

INDEPENDENT ADVISOR OUTLOOK STUDY

June 2017

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Introduction

The Independent Advisor Outlook Study (IAOS) by Schwab Advisor Services reflects the views of independent advisors on their industry, their businesses, their clients, and the general investing environment.

The semiannual study is now in its 11th year. The results of the current iteration illuminate how independent advisors perceive the maturity of the independent model, and reveals perspectives on how the state of the industry informs the opportunities that await their firms.

Continuing the focus of previous versions of the study, these results indicate how advisors are adapting to the rapid pace of change in the industry, including steps they are taking to adjust operational practices and reimagine service offerings.

New in this version, advisors were asked questions of a more personal nature, ranging from their work habits to their hobbies and how they spend their free time.

The following report includes perspectives from Schwab Advisor Services, as well as anecdotal commentary from advisors who participated in the study.



Sharing Insights

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



Executive summary

Full speed ahead for the independent wealth management industry

- The independent financial advice model, which we believe **benefits investors and advisors alike**, has achieved dramatic growth over the past decade. With the wind at advisors' backs and a \$23 trillion opportunity ahead¹, **the full potential of the independent model has yet to be realized**. Advisors themselves are very confident about the future: **79% of them expect more opportunities than challenges in the coming decade**.
- As firms mature, advisors are **developing a more strategic operational mindset**, and will increasingly leverage the complement of technologies, tools, and intellectual capital that has emerged to support them. **A majority of firms are actively pursuing growth**; nearly three-quarters (71%) either have a new client acquisition strategy in place or are considering one.
- Over the next 10 years, **independent advisors see ways in which they can differentiate**:
 - Nearly half (41%) of advisors say the independent model will **differentiate most significantly from captive models by offering clients a broad range of services** – such as tax planning, charitable planning, and healthcare planning – that fall outside the realm of traditional portfolio management.
 - Nearly a third (29%) of independent advisors think they will stand out from competitors by **always providing advice in their clients' best interest**.
 - Meanwhile, **technology remains front and center**: 76% of advisors think advances in technology help keep their firm ahead of the curve.

1. Schwab strategy estimates, individual company financial reports, FDIC, ICI, Federal Reserve Flow of Funds, Cerulli Associates and Discovery Database, 2013-2014

Navigating curves, and a few speed bumps, ahead

- As the industry continues to change, **advisors are finding some points where they must slow down to take stock, plot a new course or address challenges** that arise as a result of rapid growth or external factors such as legislation and political uncertainty.
- Many **firms have already begun transitioning** to an expanded, comprehensive approach to managing clients' financial lives. Along the way, **adjustments to strategy and resources are creating short-term growing pains**, including margin pressures.
- Advisors are grappling at a practical level with how to align their value proposition and client expectations with their firms' pricing models. In fact, nearly half (44%) of advisors have already begun providing **more services to clients without charging for them**, and two-fifths (40%) have been putting more time into each client without an increase in fees.
- There is an expectation that **industry regulation will play a role in shaping advisors' business operations**, impacting areas such as **talent, marketing, and vendor management**.
 - Nearly half (44%) of advisors say the **current regulatory environment will impact investments in employee training** and a quarter (23%) say it will **impact staff hiring decisions**.
 - About one quarter (28%) report an expectation that industry regulation will **impact marketing investments** and roughly the same amount (26%) of advisors think it will **influence vendor selection**.



“The greatest change we will see at firms a decade from now is the emergence of a range of client services that today are not typically considered part of wealth management.

Future-oriented advisors are excited and intellectually curious about how they can continue incorporating fresh capabilities that add value to their relationships.

As they widen their set of services, advisors will increasingly be viewed by clients as more than financial planners; they will be the go-to advisors on a diverse range of life planning needs.”

Bernie Clark
EVP and Head of

Schwab Advisor Services



Irreplaceable value: the human touch

- Advisors continue to play the **critical role of trusted counselor and guide** to their clients – especially in times of uncertainty. It's clear that jittery investors value the partnership and perspective of their advisors.
 - Most advisors (84%) report that they **have had to calm client nerves** over the past half-year, despite record market returns.
- With political uncertainty dominating headlines, the role of counselor for advisors will remain critical.
 - One-third (34%) of advisors say the **current political environment is the topic du jour** for client conversations.
 - More than **two-thirds (68%) of advisors say the political environment in the US is causing 'a lot' of concern among clients with respect to their investments**, and half (49%) of advisors share this concern.



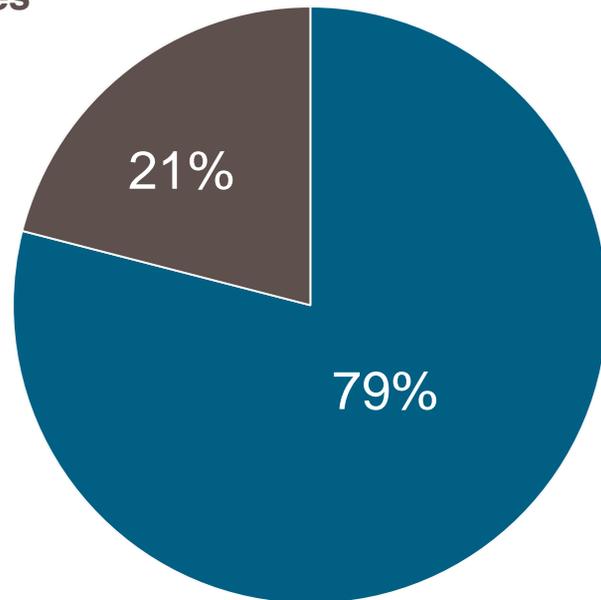
Industry outlook

Findings

The decade ahead: advisors see growth opportunities

State of independent advice industry in 10 years

CHALLENGES
will outweigh
opportunities



OPPORTUNITIES
will outweigh
challenges



“The opportunities for the independent advice industry are more pronounced now than they have been in the past. My optimism is driven by the convergence of two trends.

First, ongoing public crises at traditional wealth management firms are wearing on advisors who take compliance very seriously and must address their firms’ stumbles with clients. Second, investors are becoming increasingly discerning when it comes to financial advice; they want a tailored experience and a high level of attention. Looking at the independent channel, it is hard not to be optimistic about creating a firm that can set itself apart.”

