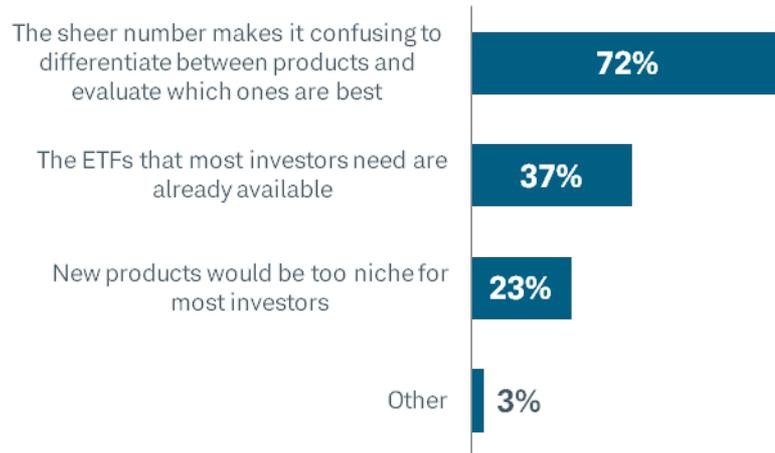
# Two-thirds of investors say there is room for more ETFs

## Opinion about the number of ETFs available today All Investors

■ There are too many ETFs

34%

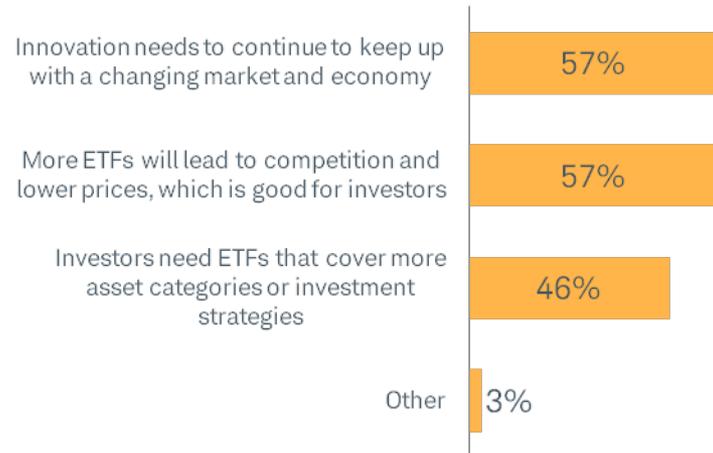
### Reasons investors think there are too many ETFs



■ There is room for more ETFs

66%

### Reasons investors think there is room for more ETFs



Q20. Which statement best matches your opinion about the number of ETFs that are on the market today? (Base: All Investors=1,012)

Q21. Why do you think there are too many ETFs on the market today? (Base: Investors who think there are too many ETFs = 348)

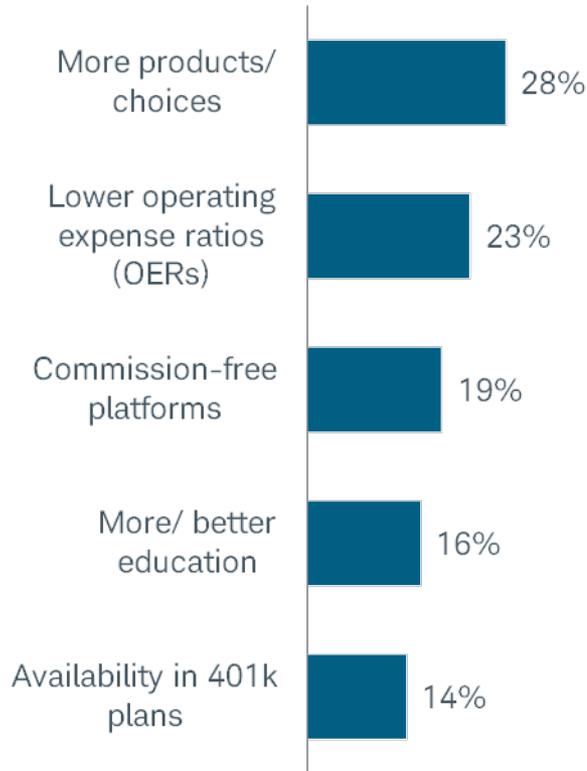
Q22. Why do you think there is room for more ETFs in the industry? (Base: Investors who think there is room for more ETFs = 664)

Data does not add up to 100% because more than one response was allowed.

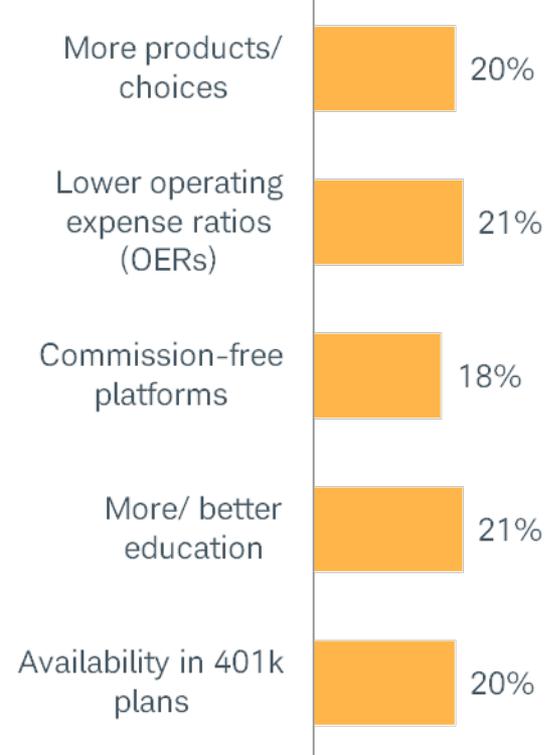
# More than a quarter say more product choice is #1 ETF innovation of the last few years; split on trends that will most benefit investors in the future

