

At the Core: Advisor Views on Investment Trends

October 2018

charles
SCHWAB

Own your tomorrow™

Table of contents

| | Page |
|-----------------------------------|------|
| About the Study | 3 |
| Core Strength | 4 |
| Beyond the Core: ETFs on the Rise | 11 |
| Focus On: Cost and Access | 15 |
| Focus On: Fund Choices | 19 |
| Focus On: Smart Beta | 23 |
| Focus On: Behavioral Finance | 28 |
| Independent Advisor Profile | 31 |
| Disclosures | 33 |

About the study

| | |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | |
| What | <ul style="list-style-type: none">▪ An online study among a national sample of independent advisors (Registered Independent Advisors) was conducted by Logica Research, formerly Koski Research▪ Logica Research is neither affiliated with, nor employed by, Charles Schwab & Co., Inc. |
| When | <ul style="list-style-type: none">▪ The survey was fielded August 14 to August 31, 2018 |
| Who | <ul style="list-style-type: none">▪ 381 independent advisors completed the study▪ To qualify for the study, advisors had to<ul style="list-style-type: none">▪ Provide investment advice to individual clients, manage clients' investment assets, or provide financial planning advice▪ Have at least \$50M in assets under management▪ Have traded an exchange traded fund (ETF) in the past month for an account they manage |

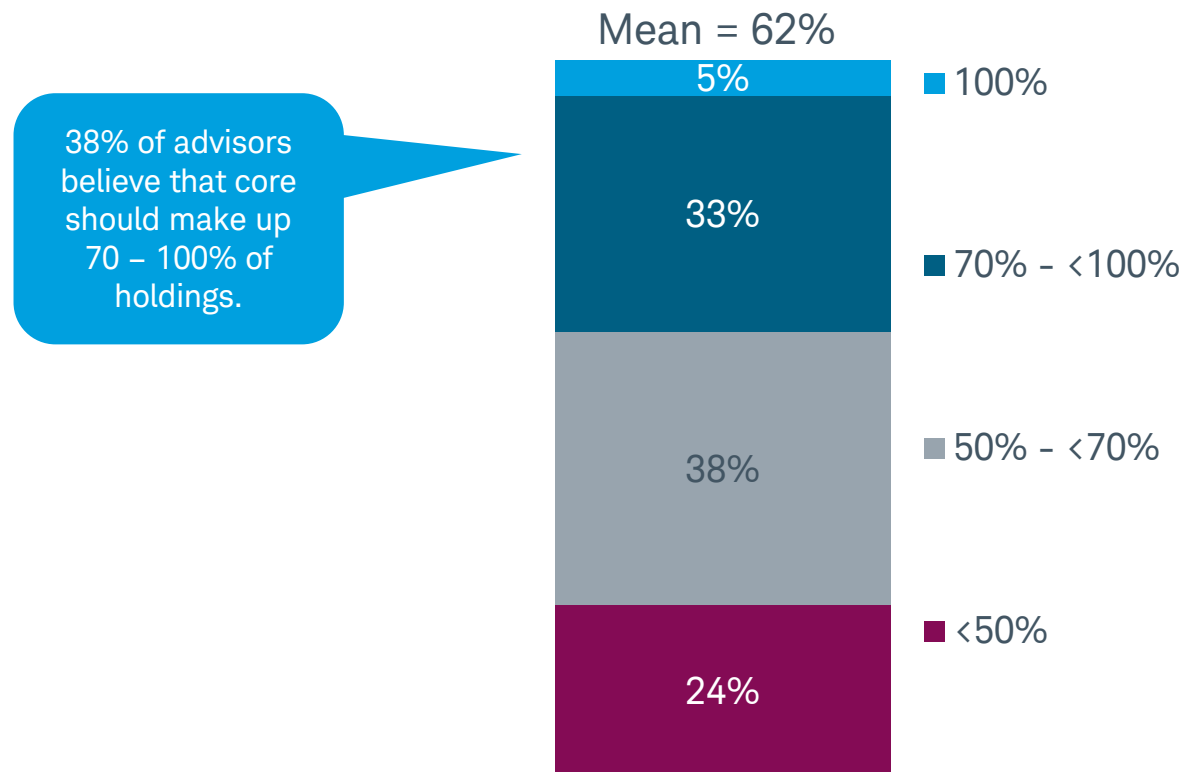
Core Strength

Advisor views on core investments

Advisors believe the majority of client portfolios – 62% on average – should be allocated to core holdings

Percent of client portfolios that should be allocated to core holdings

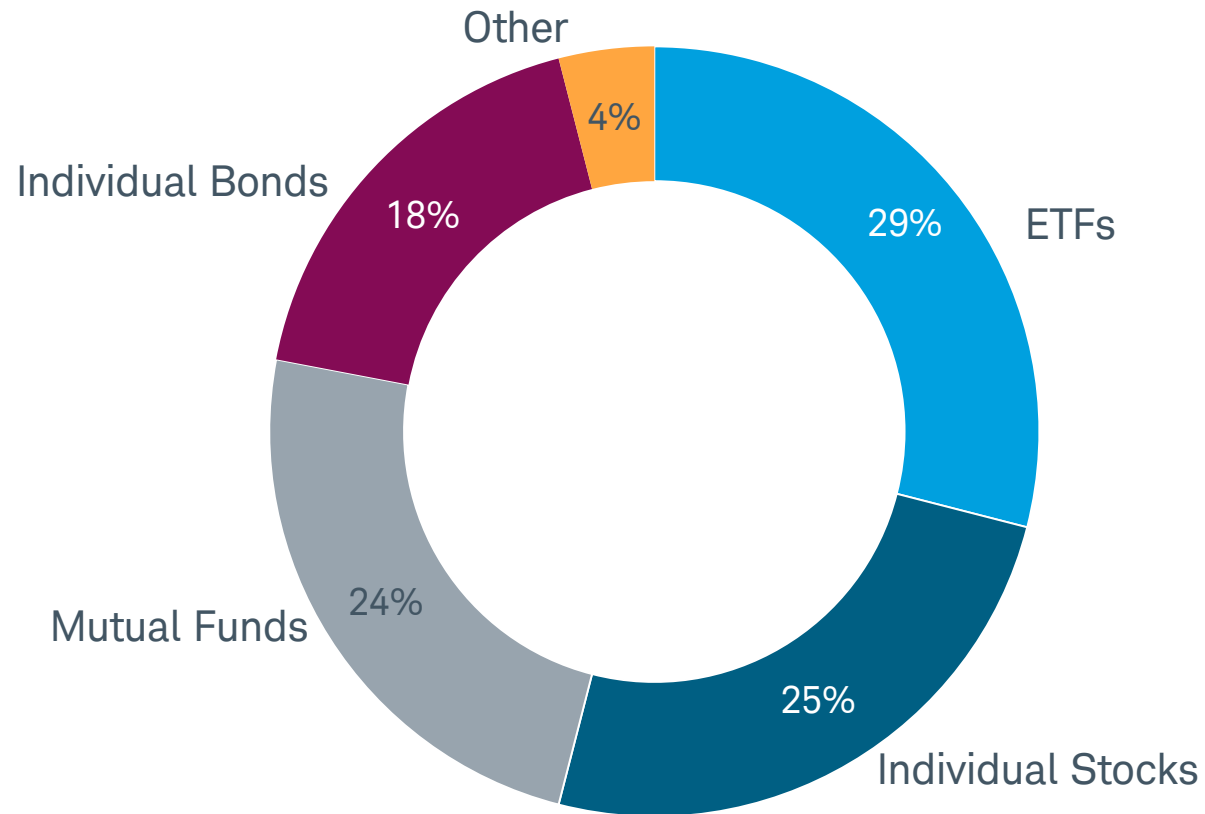
Note: We are defining “core” as broad large-, mid-, and small-cap equities, broad international equities, and corporate and Treasury bonds.



Q1. On average, how much of your clients' portfolios do you believe should be allocated to core holdings? We are defining “core” as broad large-, mid-, and small-cap equities, broad international equities, and corporate and Treasury bonds. (Base: Total = 381)

ETFs currently have a slight edge over other investment products at the core...

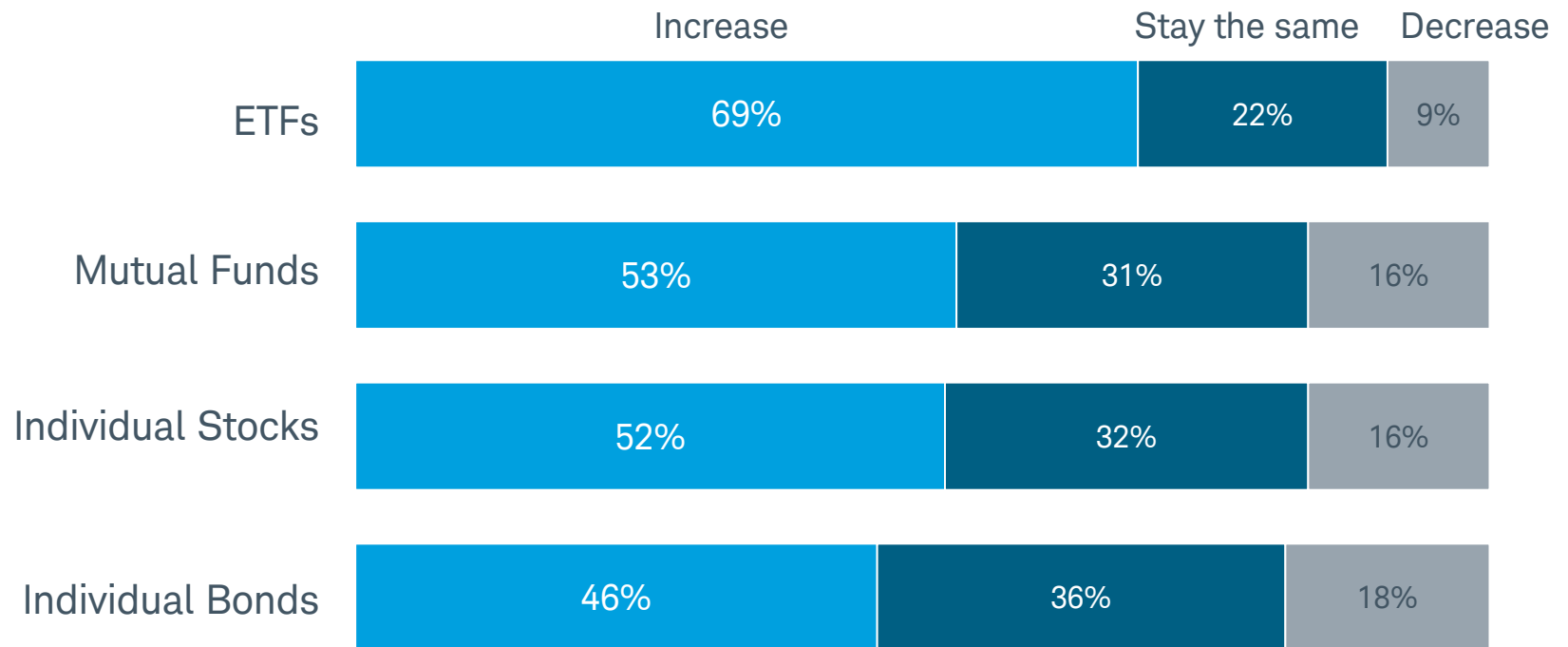
Current product allocation of core holdings in client portfolios



