

# Independent Advisor Outlook Study

July 2010

Wave 8

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# Background

- Charles Schwab 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, 2010 client assets custodied with Schwab stood at \$597 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.

## 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

- 1,199 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 12 minutes.
  - For this report, the majority of data are reported at the total sample level. When applicable, comparisons among each of the eight waves of the study are made.
  - All data are self-reported by study participants and are not verified or validated.

## When

- The study was conducted from July 13 through July 23, 2010.

# Results

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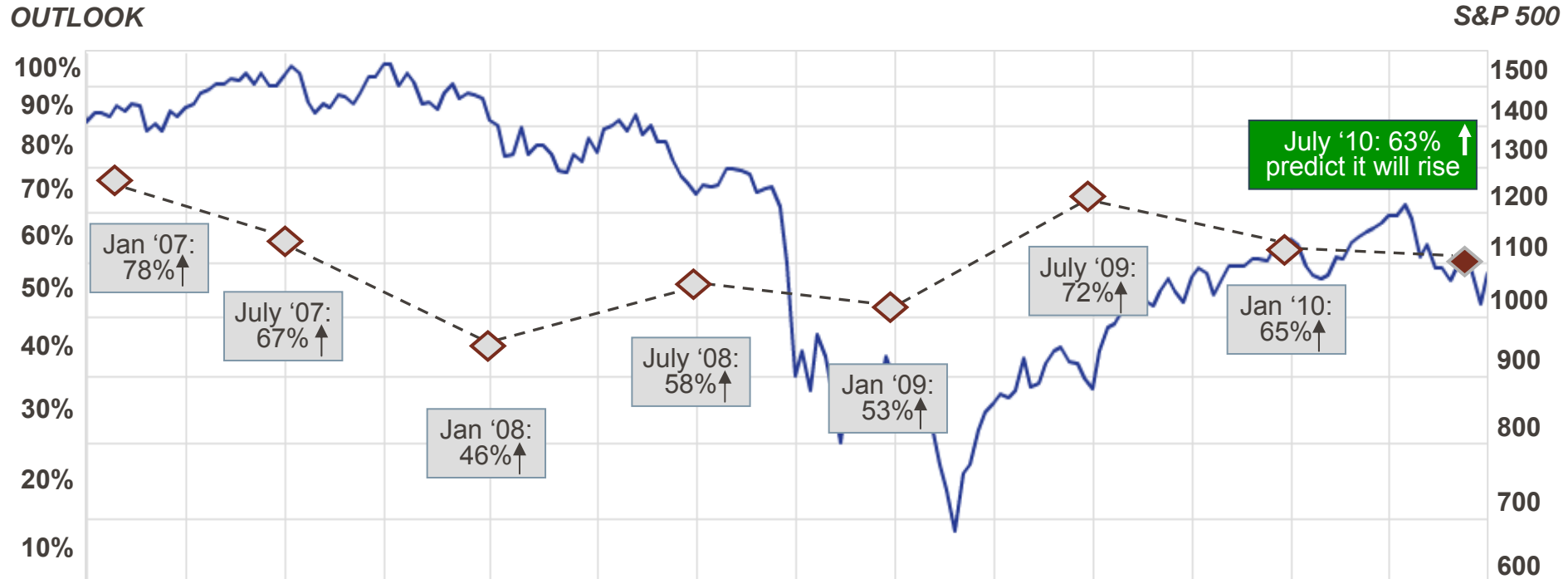
# Economic Outlook

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# Advisors hold steady and positive on their outlook for the S&P

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

All Respondents



AVERAGE	AVERAGE DAILY OPENING VALUE WHILE IN FIELD & S&P 500 WILL INCREASE							
	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JULY '09	JAN '10	JULY '10
<b>S&amp;P 500</b>	1429.28	1530.25	1337.63	1246.76	836.92	994.17	1104.6	1082.9
<b>Outlook</b>	78%	67%	46%	58%	53%	72%	65%	63%

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 = 1240; July '09 = 1197; Jan '10 = 1144; July '10 = 1199)

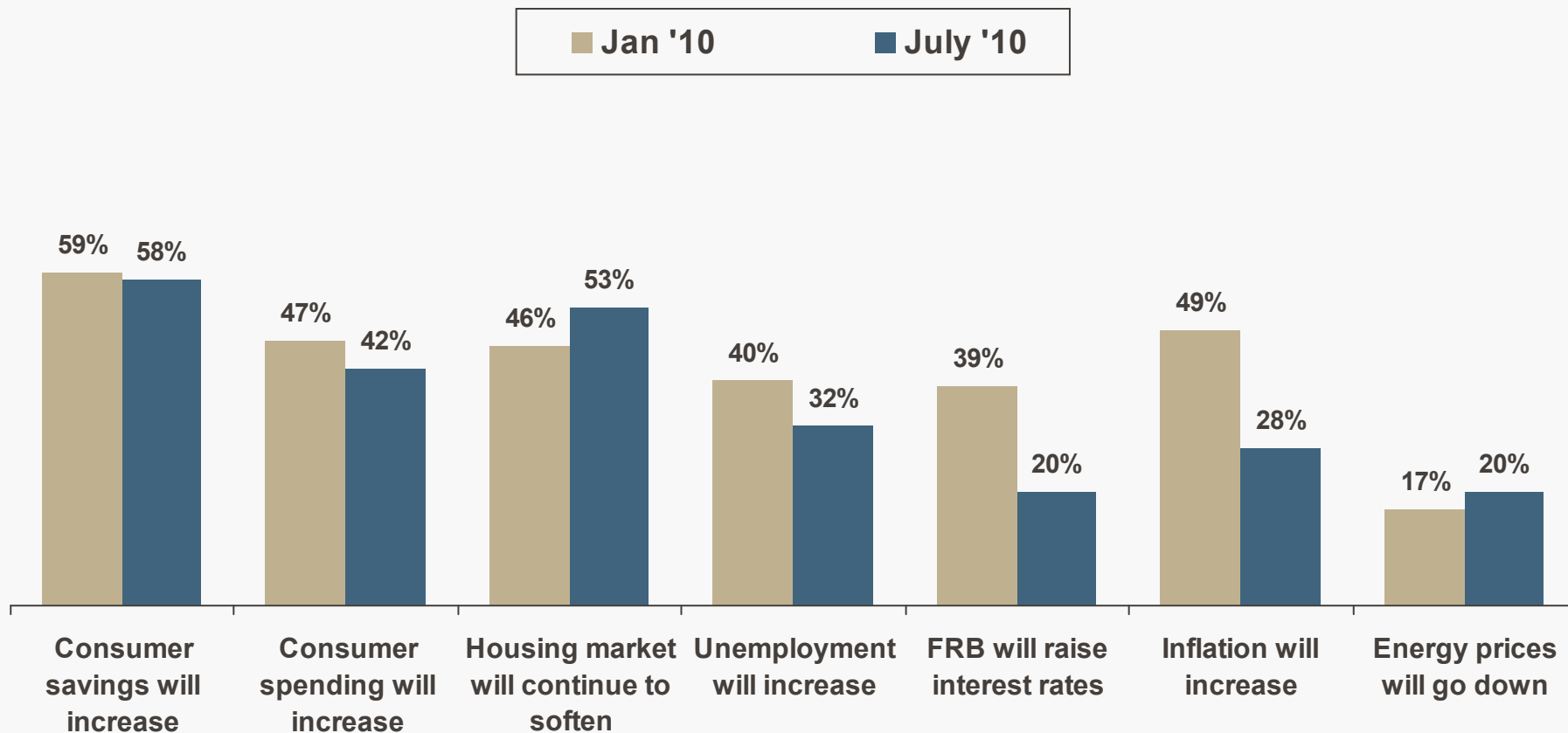
\*Note: The standard deviation of opening values for July 13, 2010, to July 23, 2010, was around 12 points

*charles* SCHWAB

# Advisors optimistic on many economic indicators, but half predict housing market will continue to soften

## CHANGES THAT WILL OCCUR IN THE U.S. DURING THE NEXT SIX MONTHS— JAN '10 TO JULY '10

All Respondents



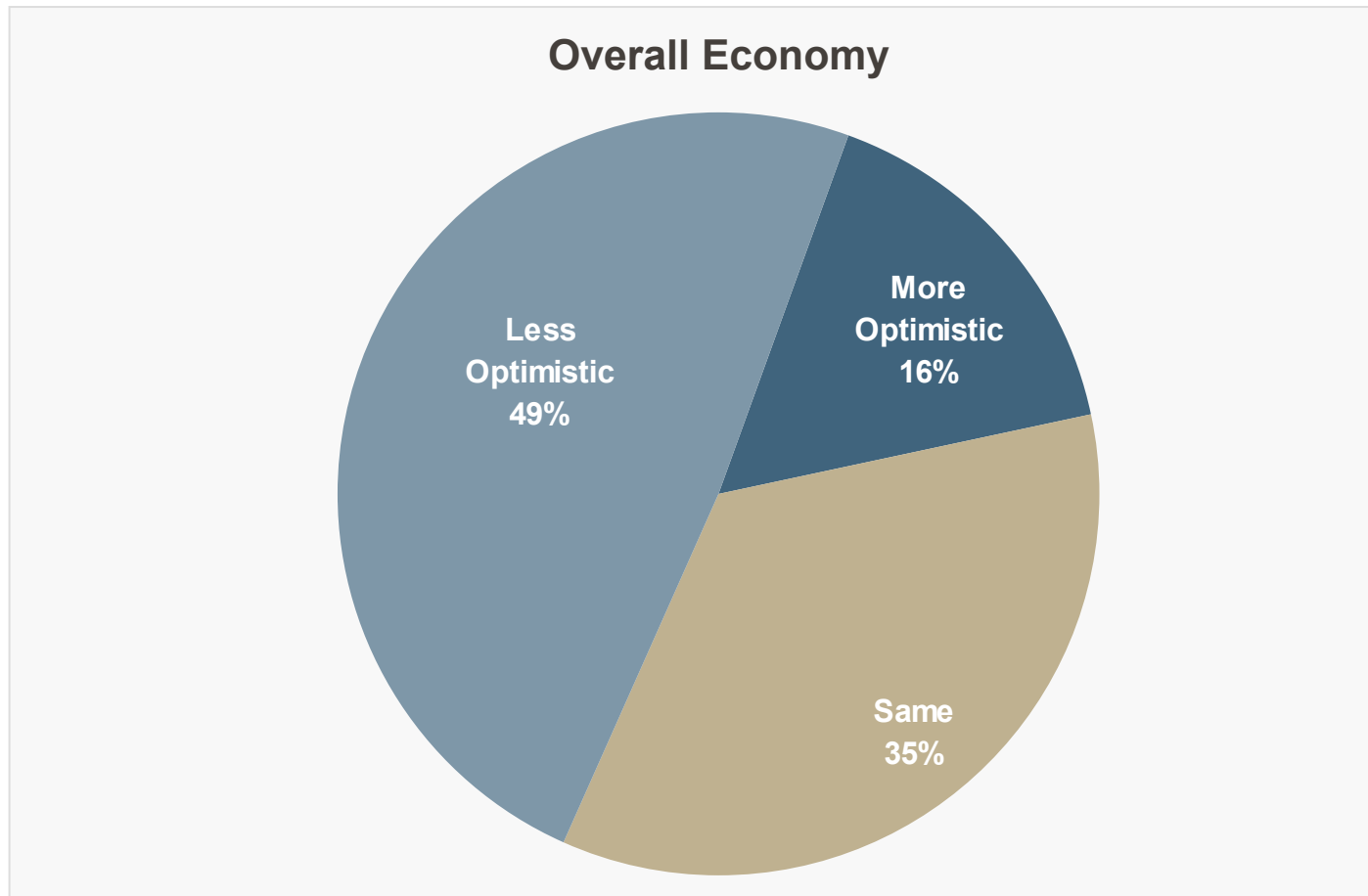
Source: Q2: Please choose the response that best describes your opinion of each of the below events occurring in the US in the next six months.  
(Base = All respondents; Jan '10 = 1144; July '10 = 1199)

See appendix for all items by wave.