Best ETF innovations and trends – past and future  
All investors

## In the last few years



## Over next several years

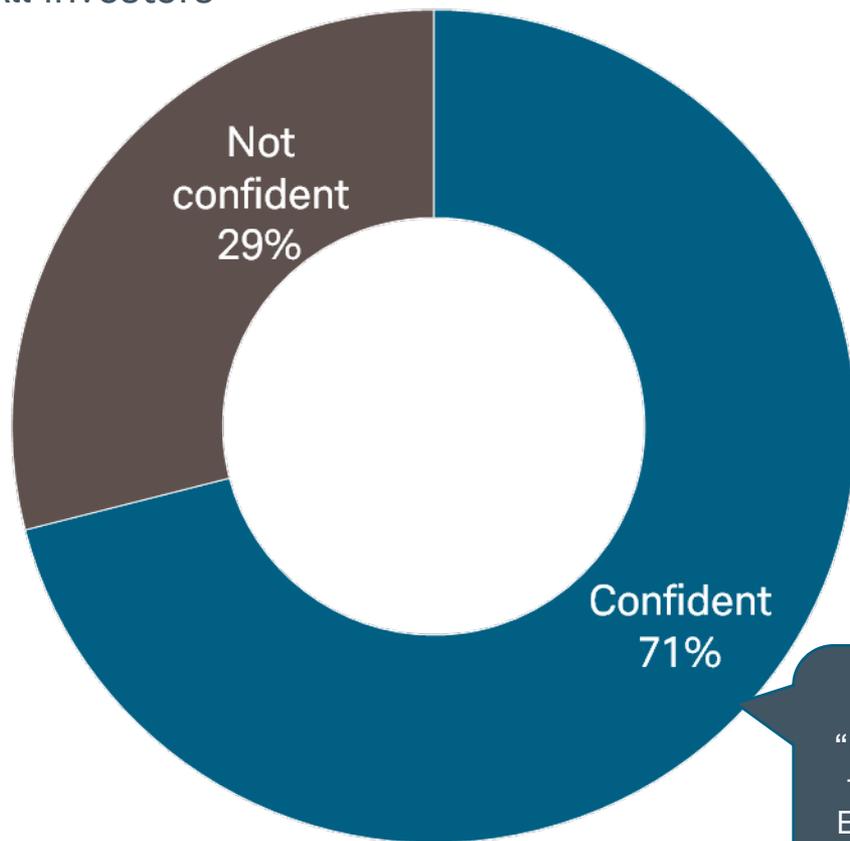


Q34. Which of the following ETF innovations/trends in the last few years has been the best for ETF investors?

Q35. Which of the following ETF innovations/trends will be the best for ETF investors over the next several years? (Base: All Investors=1,012)

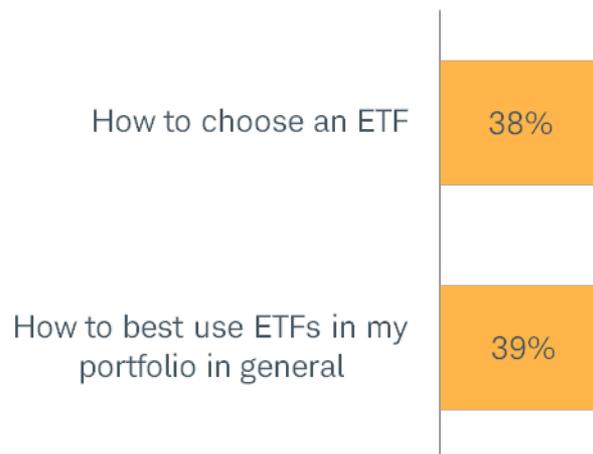
# 71% are confident they can pick the right ETFs, but many also want to better understand how to best choose and use the products

**Confidence in ability to choose the right ETF**  
All investors



16% of all investors say they are “Extremely Confident” they can choose the ETFs that are right for them

**Want better understanding of...**  
All investors



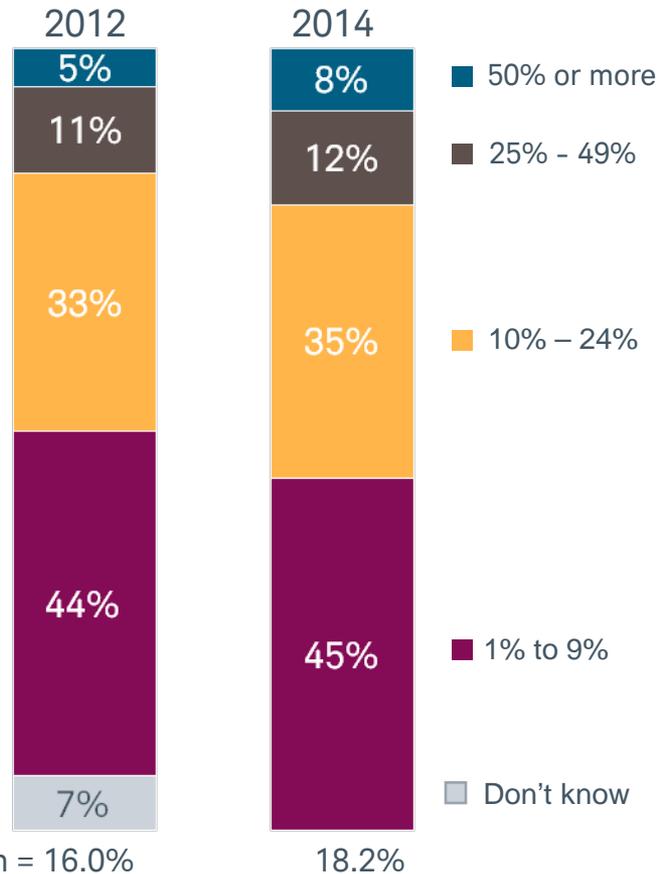
Q23 How confident are you in your ability to choose an ETF that is right for your investment objectives? (Base: All Investors=1,012)

Q11. Which of the following would you like to better understand? (Base: All Investors=1,012)

# A Healthy Serving of ETFs

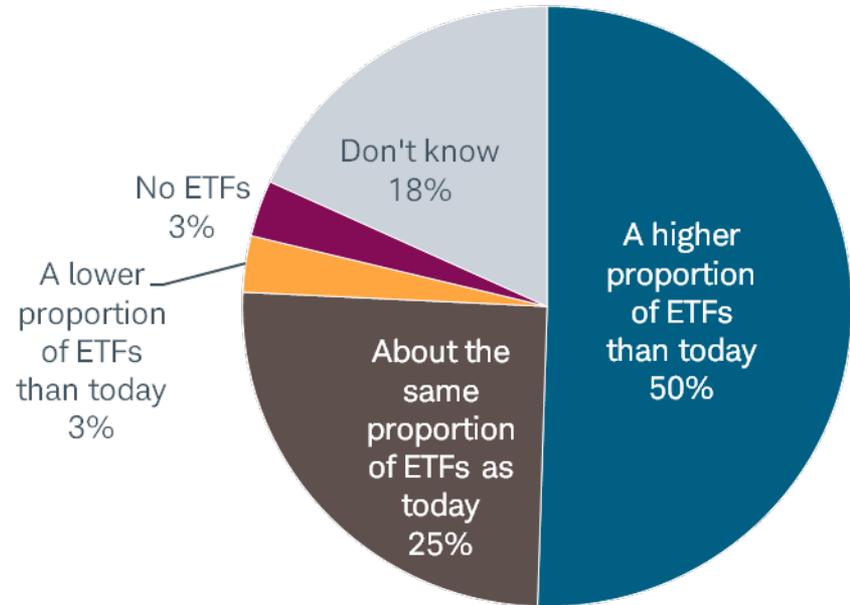
# ETFs account for 18% of ETF owners' portfolios and half of all investors expect current portion to increase