Q2. On average, what percent of your clients' core holdings are currently allocated to the products below? (Base: Total = 381)

... and ETFs are expected to make up an even bigger portion of core holdings in the future

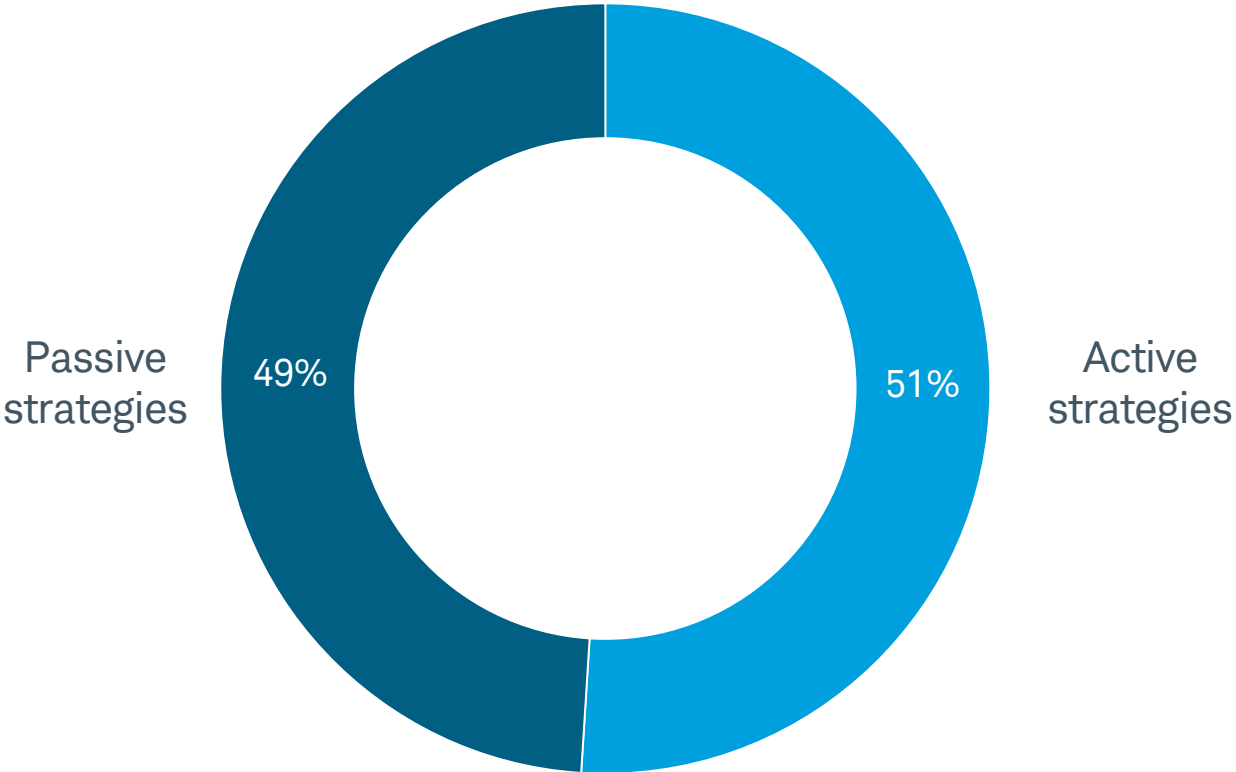
Expectations for product allocation changes in next five years



Q3. On average, how do you expect the product allocation of your clients' core holdings to change in the next 5 years, if at all? (Base: Total = 381)

Advisors say their clients' core holdings are evenly allocated between active and passive strategies

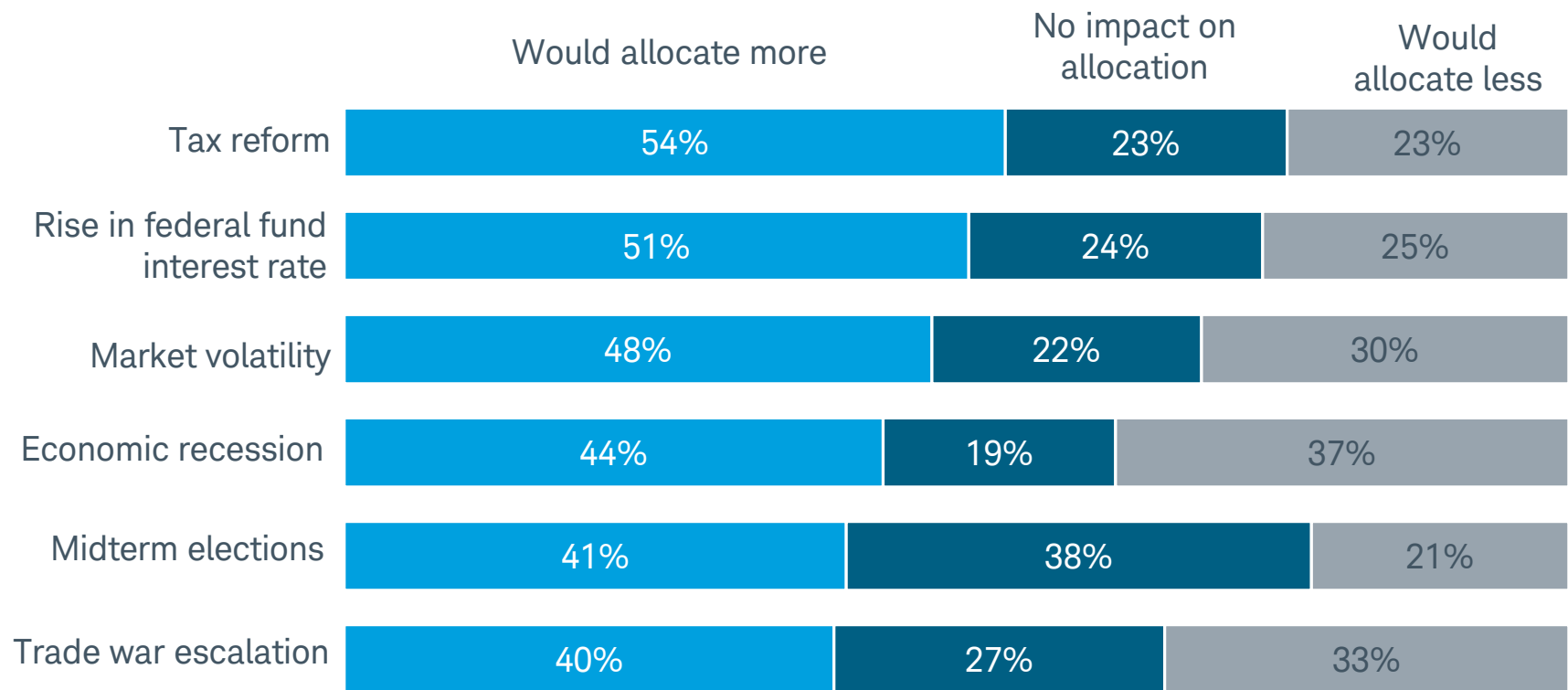
Average percent of clients' core holdings allocated to...