# Advisors report that half their clients are less optimistic than last year

## CURRENT LEVEL OF CLIENT OPTIMISM ON THE ECONOMY COMPARED TO 2009—JULY '10

All Respondents

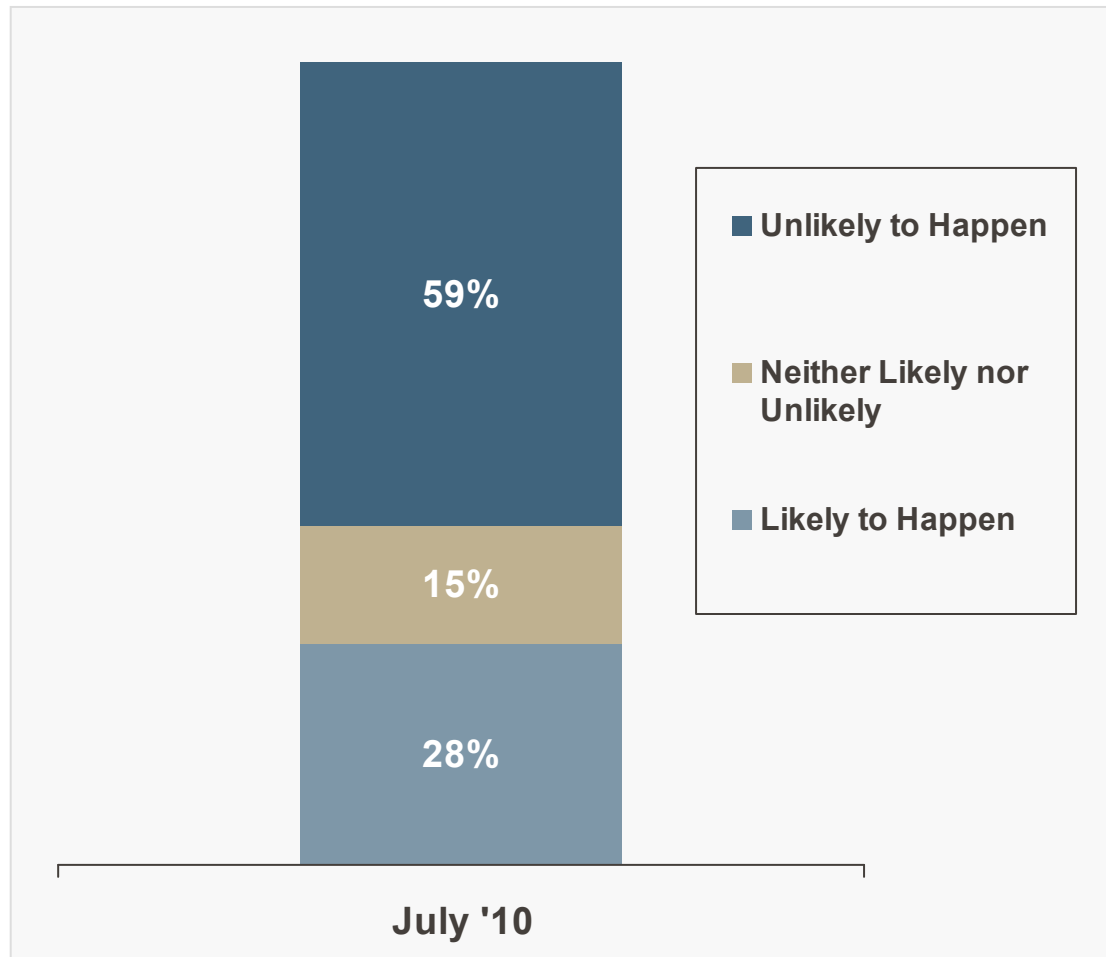


Source: Q22K: Please select the answer below that best describes your clients' current outlook on each of the following compared to 2009? (Base = All respondents; July '10 = 1199)

# Most advisors do not see a second U.S. recession coming in the next six months

## A DOUBLE-DIP RECESSION OCCURRING IN THE U.S. DURING THE NEXT SIX MONTHS—JULY '10

All Respondents

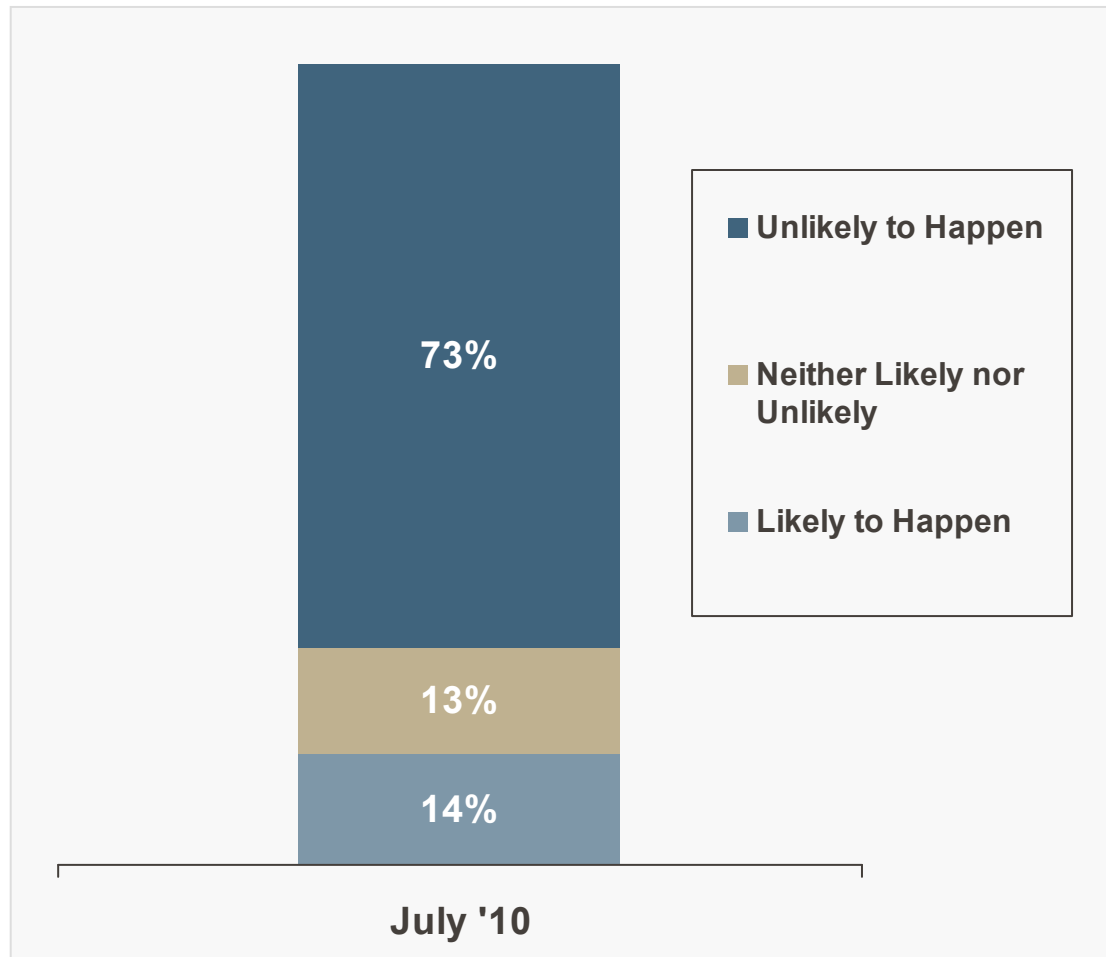


Source: Q2: Please choose the response that best describes your opinion of each of the below events occurring in the US in the next six months.  
(Base = All respondents; July '10 = 1199)

# A majority of advisors do not think the dollar will lose its status as reserve currency during the next two years

## LIKELIHOOD OF U.S. DOLLAR LOSING RESERVE CURRENCY STATUS DURING THE NEXT 24 MONTHS—JULY '10

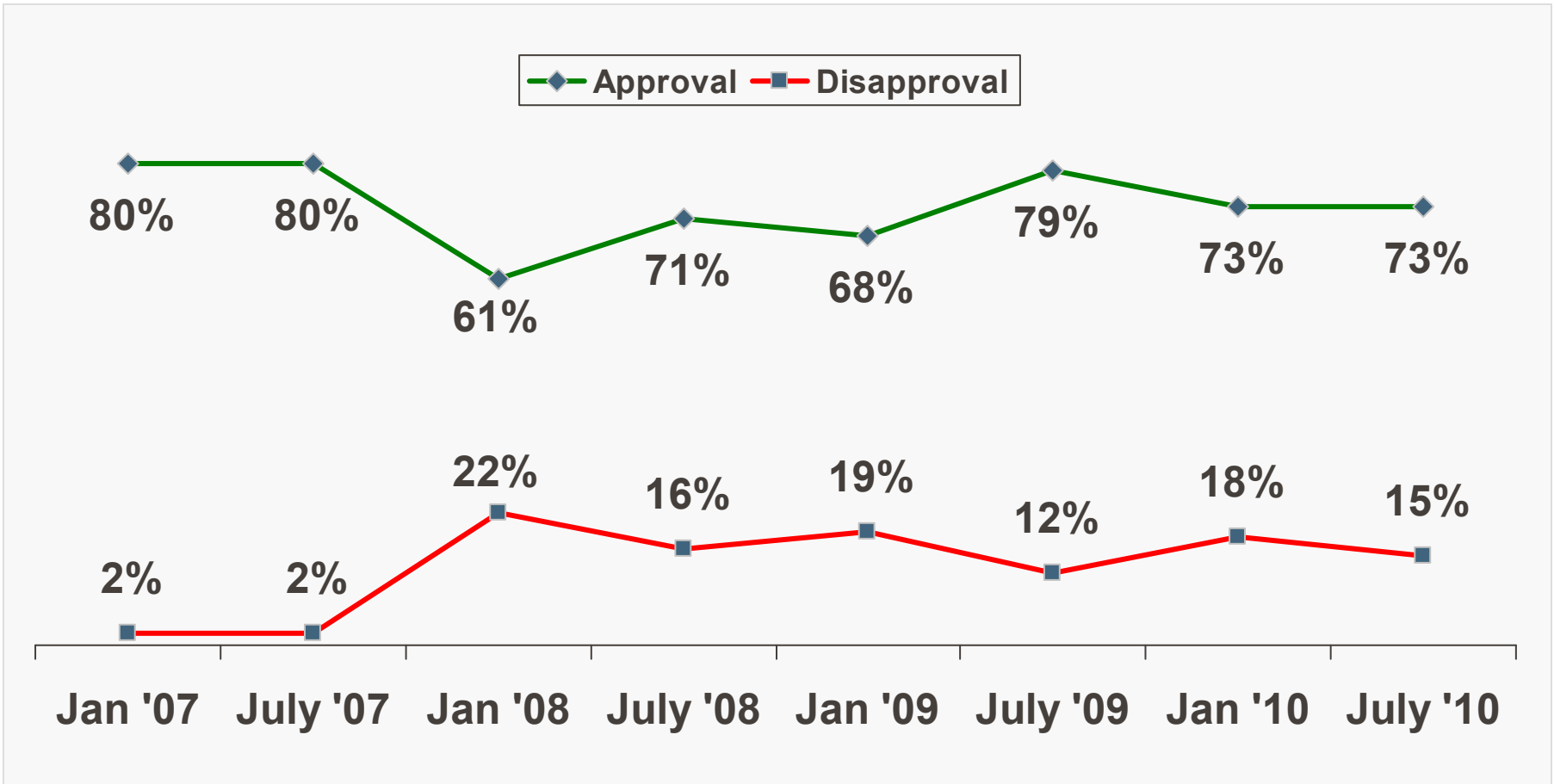
All Respondents



# Approval of Bernanke remains steady and high

## APPROVAL OF BERNANKE'S FRB LEADERSHIP

All Respondents



Source: Q3: Which of the following best describes your view of Chairman Bernanke's Federal Reserve Board leadership?  
(Base = All respondents: Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1197;  
Jan '10 = 1144; July '10 = 1199)