Percent of investments in ETFs today  
Current ETF owners



In five years, investors expect their portfolios to have...

All Investors



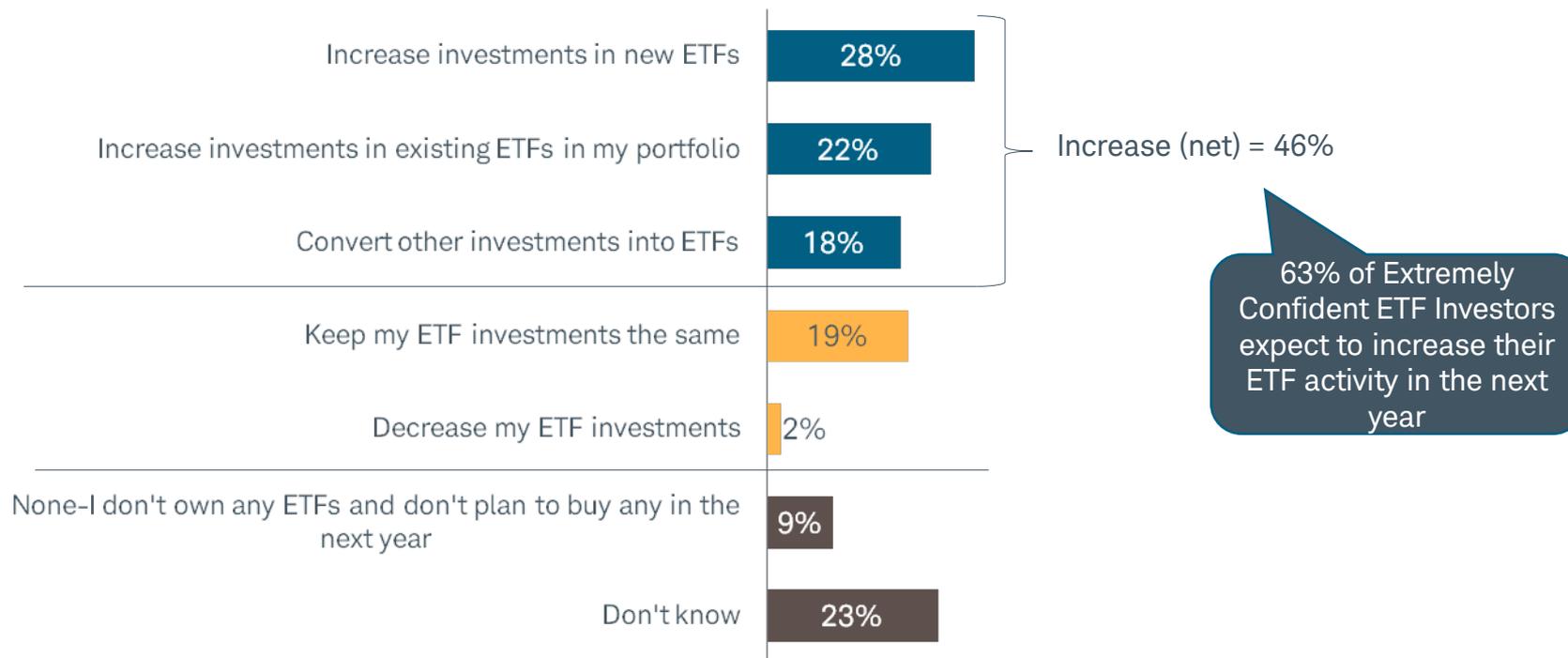
Q30. What percent of all of your investments is in ETFs today, if any? (Base: Current ETF Owners = 617)

Q31. Looking into the future, in five years do you expect that your portfolio will have...? (Base: All Investors = 1,012)

# Nearly half of investors plan to increase their ETF investments in next year

## Expected ETF activity in the next year

All investors

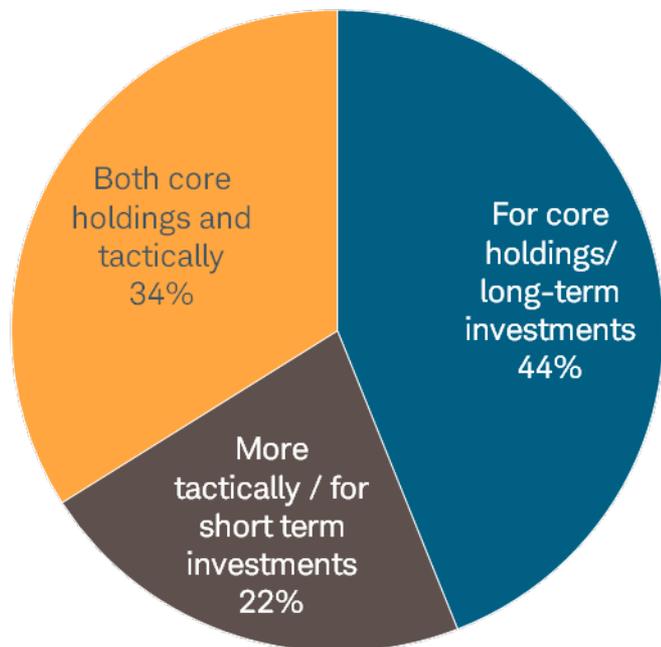


Q15. In the next year, which of the following do you expect to do, if any? (Base: All Investors=1,012)