Patricia Williams
CEO

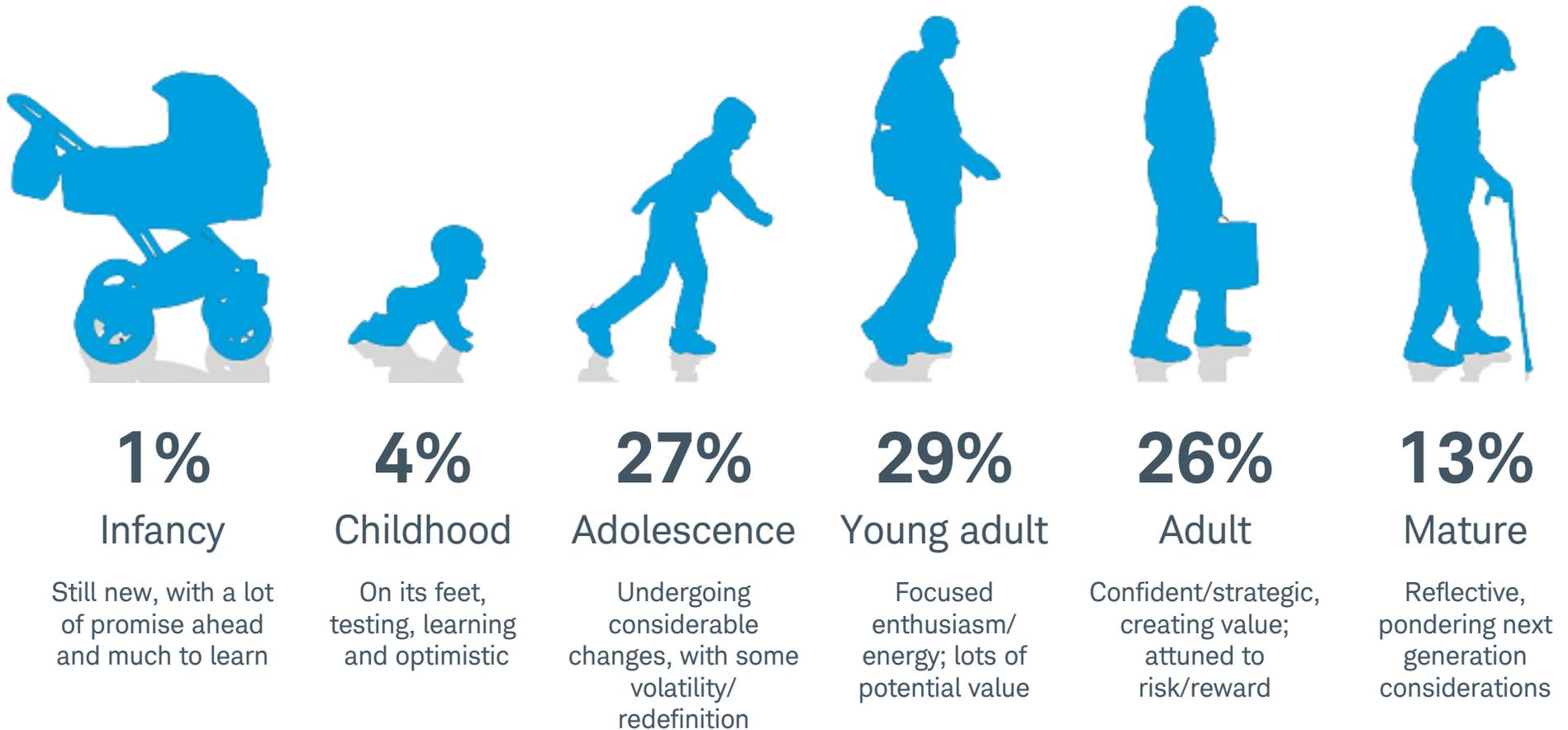
Silicon Private Wealth



Q10: Which of the following will best describe the independent financial advice industry ten years from now? (Base: Total Advisors; Current wave = 912)

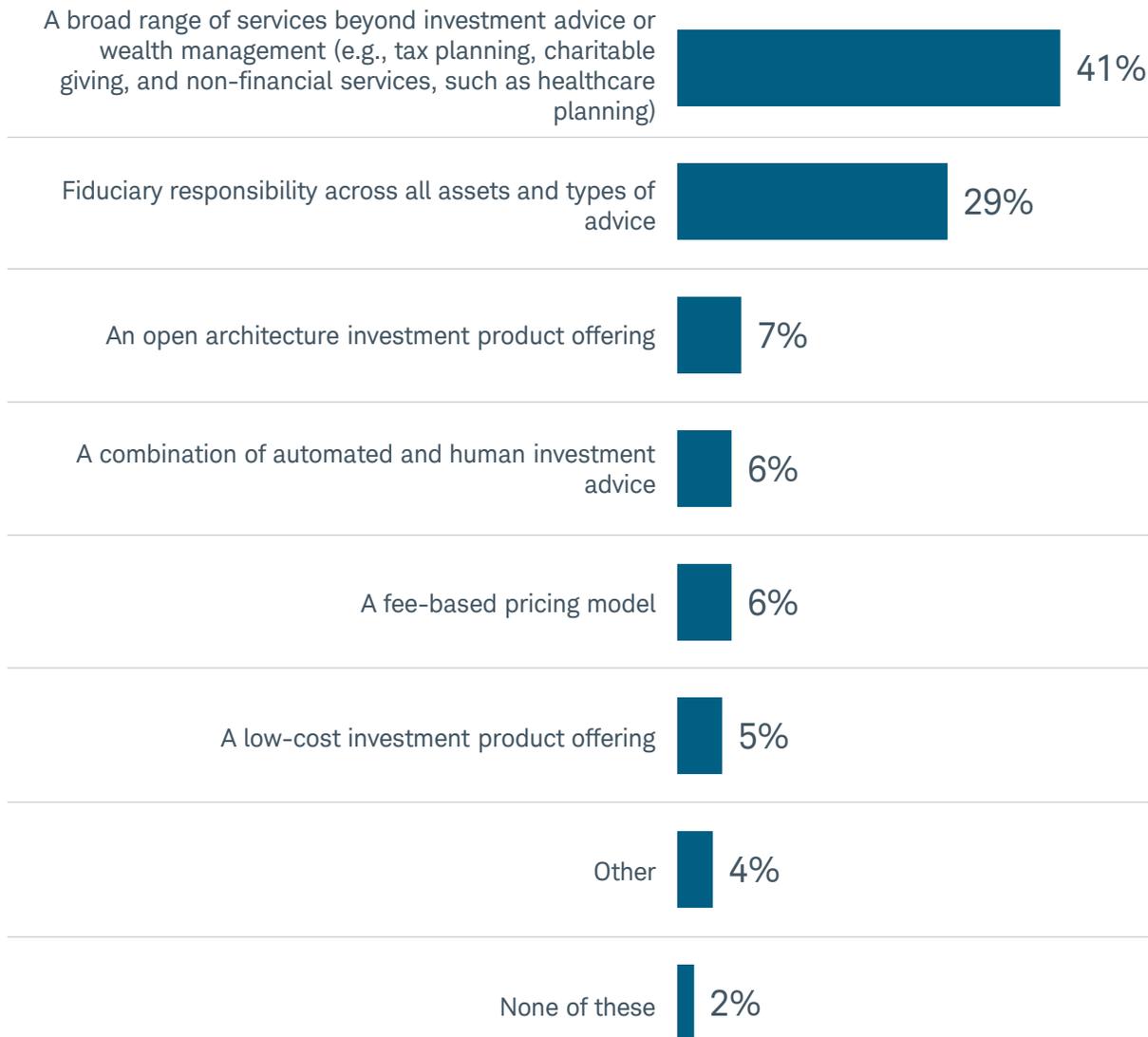
Advisors see an industry that is confident and full of potential

Current state of independent advice industry



Q9: Which of the following best characterizes the state of the independent advice industry? (Base: Total Advisors; Current wave = 912)

The decade of differentiation: advisors look to diversify and expand services in the years ahead



“It will be increasingly important to have a broad set of tools and strategies to help clients. We live in a world where consumers are very fee- and cost-conscious, so when investors look at the fees they pay, they expect more than someone who is only managing their portfolio. Knowing that our firm provides more than just investment management gives me confidence in the sustainability of our business.”