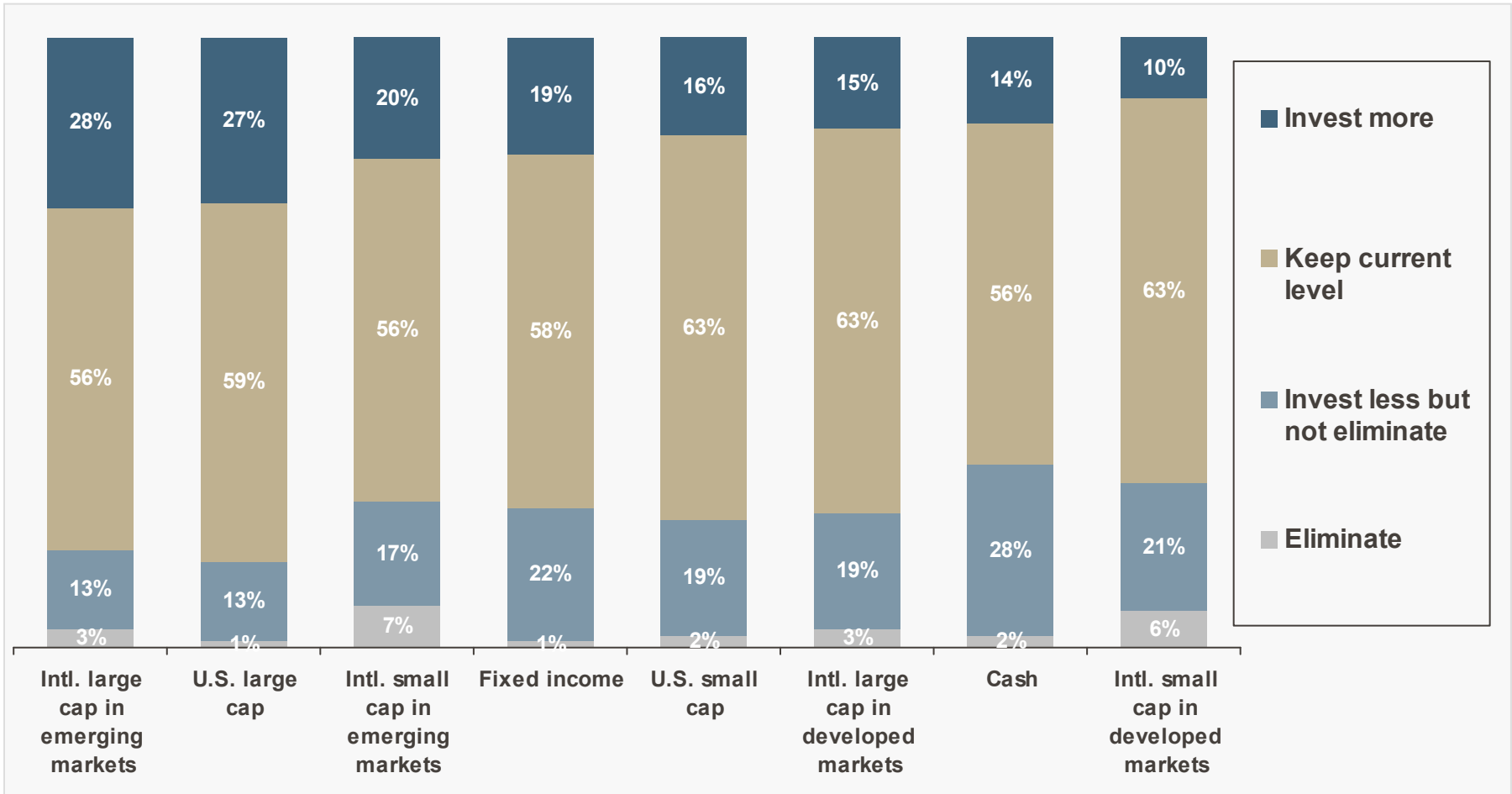
# Investment Outlook

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# Advisors expect to invest more in international emerging markets and U.S. large cap

## PLANS TO INVEST IN ASSET CLASSES—JULY '10

All Respondents



See appendix for all investment vehicles asked per wave.

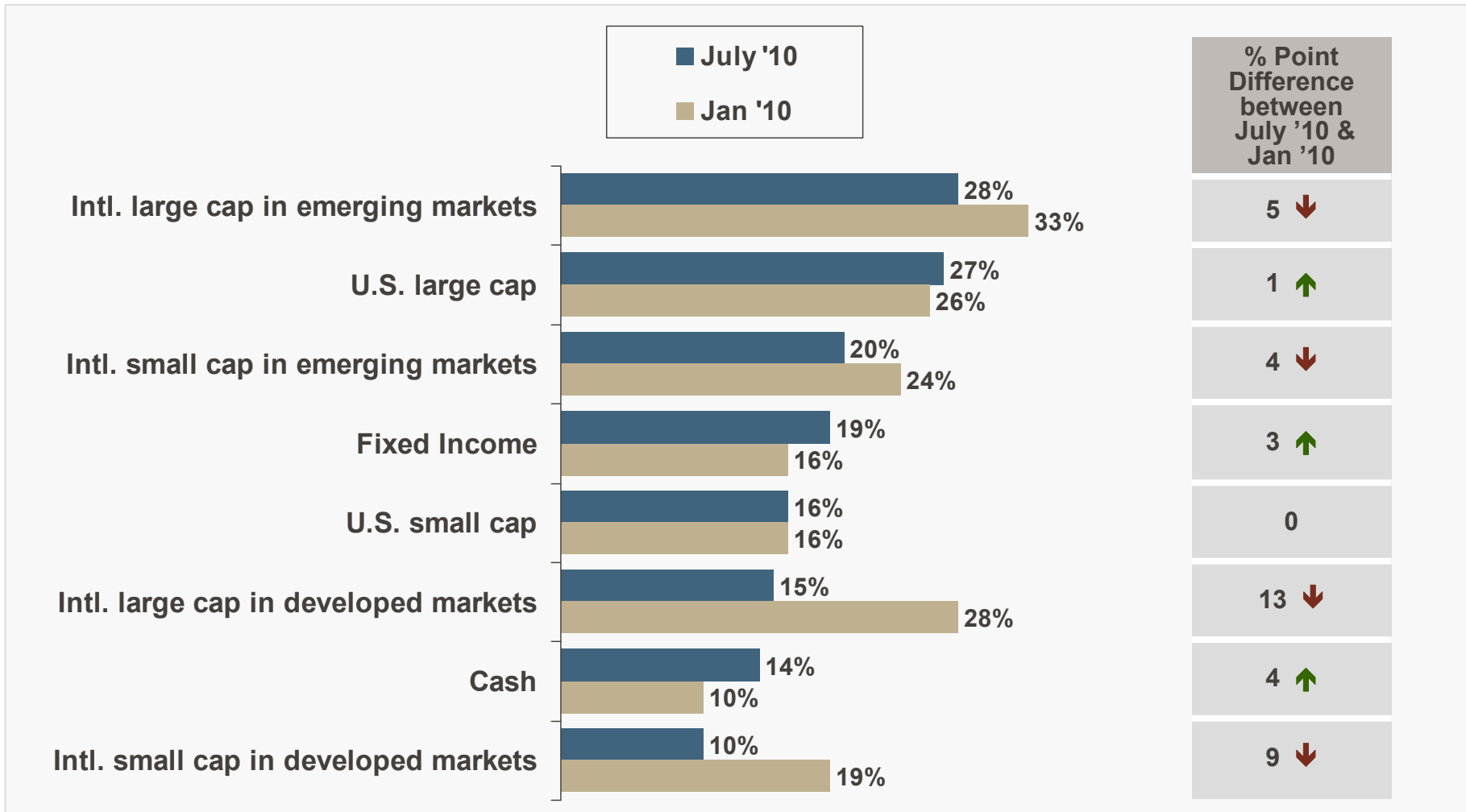
Source: Q8: For each of the following asset classes, please choose the response that best describes how you plan to invest in that asset class for your clients in the next six months. (Base = All respondents: July '10 = 1199)

*charles* SCHWAB

# Advisors report that they are pulling back in developed markets

## ASSET CLASSES LIKELY TO INVEST MORE—JAN '10 TO JULY '10

All Respondents

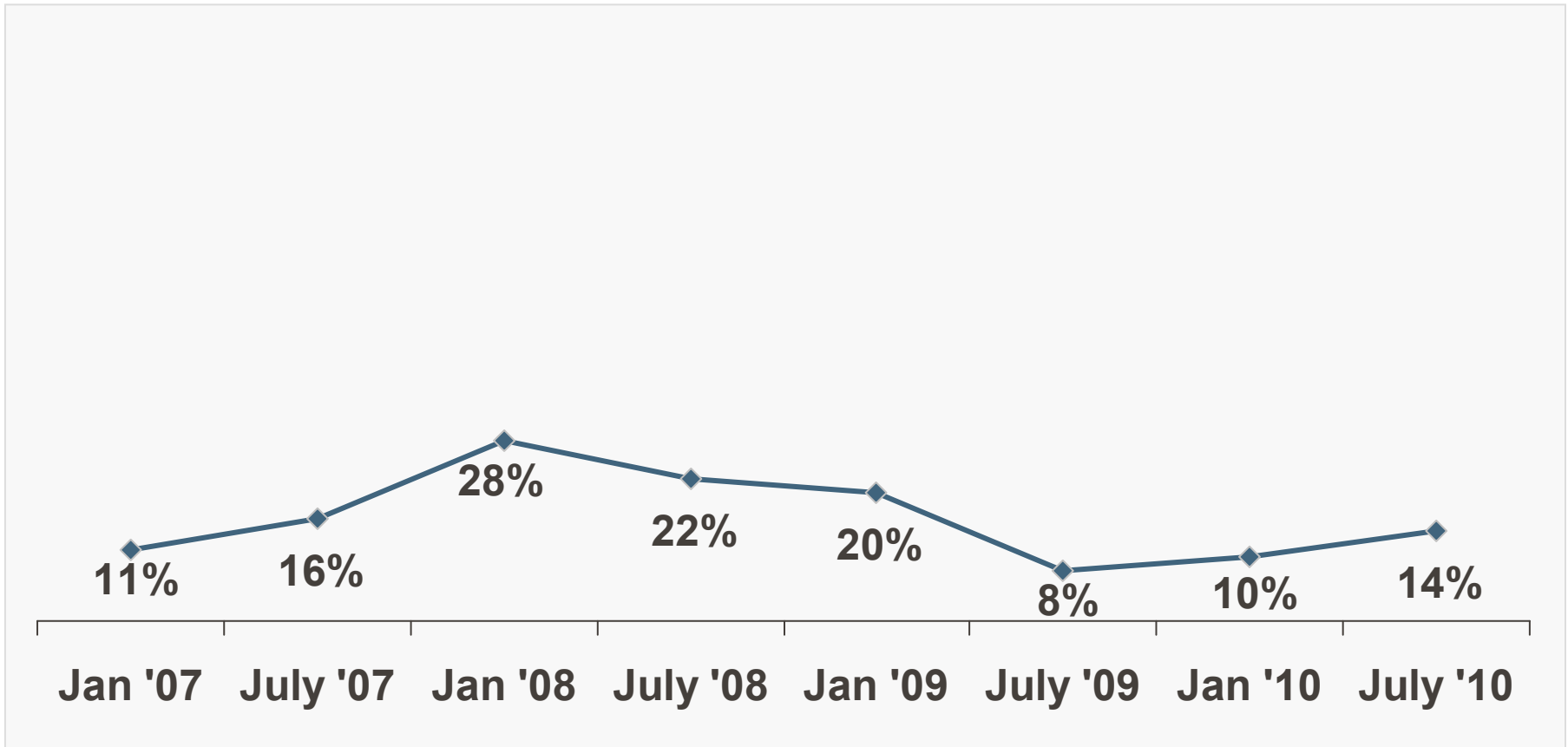


Source: Q8: For each of the following asset classes, please choose the response that best describes how you plan to invest in that asset class for your clients in the next six months. (Base = All respondents: Jan '10 = 1144; July '10 = 1199)