Q4. On average, what percent of your clients' core holdings are currently allocated to...? (Base: Total = 381)

Advisors say that economic and market events impact how much of a portfolio should be allocated to core holdings

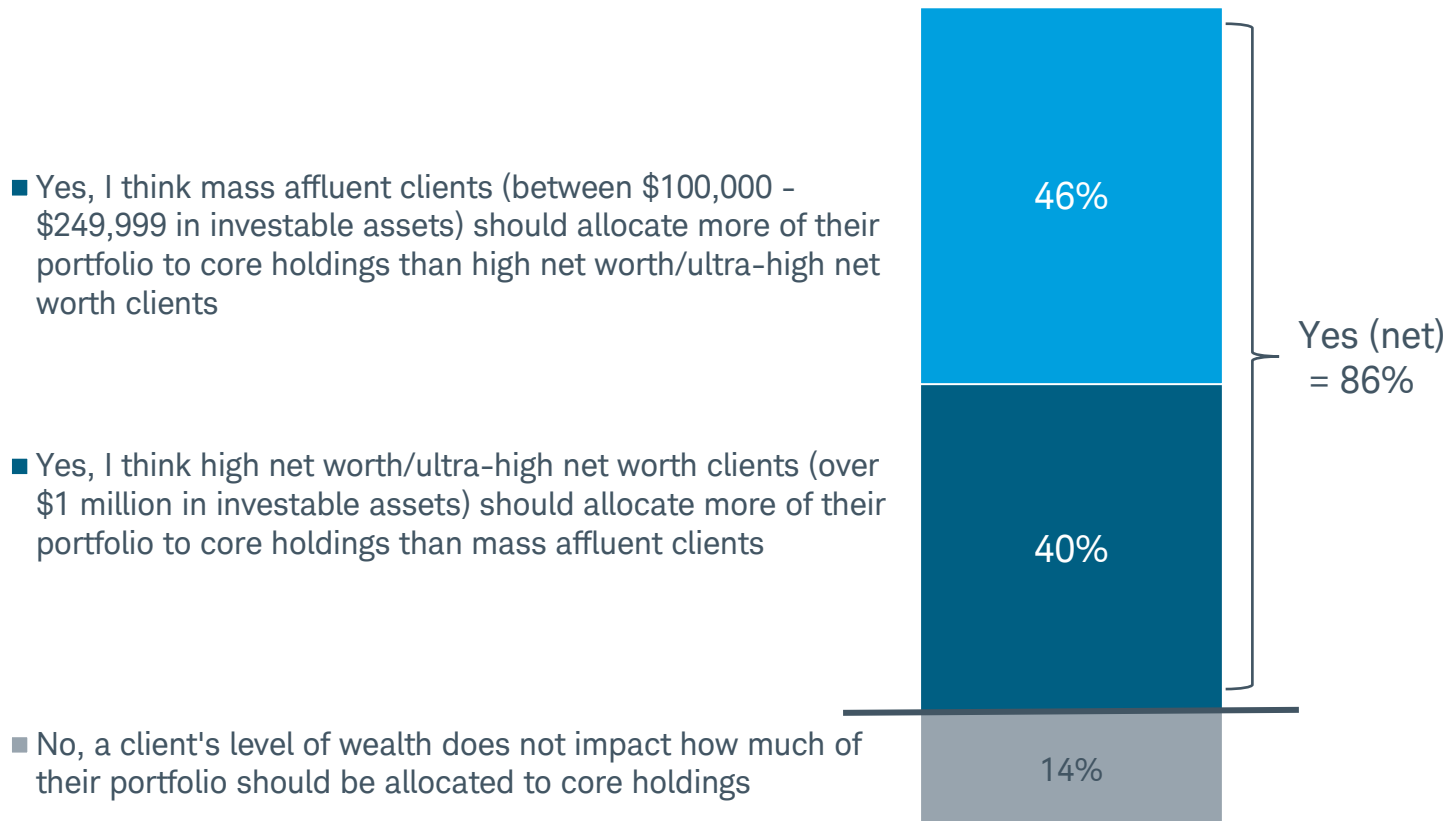
How advisors expect to change core allocations in reaction to key events



Q9. Recognizing that this will depend on the risk tolerance and investment objectives of an individual client, broadly speaking how might each of the potential events below impact your allocation to core holdings in your clients' portfolios? (Base: Total = 381)

Advisors believe a client's level of wealth impacts how much should be allocated to core holdings

Does a client's level of wealth impact how much should be allocated to core holdings?



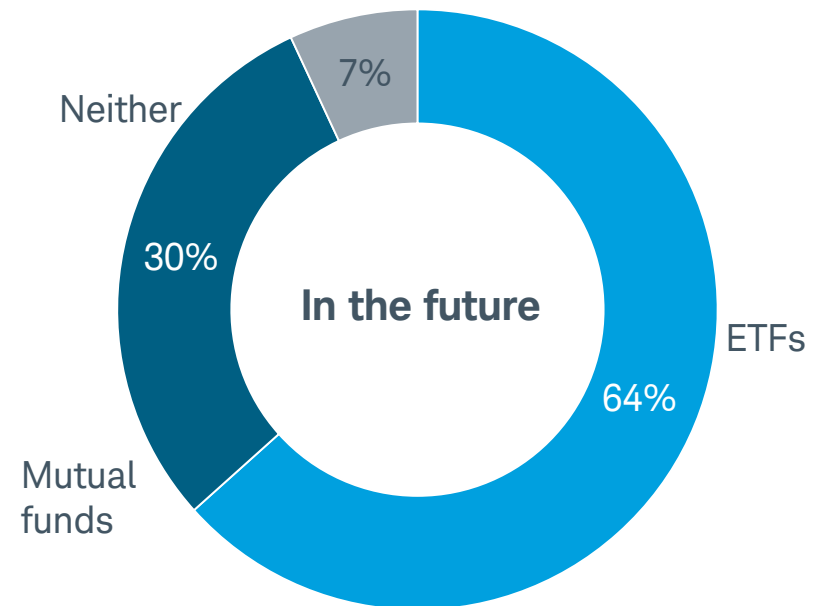
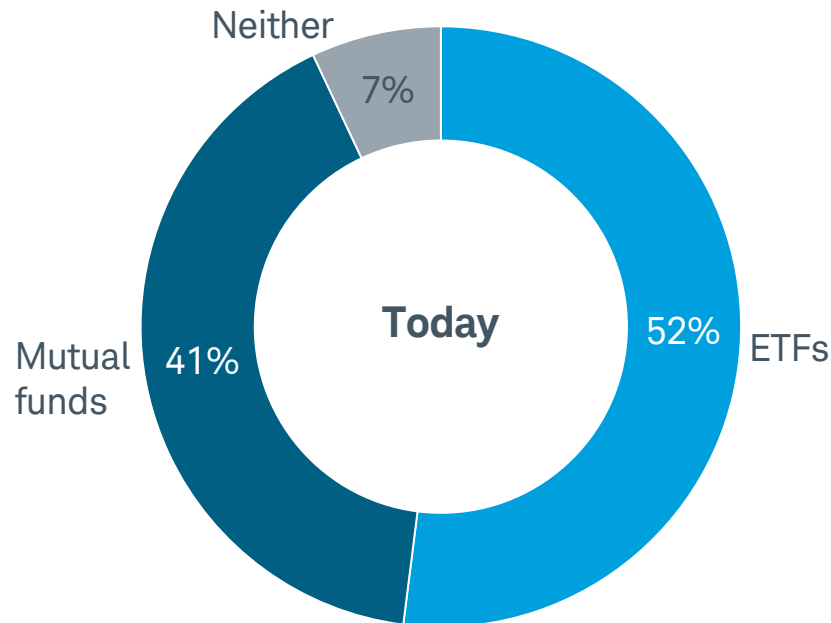
Q10. Does a client's level of wealth impact how much of their portfolio should be allocated to core holdings? (Base: Total = 381)

Beyond the Core: ETFs on the Rise

Advisor views on the total portfolio

Half of advisors say ETFs are already the primary investment type in client portfolios, and most expect ETF dominance to grow going forward

Primary investment type in client portfolios

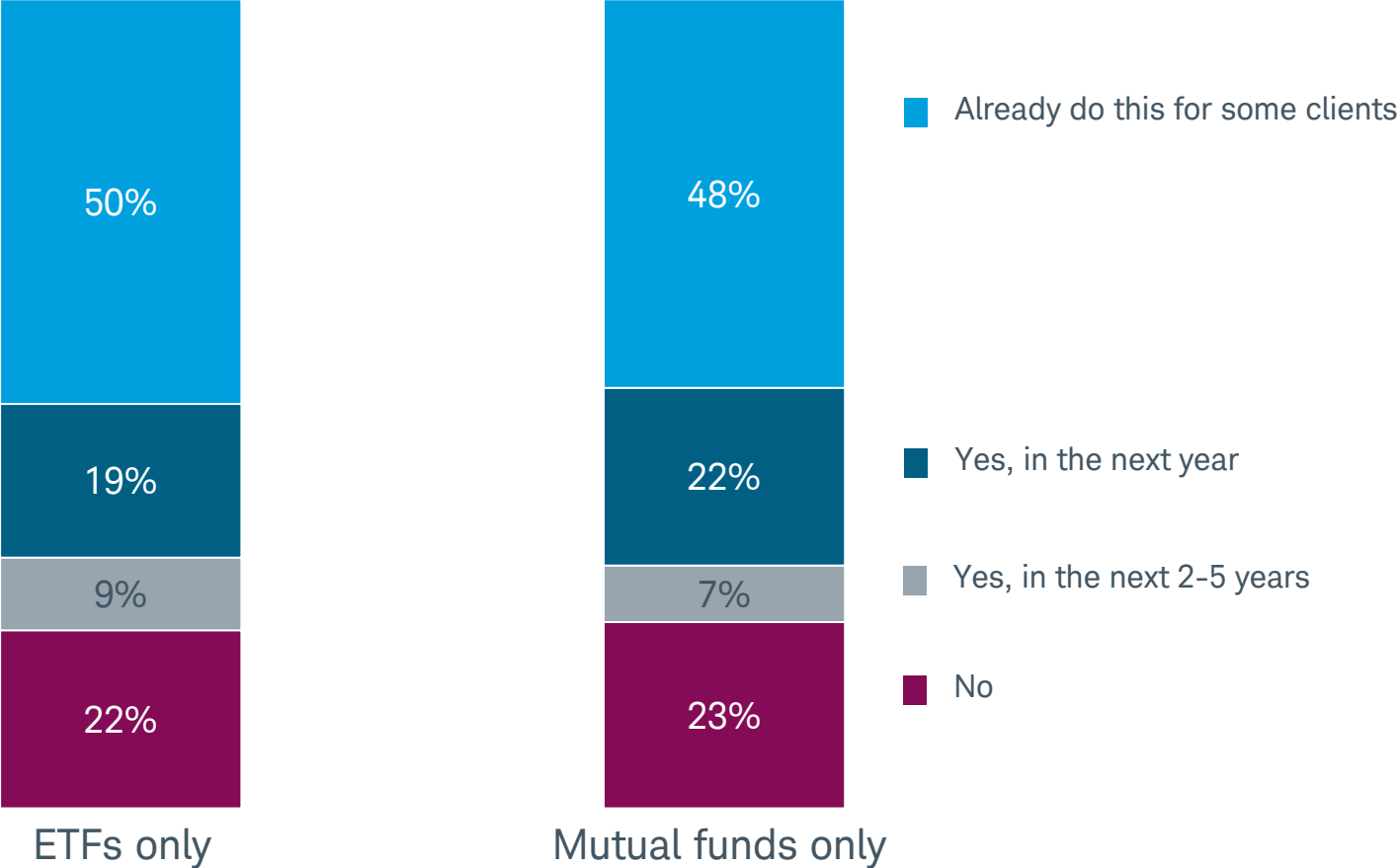


Q14. Which of the following is the primary investment type in your clients' portfolios today?