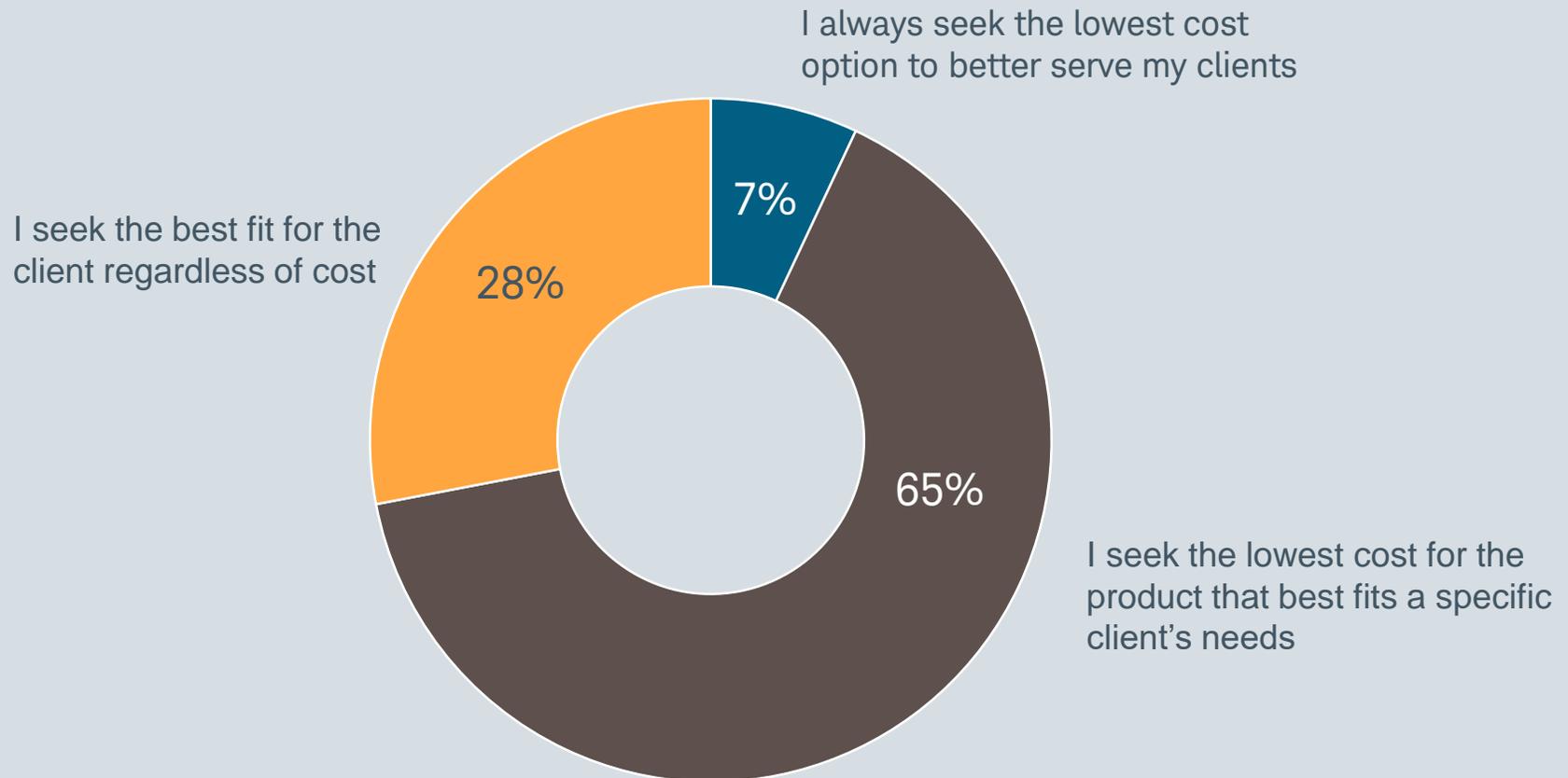
Greg Emmons
Investment Advisor
Representative
Lighthouse Wealth
Management



Q11: What is the most important core aspect of the independent advisor model that will differentiate it from non-independent advisor models ten years down the road? (Base: Total Advisors; Current wave = 912)

Focus on fiduciary: client needs drive investment decisions; low-cost is high priority

How cost factors into advisors' decisions



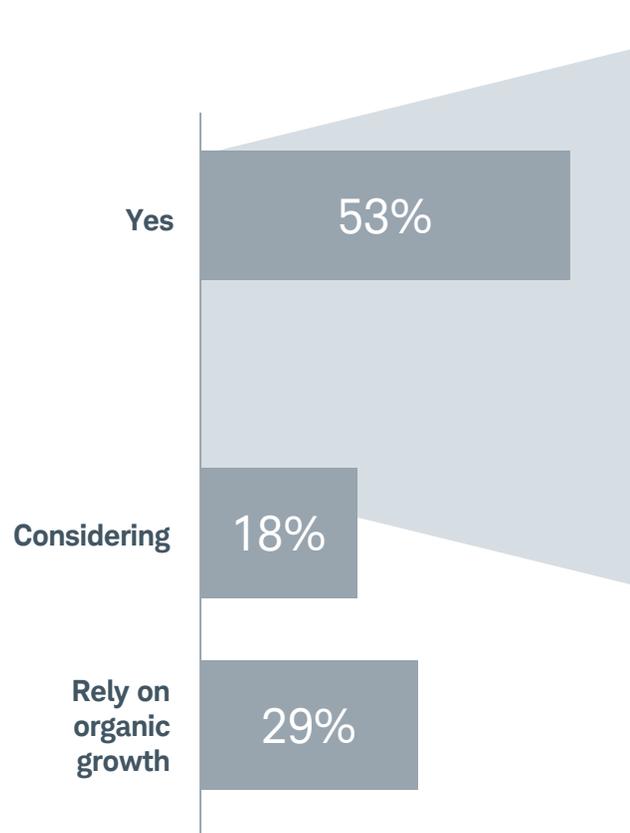
Q18: When making investment product decisions for your clients, how does cost factor into your decisions? (Base: Total Advisors; Current wave = 912)

Business strategy and management

Findings

Considering new clients: strategies to stretch beyond organic growth

Do firms have new client acquisition strategy?



Elements of new client acquisition strategy



Percent of firms' current AUM coming from new accounts



Q14: What percent of your firm's current AUM comes from new accounts that have started working with your firm within the past year? (Base: Total Advisors; Current wave = 912)

Q15: Do you have a new client acquisition strategy? (Base: Total Advisors; Current wave = 912)

Q16: Which of the following comprise/will likely comprise part of your firm's new client acquisition strategy? (Base: Have/Are considering client acquisition strategy; Current wave = 650)

Most likely to acquire: the larger the firm, the more proactive the new-client strategy

Do firms have new client acquisition strategy?

Assets under management

Mean number of clients



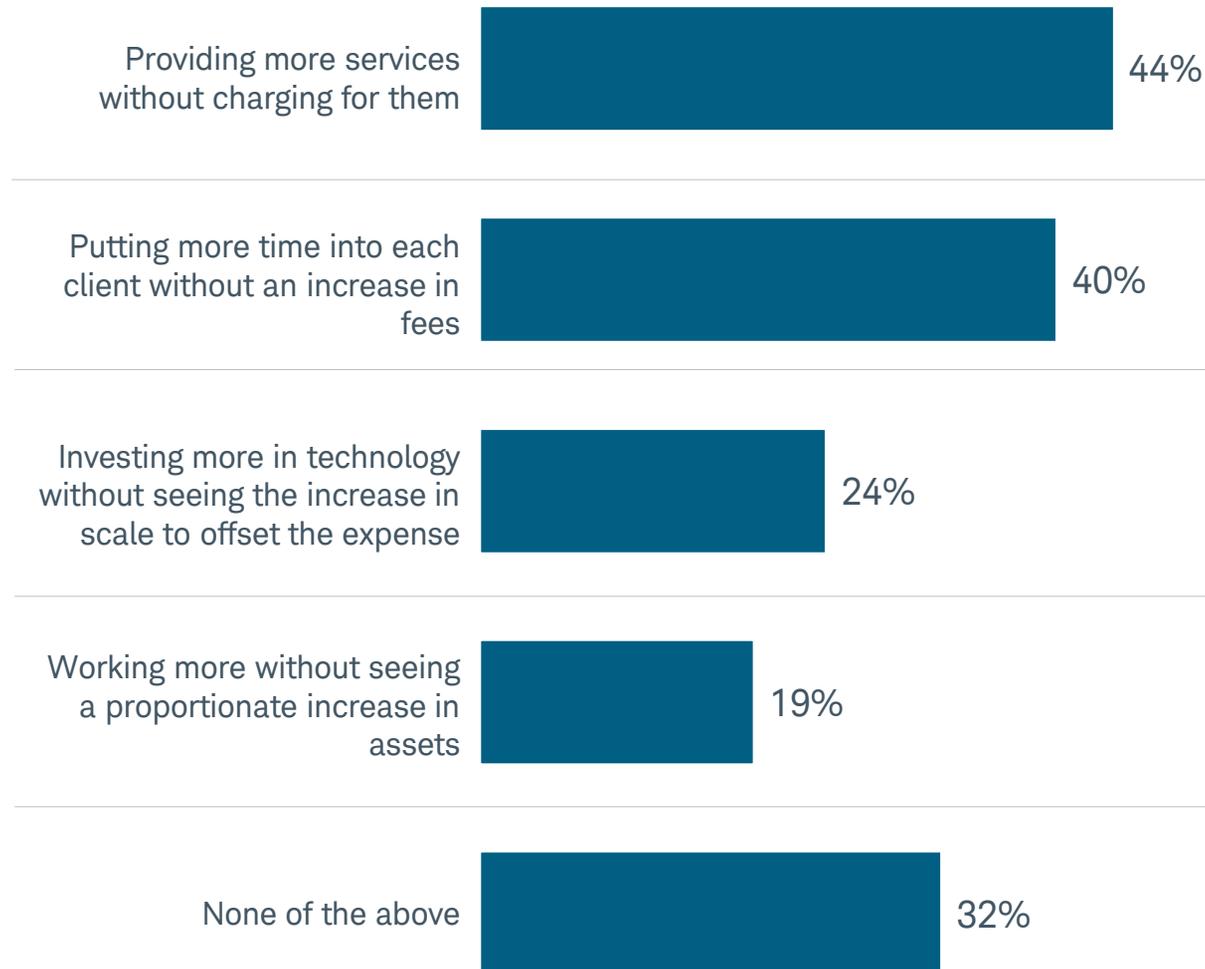
Q14: What percent of your firm's current AUM comes from new accounts that have started working with your firm within the past year? (Base: Total Advisors; Current wave = 912)