# Advisors' investment in cash remains lower than 2008

## LIKELY TO INVEST MORE IN CASH

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: July '10 = 1199)

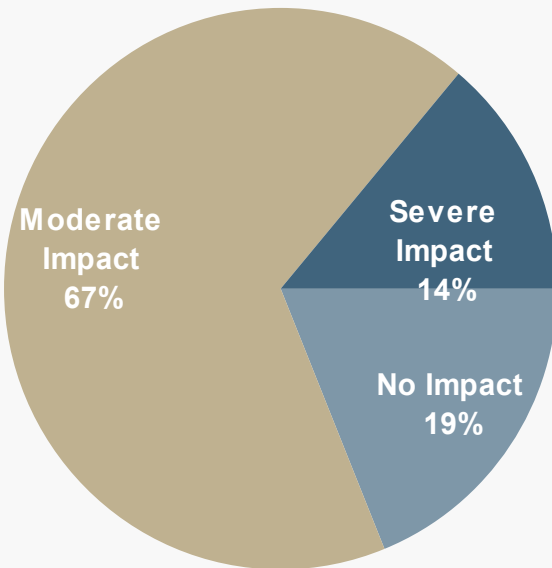
# Global events have impacted advisors' investment decisions

## IMPACT OF WORLD EVENTS ON INVESTMENT DECISIONS—JULY '10

All Respondents

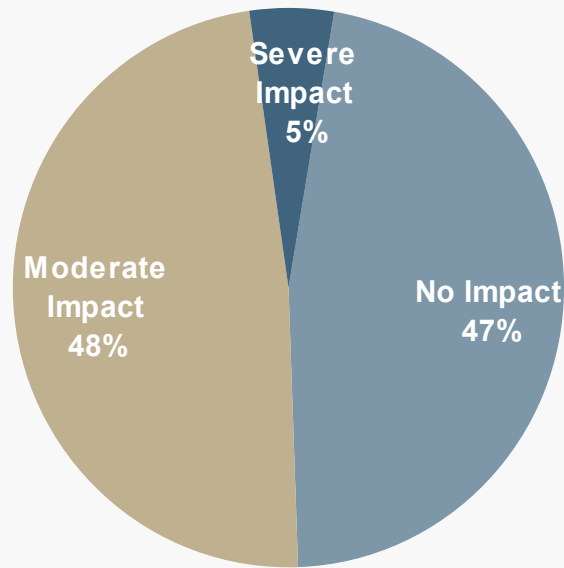
### The European Debt Crisis

*Some impact = 81%*



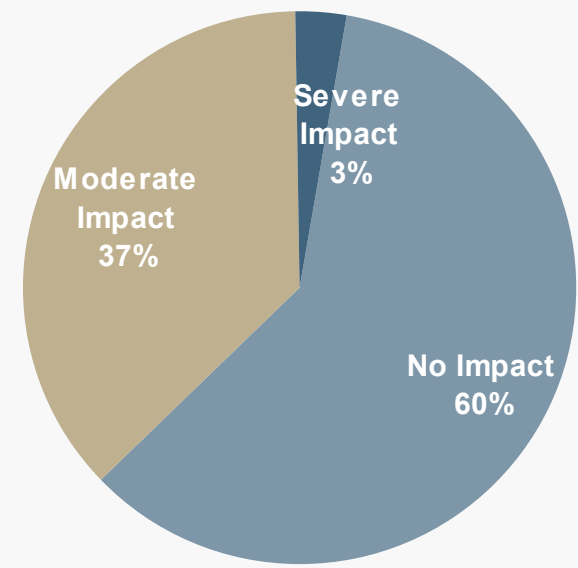
### Declines in the Chinese Market

*Some impact = 53%*



### The Gulf Oil Spill

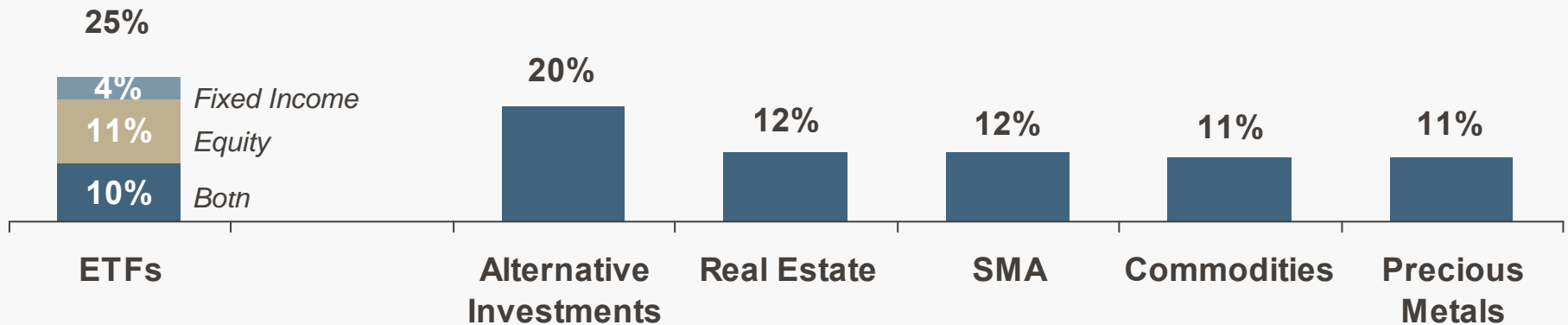
*Some impact = 40%*



# One in four advisors is likely to invest more in ETFs

## TOP INVESTMENT VEHICLES LIKELY TO INVEST MORE—JULY '10

All Respondents



See appendix for other investment vehicles asked this wave.

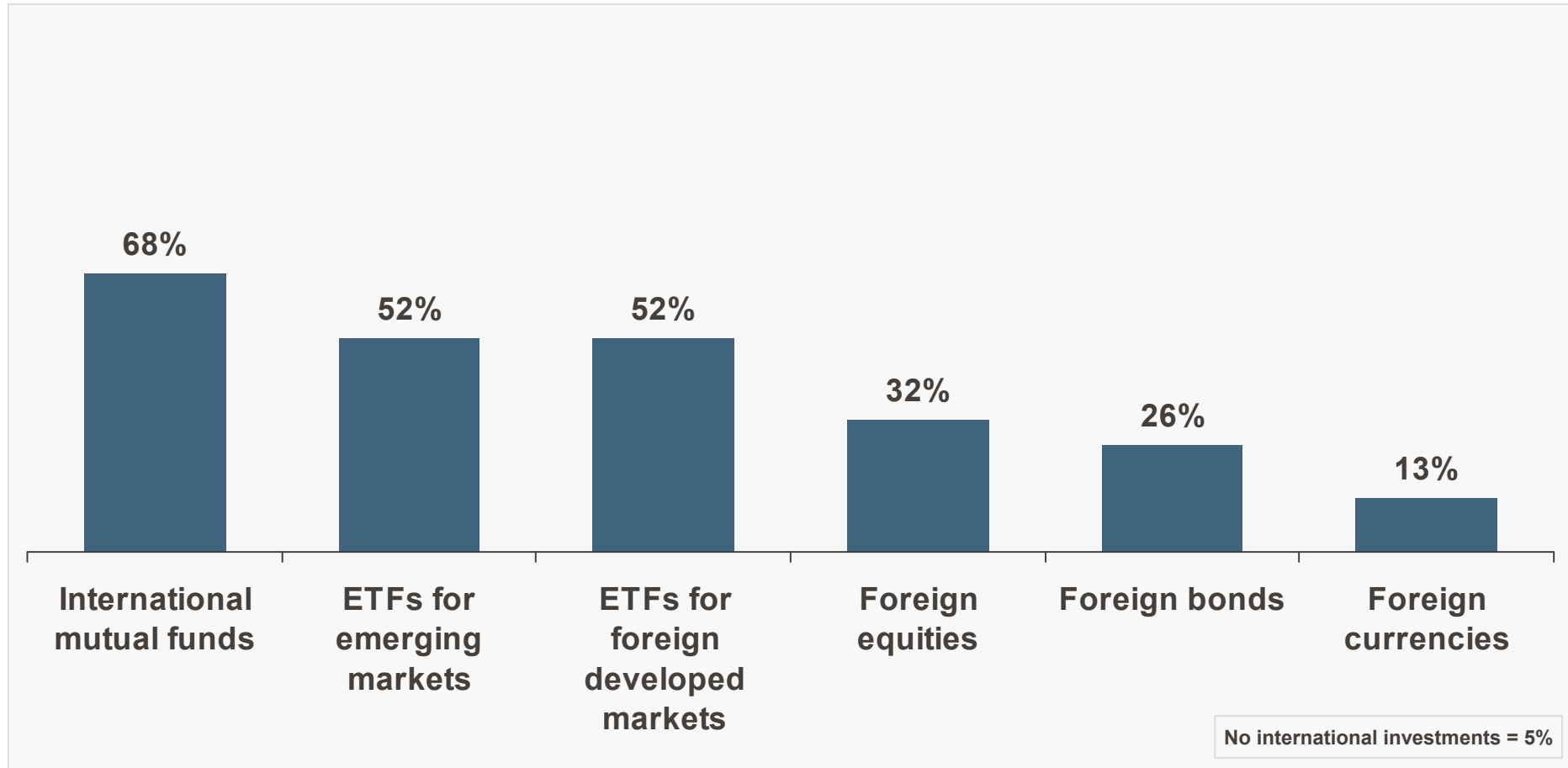
Source: Q9: For each of the following investment vehicles, please choose the response that best describes how you invest for your clients now and what your plans are for the next six months. (Base = All respondents; July '10 = 1199)

