

INDEPENDENT ADVISOR OUTLOOK STUDY WAVE 20

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The logo for Charles Schwab, featuring the word "charles" in a white, lowercase, serif font above the word "SCHWAB" in a white, uppercase, sans-serif font, all contained within a blue square.

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Introduction

This study - Wave 20 of Schwab Advisor Services' *Independent Advisor Outlook Study* (IAOS) - marks a decade of data on independent advisors' views of the industry, their businesses, their clients, and the investing environment.

For this 10-year anniversary edition of IAOS, Schwab looked more closely at how advisors' perspectives and practices have changed over the last decade and captured how they expect the industry and their businesses to continue to evolve in the decade to come.

Schwab also invited survey participants to provide additional commentary on the results of the current wave. Their perspectives are featured throughout this report.



Sharing Insights

Follow @Schwab4RIAs for highlights of results as well as Schwab insights on the current wave of the *Independent Advisor Outlook Study*



Analysis

Independent advisors: a decade of change

The survey responses reflect the industry's rapid growth and evolution over the past 10 years.

	Average firm assets	Average number of employees / firm	Average number of clients / firm	AUM / employee
2007	\$251 million	27	306	10.5 million
2011	\$270 million	20	338	15.2 million
2016	\$339 million	17	425	19.7 million



“Over the past decade, the advisors in the IAOS study have built businesses that have achieved growth and scale against a backdrop of volatility, market highs and lows, and forces of change ranging from the regulatory environment to technology. They have done this with a constant focus on their clients, while embracing change and seizing opportunities.”

- **Bernie Clark**, Executive Vice President and Head of Schwab Advisor Services

Back to the future: transformative change expected to continue

Advisors see more growth and change to come in the decade ahead, especially in how they work, the nature of their service deliverable, and the makeup of their teams. However, they expect the importance of being a fiduciary and strong client relationships to remain constant.

 *“I expect great change in the next decade, not just in terms of the operational challenges the average RIA will have to meet, but also in recognizing who our clients are and how they want services delivered.*

As advisors add more Millennial clients – who do not have years of investing experience – there will be an increasing need for the use of all available communication channels to connect with these next generation investors.”

- **Rick Lawrence**, President, CEO, Colorado Financial Management

We asked advisors to reflect on the past 10 years, to think ahead to the next 10 years, and to consider the evolution of their firms over this 20-year period.

Receding	Increasing	Steadfast
Advisors are no longer spending the majority of their time working in their physical offices, and as they look ahead, this trend becomes more pronounced	Firms are doing more to make sure their talent strategies reflect the changing demographics of their client base	Most new clients are acquired through referrals, and there is no indication that this will change
Where once the advisors' time was focused mainly on portfolio management and asset allocation, this is now changing	Today and looking ahead, the majority of advisors' time is focused on comprehensive wealth management	In the past, today, and in the future, advisors see their role as a fiduciary as being at the center of the value proposition they present to clients
	Compliance takes up a significant portion of advisors' time, and most advisors believe compliance demands will continue to grow	

Change agents: technology and people

The issues considered most critical to the competitive success of advisors' firms over the next 10 years are evolving service models to meet new client needs, improving technology systems, talent, and compliance.

Advisors believe technology will have a profound effect on the way RIA firms do business over the next 10 years, and more than three quarters (78 percent) believe changes will be noticeable compared to how their firms operate today.



Technology-driven change Advisors' perspectives



More efficient systems will allow them to serve more clients



The vast majority of client documents will be handled digitally

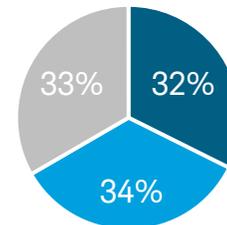


Fewer in-person interactions with clients

Cloudy with a chance of robos

Advisors remain mixed in their outlook when it comes to automated investment platforms

When asked about the prevalence of automated investing offers among RIA firms broadly in the next 10 years, there is a divergence of opinion:



- All or most firms will use a robo advisor
- Only half of firms will use a robo advisor
- Only a minority of firms will use robo advice

Overall, more than one-third of advisors (38 percent) say their firm currently uses an automated investment solution, or is very or somewhat likely to offer one in the next 10 years.

Notably, age affects the outlook on automated investment management: one in two Millennial advisors say they will offer a robo solution in the next decade, versus one in three GenX or Boomer advisors.

The long and regulated road

Advisors predict that regulatory and compliance challenges will persist in the decade ahead. Most advisors (81 percent) believe that compliance requirements will be more complex in 10 years than they are today.

Advisors believe greater regulation of certain areas has potential to strengthen the RIA industry:



Fiduciary Standards
56%



Fee Transparency & Reporting 56%



Cybersecurity
52%

Watch List: Notable Legislative / Regulatory Focus Areas

- **Investment Advisor Oversight & Exams**
- **SEC Fiduciary Standard**
- **Cybersecurity**

WHO KNOWS THE RULE?

Most advisors (59 percent) report that investors don't know about the DOL rule. However, for those investors who do know about it, advisors are divided on whether the DOL rule has helped the investor have a better understanding of the importance of choosing a fiduciary advisor (21 percent say it has helped while 20 percent say it hasn't helped).

"The regulatory environment will be more complex, which we are already seeing with the DOL rule."

As firms continue to grow and add people, supervision responsibilities will also grow. Technology may ease the number of compliance specialists needed in the future, but reporting requirements will likely increase.

A robust culture of compliance is the only way to survive."

- **Chris Palermo**, Managing Director, Partner, Beacon Pointe

Unsentimental: Volatility and market uncertainty weigh on sentiment

In the decade since the IAOS study debut, advisors have guided clients through an extended period of market volatility, geopolitical uncertainty and, at times, lower returns. With the U.S. presidential election in November, expectations for the Federal Reserve to raise the benchmark interest rate, and potentially disruptive events in Europe and Asia in the pipeline, the stage is set for jittery markets through the end of 2016 and beyond.

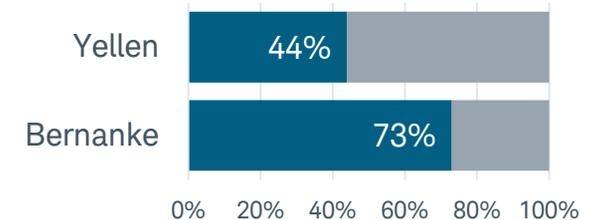
52% Just over half of advisors expect the S&P 500 Index to increase in the next six months - the lowest level of confidence seen since January 2008.

51% Half of advisors say meeting clients' goals will be difficult - less than the 59 percent seen five years ago, but well above the 32 percent seen 10 years ago.

64% Two-thirds of advisors (64 percent) say their clients are extremely or somewhat realistic about their portfolio returns, a 12 percent increase from 2007.

- Almost all advisors say they need to reassure some clients that financial goals will be met. The proportion of clients needing reassurance is 19 percent on average - well below the peak average rate of 49 percent seen in January 2009.
- Advisors and their clients express concern about how the results of the U.S. presidential election will affect clients' portfolios.

Less than half of advisors (44 percent) approve of Fed Chairwoman Yellen's leadership.



By contrast, in July 2010, 73 percent approved of Chairman Bernanke's leadership.

"Being a financial advisor today requires greater understanding of human behavior. Investors have access to a wealth of information, but they still make common mistakes. The advisor relationship is about understanding their unique circumstances and goals and providing unbiased advice and options that helps them make sound investment decisions through good times and bad. Robos can't replace that."