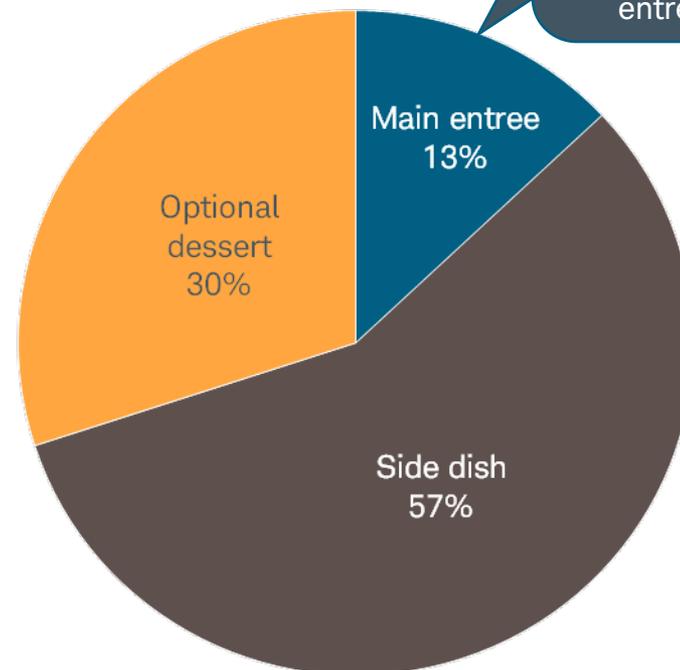
Data does not add up to 100% because more than one response was allowed.

# Investors have a healthy appetite for ETFs

## Primary use of ETFs in portfolio All investors



## ETFs as part of a meal All Investors



Extremely Confident ETF Investors are three times more likely to consider ETFs their main entrée (38%)

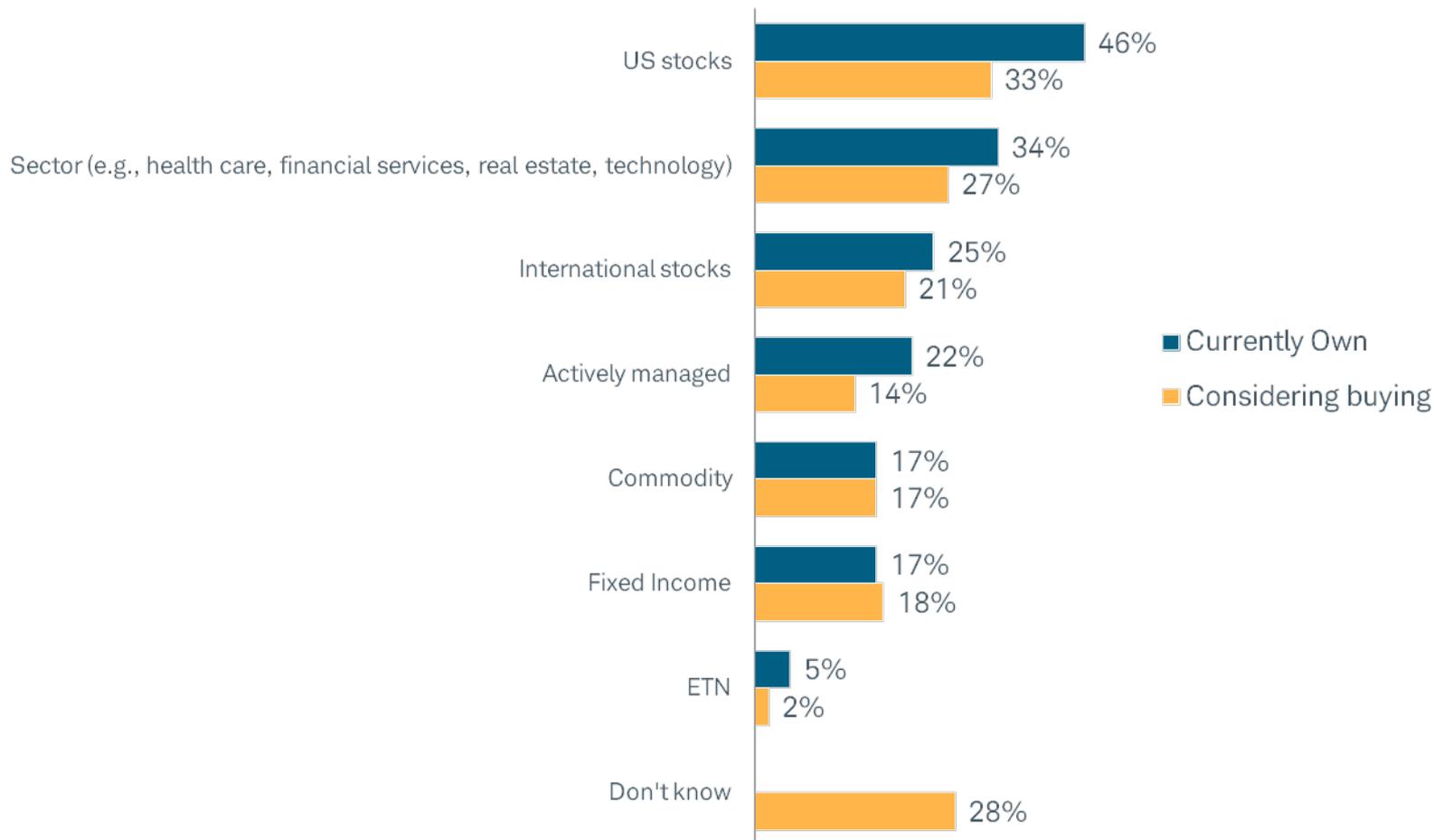
Q32. How do you primarily use ETFs in your portfolio?