charles SCHWAB

# Advisors say they use mutual funds and ETFs for international diversification

## INVESTMENTS USED FOR INTERNATIONAL DIVERSIFICATION—JULY '10

All Respondents



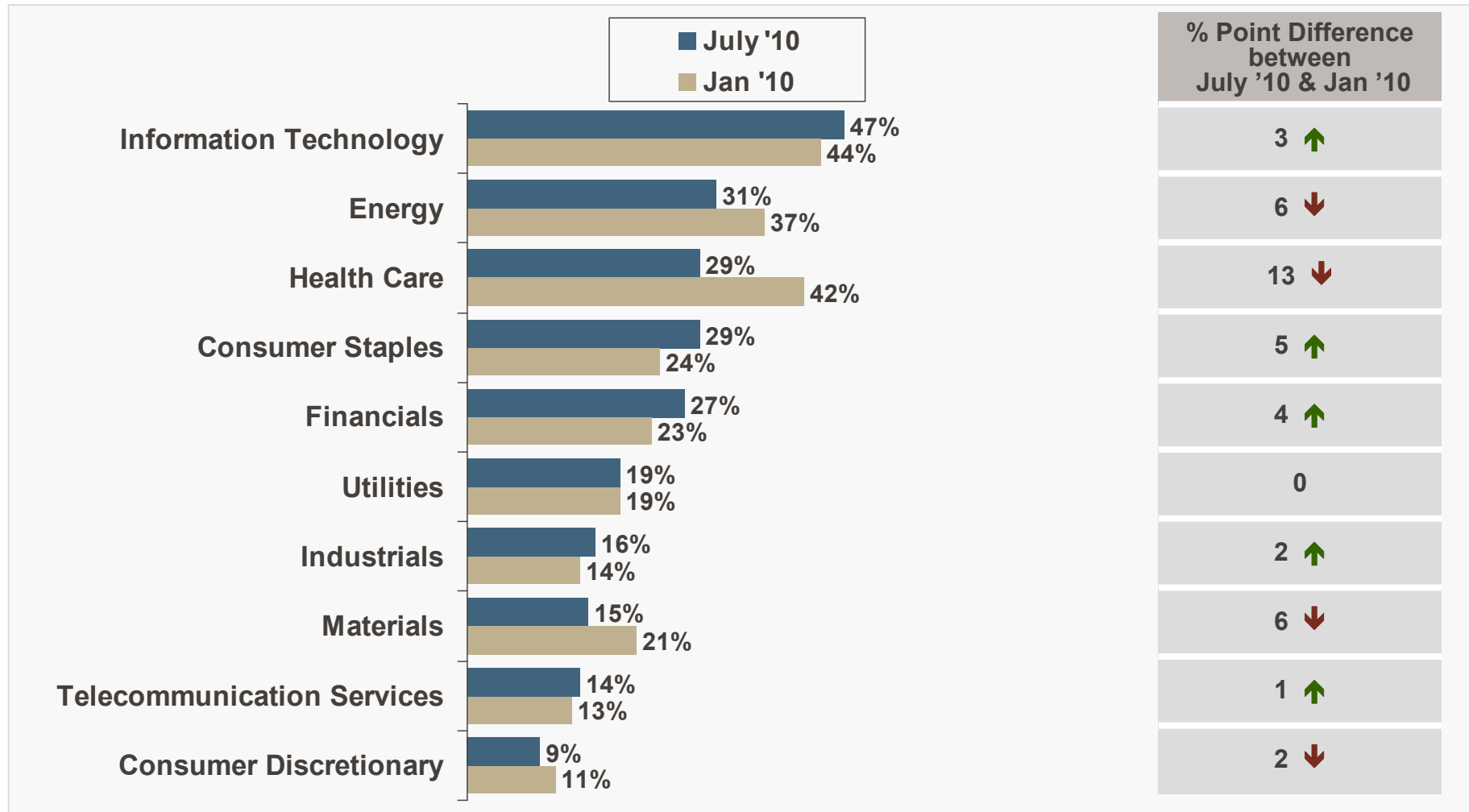
Source: Q11D: Which of the following, if any, do you use or are you most likely to use for international diversification? (Base = All respondents; July '10 = 1199)

*charles* SCHWAB

# IT is the top ranked sector for performance; health care and energy are down significantly

## TOP RANKED MARKET SECTORS—JAN '10 TO JULY '10

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; Jan '10 = 1144; July '10 = 1199)

*charles* SCHWAB

# Client Outlook

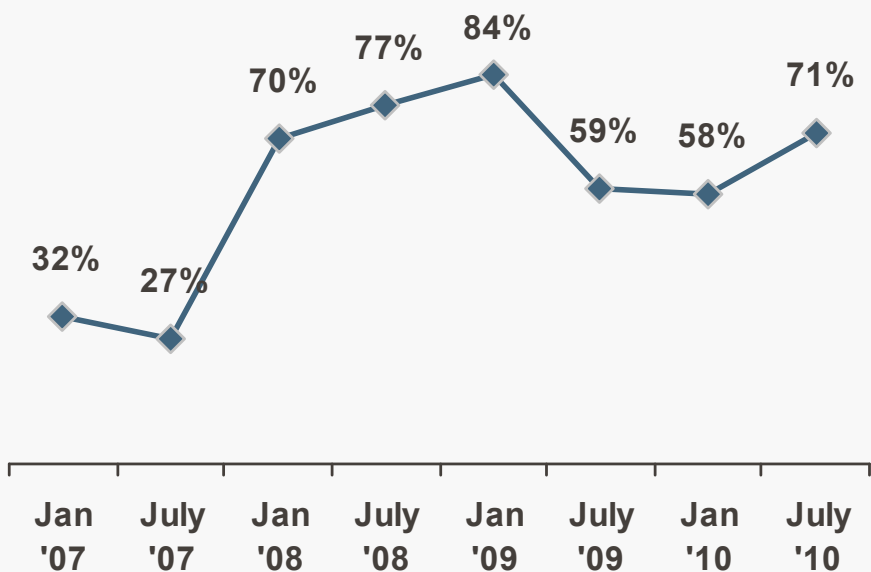
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# Advisors are now more concerned about achieving clients' investment goals...

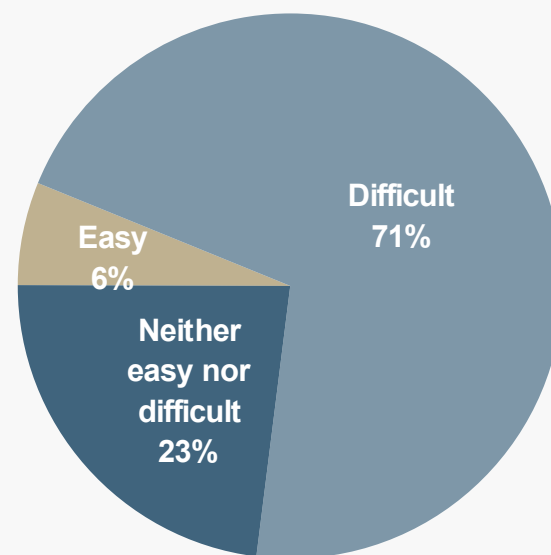
## ACHIEVING CLIENT INVESTMENT GOALS IN CURRENT MARKET

All Respondents

### "Difficult" to Achieve Client Investment Goals



### Client Investment Goals—July '10

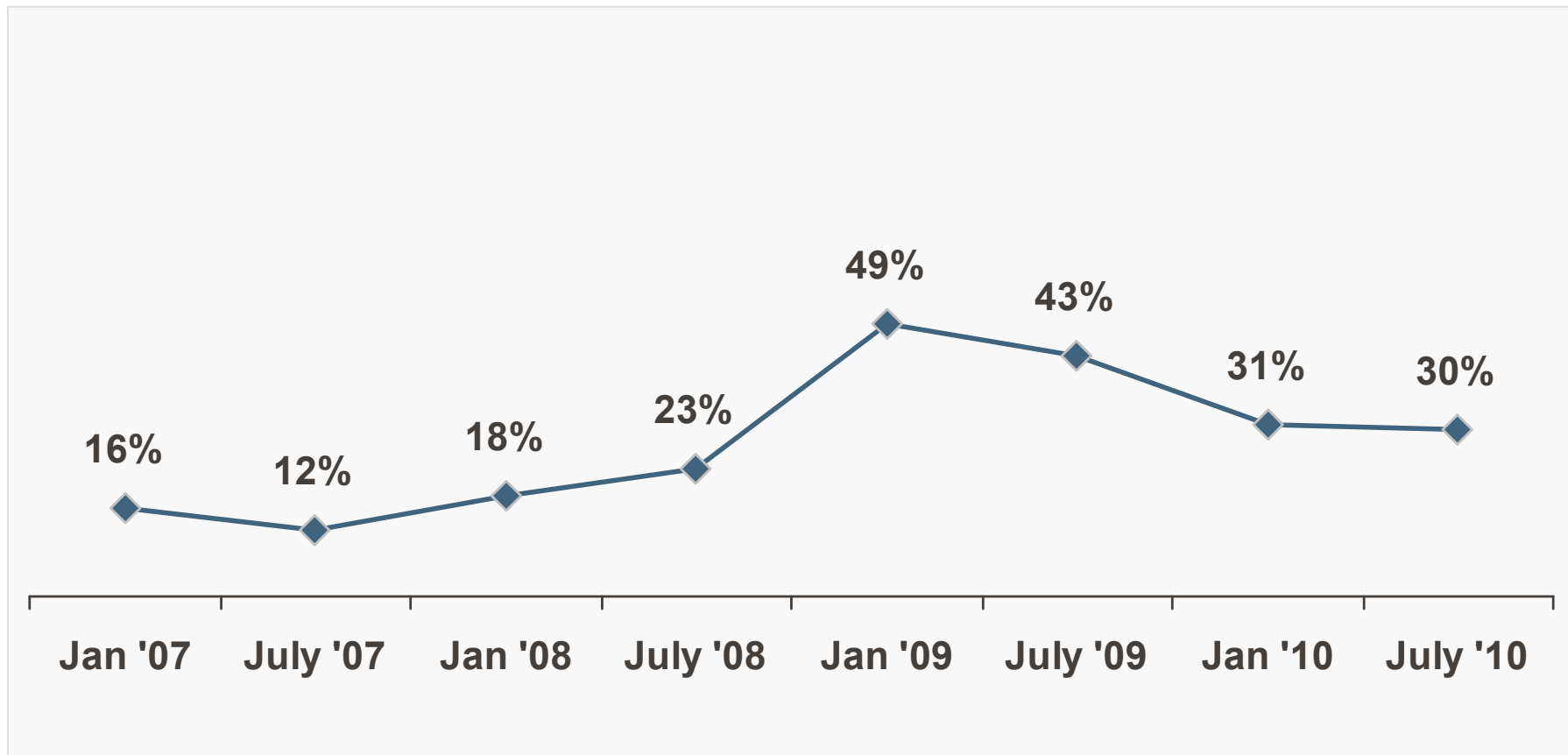


Source: Q7: Which of the following best describes how easy or difficult you think it will be to achieve your clients' investment goals in the current market environment? (Base = All respondents: Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010, Jan '09 = 1240; July '09 = 1197; Jan '10 = 1144; July '10 = 1199)

... yet their clients need less reassurance

## AVERAGE PERCENT OF ADVISORS' CLIENTS WHO NEEDED REASSURANCE

All Respondents



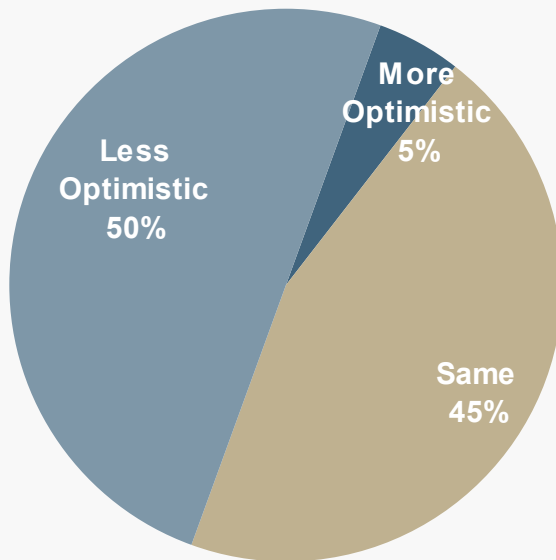
Source: Q13: In the past six months, what percent of your clients have you needed to reassure that they will achieve their investment goals? (Base = All respondents: Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1197; Jan '10 = 1144; July '10 = 1199)