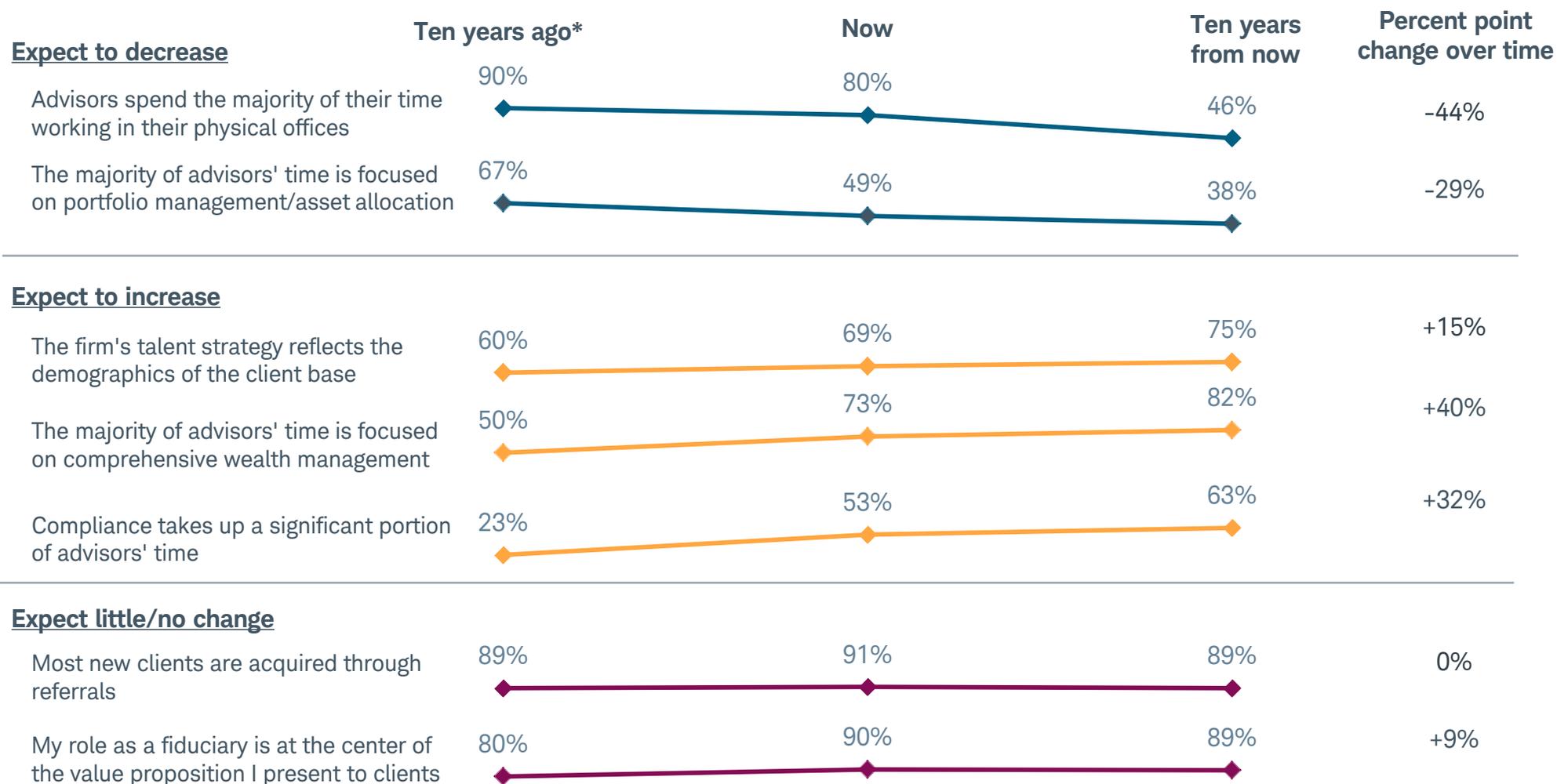
- **John Bina**, President, Focus Financial

Findings

Business strategy & operations,
technology, and talent

There have been and will continue to be dramatic changes in how RIA firms conduct business

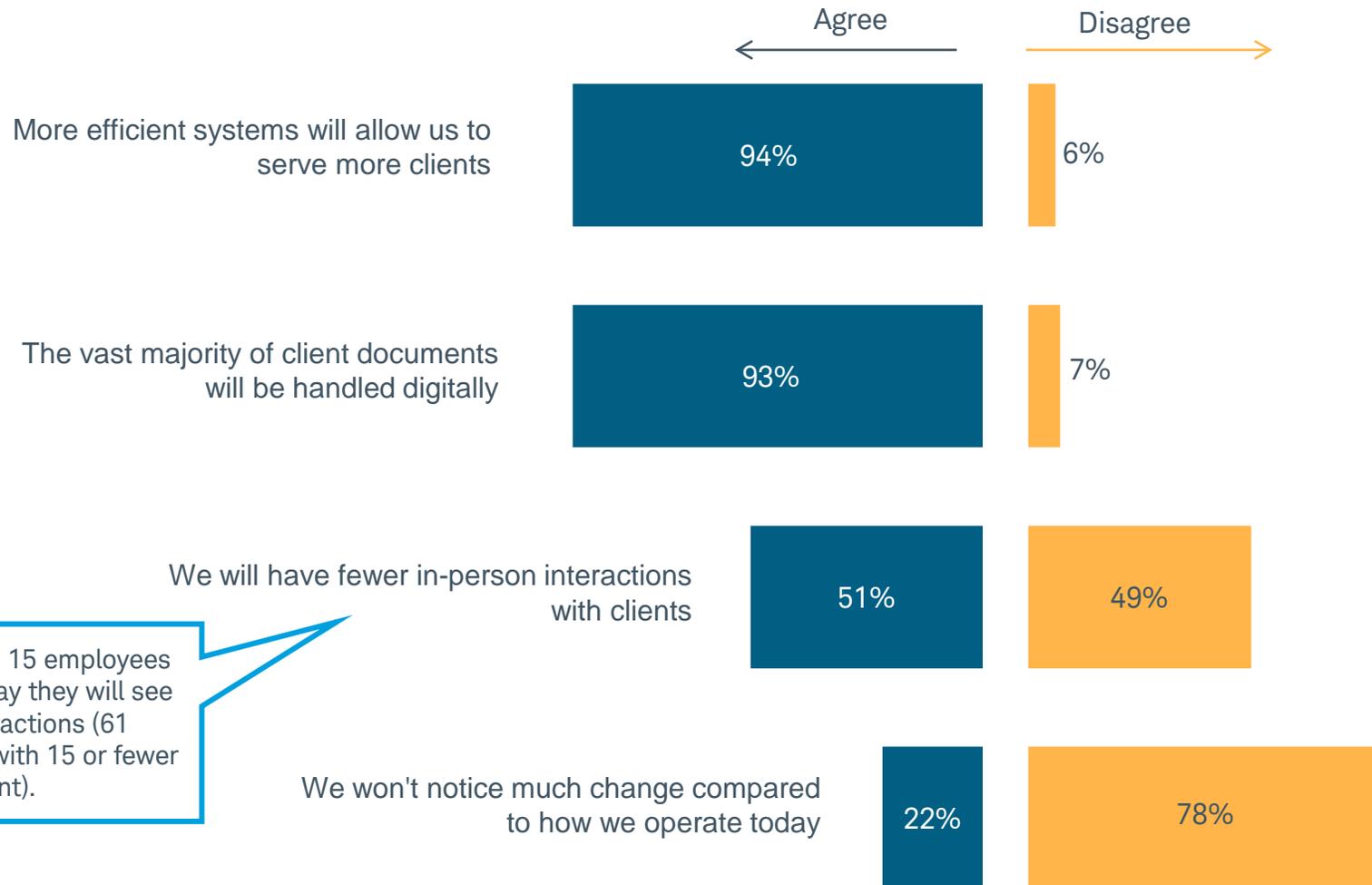
Business Environment



* Among advisors who were in the RIA business ten years ago (n=628)

Q12 Thinking about your experience in the RIA business, please indicate for each of the items below what was mostly the case ten years ago, now, and what you expect ten years from now. (Base: Total Advisors; Current wave = 957)