Q25: Approximately, what is the total value of assets managed by your firm? Please include assets under management that are custodied at Schwab and at other custodians. (Base: Total Advisors; Current wave = 912)

Q26: Approximately, how many clients does your firm have in total? (Base: Total Advisors; Current wave = 912)

Pricing paradox: advisors add services, individualized client care, but fees remain fixed

What's happening in advisors' businesses...



“Clients are asking for more hands-on, white-glove service than ever before, and it is a business challenge to continue offering more services for the same fee. That’s where technology will offer a tremendous advantage. At our firm, we think about how we can maximize our technology solutions to integrate our offerings more seamlessly and scale the business so we can spend more time focusing on client needs.”

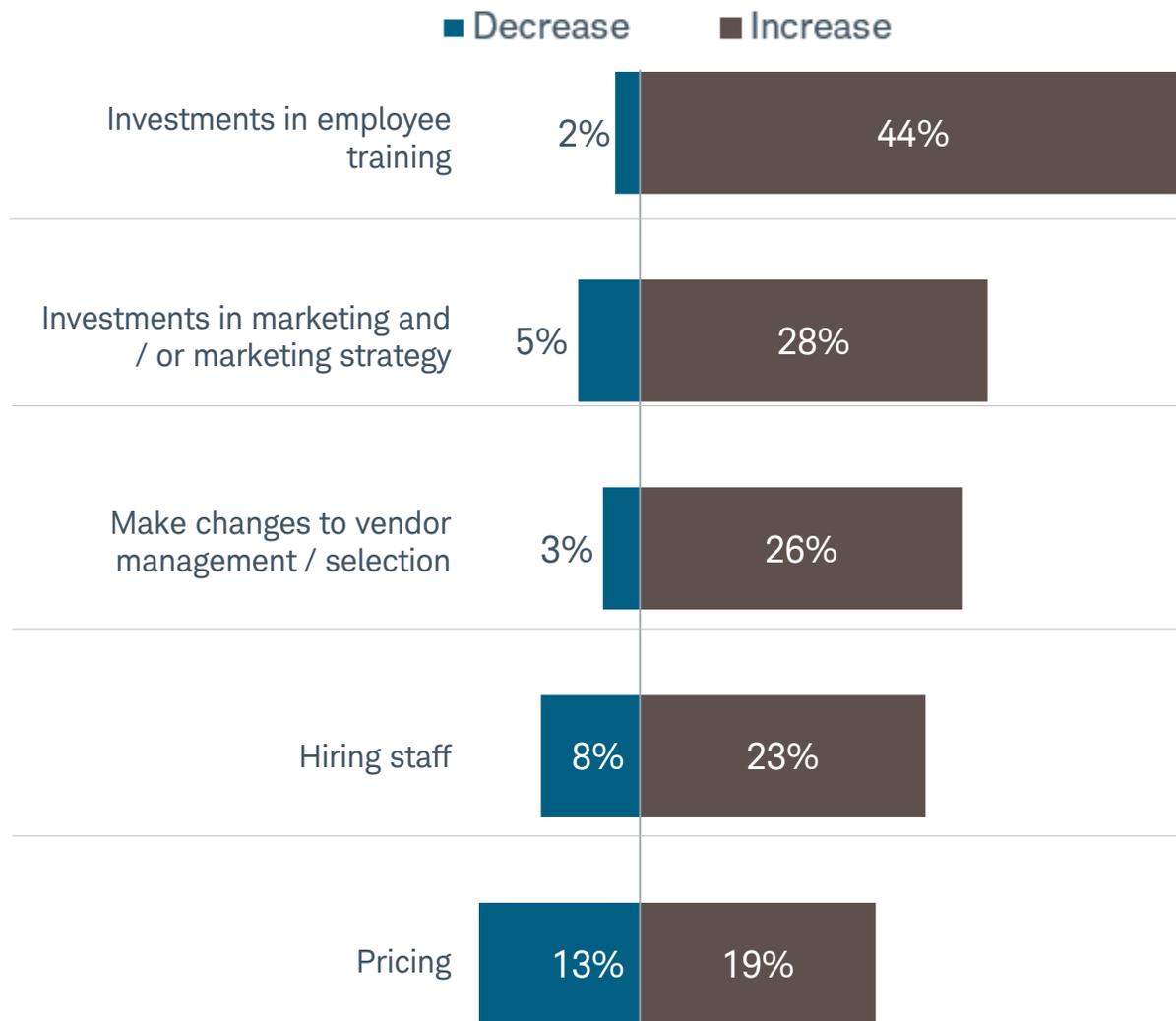


Chuck Bean
Founder & CEO
Heritage Financial

Q17: Which of the following are you experiencing in your business, if any? (Base: Total Advisors; Current wave = 912)

Regulatory requirements: advisors expect a need to step up investments in their firms

How current regulatory environment will impact business



“I support the fiduciary rule and its impact on the regulatory environment in our industry. As an RIA, CFP® and CFA®, I have a fiduciary responsibility. I think industry oversight is a positive and necessary part of our business and am happy to work with it.”



Ann Zuraw

President

Zuraw Financial Advisors

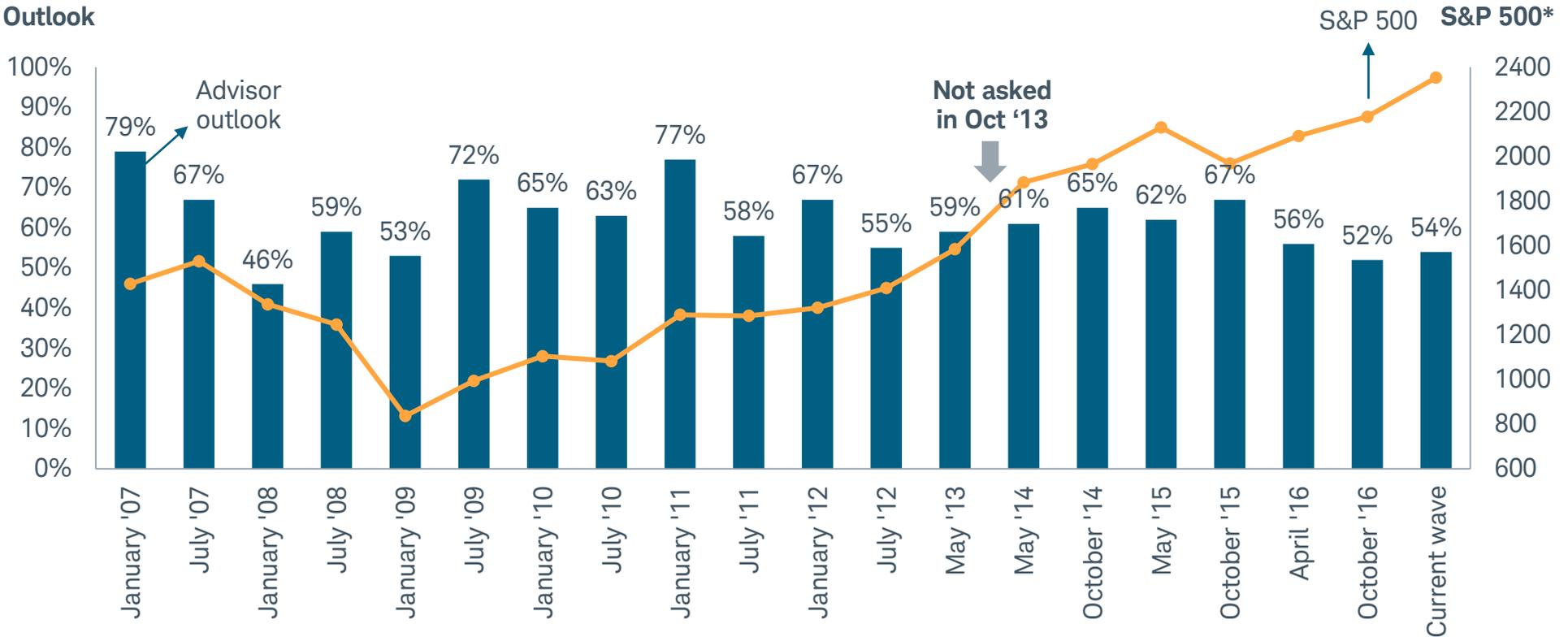
Q17: Which of the following are you experiencing in your business, if any? (Base: Total Advisors; Current wave = 912)