# Advisors say clients' outlook has not improved much on key indicators

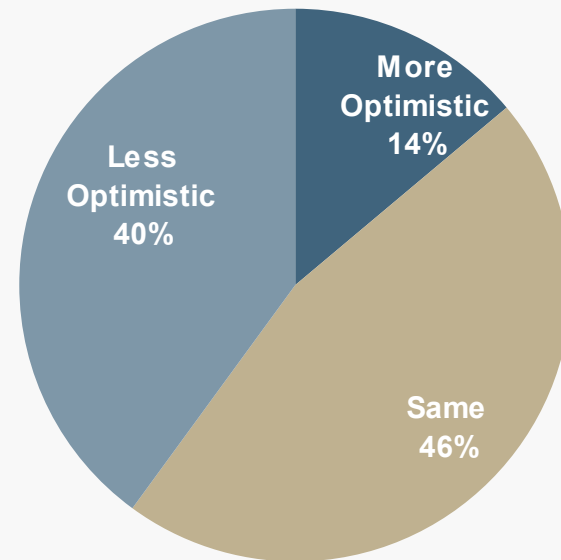
## CURRENT CLIENT OUTLOOK COMPARED TO 2009—JULY '10

All Respondents

### Ability to Retire On-time



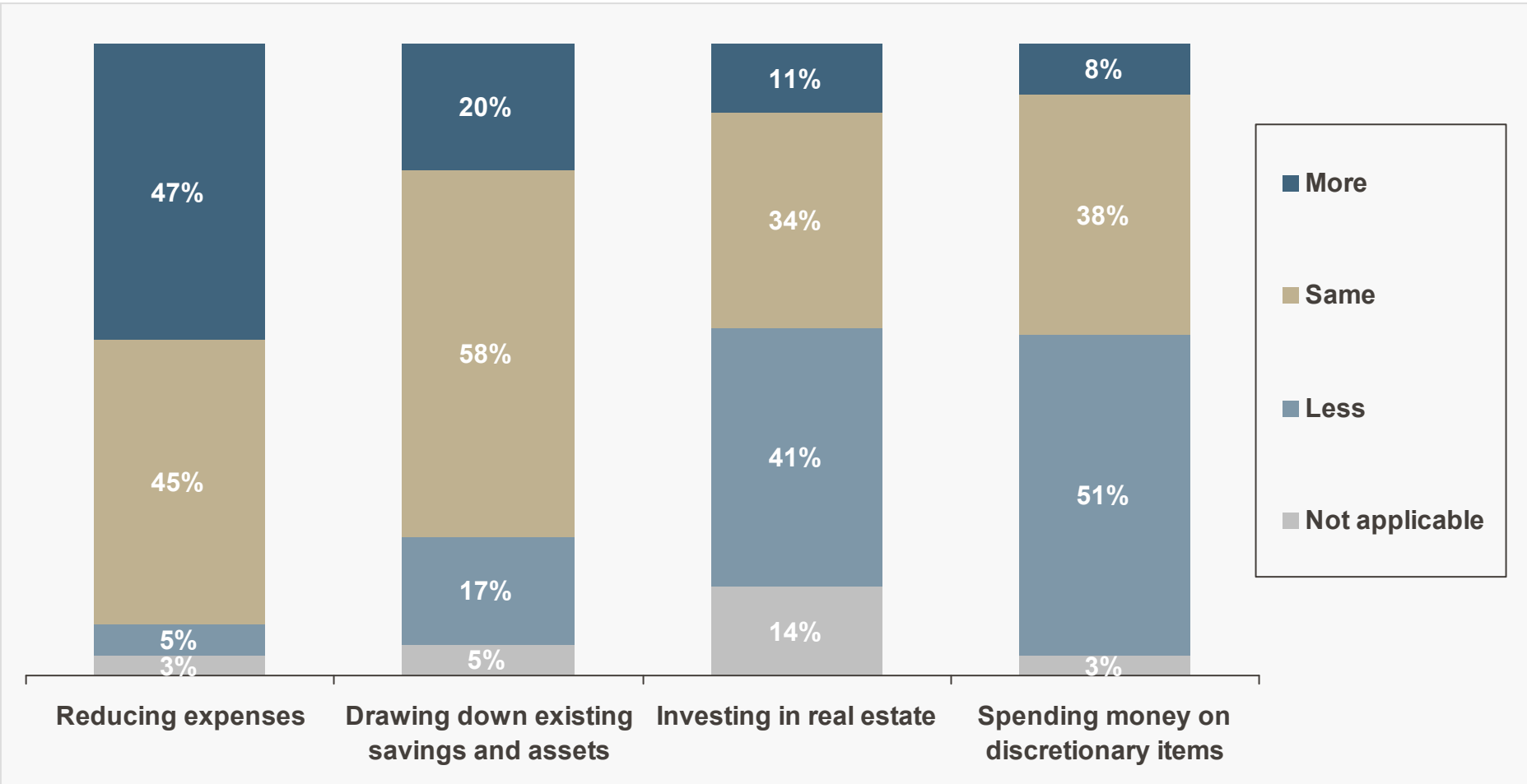
### Investment Performance



# Advisors' clients are paying closer attention to expenses

## CURRENT CLIENT ACTIVITIES COMPARED TO SIX MONTHS AGO—JULY '10

All Respondents



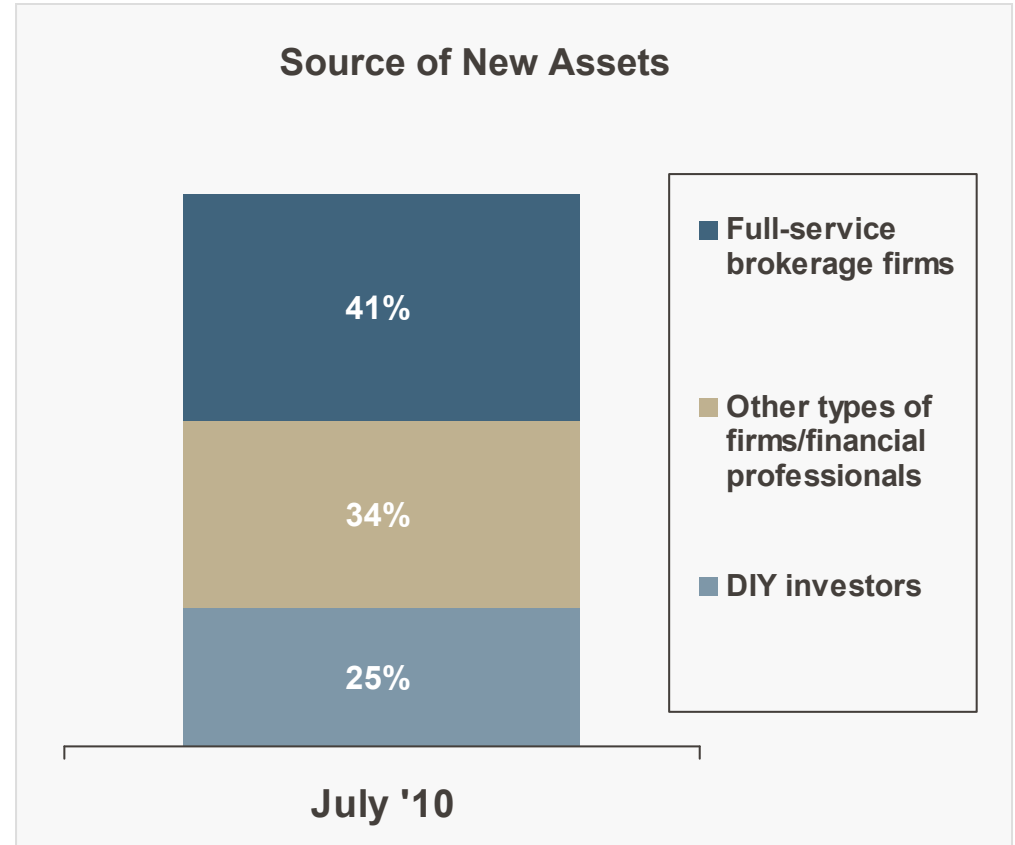
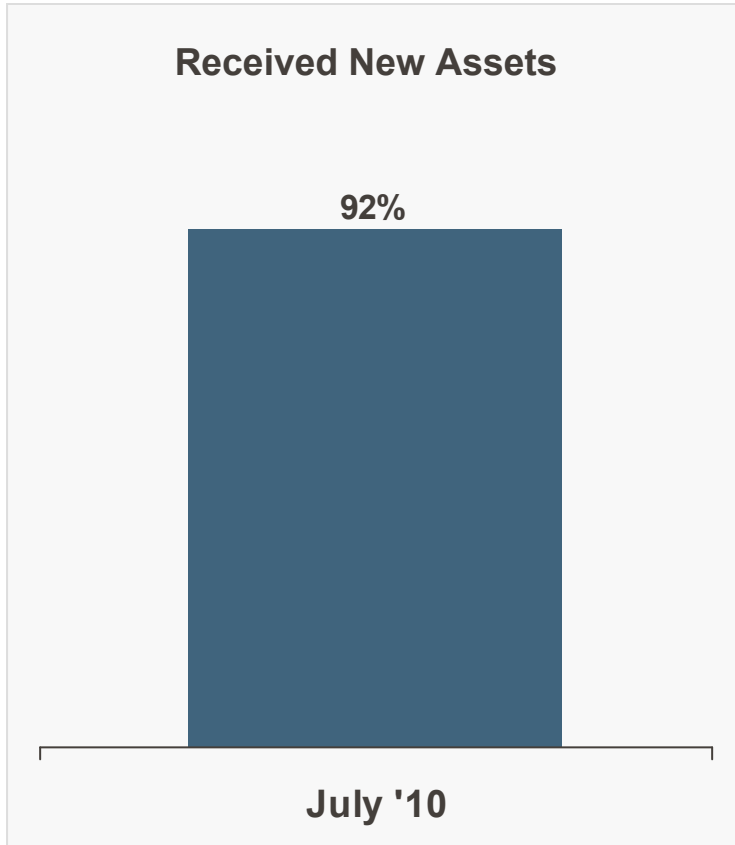
Source: Q22L: Are your clients doing more, the same, or less of the following compared to six months ago? (Base = All respondents; July '10 = 1199)