Q33. Imagine your investment portfolio is a dinner menu. What part of the meal best describes ETFs in your portfolio? (Base: All Investors=1,012)

# Investors favor ETFs in U.S. stocks, sectors, and international stocks

## Types of ETFs currently owned / considering buying in the next year

All investors



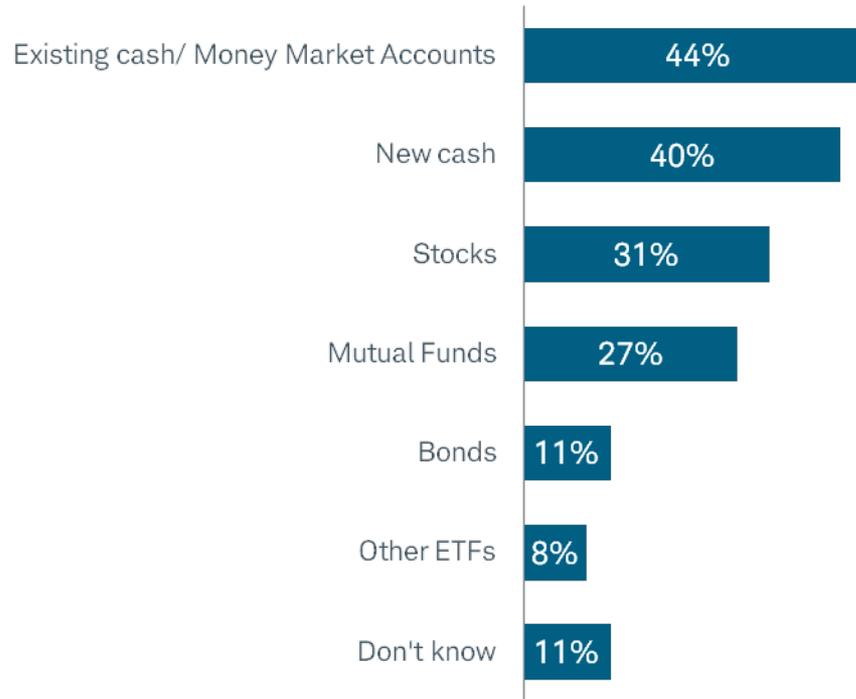
Q28. Which types of ETFs or other Exchange Traded Products do you currently own, if any?

Q29. Which types of ETFs or Exchange Traded Products are you considering buying in the next year, if any? (Base: All Investors=1,012)

Data does not add up to 100% because more than one response was allowed.

# Cash will fund new ETF investments

**Where will assets for future investments in ETFs come from?**  
All investors



Q17. From where do you expect your assets for future investments in ETFs to come? (Base: All Investors=1,012)