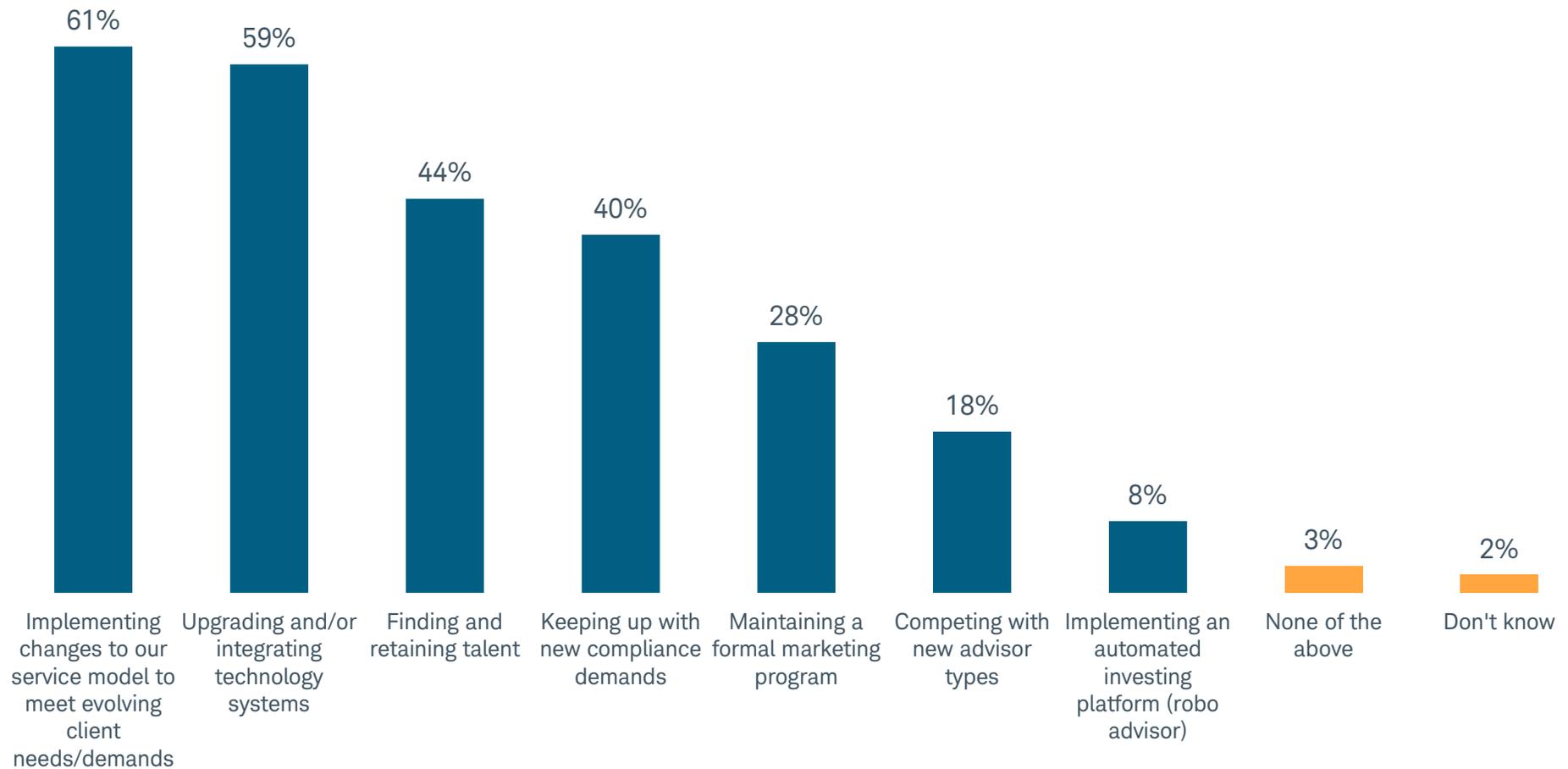
More than three quarters of advisors believe technology will lead to changes in how firms operate in 10 years versus today



Firms with more than 15 employees were more likely to say they will see fewer in-person interactions (61 percent) than those with 15 or fewer employees (49 percent).

Q10 Thinking about ten years from now, please indicate whether you agree or disagree with the following statements about the impact that technology will have on your practice. (Base: Total Advisors; Current wave = 957)

Issues most critical for competitive success in the next 10 years: evolving service models, integrating systems, talent and compliance

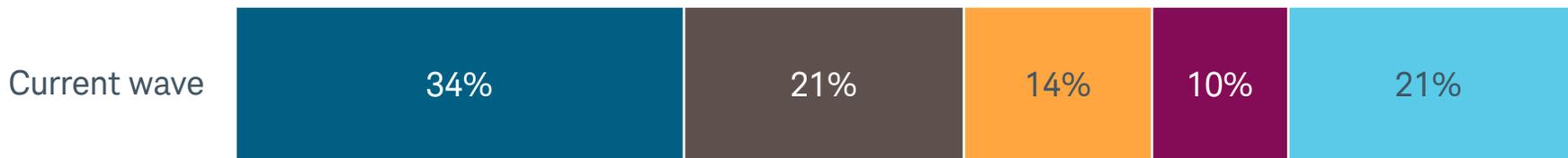


Q14 Which of the following challenges will be most critical to the competitive success of your firm in the next 10 years? (Base: Total Advisors; Current wave = 957)

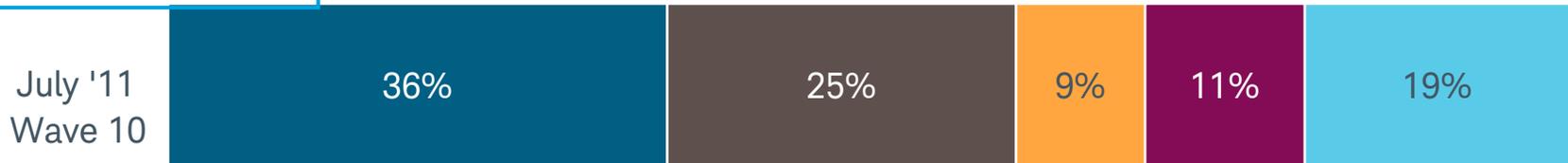
New clients come from a variety of sources

Average percentage of clients coming from source in past year¹

■ Full service brokerage firms
 ■ DIY investors²
 ■ Independent broker dealers
 ■ Banks
 ■ Other types of firms³



55 percent increase in clients coming from IBD channel from July '11 to today



Q13 What percent of your new clients in the past year came from the following sources? (Base: Advisors who had new clients in past year; Current wave = 879)

¹ Waves 5 and 10 question read: What percent of your new assets in the past 6 months came from the following sources?

² Waves 5 and 10 read: Clients who manage their own investments

³ Waves 5 and 10 read: Other types of firms or financial professionals

⁴ Independent Broker Dealers and Banks not included in Wave 5

Advisors are generally impressed with younger employees they have interviewed or hired

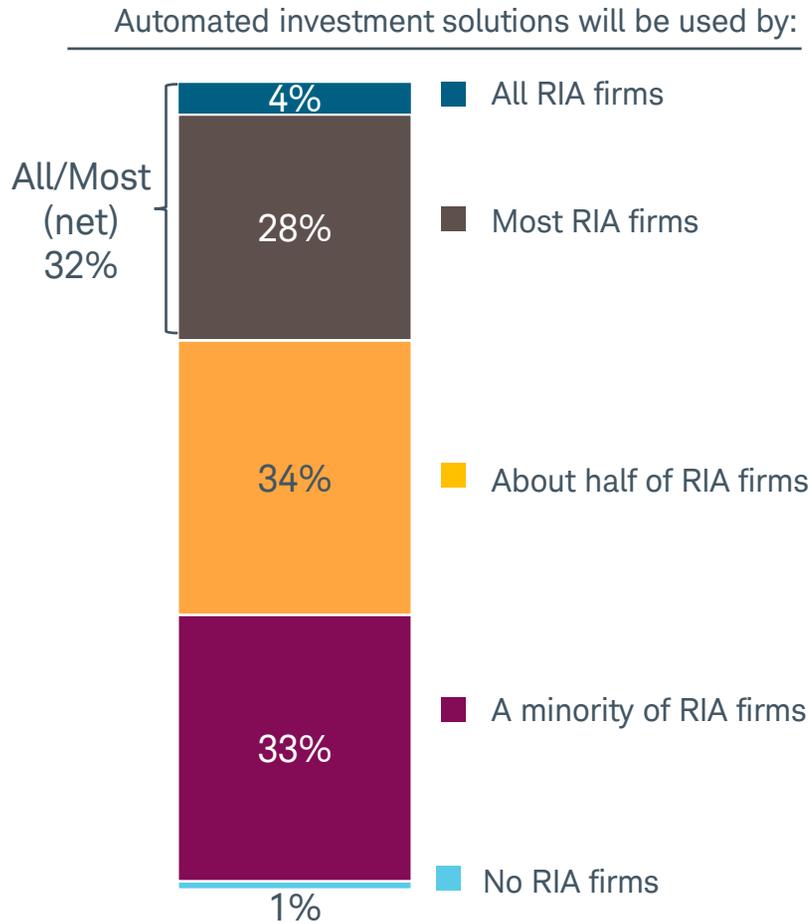
Characteristics of younger employees interviewed or hired that were impressive