Q15. Which of the following do you see as being the primary investment type in your clients' portfolios in the future? (Base: Total = 381)

Use of all-ETF and all-mutual fund portfolios is already common and poised to rise in the coming years

Would consider placing a client's entire portfolio into ETFs only/mutual funds only



Q13. Assuming it fits their investment objectives/risk tolerance, would you consider placing a client's entire investment portfolio (excluding cash holdings) in the following investment types? This means the portfolio would not include any individual stocks or bonds. (Base: Total = 381)

Millennial and female advisors are particularly likely to have clients in all-ETF and all-mutual fund portfolios

Would consider placing a client’s entire portfolio into ETFs only/mutual funds only

| | By generation | | | By gender | |
|----------------------------------|----------------------------|----------------------|------------------------|-----------|--------|
| | Millennials (age 25-37) | Gen X (age 38-53) | Boomers (age 54-72) | Male | Female |
| ETFs only | | | | | |
| Already do this for some clients | 60% | 55% | 43% | 50% | 57% |
| Yes, in the next year | 26% | 16% | 22% | 21% | 22% |
| Yes, in the next 2-5 years | 10% | 9% | 11% | 10% | 11% |
| No | 4% | 20% | 24% | 19% | 10% |
| Mutual funds only | | | | | |
| Already do this for some clients | 61% | 49% | 44% | 49% | 55% |
| Yes, in the next year | 25% | 21% | 26% | 24% | 24% |
| Yes, in the next 2-5 years | 9% | 9% | 7% | 7% | 11% |
| No | 5% | 21% | 23% | 20% | 10% |

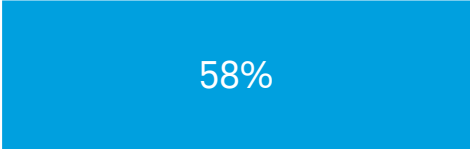
Q13. Assuming it fits their investment objectives/risk tolerance, would you consider placing a client’s entire investment portfolio (excluding cash holdings) in the following investment types? This means the portfolio would not include any individual stocks or bonds. (Base: Total = 381)

Focus On: Cost and Access

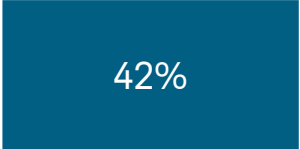
Advisor views on fund costs and
minimums

Most advisors say low investment minimums are very important when selecting a mutual fund

Low or no investment minimums are a very important consideration when selecting a mutual fund for my client

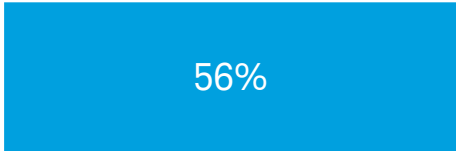


or

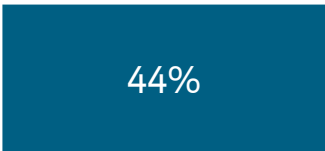


Low or no investment minimums are not an important consideration when selecting a mutual fund for my client

I believe that mutual funds should have multiple share classes, accessible at different asset levels

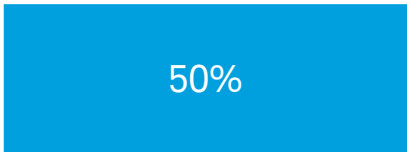


or

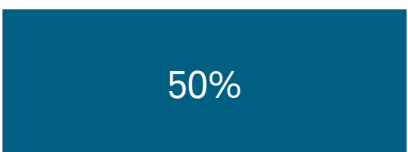


I believe mutual funds should have a single share class, accessible to all

Mutual funds and ETFs that have the same investment objective/strategy and track the same index should have the same operating expense ratio (OER)



or

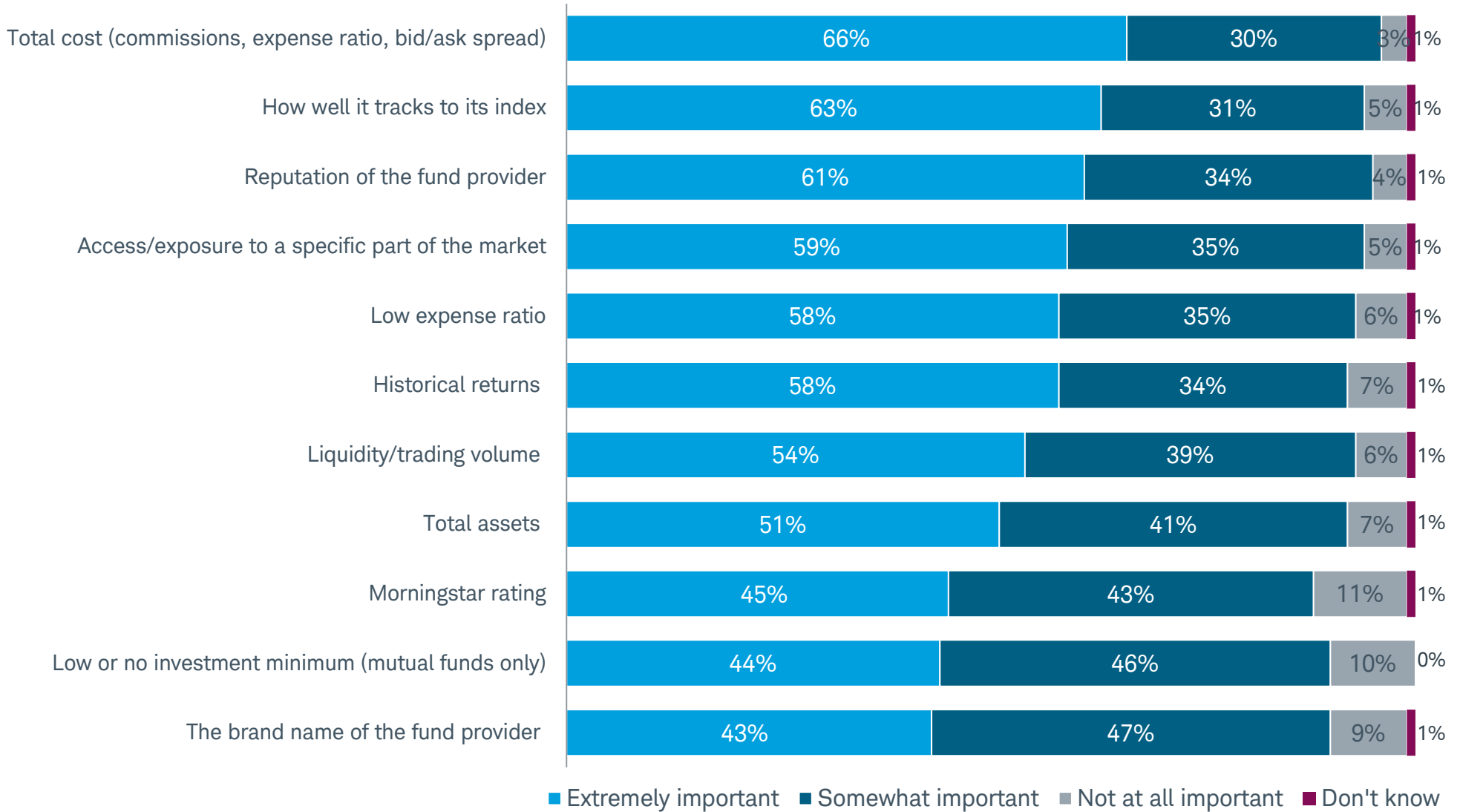


Mutual funds and ETFs that have the same investment objective/strategy and track the same index do not necessarily need to have the same operating expense ratio (OER)

Q16. When it comes to mutual funds, please select the statements that best describe your views. (Base: Total = 381)

Total cost tends to be the most important consideration when choosing any index fund, whether it is a mutual fund or ETF

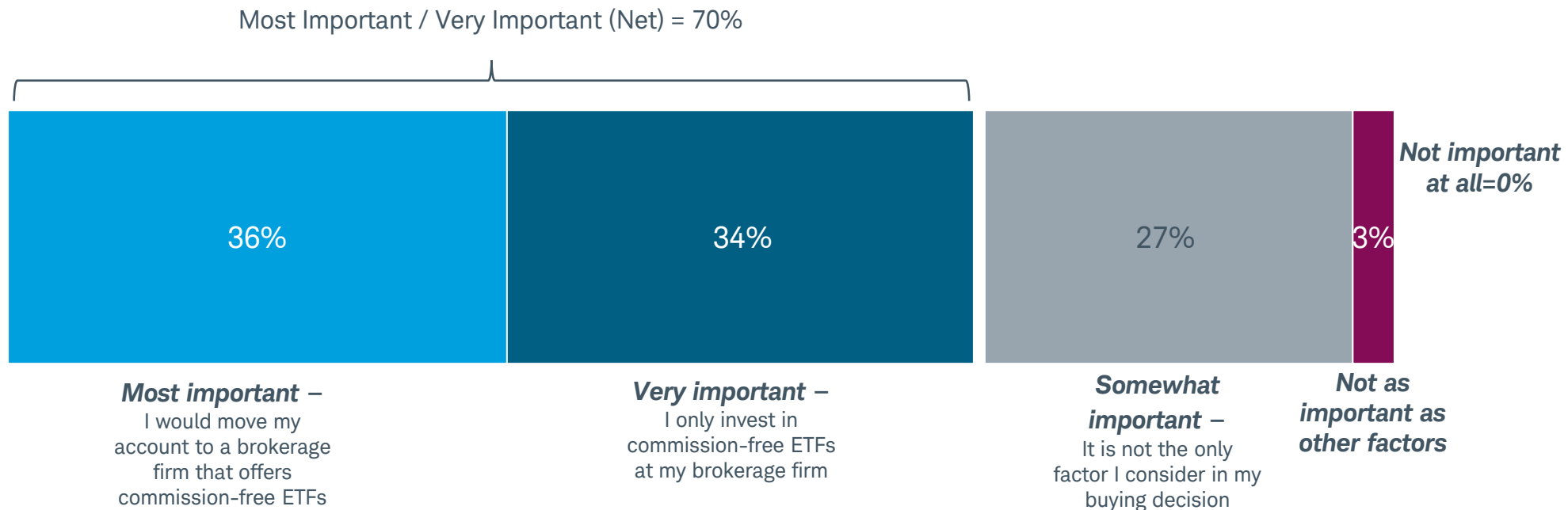
Importance when choosing an index fund



Q20. When choosing an index fund, how important to you is each of the following? (Base: Total = 381)