Market & investing outlook

Findings

Performance anxiety: despite its recent record run, optimism about the S&P 500 is on the decline

Outlook



AVERAGE	AVERAGE DAILY OPENING VALUE WHILE IN FIELD & S&P 500 WILL INCREASE																			CURRENT WAVE [T]
	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]	OCT '17 [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	2352.66
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	54% C

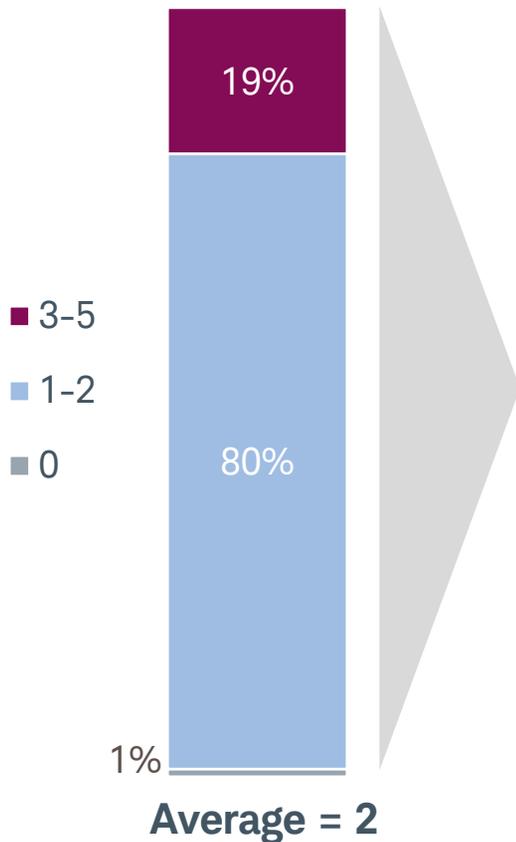
Q1: Which of the following best describes what you think will happen to the S&P 500 in the next six months? (Base: Total Advisors; Jan '07=1387; July '07=1044; Jan '08=1006; July '08=1010; Jan '09=1240; July '09=1198; Jan '10=1144; July '10=1199; Jan '11=1337; July '11=911; Jan '12=882; July '12=839; May '13=1016; Oct '13 Not Asked; May '14=720; October '14=740; May '15=629; Oct '15=638; Apr '16=930; October '16=957; Current wave=912)

Note: The standard deviation opening values for the S&P 500 during the current fielding period was 10.2

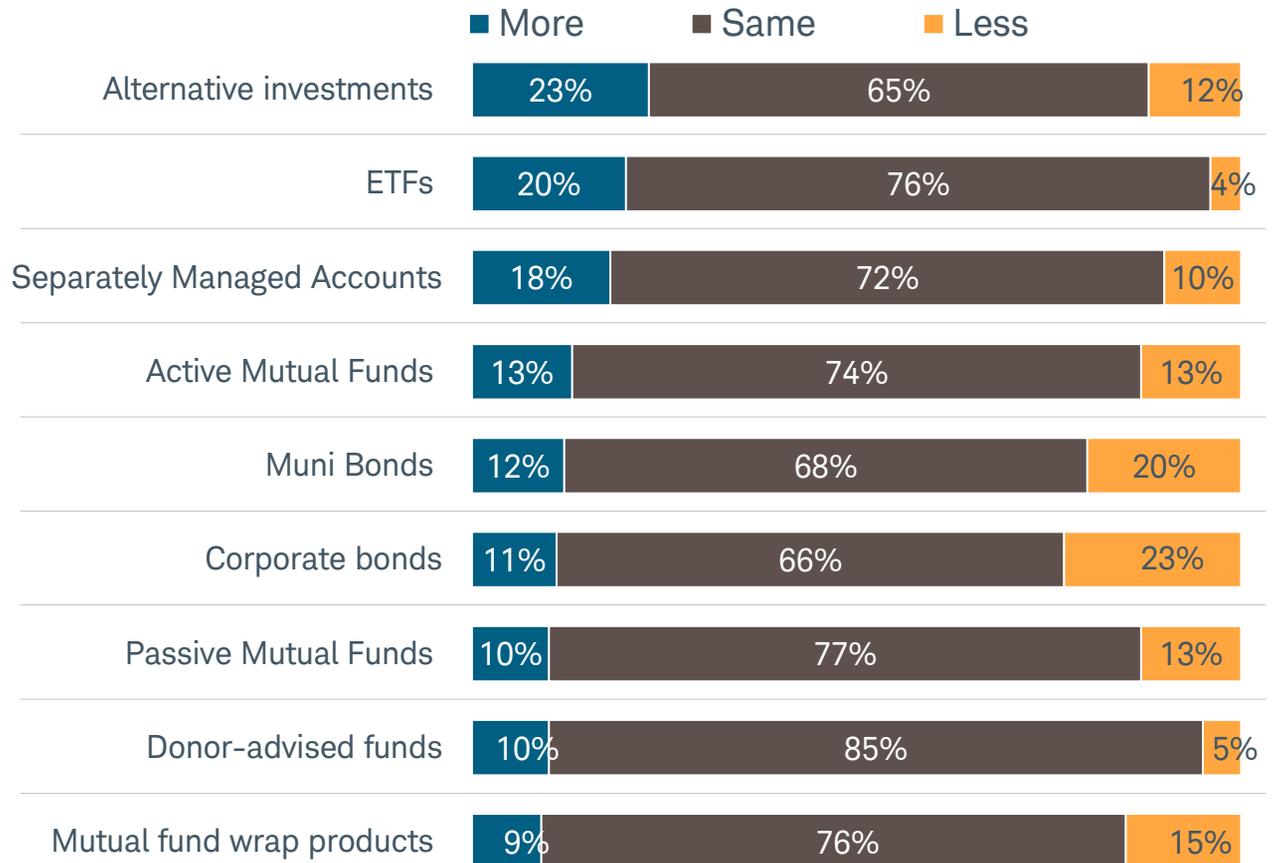
* S&P 500: Average daily opening values per survey fielding period

Fed expectations: advisors expect two more interest rate hikes this year; plan investment recommendations accordingly