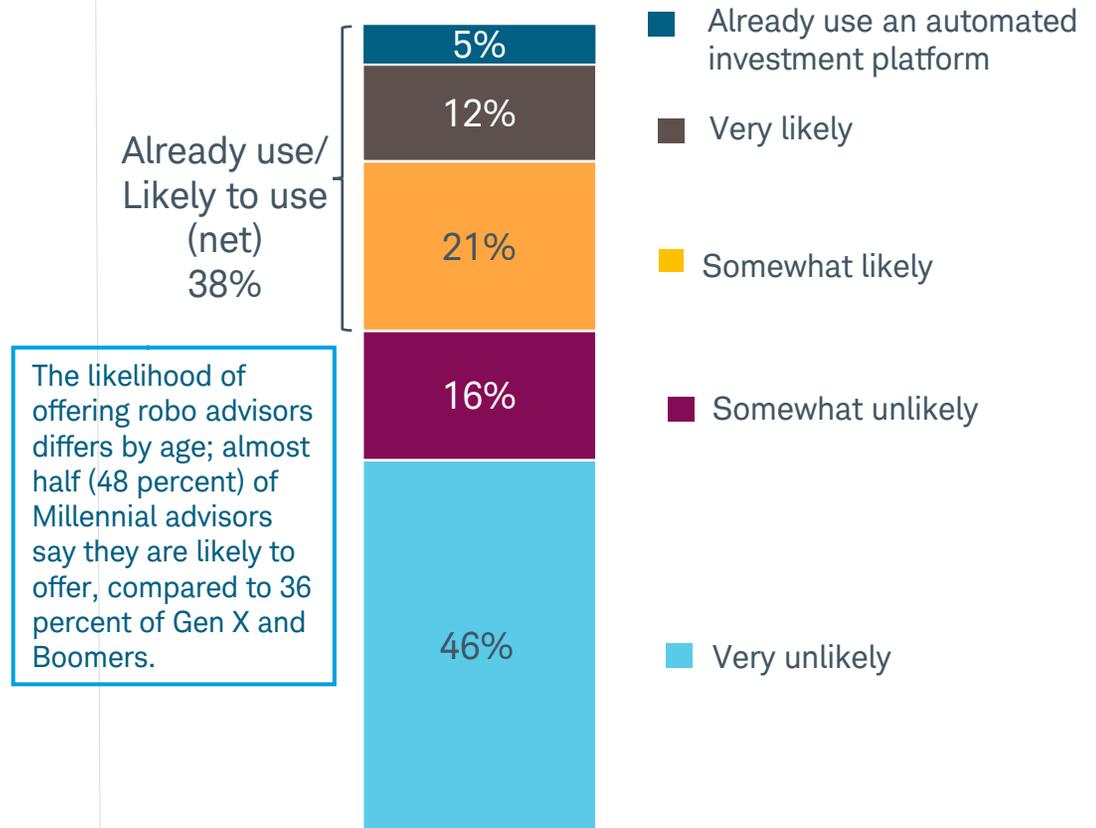
Q15 When interviewing or hiring younger employees, which of the following characteristics or skills have you been impressed by or not been impressed by? (Base: Total Advisors; Current wave = 957)

Advisors expect automated investment solutions to be used by at least some RIA firms in the next 10 years; more than one-third are currently using or expecting to use one within that timeframe

Prevalence of automated investment solutions among RIA firms in next 10 years



Likelihood of advisor offering an automated investment platform to clients in next 10 years



Q9 Ten years from now, how prevalent do you think the use of automated investment platforms (robo advisors) will be among RIA firms?

Q8 How likely are you to offer an automated investment platform (robo advisor) to clients within the next 10 years? (Base: Total Advisors; Current wave = 957)

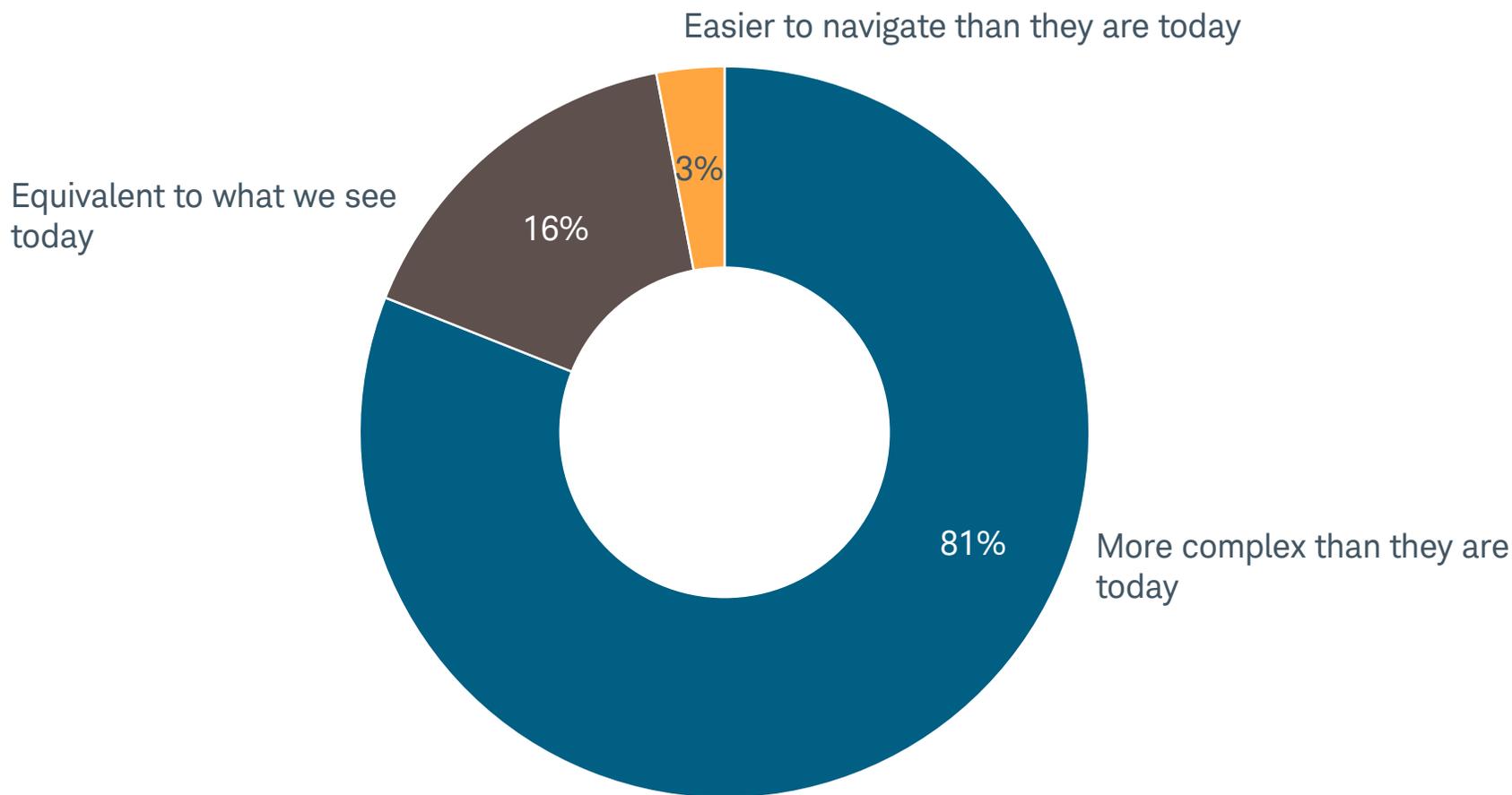


Findings

Regulation & compliance

Most advisors believe that compliance requirements in 10 years will be more complex than they are today

In 10 years, regulations for RIA firms will be:



Q16 What do you think the regulatory environment for RIA firms will be like 10 years from now? (Base: Total Advisors; Current wave = 957)

Advisors believe regulation of fiduciary standards, fee transparency, and cybersecurity have the most potential to strengthen the RIA industry

Areas in which regulations can strengthen the RIA industry



Q17 In which of the following areas do you believe regulation has the ability to strengthen the RIA industry? (Base: Total Advisors; Current wave = 957)