The ability to trade ETFs without commissions or other brokerage firm fees is important to advisors

Importance of ability to trade ETFs without commissions or fees



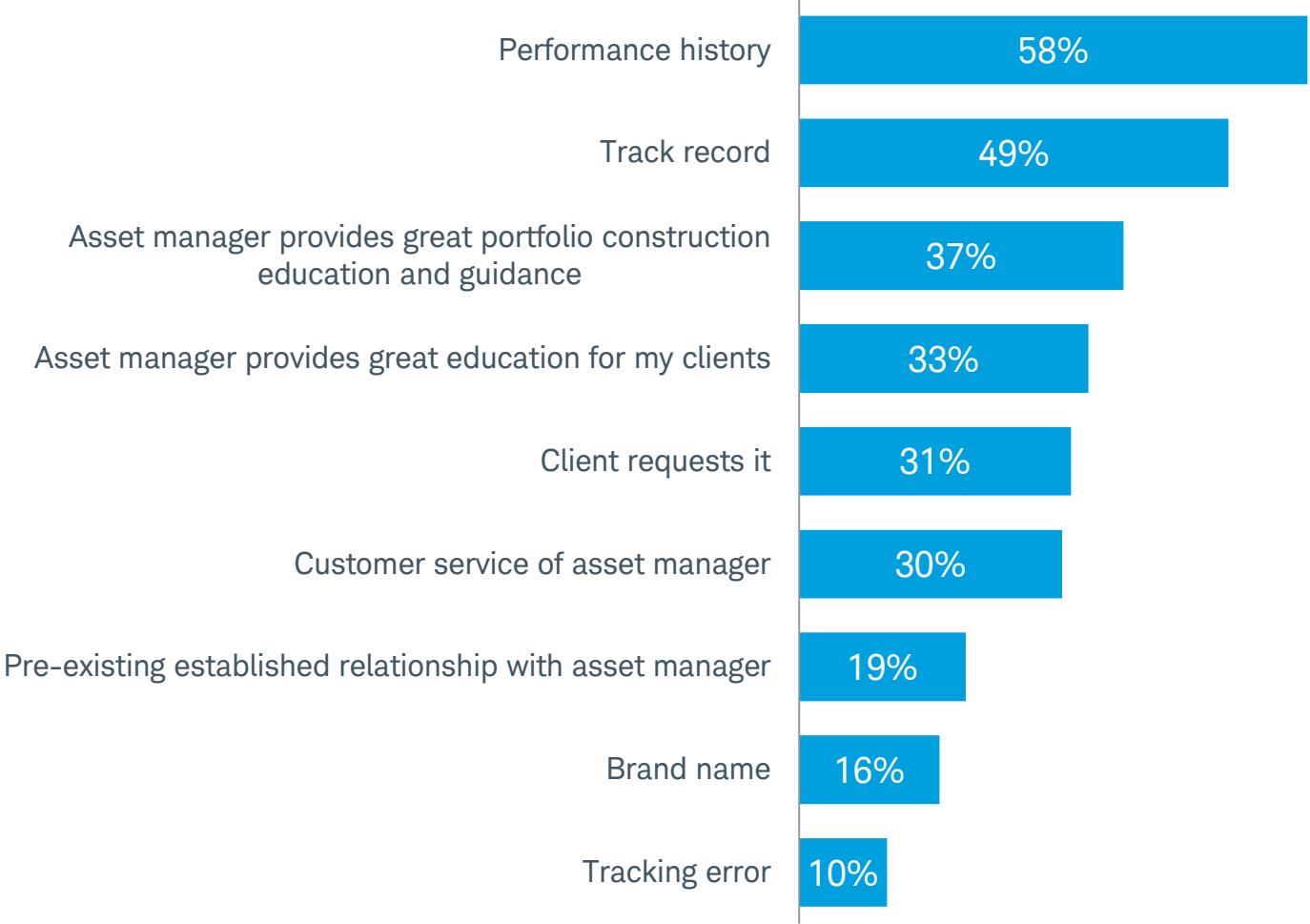
Q18. How important is the ability to trade ETFs without commissions or other brokerage firm fees? (Base: Total = 381)

Focus On: Fund Choices

How advisors choose funds and
asset managers

When deciding between two funds with the same investment objective and price, few advisors focus on brand name

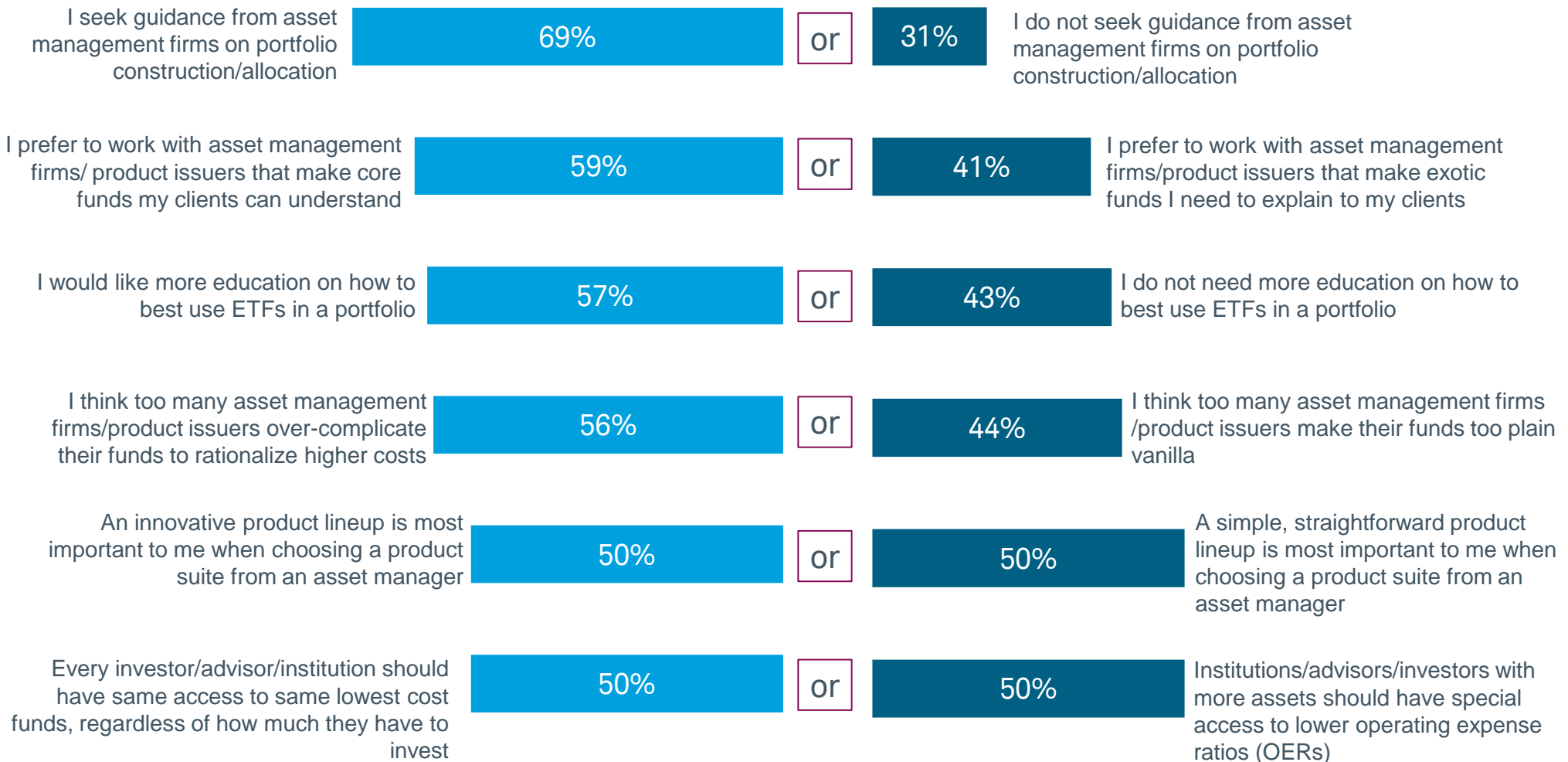
Top criteria advisors use to decide between funds with the same investment objective and price



Q11. What are the top 3 criteria you would use to decide between two funds that have the same investment objective and price? Assume you have already met the clients' investment objectives and risk tolerance. (Base: Total = 381)

Advisors look for guidance from asset management firms on portfolio allocation and prefer firms offering core funds clients can understand