Number of interest rate hikes expected in 2017



Investment recommendation if interest rate hikes in 2017

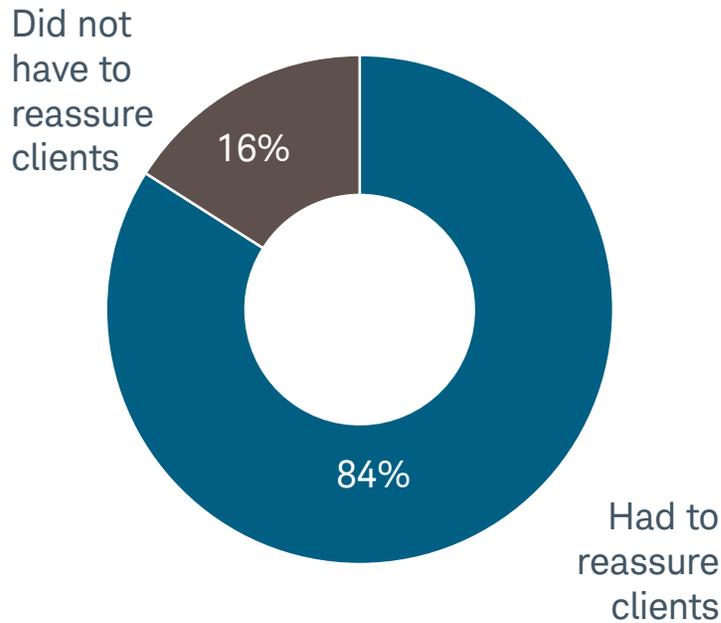


Q7: How many interest rate hikes do you expect from the Fed between now and the end of 2017? (Base: Total Advisors; Current wave = 912)

Q8: How will the predicted rising interest rate environment impact your investment in the following investment products and vehicles? (Base: Expect >0 interest rate hikes; Currently invested in product/vehicle)

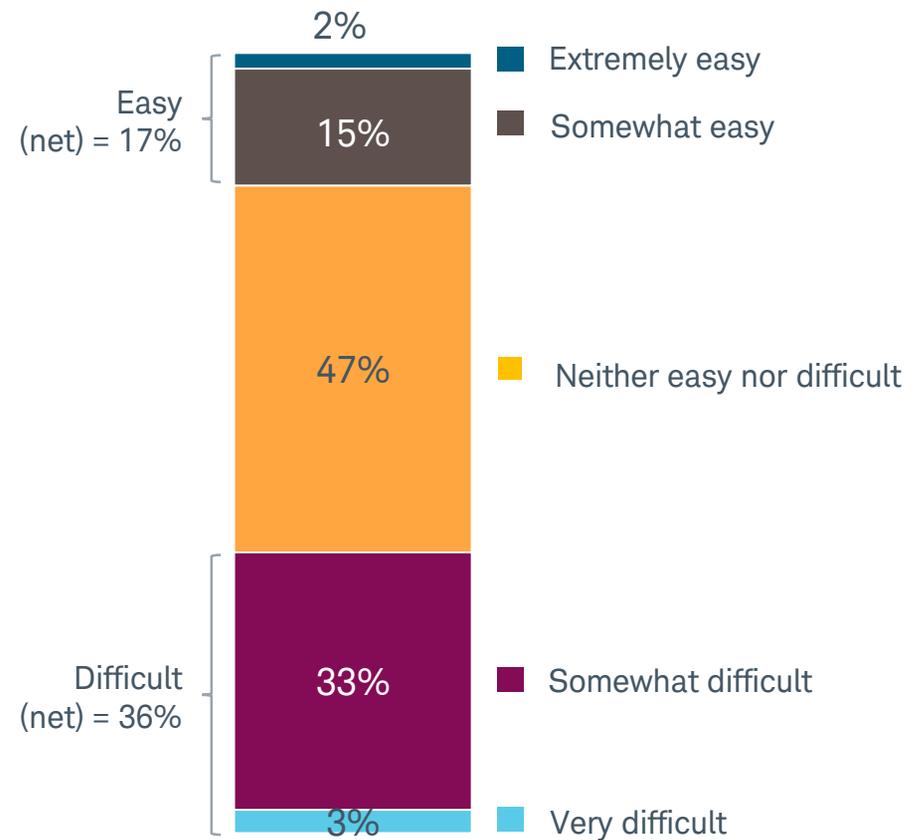
Seeking counsel: advisors reassure clients, and some see difficulty ahead

Percent of advisors who say that some portion of their client base has needed reassurance in past six months that they will achieve their investment goals



17.5%
Average percent of clients needing reassurance

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

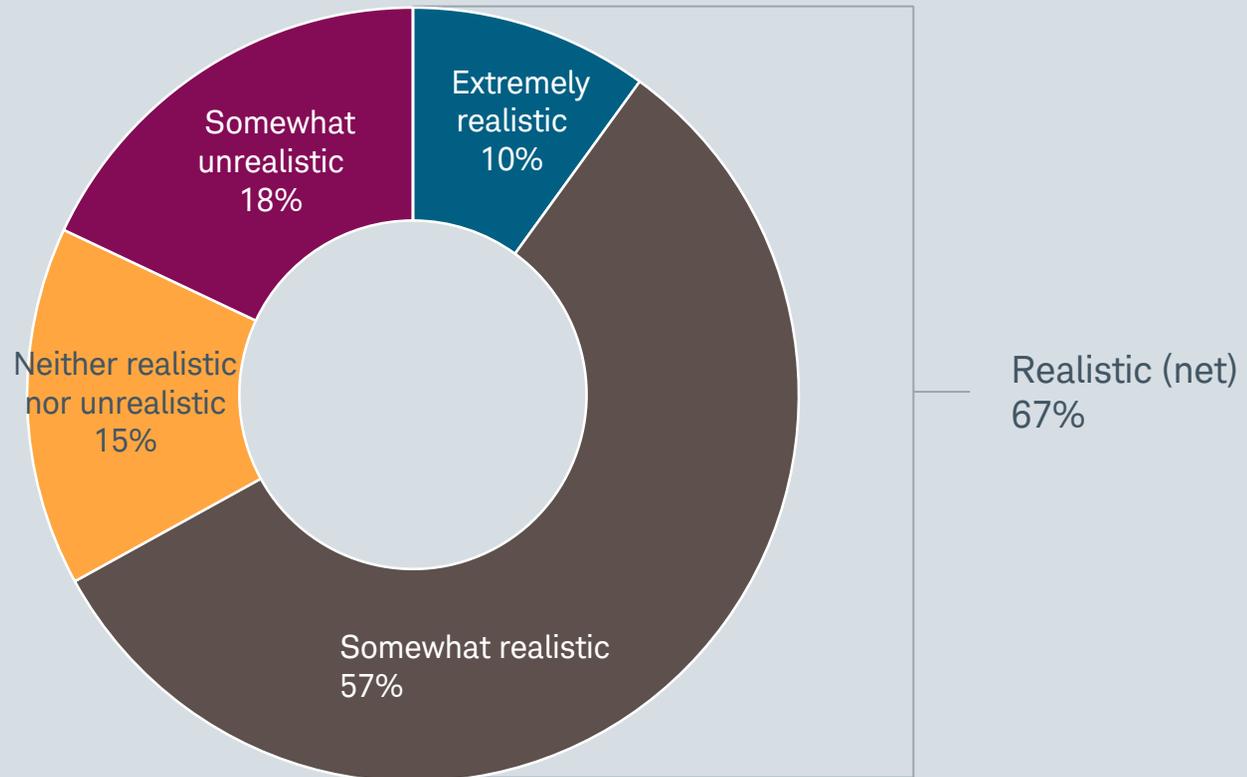


Q2: In the past six months, what percent of your clients have you needed to reassure that they will achieve their investment goals?