*charles* SCHWAB

# Advisors continue to acquire new assets

## NEW ASSETS DURING PAST SIX MONTHS—JULY '10

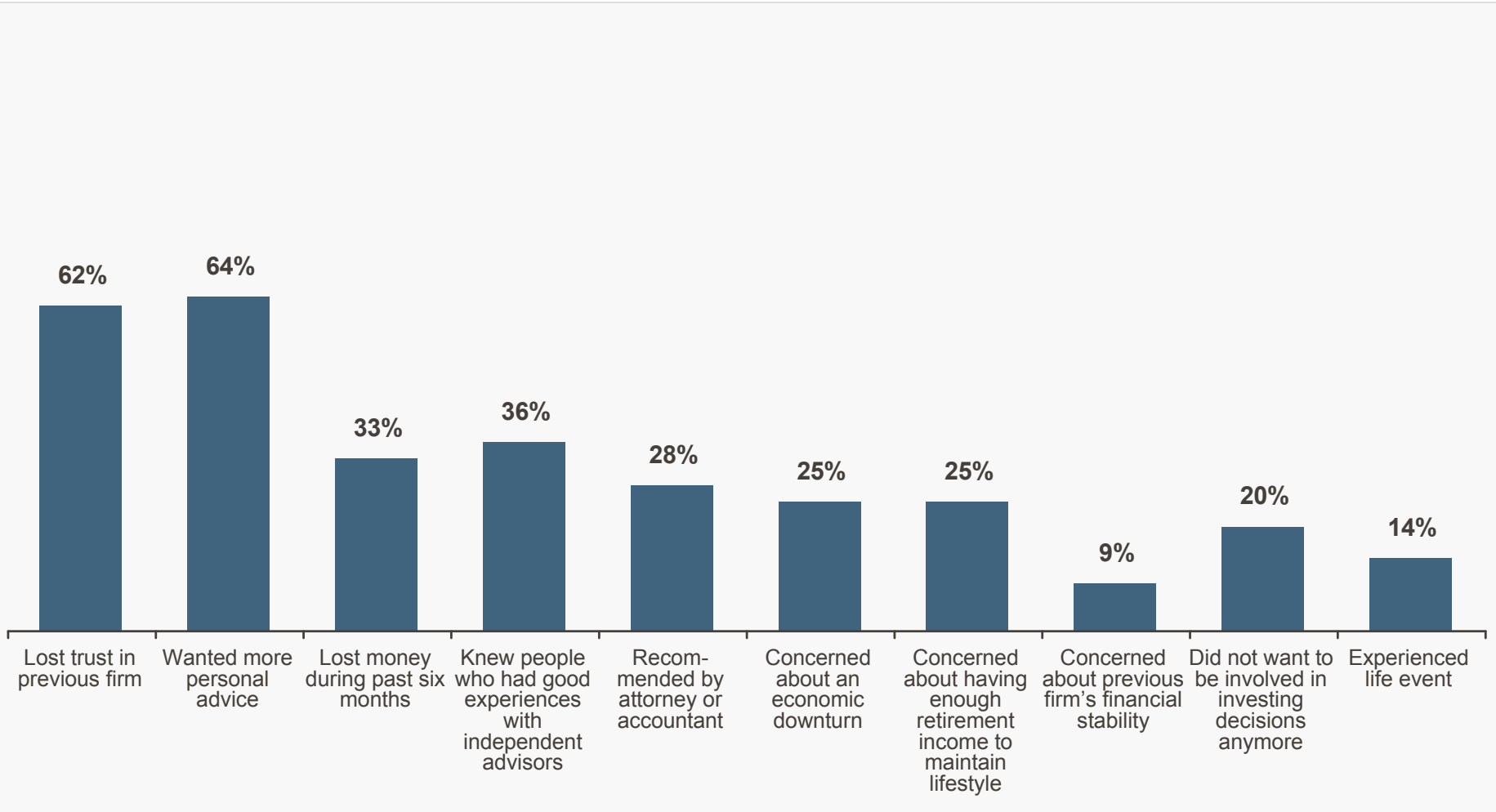
All Respondents / Those with New Assets in Past Six Months



# Advisors cite the reasons why they win new clients

## REASONS FOR LEAVING FULL-SERVICE BROKERAGE FIRMS—JULY '10

Advisors With New Clients From Full-Service Firms



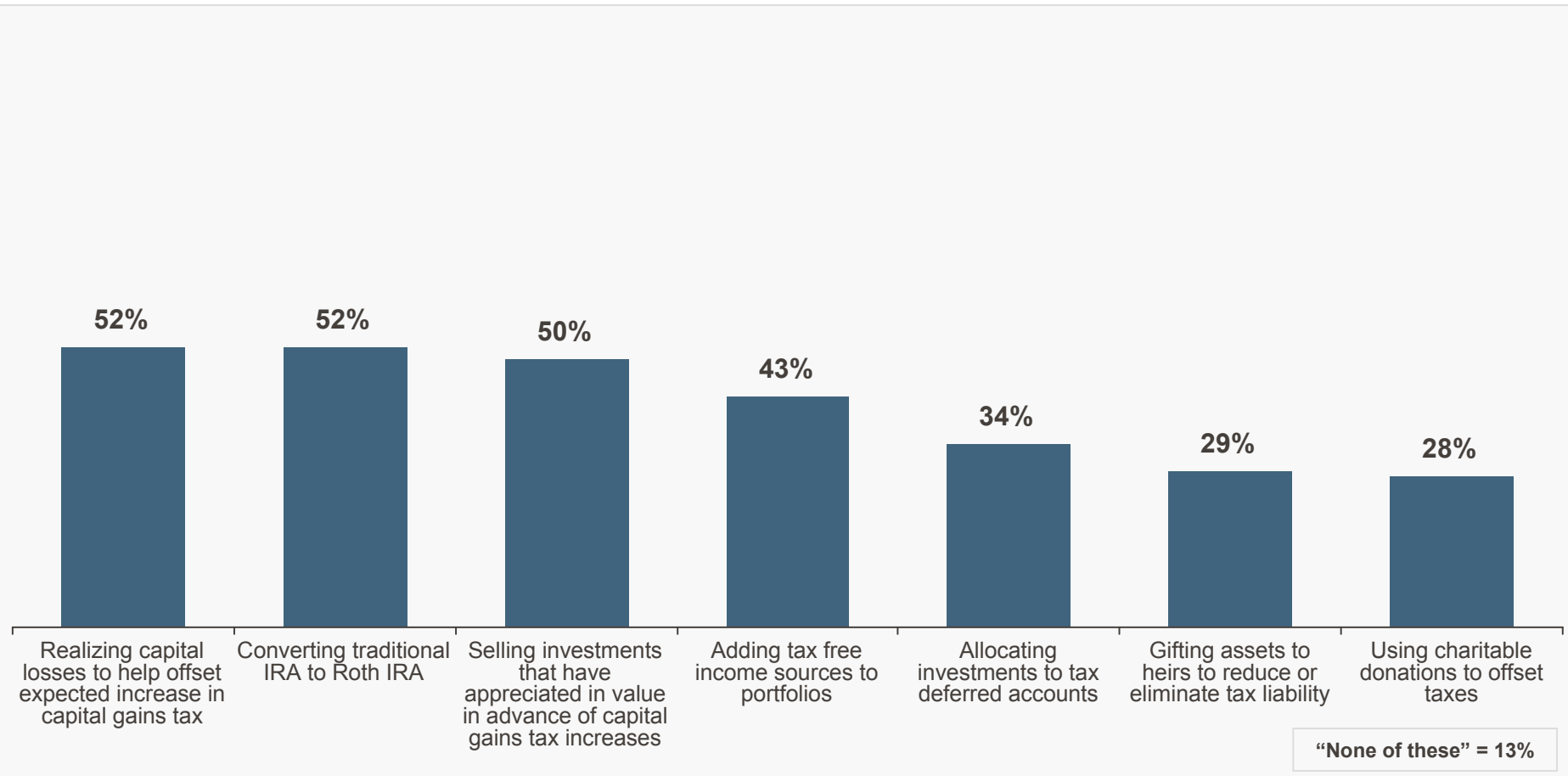
Source: Q13C.1: For which of the following reasons, if any, did your new clients from full service brokerage firms move their assets to your firm during the past six months? (Base = Have new clients from full service brokerage firms; July '10 = 962)

*charles* SCHWAB

# Advisors are taking steps now to ease 2011 tax burdens

## STEPS TO MITIGATE IMPACT OF 2011 TAX INCREASES ON CLIENTS—JULY '10

All Respondents



Source: Q22M: What steps, if any, are you taking to mitigate the potential impact of the expected tax increases for clients in 2011? (Base = All respondents; July '10 = 1199)

*charles* SCHWAB

# Social Media

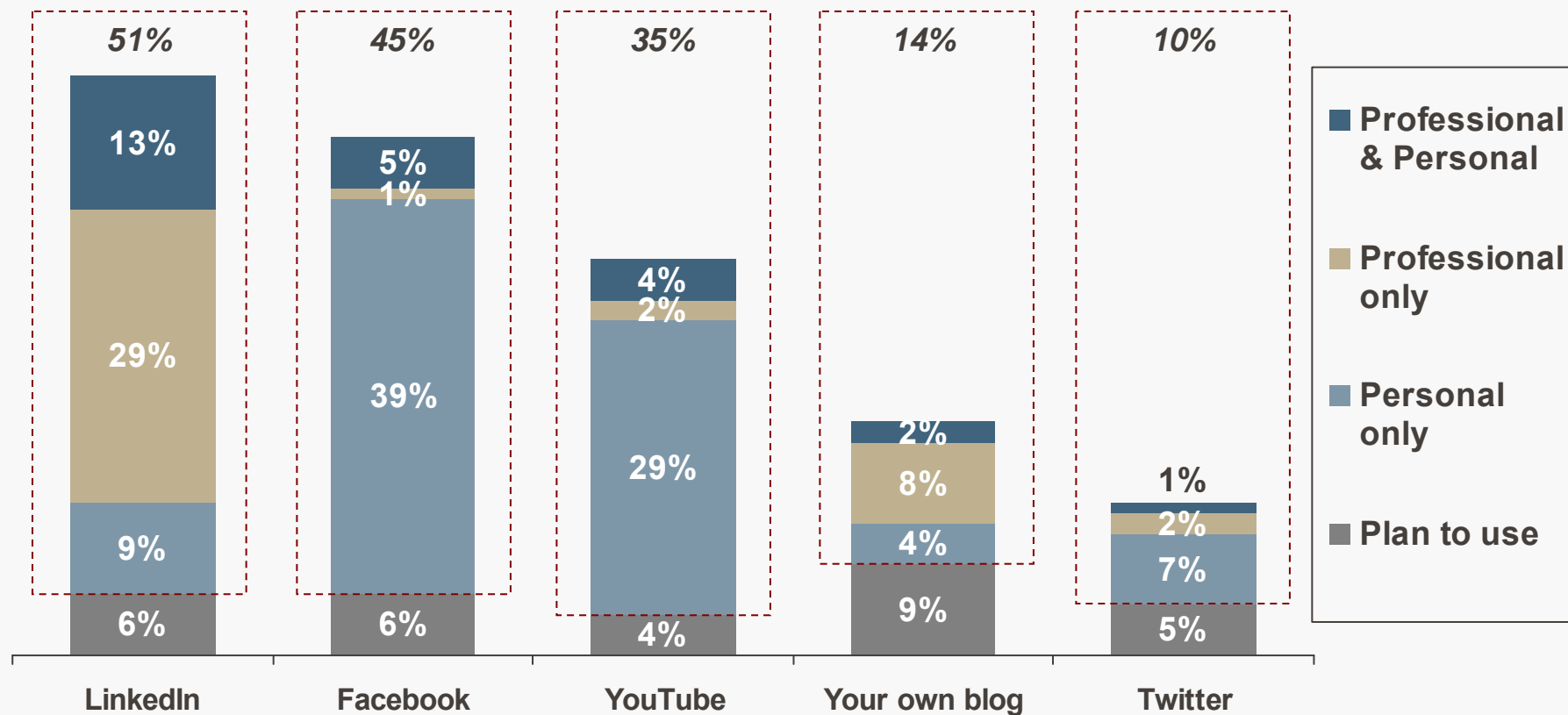
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# LinkedIn top social media channel among advisors