*Data does not add up to 100% because more than one response was allowed.*

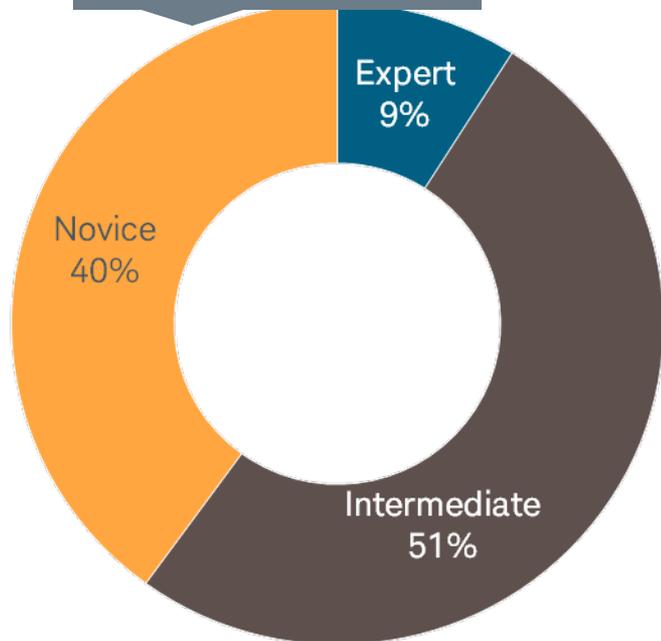
# Education: Pushing Beyond the Basics

# Few investors consider themselves experts – but knowledge is growing

## Understanding of ETFs

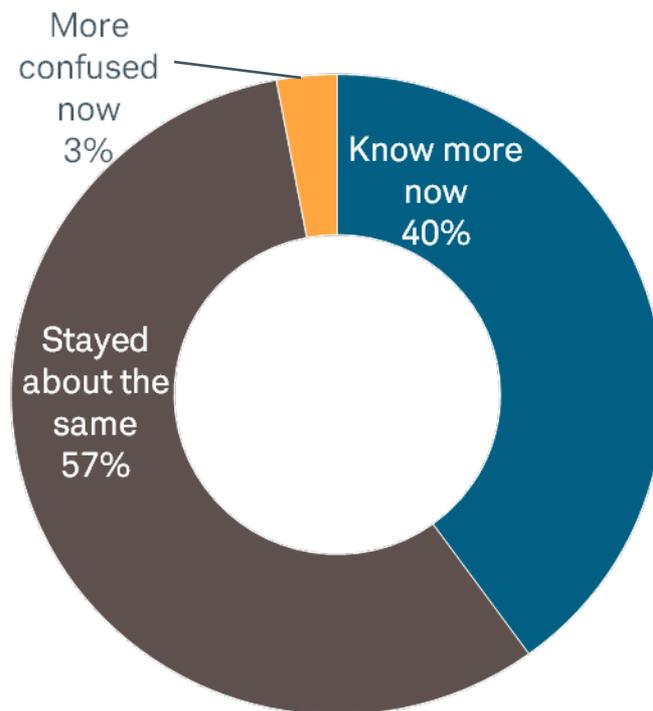
All investors

In 2013, 45% of investors saw themselves as novices



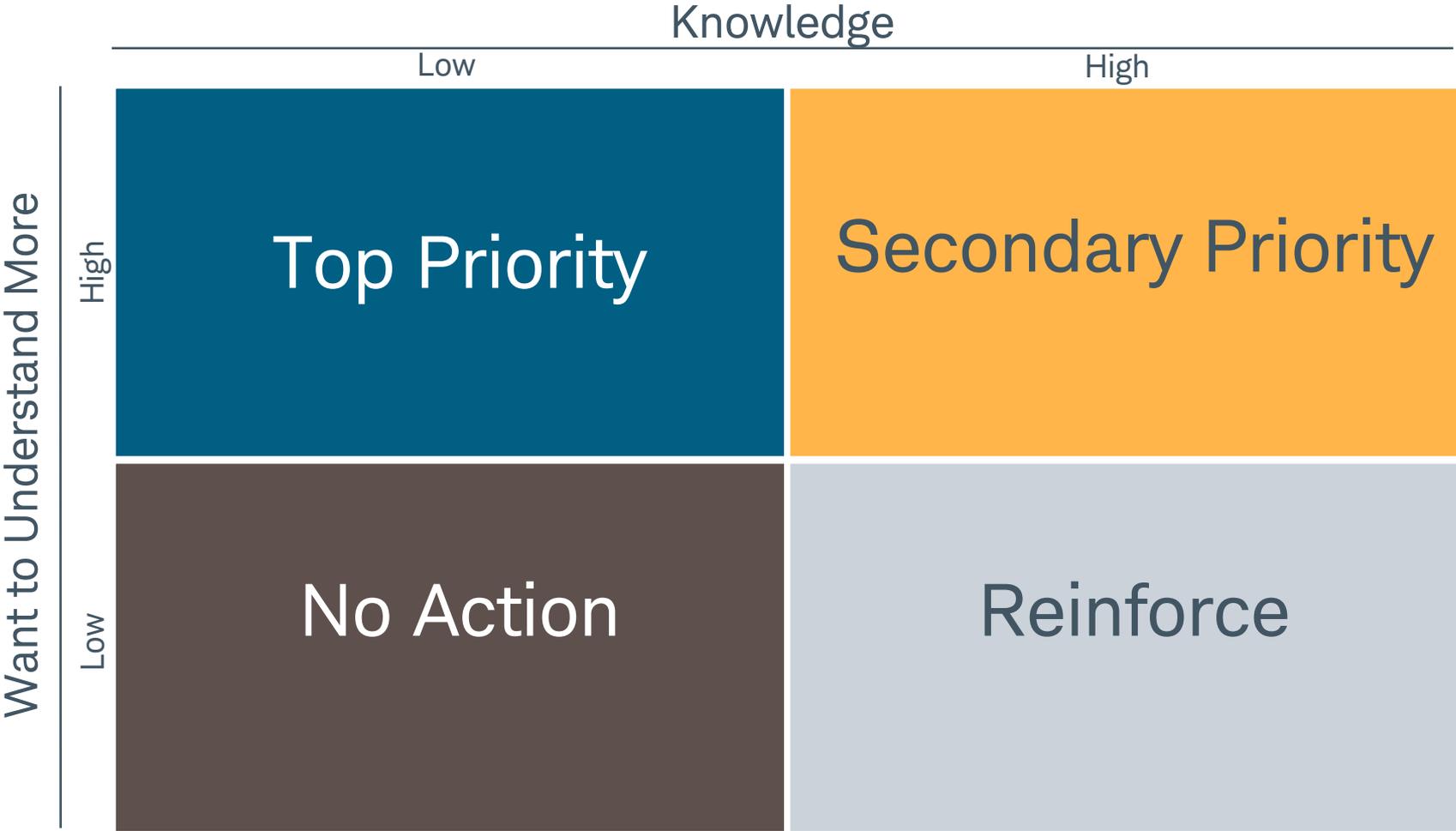
## Knowledge of ETFs changed over past year

All investors



Q9. When it comes to your understanding of ETFs, do you consider yourself a/an...? Q9a. How has your knowledge of ETFs changed over the past year?  
(Base: All Investors=1,012)

# Setting Education Priorities – examining areas where perceived knowledge is low and desire to understand more is high



Q10. How would you rate your understanding on each of the following? Q11. Which of the following would you like to better understand? (Base: All Investors=1,012)

# Education priorities are how to choose ETFs, how ETFs fit best in portfolios, tax implications and more sophisticated products

## Knowledge

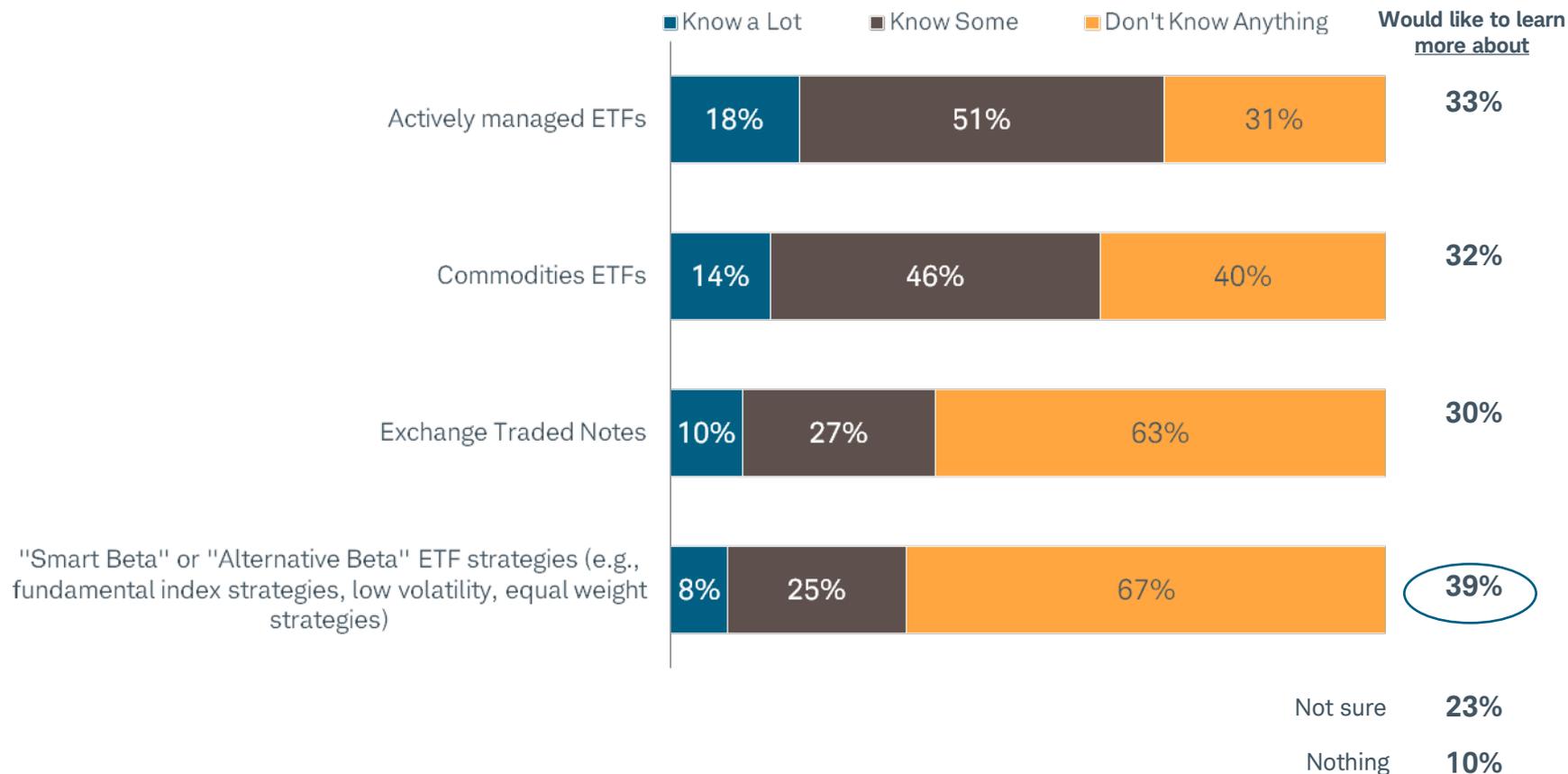
		Low	High
Want to Understand More	High	<ul style="list-style-type: none"> <li>• How to choose an ETF</li> <li>• How to best use ETFs in my portfolio in general</li> <li>• The tax implications of ETFs</li> <li>• How to best use more sophisticated exchange traded products (ETPs)</li> </ul>	<ul style="list-style-type: none"> <li>• The risks associated with ETFs</li> <li>• The benefits associated with ETFs</li> <li>• The costs associated with ETFs</li> </ul>
	Low	<ul style="list-style-type: none"> <li>• How the indexes that ETFs aim to track are constructed</li> </ul>	<ul style="list-style-type: none"> <li>• The differences between ETFs, mutual funds and stocks</li> <li>• How to trade ETFs</li> <li>• The liquidity of ETFs</li> <li>• How to use ETFs for targeted exposure to certain asset classes</li> </ul>