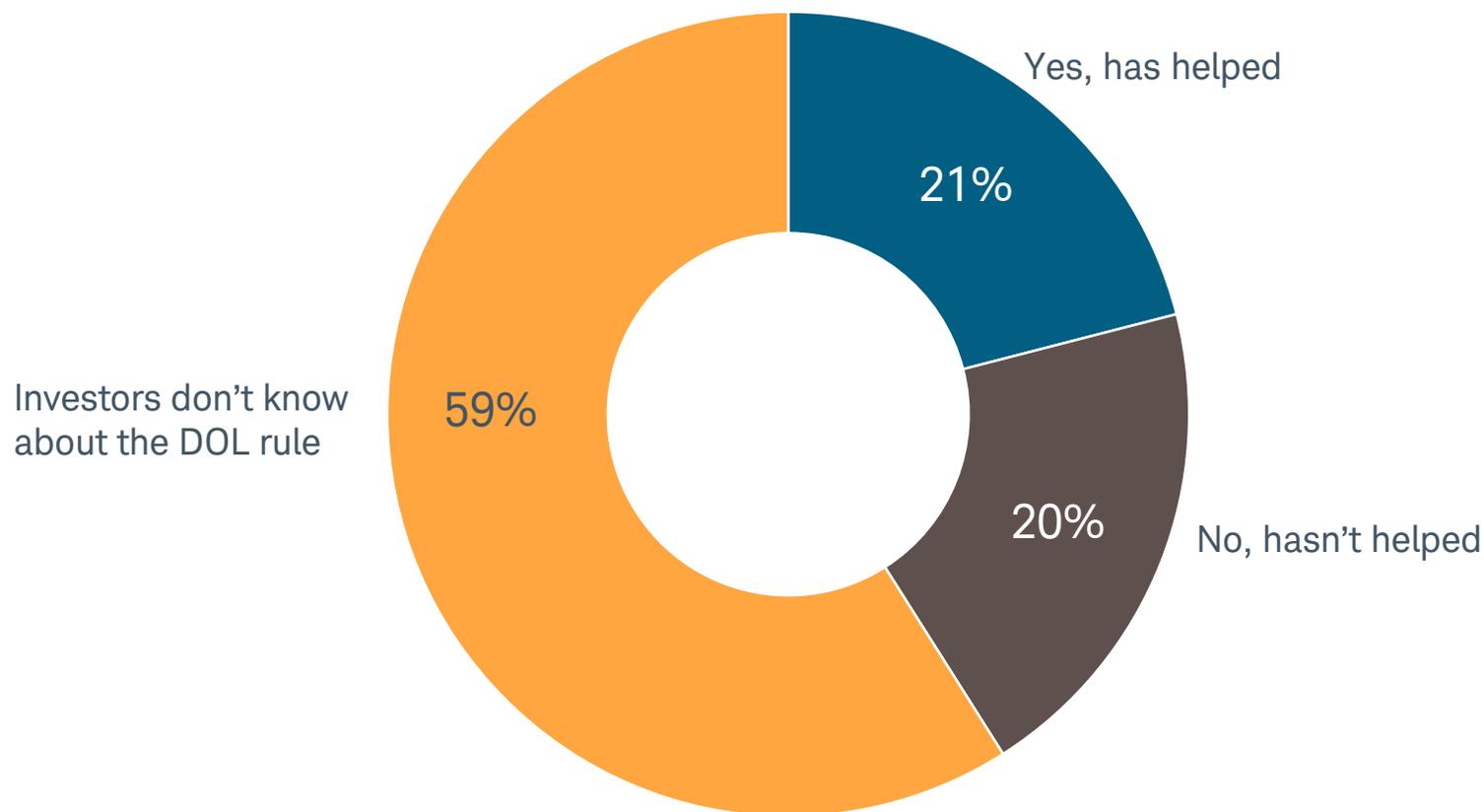
Advisors believe that acting as a fiduciary is a more differentiating characteristic of the RIA model than independence or personalized advice



Q18 Which one of the following statements makes the strongest argument about why you believe the independent model is superior to other advice models? (Base: Total Advisors; Current wave = 957)

Few advisors believe the recent DOL rule has helped investors understand the importance of choosing a fiduciary advisor; most believe investors don't know about the rule

Whether DOL rule has helped investors understand importance of choosing a fiduciary advisor:



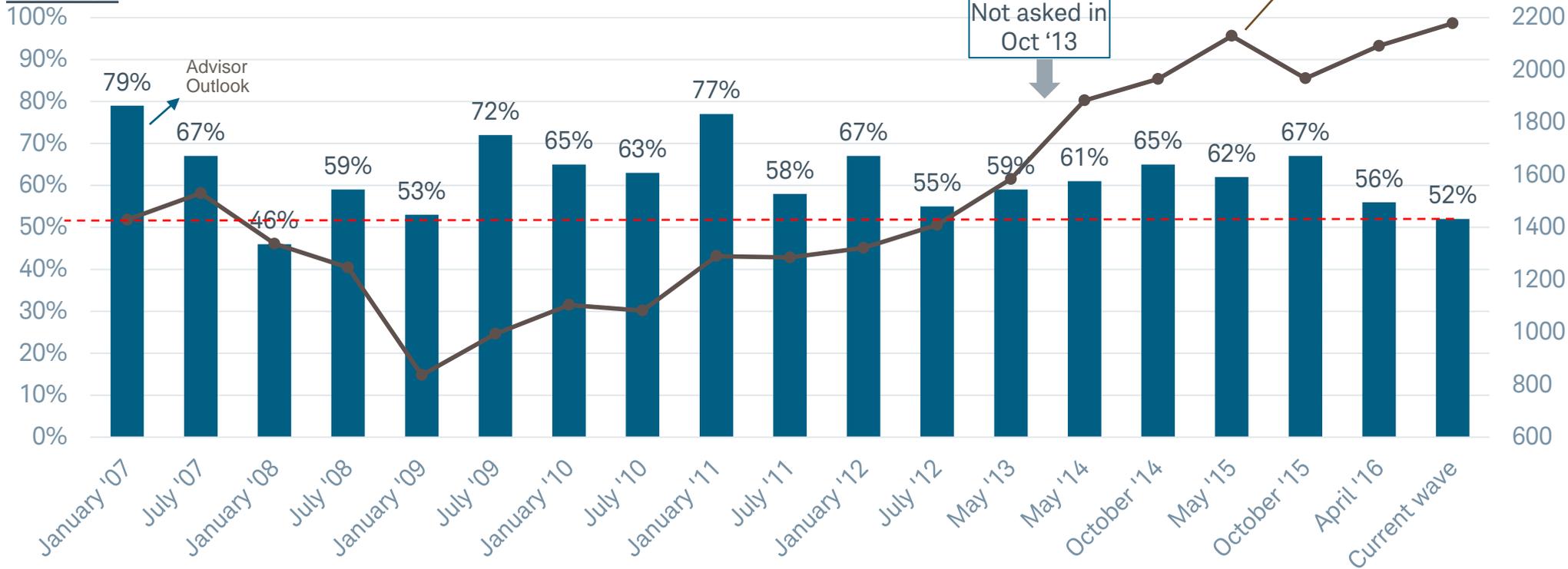
Q19 Do you believe that the recent DOL rule regarding retirement advice has helped investors have a better understanding of the importance of choosing a fiduciary advisor?
(Base: Total Advisors; Current wave = 957)

Findings

Market & investing outlook

Advisors' confidence that the S&P 500 will increase is at the lowest level since 2008

OUTLOOK



AVERAGE	AVERAGE DAILY OPENING VALUE WHILE IN FIELD & S&P 500 WILL INCREASE																		
	JAN '07 [A]	JULY '07 [B]	JAN '08 [C]	JULY '08 [D]	JAN '09 [E]	JULY '09 [F]	JAN '10 [G]	JULY '10 [H]	JAN '11 [I]	JULY '11 [J]	JAN '12 [K]	JUL '12 [L]	May '13 [M]	May '14 [N]	OCT '14 [O]	May '15 [P]	Oct '15 [Q]	Apr '16 [R]	Current Wave [S]
S&P 500	1429.28	1530.25	1337.63	1246.76	836.92	994.17	1104.60	1082.90	1290.31	1285.35	1321.71	1409.75	1584.36	1883.68	1965.80	2129.58	1968.21	2091.72	2177.86
Outlook	79% BCDEFGHJK LMNOPQRS	67% CDEHJLMNP RS	46%	59% CES	53% C	72% BCDEFGHJKL MNOPQRS	65% CDEJLMRS	63% CEJLRS	77% BCDEFGHJK LMNOPQRS	58% CES	67% CDEHJLMNP RS	55% C	59% CES	61% CELRS	65% CDEJLMRS	62% CELRS	67% CDEJLMNRS	56% C	52% C