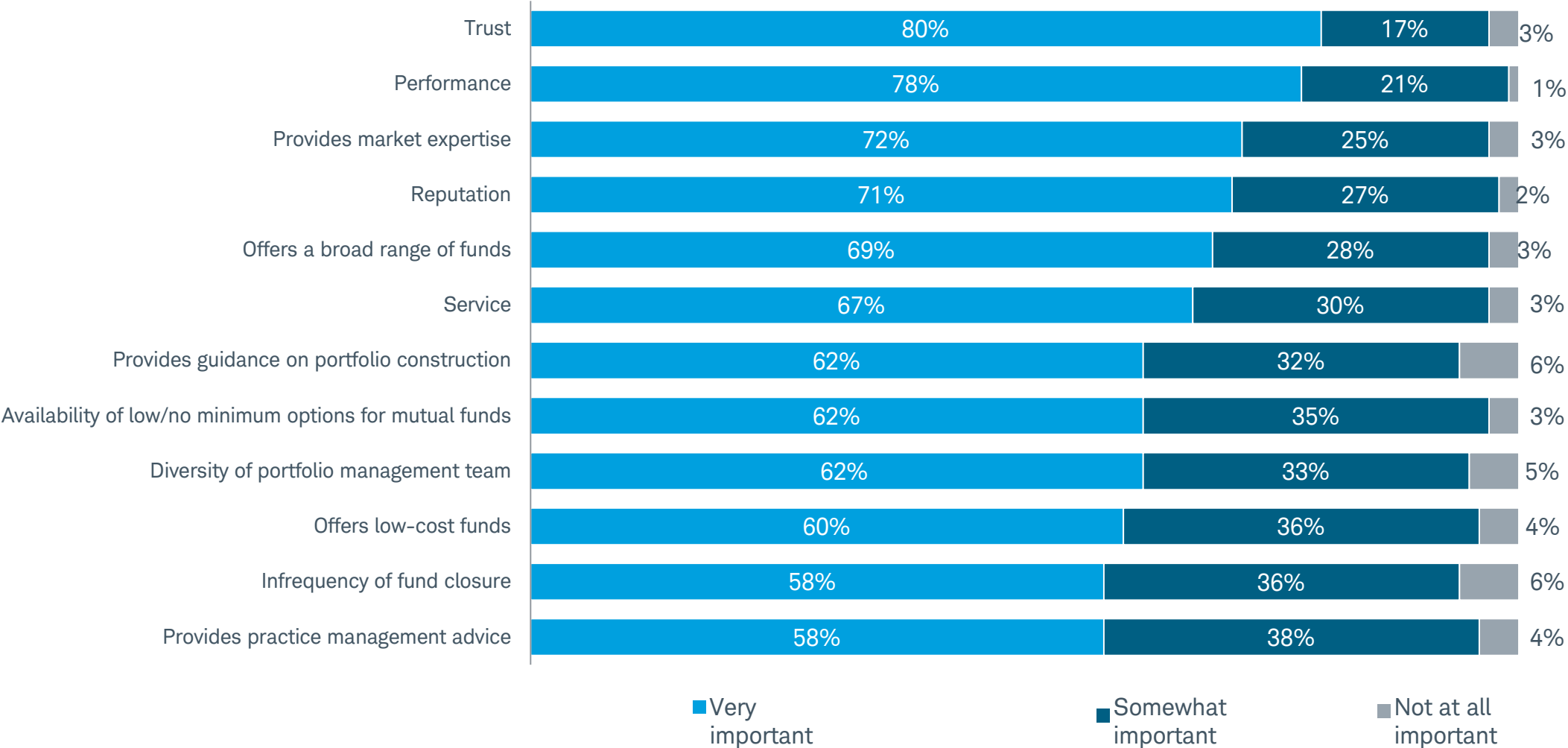
Phrase best describing your views



Q12. Please select which of the following statements best describes you. Note: respondents were asked to choose one of two statements. (Base: Total = 381)

Trust and performance are most important to advisors when considering an asset manager

Most important factors when considering an asset manager



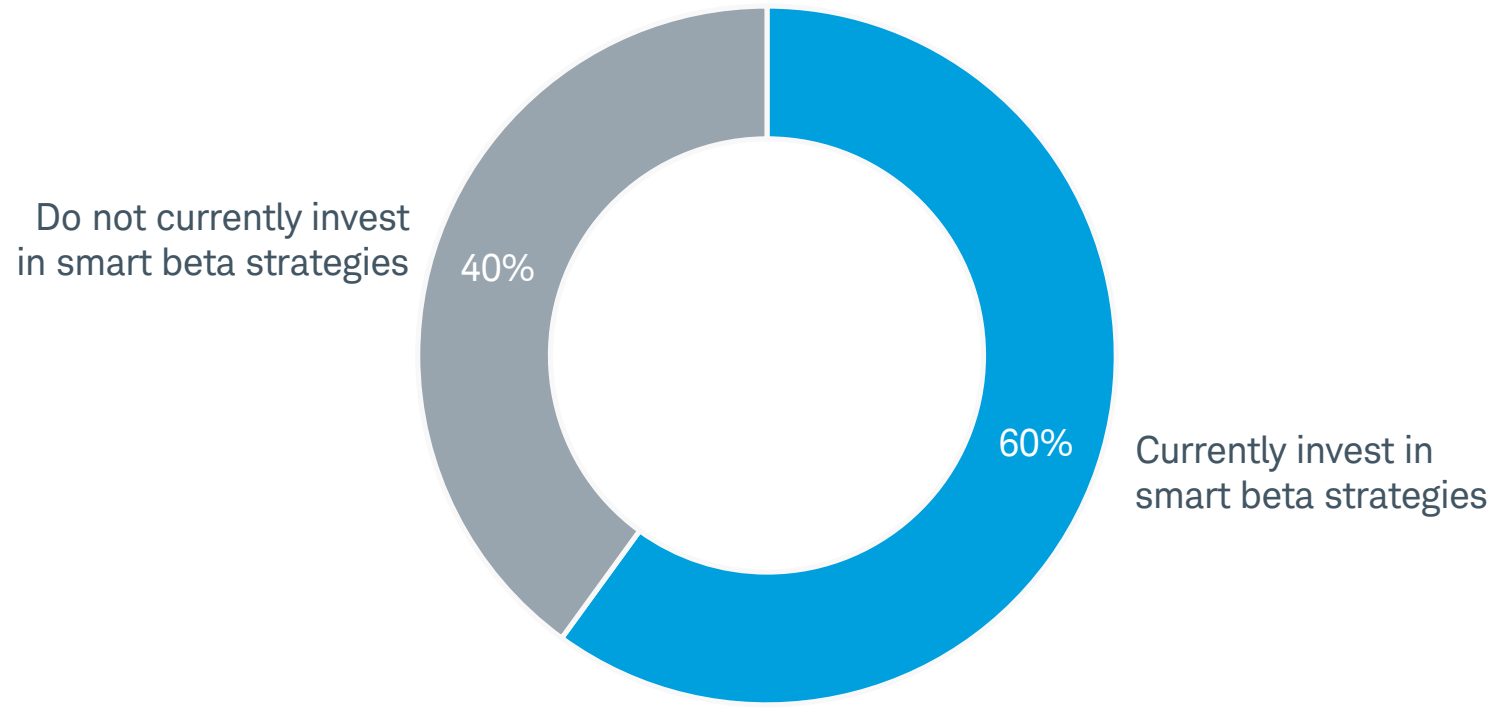
Q28. How important are each of the following when considering an asset manager? (Base: Total = 381)