Q10. How would you rate your understanding on each of the following? Q11. Which of the following would you like to better understand? (Base: All Investors=1,012)

# New Frontiers

# Investors are curious about smart beta, ETNs and commodities ETFs

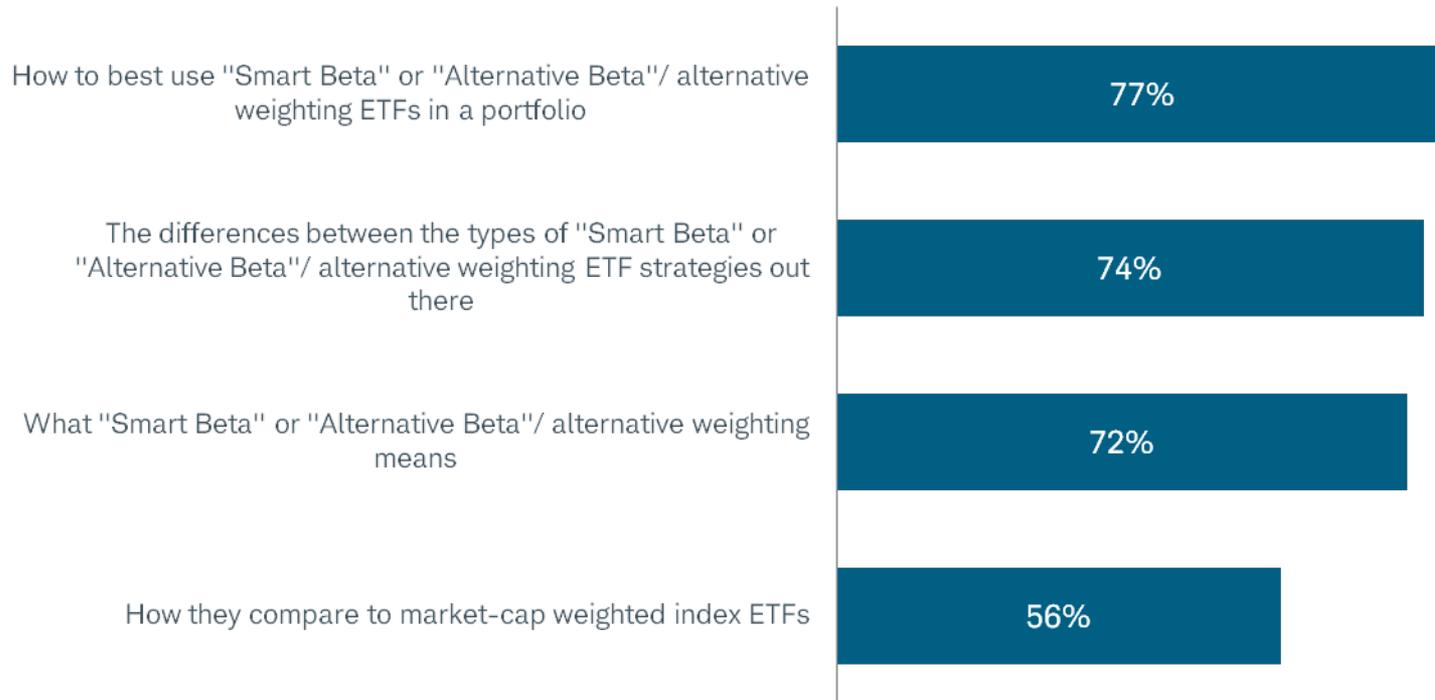
## Knowledge of / desire to learn more about Exchange Traded Products All investors



12. How would you rate your knowledge on each of the following types of exchange traded products? Q13. Which of the following would you like to learn more about?  
(Base: All Investors=1,012)

# And they want to know all about smart beta ETFs

## What would you like to know about smart beta or alternative beta ETFs? Among those who want to learn more



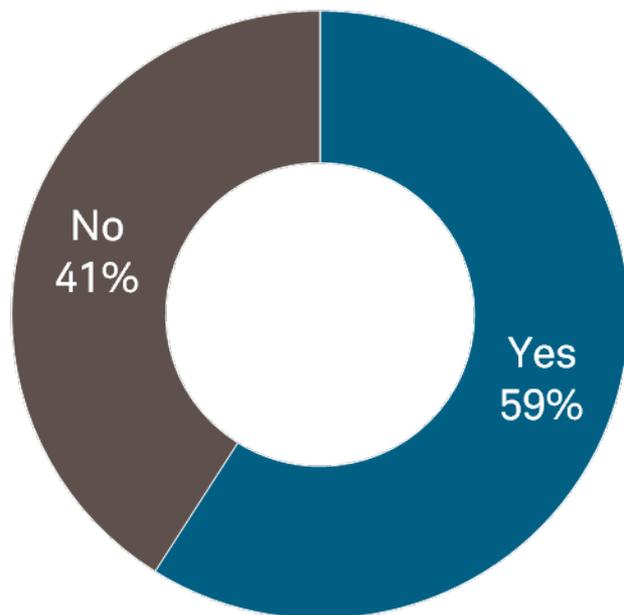
Q14. When it comes to "Smart Beta" or "Alternative Beta"/alternative weighting ETF strategies, which of the following would you like to learn more about?  
(Base: Investors who want to learn more about Smart Beta or Alternative Beta ETFs= 390)

Data does not add up to 100% because more than one response was allowed.