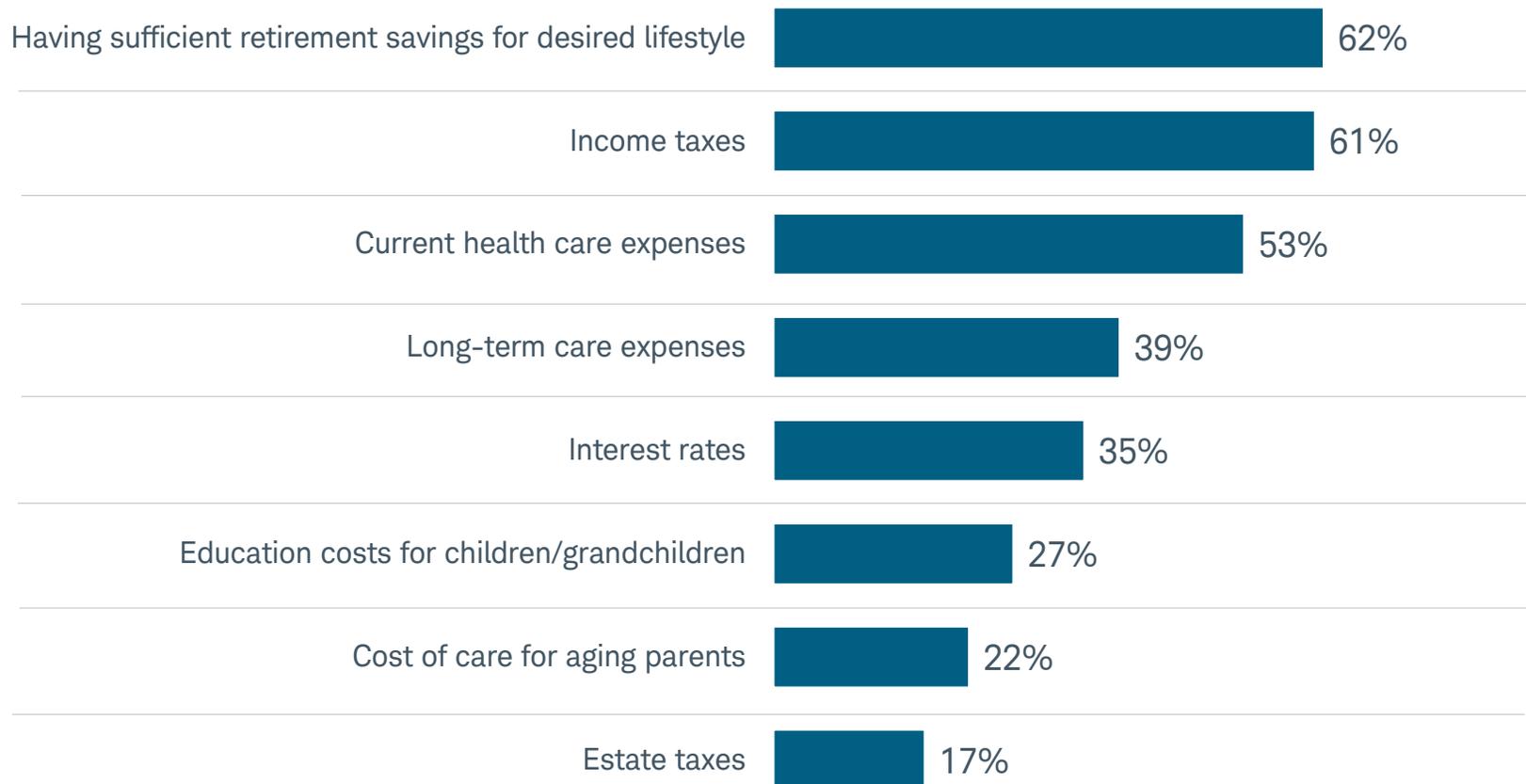
Q1: Which of the following best describes what you think will happen to the S&P 500 in the next six months? (Base: Total Advisors; Jan '07=1387; July '07=1044; Jan '08=1006; July '08=1010; Jan '09=1240; July '09=1198; Jan '10=1144; July '10=1199; Jan '11=1337; July '11=911; Jan '12=882; July '12=839; May '13=1016; Oct '13 Not Asked; May '14=720; October '14=740; May '15=629; Oct '15=638; Apr '16=930; Current wave=957)

Note: The standard deviation opening values for the S&P 500 during the current fielding period was 5.9

* S&P 500: Average daily opening values per survey fielding period

According to advisors, clients are most often concerned about having sufficient retirement savings for their desired lifestyle, income taxes and current health care expenses

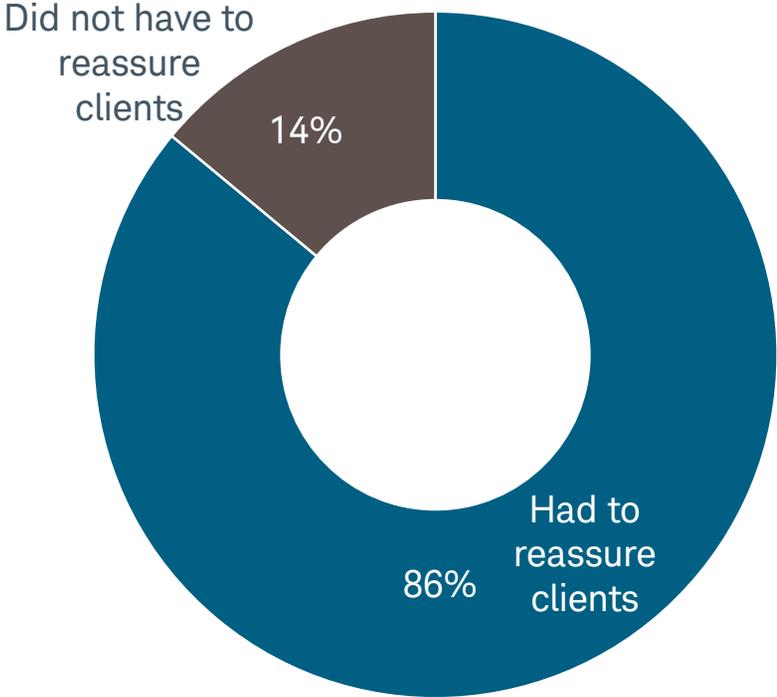
Concerned all or most of the time



Q4 How concerned are your clients, on average, with each of the following items? (Base: Total Advisors; Current wave = 957)

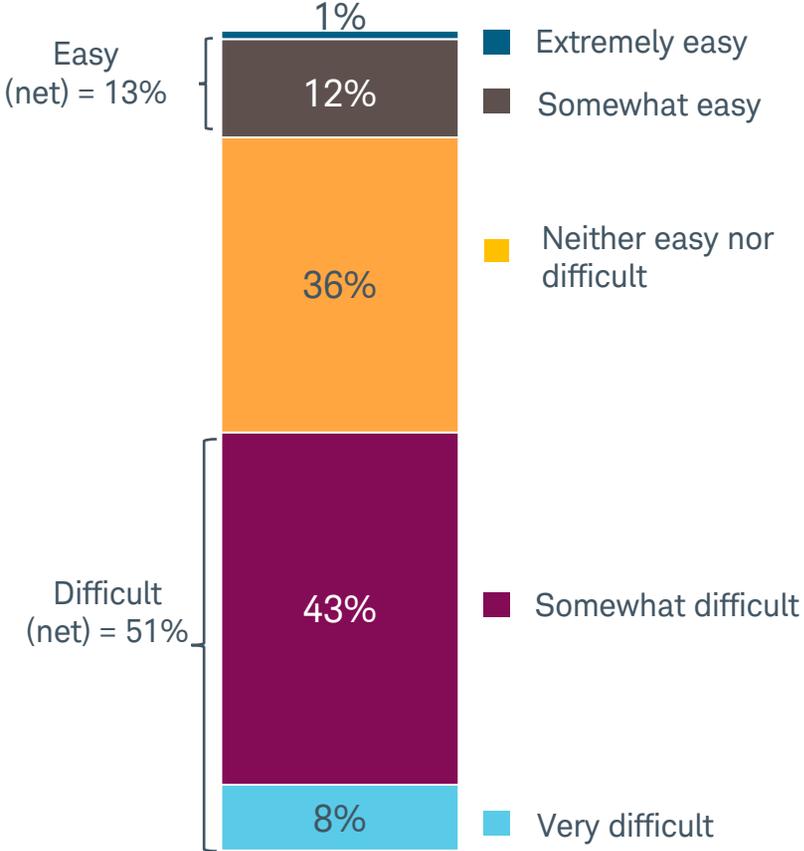
Most advisors have had to reassure clients they will achieve their financial goals; half of advisors say it will be difficult to reach those goals

Percentage of advisors needing to reassure clients in past six months that they will achieve their investment goals



Average percent of clients needing reassurance = 19%

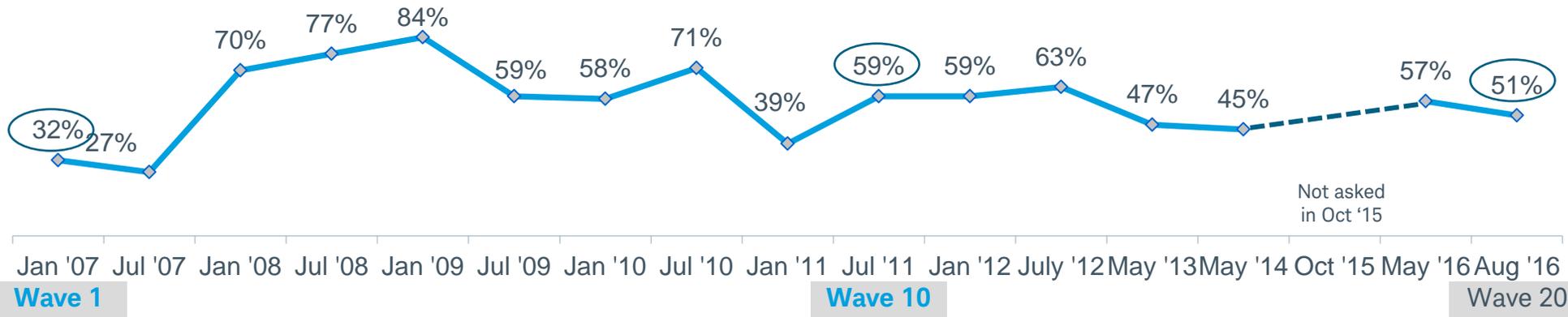
Ease/difficulty of achieving clients' investment goals in current investment environment