Focus On: Smart Beta

How advisors view smart beta
strategies

Three in five advisors say they invest in smart beta strategies

Investment in smart beta strategies

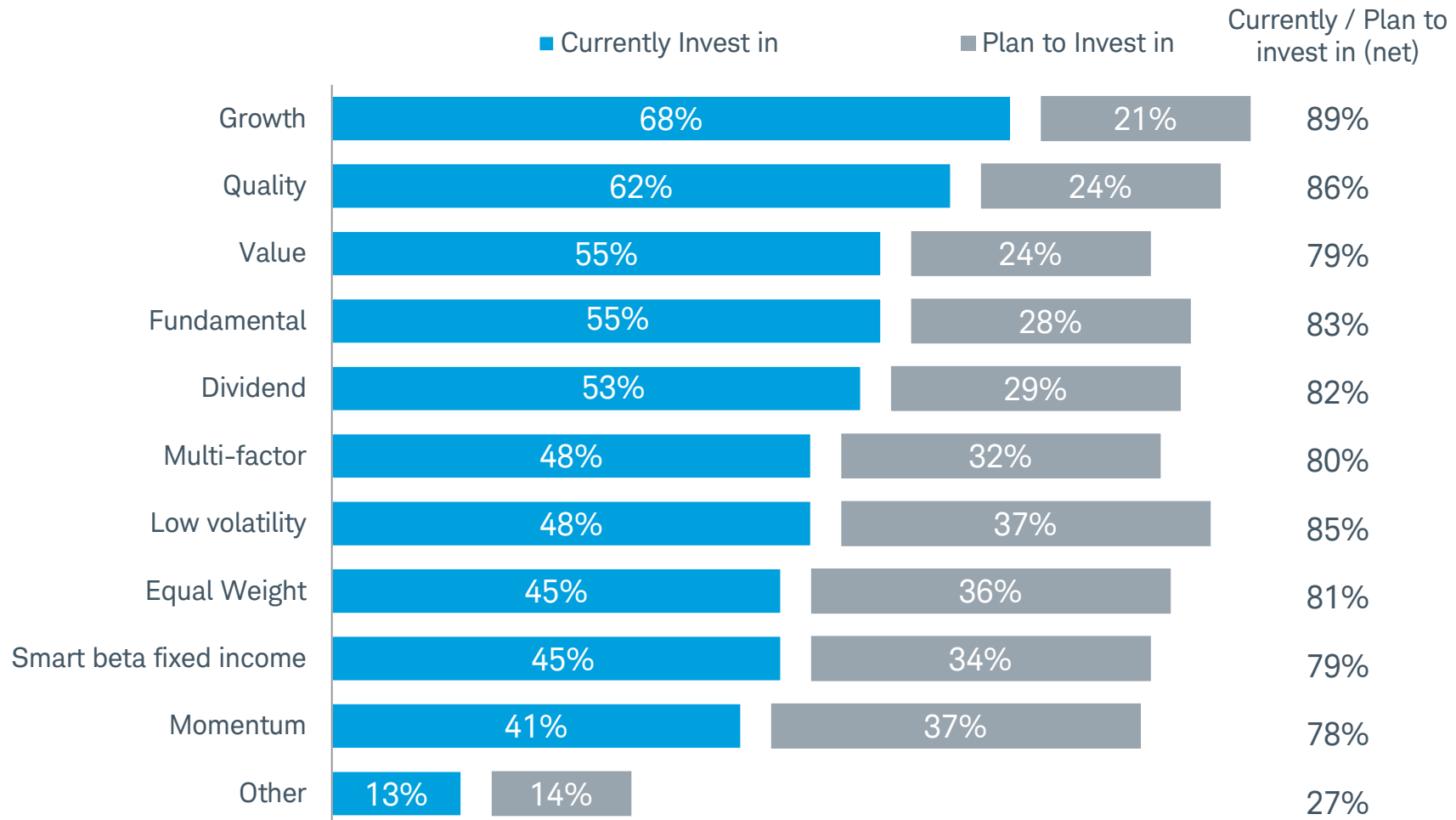


Q21. Do you currently invest in any smart beta strategies? (Smart beta strategies—also known as strategic beta strategies—seek a different kind of market exposure by screening and weighting securities based on factors other than market capitalization.) (Base: Total = 381)

For advisors who already invest in smart beta strategies, growth, quality, value and fundamental strategies are most popular

Investments in smart beta strategies

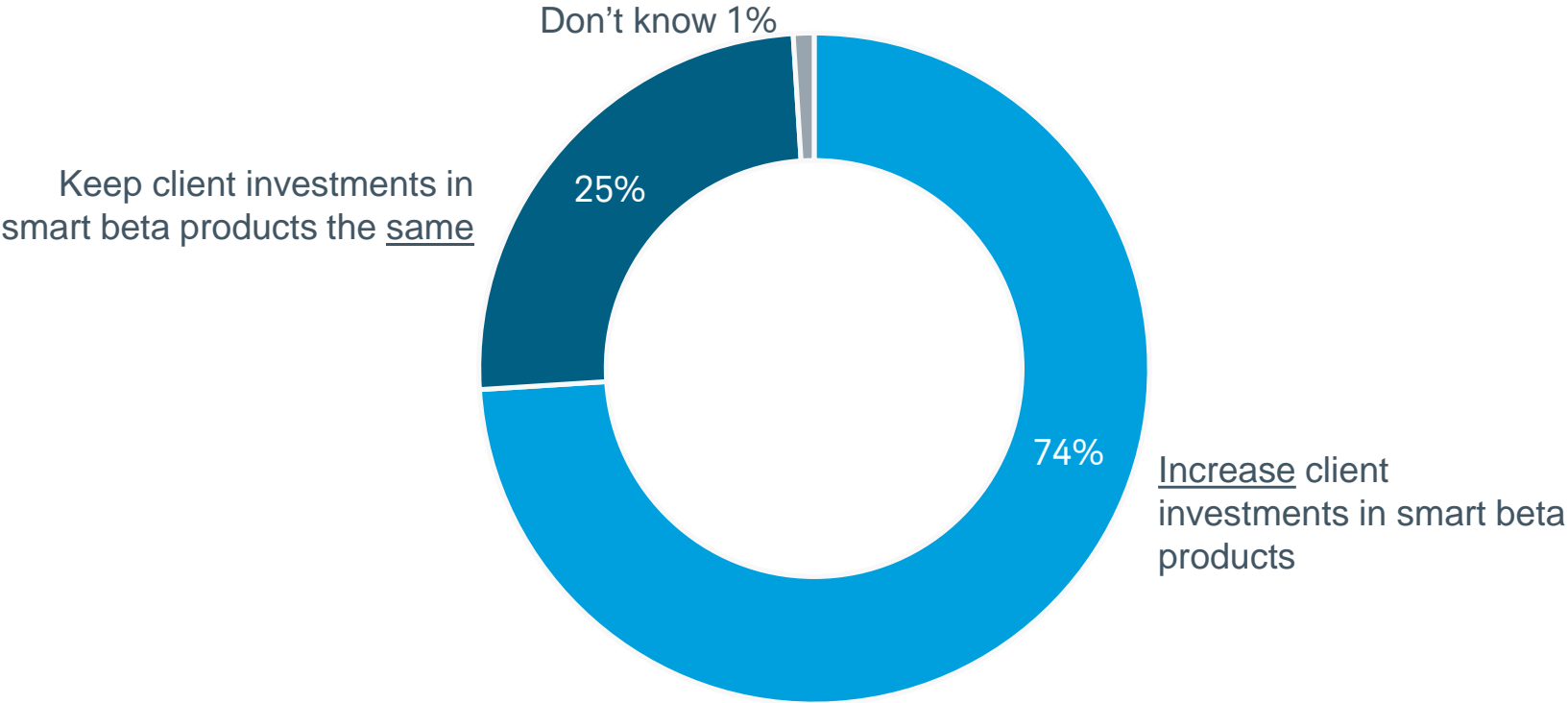
Among those who invest in smart beta strategies



Q23. Which type of smart beta strategies do you currently invest in, or plan to invest in, in the near future? (Base: Currently invest in smart beta strategies = 251)

Of those invested in smart beta, nearly three quarters say they will increase client investments in the strategies in the next year

Expect to do in the next year
Among those who invest in smart beta strategies



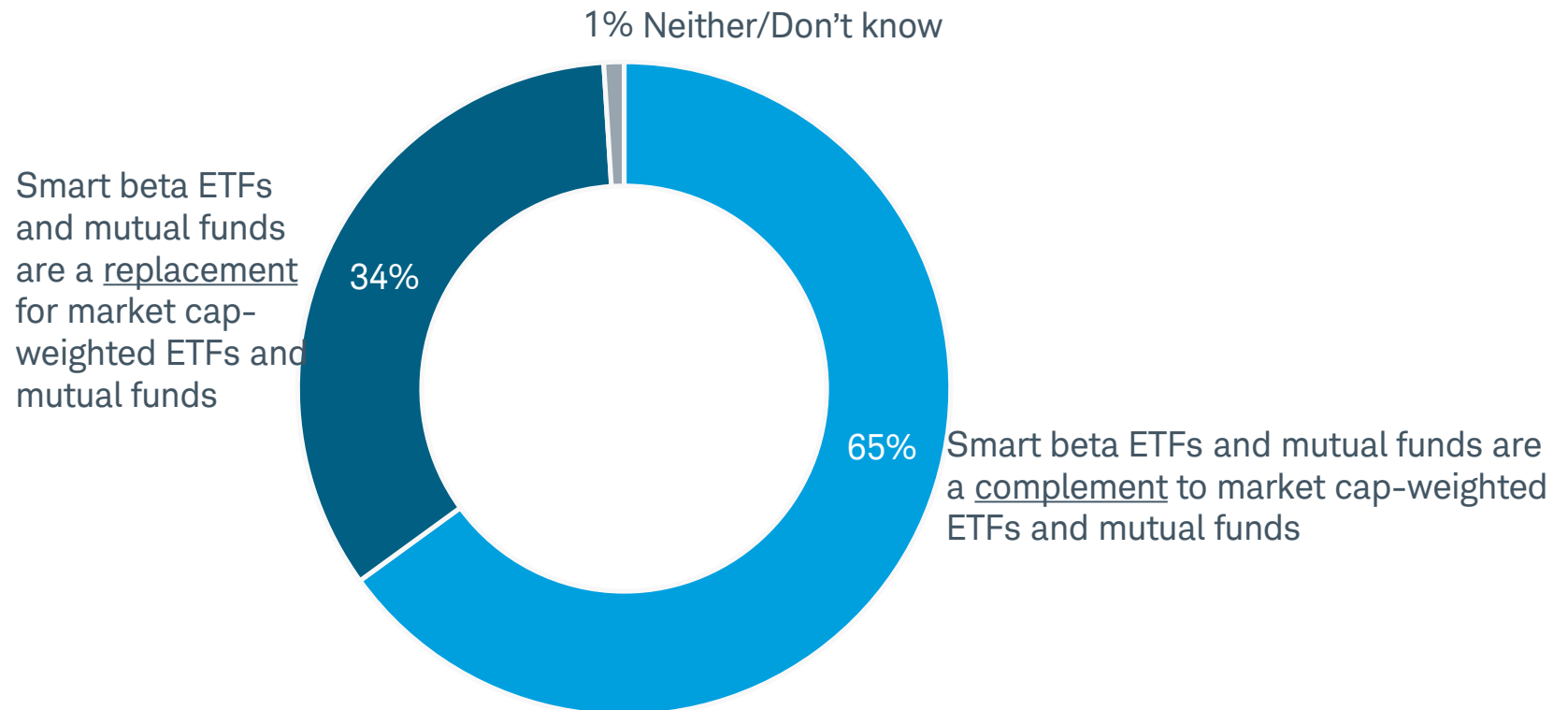
No advisors expect to decrease client investments in smart beta strategies

Q24. In the next year, which one do you expect to do, if any? (Base: Currently invest in smart beta strategies = 251)

Majority of advisors who invest in smart beta strategies see them as a complement to market cap-weighted ETFs and mutual funds