# Investors say ETFs belong in 401(k) plans

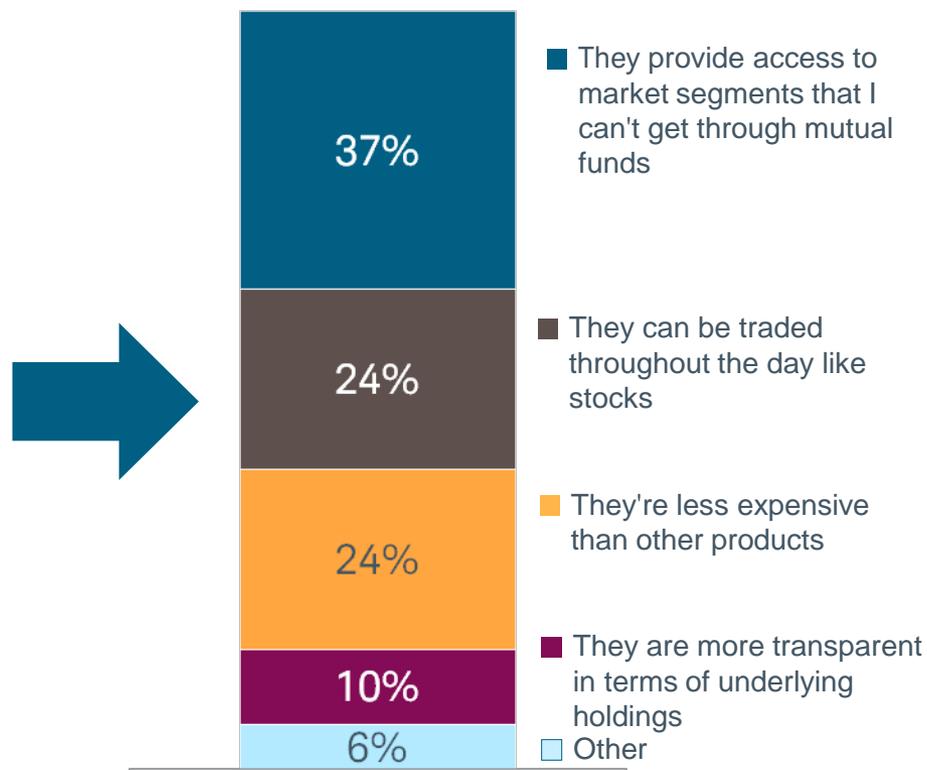
## Would like ETFs to be available through 401(k)

All investors



## Why?

Among those responding Yes



Q18. Would you like ETFs to be made available through your 401k plan? (Base: All Investors=1,012)

Q19. What is the #1 reason why you would like ETFs to be made available through your 401k plan? (Base: Would like ETFs to be available through 401(k) = 600)

# Investor Demographics

# Demographics

	All Investors (n=1012)
<b>Gender</b>	
Male	69%
Female	31%
<b>Age</b>	
Under 45	25%
40 to 55	17%
56 to 65	27%
Over 65	31%
MEAN	55
MEDIAN	58
<b>Region</b>	
East	26%
Midwest	22%
South	27%
West	25%
<b>Investable Assets</b>	
Under \$100K	21%
\$100K to less than \$250K	18%
\$250K to less than \$1M	39%
\$1M or more	22%
MEAN	\$855K
MEDIAN	\$401K
<b>Investor Experience</b>	
A beginner	21%
Somewhat experienced	47%
Experienced	26%
Highly experienced	6%
<b>Number of Trades in Past Year</b>	
None	14%
1 to 11	45%
12 to 23	17%
24 to 35	8%
36 or more	10%
Don't know/prefer not to answer	6%
MEAN	21
MEDIAN	10

	All Investors (n=1012)
<b>Type of Investor</b>	
You do all the research and decision-making yourself without the assistance of a financial advisor or broker	36%
You make all of your own investment decisions but want to be able to discuss them with a friend or family member	13%
You make all of your own investment decisions but want to be able to discuss them with a financial advisor or broker	20%
You make most decisions yourself, but rely heavily on a financial advisor or broker	17%
You delegate decision-making to a financial advisor or broker for some or all of your investments	14%
<b>Income</b>	
Less than \$50K	13%
\$50K to less than \$100K	40%
\$100K to less than \$200K	36%
200K or more	9%
Prefer not to say	2%
MEAN	\$107K
MEDIAN	\$93K
<b>Employment</b>	
<b>Working (net)</b>	<b>60%</b>
Employed full-time	49%
Employed part-time	11%
Retired	32%
Unemployed	3%
Student/homemaker/other	5%

# Demographics

	All Investors (n=1012)
<b>Currently Own or Have Bought/Sold in the Past</b>	
Individual Stocks	85%
Mutual Funds	84%
Money Market Funds	77%
CDs (Certificates of Deposit)	71%
ETFs (Exchange Traded Funds)	60%
Individual Bonds	52%
<b>Last Time Bought or Sold an ETF Among ETF Owners (n=610)</b>	
Past month	24%
Past 3 months	18%
Past 6 months	14%
Past year	20%
Past 2 years	12%
More than 2 years ago	5%
Don't know	7%
MEAN (in days)	218

	All Investors (n=1012)
<b>Likelihood of Purchasing an ETF in the Next Two Years</b>	
Extremely likely	34%
Somewhat likely	56%
Neither likely nor unlikely	7%
Somewhat unlikely	1%
Not at all likely	1%
Don't know	1%

# Disclosures

**Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges, and expenses. You can request a prospectus by calling Schwab at 800-435-4000. Please read the prospectus carefully before investing.**

Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. Shares are bought and sold at market price, which may be higher or lower than the net asset value (NAV).

Commodity-related products carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions.

Exchange Traded Notes (ETNs) are distinct from Exchange Traded Funds (ETFs). ETNs are debt instruments backed by the credit of the issuer and as such bear inherent credit risk. ETNs are not generally appropriate for the average investor.

Since a sector fund is typically not diversified and focuses its investments on companies involved in a specific sector, the fund may involve a greater degree of risk than an investment in other funds with greater diversification.

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