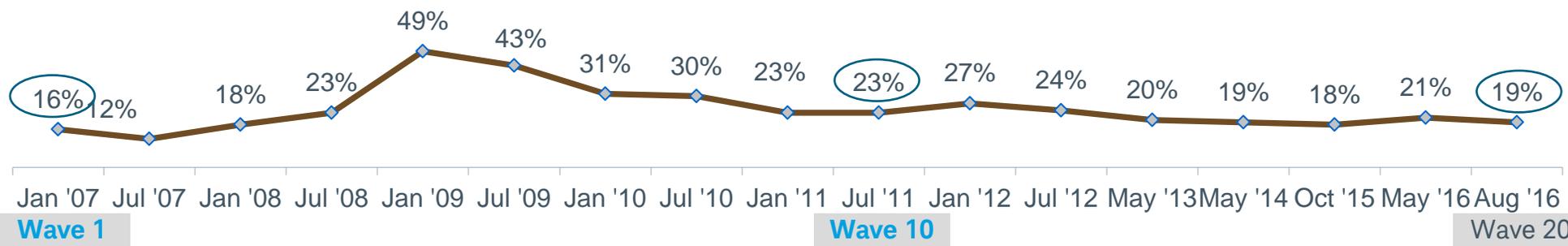
Q2 In the past six months, what percent of your clients have you needed to reassure that they will achieve their investment goals?
 Q3 Which of the following best describes how easy or difficult you think it will be to achieve your clients' investment goals in the current market environment?
 (Base: Total Advisors; Current wave = 957)

Percentage of clients needing assurance and percentage of advisors saying that achieving goals will be difficult are both higher today than in Wave 1, and slightly below Wave 10

Achieving client investment goals in current market: “difficult”



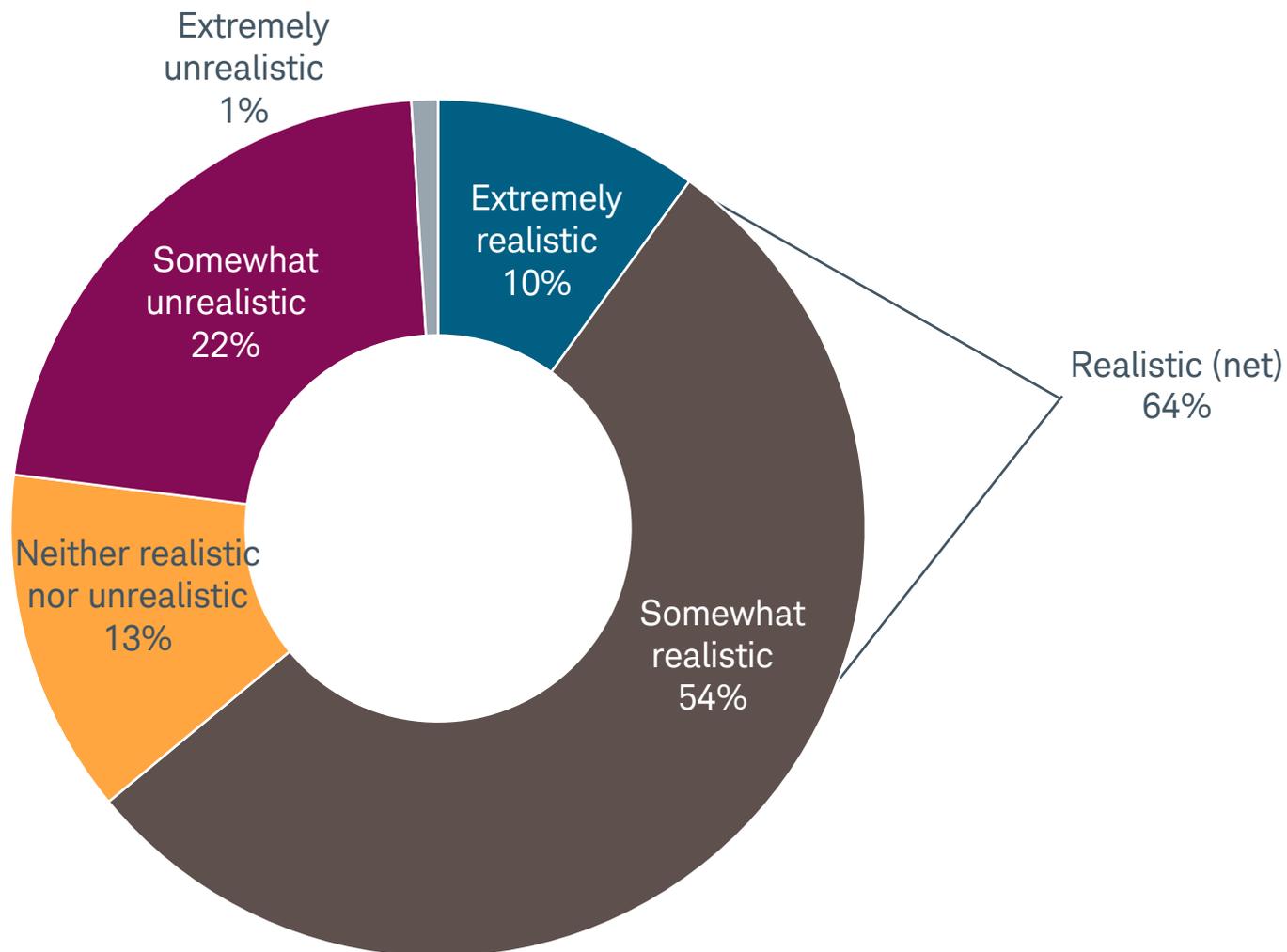
Average percentage of advisors' clients who needed reassurance



Q3 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?
 Q2 In the past six months, what percent of your clients have you needed to reassure that they will achieve their investment goals?
 (Base: Total Advisors: Jan '07=1387; July '07=1044; Jan '08=1006; July '08=1010, Jan '09=1240; July '09=1198; Jan '10=1144; July '10=1199; Jan '11=1337; July '11=911; Jan '12 = 882; July '12 = 839; May '13=1016; May '14=720; Oct '15=638; Apr '16=930; Current wave=957)

Most advisors say their clients' expectations about portfolio returns are extremely or somewhat realistic

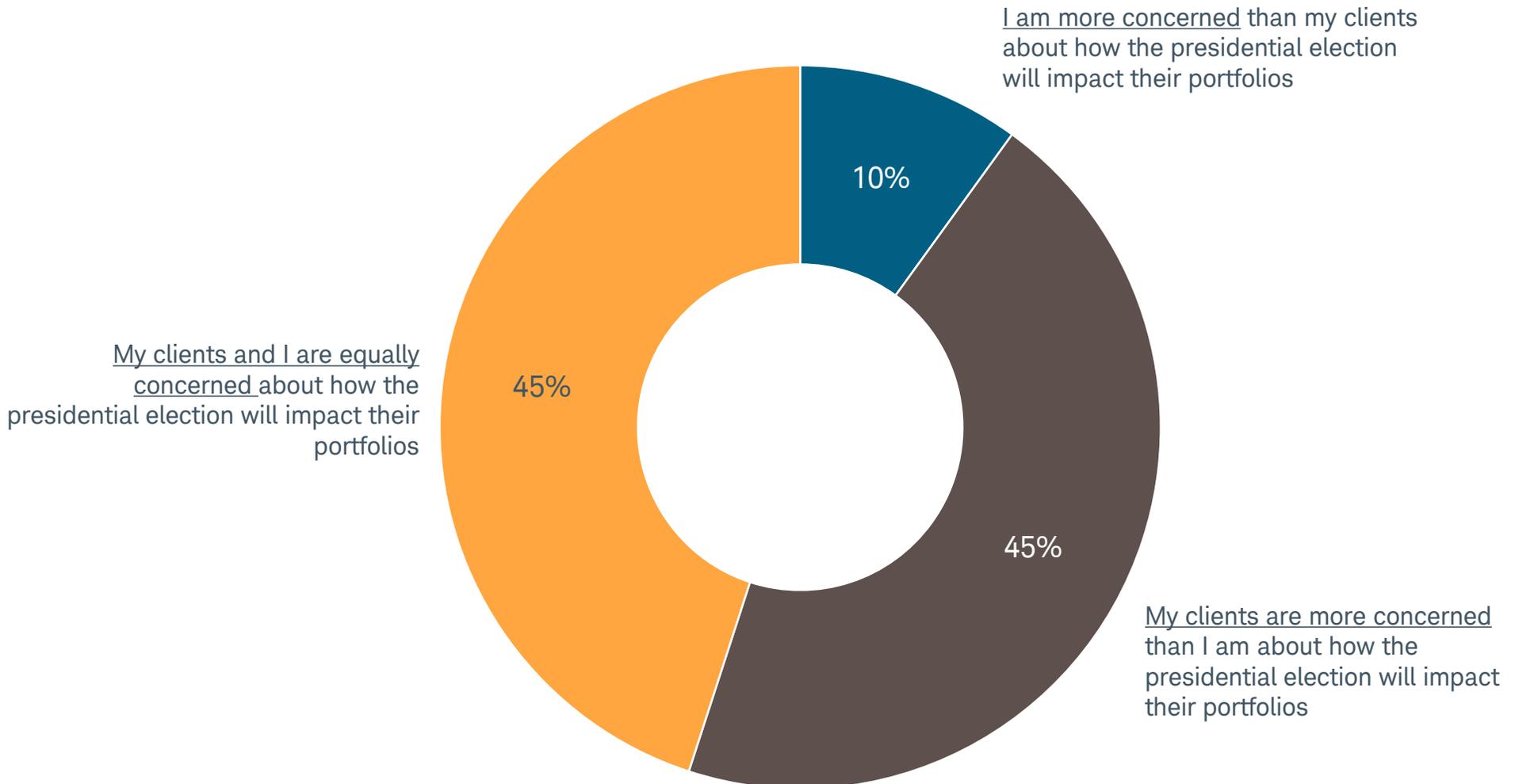
Clients' expectations about portfolio returns are:



Q.5 Which of the following best describes how realistic your clients' expectations are about their portfolio returns? (Base: Total Advisors; Current wave = 957)

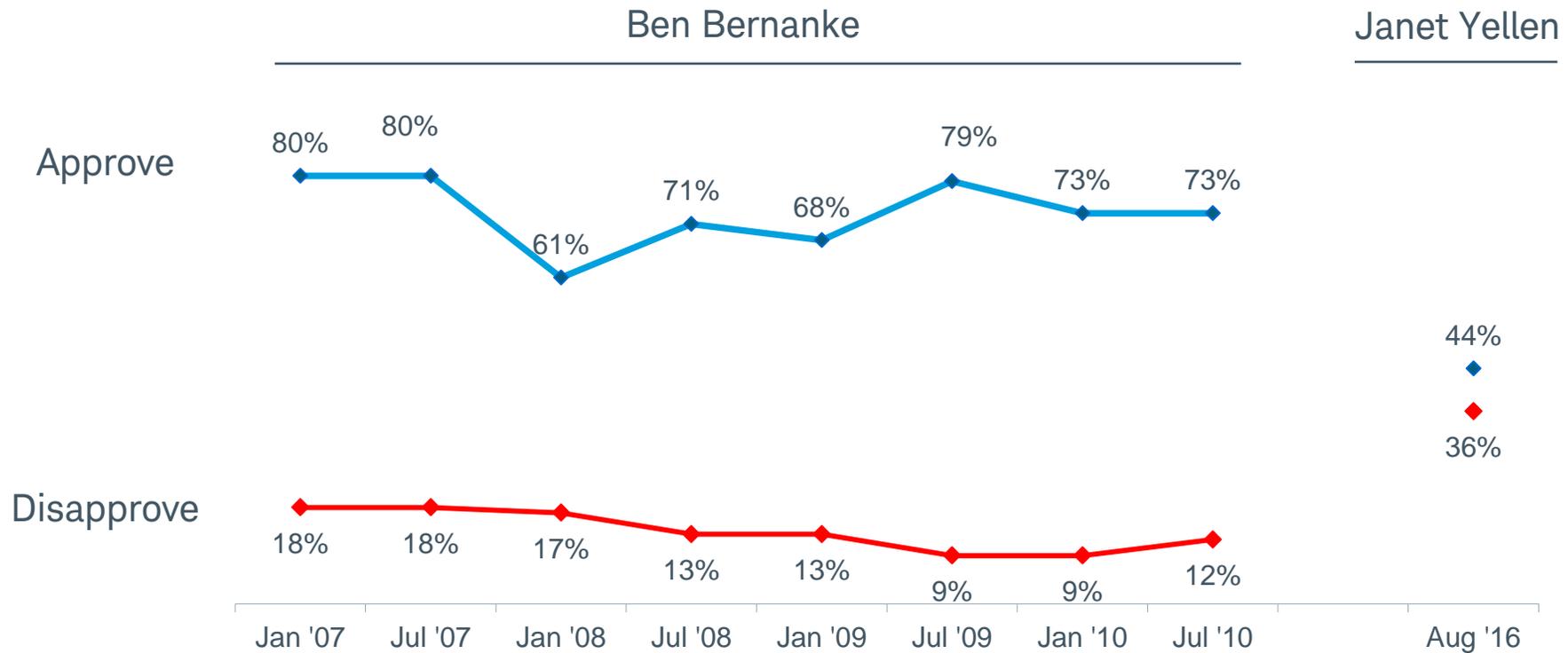
Close to half of advisors say clients are more concerned than they are about the impact of the presidential election on portfolios

Concern about the impact of the presidential election on portfolios



Q.7 Please indicate which statement best describes your feelings about the Presidential election. (Base: Total Advisors; Current wave = 957)

Advisors' opinions of Fed Chair Yellen are split and her approval ratings are lower than those of Fed Chairman Bernanke in 2007 – 2010



Q4 Which of the following best describes your view of (Chairman Bernanke's) (Chairwoman Yellen's) Federal Reserve Board leadership thus far? (Base: Total Advisors: Jan '07=1387; July '07=1044; Jan '08=1006; July '08=1010, Jan '09=1240; July '09=1198; Jan '10=1144; July '10=1199; Current wave=957)



Appendix

Methodology and disclosures

What	<ul style="list-style-type: none">• The Independent Advisor Outlook Study is an online study conducted for Charles Schwab by Koski Research.• The current wave – Wave 20 – represents the 10 year anniversary of the study, which was first conducted in 2007.• Koski Research is neither affiliated with, nor employed by, Charles Schwab & Co., Inc. (“Schwab”).• The sampling error is +/-3.2 percentage points at the 95% confidence level.
When	<ul style="list-style-type: none">• The study was conducted from Aug. 22 to Sept. 5, 2016.
Who	<ul style="list-style-type: none">• 957 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 11 minutes.• For this report, the majority of data is reported at the total sample level. When applicable, comparisons with prior waves of the study are made.

Schwab Advisor Services serves independent investment advisors and includes the custody, trading and support services of Schwab. Independent investment advisors are not owned by, affiliated with or supervised by Schwab.

Firmographics

(Base: Total Advisors Responding)

Advisors Responding	Base
Average Client Age by Range	(n=957)
Less than 50 years old	4%
50 to 54 years old	10%
55 to 59 years old	22%
60 to 64 years old	30%
65 or older	25%
Prefer not to say	9%
MEAN	61 years old
Age of Advisor Responding	(n=956)
Under 35	8%
35 to 44 years old	16%
45 to 54 years old	27%
55 to 64 years old	28%
65 to 74 years old	14%
75 or older	3%
Prefer not to say	4%
MEAN	53 years old
Number of Years Worked for Independent Advisory Firm	(n=955)
5 years or less	24
More than 5 to 10 years	17
More than 11 to 15 years	15
More than 15 years	44
MEAN	13 years
Primary Role at Firm	(n=955)
Principal	59%
Portfolio Manager	18%
Operations staff	9%
Other	14%

Advisors Responding	Base
Founding Principal (among Principals)	(n=566)
Yes	74%
No	26%
Number of Employees at Firm	(n=957)
1 to 5	47%
6 to 15	32%
16 to 50	15%
51 or more	6%
MEAN	17 employees
Assets Under Management at Firm (AUM)	(n=951)
Less than \$25M	9%
\$25M to \$100M	23%
\$100.1M to \$250M	21%
\$250.1M to \$500M	15%
More than \$500M	27%
Prefer not to answer	5%
MEAN	\$339M
MEDIAN	\$209M
Number of Clients Per Firm	(n=957)
1 to 50	14%
51 to 100	14%
101 to 250	23%
251 or more	29%
MEAN	425 clients
MEDIAN	185 clients
Gender	(n=952)
Male	79%
Female	21%

Qualitative Contributors

Beacon Pointe

Chris Palermo

Managing Director, Partner

Colorado Financial Management

Richard Lawrence

President, CEO

Focus Financial

John Bina

President

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