View of smart beta ETFs and mutual funds

Among those who invest in smart beta strategies

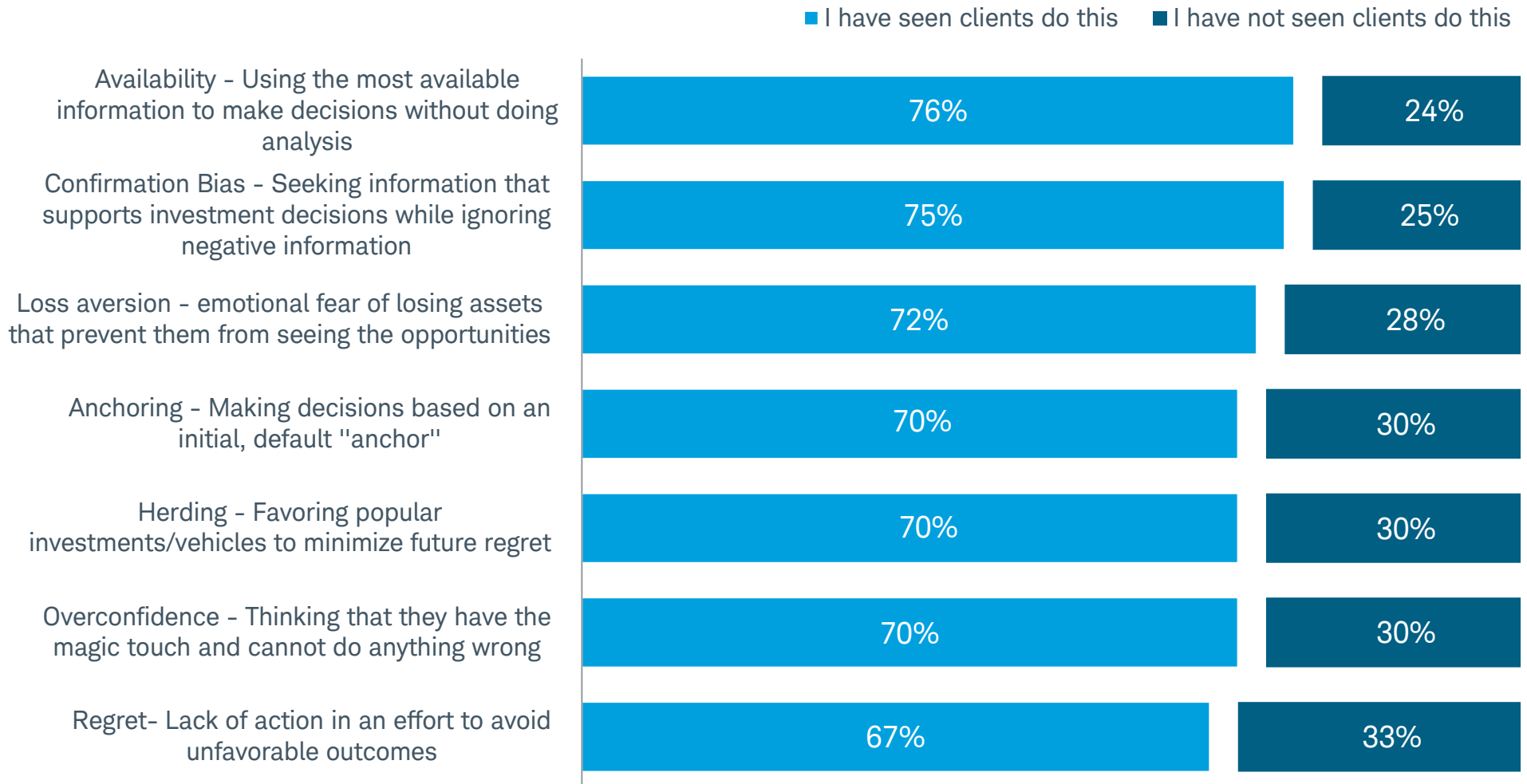


Focus On: Behavioral Finance

Advisors on behavioral missteps

Behavioral missteps are common among clients; advisors say availability, confirmation bias and loss aversion are most prevalent

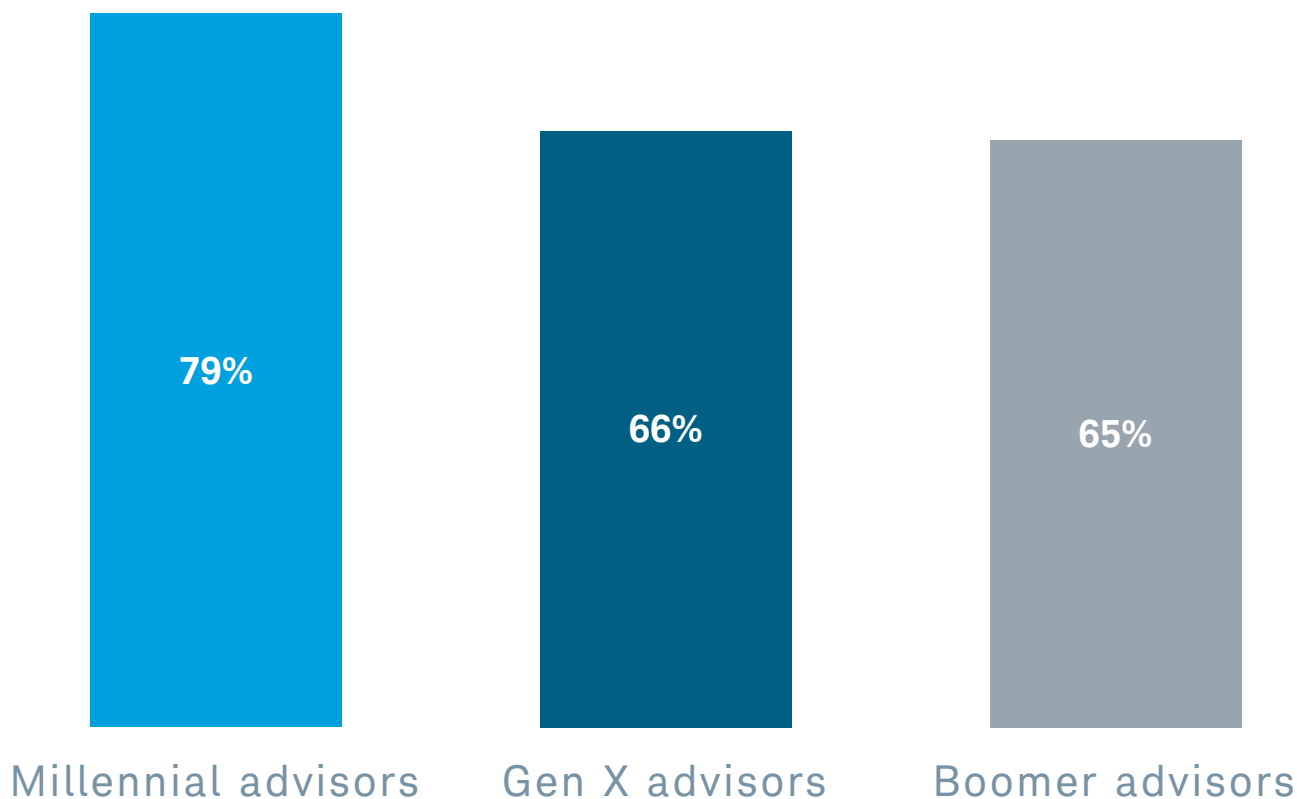
Behavioral mistakes made by advisors' clients



Q26. Which of these behavioral finance mistakes do you see among your clients? (Base: Total = 381)

Millennial advisors are more likely than other generations to see “Herding” as a misstep among their clients

Advisors who say they have seen clients make the mistake of herding



Q26. Which of these behavioral finance mistakes do you see among your clients? (Base: Total = 381)

Independent Advisor Profile

Independent Advisor Profile

| | Total Advisors (n=381) |
|-------------------------------------------------|---------------------------|
| Gender | |
| Male | 87% |
| Female | 13% |
| Age | |
| Millennials | 19% |
| Generation X | 43% |
| Boomers | 34% |
| Matures | 4% |
| Mean age | 48 years old |
| Region | |
| Northeast | 26% |
| Midwest | 15% |
| South | 41% |
| West | 18% |
| Type of advice engaged in | |
| Provide investment advice to individual clients | 86% |
| Provide financial planning advice | 79% |
| Manage clients' investment assets | 75% |
| Last time bought or sold ETFs | |
| Past month | 71% |
| Past 3 months | 11% |
| Past 6 months | 7% |
| Past year | 2% |
| Past 2 years | 2% |
| More than 2 years ago | 7% |

| | Total Advisors (n=381) |
|----------------------------------------------------------|---------------------------|
| Assets under management | |
| \$50 million to less than \$150 million | 24% |
| \$150 million to less than \$250 million | 16% |
| \$250 million to less than \$500 million | 20% |
| \$500 million to less than \$750 million | 20% |
| \$750 million to less than \$1 billion | 13% |
| \$1 billion or more | 7% |
| Mean (In Million) | \$440.4 |
| Median (In Million) | \$375 |
| Average size of investable assets held by clients | |
| Less than \$250,000 | 22% |
| \$250,000 to less than \$500,000 (375) | 17% |
| \$500,000 to less than \$1 million | 28% |
| \$1 million to less than \$2.5 million (1750) | 13% |
| \$2.5 million or more | 19% |
| Prefer not to say | 1% |
| Mean (In Thousand) | \$1077.8 |
| Median (In Thousand) | \$625 |
| Number of years worked as investment advisor | |
| Fewer than 5 years | 2% |
| 5-9 years | 21% |
| 10-14 years | 34% |
| 15-24 years | 27% |
| 25-34 years | 13% |
| 35 years or more | 3% |
| Mean | 15.7 years |
| Median | 12 years |

Disclosures

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 of ETFs are bought and sold at market price, which may be higher or lower than the net asset value (NAV).

There can be no assurance that the Smart Beta methodologies will achieve their desired outcomes. Each investing strategy brings its own set of unique risks and benefits. Please consult your financial advisor to structure a plan best suited to your individual situation.

© 2018 Charles Schwab & Co., Inc. (Member [SIPC](#)) All rights reserved.

(1018-87BM)



Own your tomorrow™