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 = 912)

Keeping it real: most clients have their feet on the ground when it comes to their portfolios

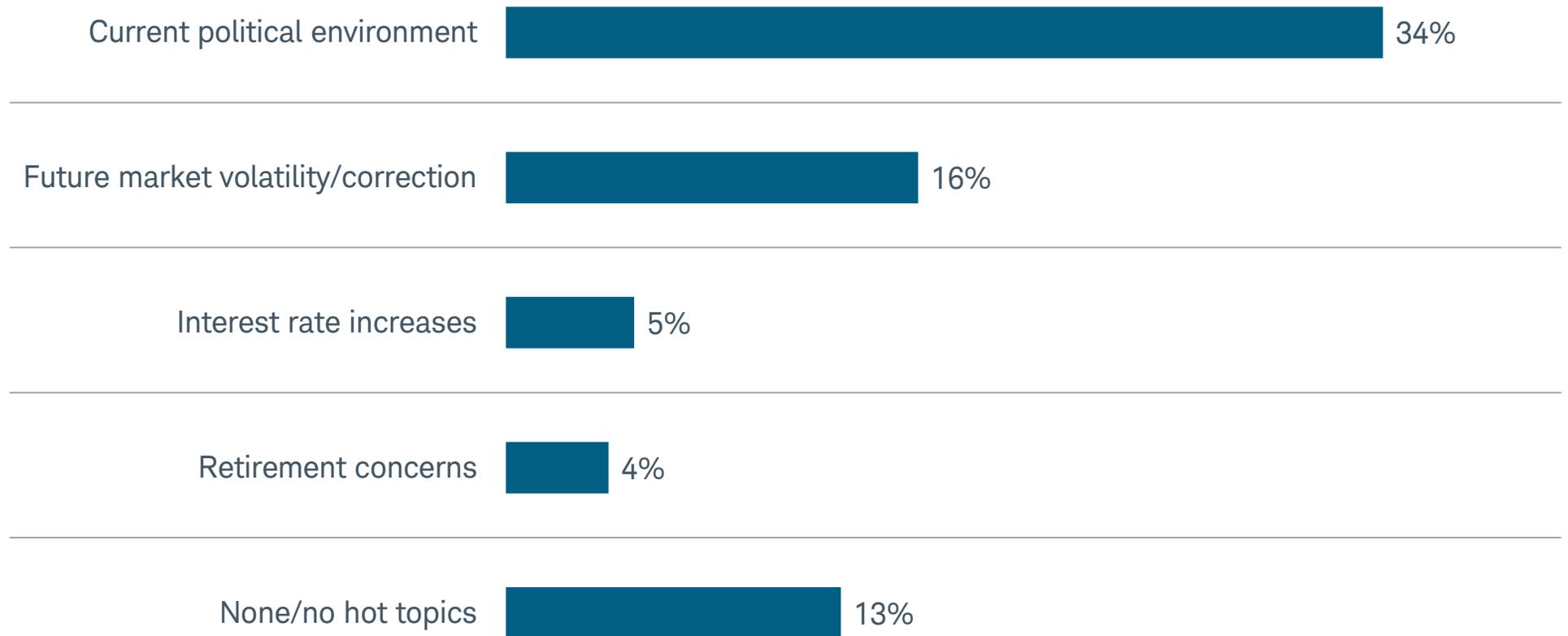
Advisors explain, “My clients’ expectations about portfolio returns are...”



Q4: Which of the following best describes how realistic your clients' expectations are about their portfolio returns? (Base: Total Advisors; Current wave = 912)

Getting political: clients want to discuss Washington more often than Wall Street

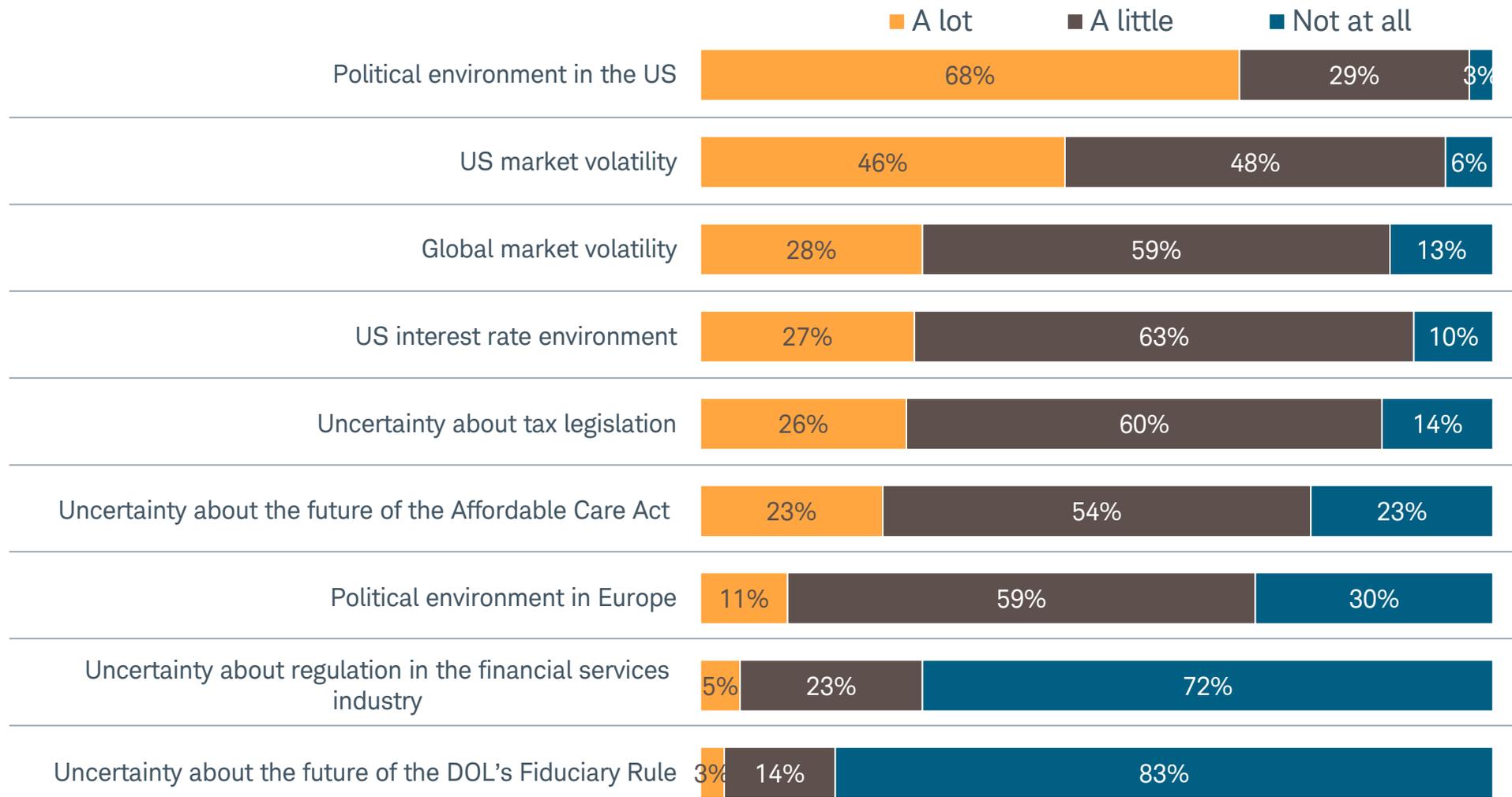
Hot topics among clients right now



Q21: We want your take on whether there is a hot topic among your clients right now as it relates to investing and financial planning. For example, in the 1990s, one of the common questions advisors might have heard from clients was: “What is the best tech stock to buy?” Are you repeatedly hearing the same question from different clients in 2017, and if so, what is the question? (Base: Total Advisors; Current wave = 912)

Uneasy clients: expressing concern about the impact of domestic politics on their investments

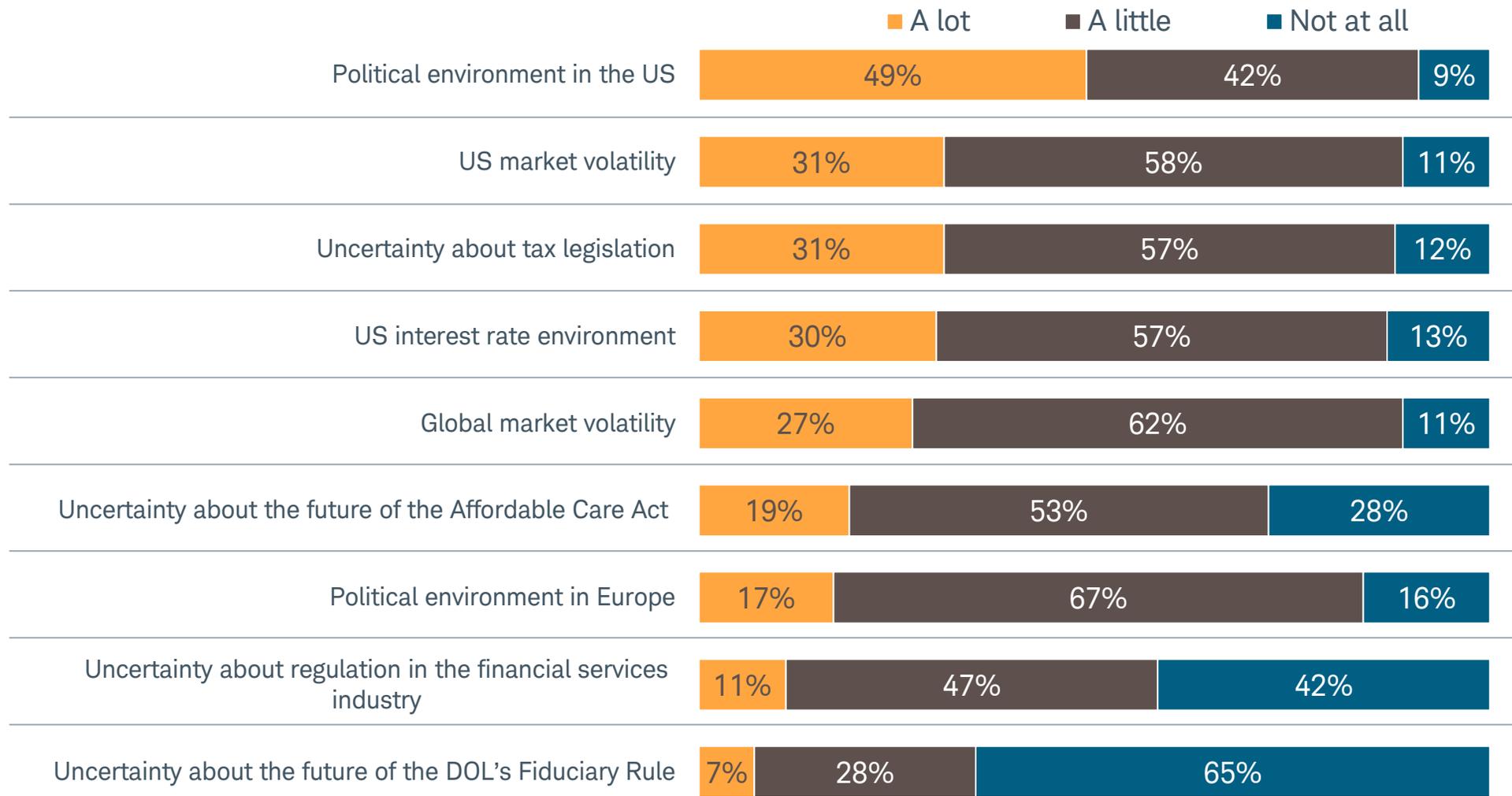
External issues causing client concern



Q6: How concerned are your clients about how each of the following may impact their investments? (Base: Total Advisors; Current wave = 912)

Uneasy advisors: similar concerns about the impact of domestic politics on their clients' investments

External issues causing advisor concern



Q5: How concerned are you about how each of the following may impact clients' investments? (Base: Total Advisors; Current wave = 912)

Get to know an independent advisor

Findings

Entrepreneurial ethics: always in work mode

Putting in the hours

Advisors work an average of 47 hours per week
33% work on average 51+ hours per week

Working off hours

86% work at least a little while on vacation
52% feel work follows them wherever they go
48% are able to turn work off at night and on weekends

Stepping ahead with technology

76% say technology is keeping their firms ahead on the competition

Most productive

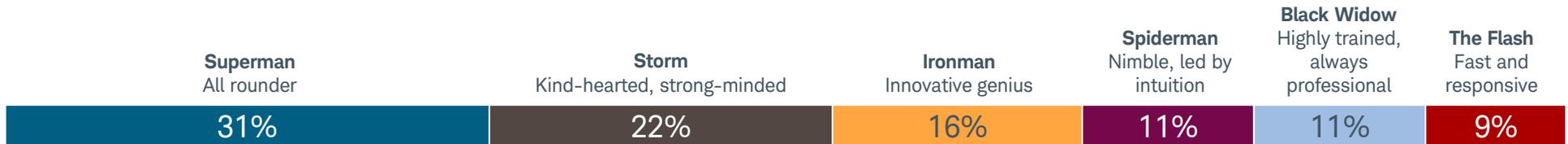
69% are most productive in the morning

Prefer to work in office

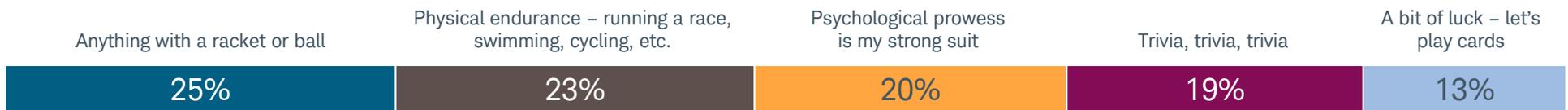
84% prefer to do most of work in office

Advisors: they're just like us!

If I were a superhero, I would be...



The game/sport I can win at...



With \$100 and a bit of spare time, I would...



You are most likely to find me watching...



Q21: For each sentence, please select the choice that is most accurate. (Base: Total Advisors; Current wave = 912)



Appendix

Findings

Methodology

What

- The Independent Advisor Outlook Study is an online study conducted for Charles Schwab by Koski Research.
- Koski Research is neither affiliated with, nor employed by, Charles Schwab & Co., Inc.
- The sampling error is +/-3.2 percentage points at the 95% confidence level.

When

- The study was conducted from March 27 to April 12, 2017.

Who

- 912 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.

Firmographics

(Base: Total Advisors Responding)

Advisors Responding	Base
Average Client Age by Range	(n=911)
Less than 50 years old	5%
50 to 54 years old	11%
55 to 59 years old	22%
60 to 64 years old	30%
65 or older	26%
Prefer not to say	6%
MEAN	60 years old
Age of Advisor Responding	(n=907)
Under 35	8%
35 to 44 years old	15%
45 to 54 years old	29%
55 to 64 years old	29%
65 and older	16%
Prefer not to say	3%
MEAN	53 years old
Number of Years Worked for Independent Advisory Firm	(n=909)
5 years or less	24%
5 to 10 years	16%
11 to 15 years	15%
More than 15 years	45%
MEAN	13 years
Primary Role at Firm	(n=911)
Principal	62%
Portfolio Manager	17%
Operations staff	6%
Other	15%
Founding Principal (among Principals)	(n=566)
Yes	76%

Advisors Responding	Base
Number of Employees at Firm	(n=912)
1 to 5	51%
6 to 15	31%
16 to 50	13%
51 or more	5%
MEAN	24 employees
Assets Under Management at Firm (AUM)	(n=907)
Less than \$25M	11%
\$25M to \$100M	23%
\$100.1M to \$250M	21%
\$250.1M to \$500M	17%
More than \$500M	24%
Prefer not to answer	4%
MEAN	\$322,000
MEDIAN	\$200,000
Number of Clients Per Firm	(n=912)
1 to 50	16%
51 to 100	16%
101 to 250	24%
251 or more	27%
Prefer not to answer	17%
MEAN	411 clients
MEDIAN	150 clients
Gender	(n=911)
Male	80%
Female	20%
Number of Hours Worked in Average Week	(n=912)
Less than 40 hours	16%
40 – 50 hours	52%
51 – 60 hours	25%
More than 60 hours	8%
MEAN	47 hours

Qualitative Contributors

Chuck Bean
Founder & CEO
Heritage Financial

Greg Emmons
Investment Advisor Representative
Lighthouse Wealth Management

Patricia Williams
CEO
Silicon Private Wealth

Ann Zuraw
President
Zuraw Financial Advisors

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