## USAGE OF SOCIAL MEDIA—JULY '10

All Respondents

### Total Usage:



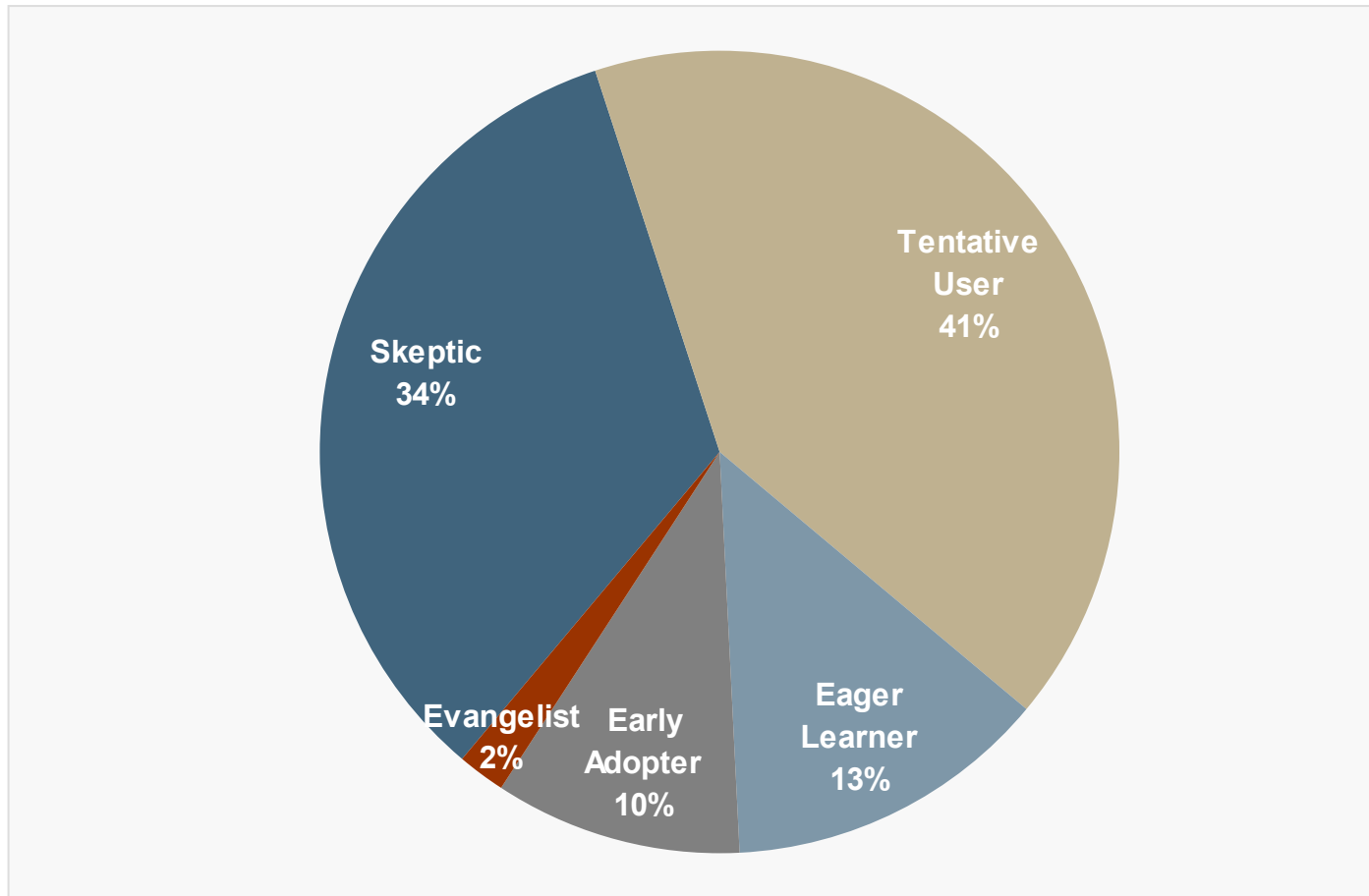
Source: Q22N: Please select the answer that best describes how you use each of the following, if at all. (Base = All respondents; July '10 = 1199)

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# Social media is new frontier for advisors

## THOUGHTS ON SOCIAL MEDIA—JULY '10

Excludes "Not Sure"



# Appendix

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# Economic Outlook at-a-Glance

All Respondents

	▲▼	JAN '07	JUL '07	JAN '08	JUL '08	JAN '09	JUL '09	JAN '10	JUL '10	JAN '07	JUL '07	JAN '08	JUL '08	JAN '09	JUL '09	JAN '10	JUL '10	JAN '07	JUL '07	JAN '08	JUL '08	JAN '09	JUL '09	JAN '10	JUL '10
<b>S&amp;P 500</b>		<b>UP—MORE/LESS THAN 10%</b>								<b>STAY THE SAME</b>								<b>DOWN—MORE/LESS THAN 10%</b>							
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%	65%	63%	10%	15%	13%	14%	19%	11%	13%	17%	12%	18%	41%	28%	28%	17%	22%	20%
<b>DOMESTIC POLITICAL LANDSCAPE</b>		<b>MUCH/SOMEWHAT MORE UNITED</b>								<b>STAY THE SAME</b>								<b>MUCH/SOMEWHAT MORE DIVIDED</b>							
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%	9%	6%	32%	27%	33%	31%	20%	26%	25%	26%	53%	66%	54%	46%	13%	66%	66%	68%
<b>GLOBAL POLITICAL LANDSCAPE</b>		<b>MUCH/SOMEWHAT MORE STABLE</b>								<b>STAY THE SAME</b>								<b>MUCH/SOMEWHAT MORE VOLATILE</b>							
Which of the following best describes your perspective on the global-political landscape during the next six months?	▲	11%	10%	14%	17%	27%	19%	10%	19%	33%	39%	49%	46%	35%	38%	42%	39%	56%	51%	37%	37%	38%	43%	48%	42%
<b>CHAIRMAN BERNANKE</b>		<b>HIGHLY/MODERATELY APPROVE</b>								<b>NO OPINION</b>								<b>HIGHLY/MODERATELY DISAPPROVE</b>							
Which of the following best describes your view of Chairman Bernanke's Federal Reserve Board leadership thus far?	◀▶	80%	80%	61%	71%	68%	79%	73%	73%	18%	18%	17%	13%	13%	9%	9%	12%	2%	2%	22%	16%	19%	12%	18%	15%
<b>ACHIEVING CLIENTS' INVESTMENT GOALS</b>		<b>EXTREMELY/SOMEWHAT EASY</b>								<b>NEITHER</b>								<b>VERY/SOMEWHAT DIFFICULT</b>							
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%	9%	6%	47%	44%	25%	18%	12%	29%	33%	23%	32%	27%	70%	77%	84%	59%	58%	71%
<b>EVENTS</b>		<b>EXTREMELY/SOMEWHAT LIKELY</b>								<b>NEITHER</b>								<b>EXTREMELY/SOMEWHAT UNLIKELY</b>							
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.																									
Consumer savings will increase	◀▶	N/A	N/A	N/A	N/A	68%	69%	59%	58%	N/A	N/A	N/A	N/A	14%	19%	22%	24%	N/A	N/A	N/A	N/A	18%	12%	19%	18%
Housing market will continue to soften	▲	71%	80%	81%	71%	69%	35%	46%	53%	15%	12%	10%	17%	18%	26%	24%	23%	14%	8%	9%	12%	13%	39%	30%	24%
Consumer spending will increase	▼	40%	35%	16%	19%	15%	43%	47%	42%	30%	28%	23%	21%	17%	22%	23%	23%	30%	37%	61%	60%	68%	35%	30%	35%
Unemployment will increase	▼	32%	35%	78%	79%	92%	81%	40%	32%	34%	35%	13%	13%	3%	10%	27%	27%	34%	30%	9%	8%	5%	9%	33%	41%
Inflation will increase	▼	45%	53%	62%	79%	30%	46%	49%	28%	30%	28%	19%	13%	18%	22%	19%	20%	25%	19%	19%	8%	52%	32%	32%	52%
Federal Reserve Board will raise rates	▼	21%	22%	6%	52%	9%	26%	39%	20%	26%	29%	4%	20%	15%	19%	18%	14%	53%	49%	90%	28%	76%	55%	43%	66%
Energy prices will go down	▲	36%	24%	42%	57%	21%	19%	17%	20%	24%	19%	17%	12%	34%	29%	25%	32%	40%	57%	41%	31%	45%	52%	58%	48%

# Key Market Sectors: By Wave

## EXPECTED TOP PERFORMING MARKET SECTORS IN THE NEXT SIX MONTHS

All Respondents

SECTOR	FIRST THREE MENTIONS							
	JAN '07	JUL '07	JAN '08	JUL '08	JAN '09	JUL '09	JAN '10	JUL '10
Information Technology	38%	34%	27%	33%	29%	48%	44%	47%
Energy	21%	44%	35%	38%	37%	35%	37%	31%
Health Care	41%	33%	46%	33%	50%	28%	42%	29%
Consumer Staples	24%	21%	35%	31%	43%	24%	24%	29%
Financials	34%	17%	24%	27%	18%	34%	23%	27%
Utilities	11%	11%	30%	23%	27%	12%	19%	19%
Industrials	14%	19%	10%	15%	14%	19%	14%	16%
Materials	10%	20%	12%	20%	16%	27%	21%	15%
Telecommunication Services	21%	17%	12%	10%	12%	11%	13%	14%
Consumer Discretionary	10%	7%	5%	9%	5%	12%	11%	9%
No View	25%	26%	21%	20%	16%	16%	17%	21%

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; Jan '10 = 1144; July '10 = 1199)

*charles* SCHWAB

# Asset Classes: By Wave

## 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	JUL '07	JAN '08	JUL '08	JAN '09	JUL '09	JAN '10	JUL '10	JAN '07	JUL '07	JAN '08	JUL '08	JAN '09	JUL '09	JAN '10	JUL '10	JAN '07	JUL '07	JAN '08	JUL '08	JAN '09	JUL '09	JAN '10	JUL '10	JAN '07	JUL '07	JAN '08	JUL '08	JAN '09	JUL '09	JAN '10	JUL '10
International Large Cap Equities in Emerging Markets	18%	19%	20%	20%	14%	37%	33%	28%	60%	63%	58%	61%	50%	49%	51%	56%	18%	15%	18%	15%	25%	10%	13%	13%	5%	3%	4%	3%	11%	4%	3%	3%
U.S. Large Cap Equities	39%	32%	34%	30%	38%	30%	26%	27%	54%	58%	52%	56%	48%	57%	59%	59%	7%	9%	14%	13%	12%	13%	14%	13%	1%	<1%	1%	1%	1%	1%	1%	1%
International Small Cap Equities in Emerging Markets	10%	12%	11%	14%	9%	27%	24%	20%	58%	61%	55%	61%	49%	55%	55%	56%	25%	20%	25%	19%	26%	13%	17%	17%	7%	6%	9%	6%	16%	5%	5%	7%
Fixed Income	16%	18%	27%	20%	42%	25%	16%	19%	68%	66%	58%	60%	45%	55%	55%	58%	15%	15%	14%	19%	12%	19%	27%	22%	1%	2%	1%	1%	1%	1%	2%	1%
U.S. Small Cap Equities	7%	7%	9%	22%	27%	31%	16%	16%	58%	59%	49%	57%	54%	56%	61%	63%	33%	32%	38%	19%	16%	11%	21%	19%	2%	2%	4%	2%	3%	2%	2%	2%
International Large Cap Equities in Developed Markets	31%	29%	29%	21%	17%	26%	28%	15%	62%	64%	59%	66%	55%	60%	61%	63%	6%	6%	11%	12%	23%	12%	9%	19%	1%	1%	1%	1%	4%	2%	2%	3%
Cash	11%	16%	28%	22%	20%	8%	10%	14%	68%	69%	55%	54%	46%	41%	52%	56%	19%	13%	16%	23%	32%	48%	35%	28%	2%	1%	1%	1%	2%	3%	3%	2%
International Small Cap Equities in Developed Markets	16%	16%	12%	14%	12%	20%	19%	10%	64%	66%	58%	65%	52%	61%	63%	63%	17%	16%	25%	18%	26%	16%	14%	21%	3%	2%	4%	3%	10%	4%	4%	6%

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; Jan '10 = 1144; July '10 = 1199)

# Plans for Investing per Investment Vehicle: By Wave

## PLANS FOR INVESTING DURING THE NEXT SIX MONTHS: INVESTMENT VEHICLES—JULY '10

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
Equity ETFs***	75%	21%	48%	5%	1%	3%	22%
High-Yield Bonds	68%	9%	40%	15%	4%	2%	30%
Real Estate	62%	12%	40%	8%	2%	5%	33%
Commodities	61%	11%	43%	6%	1%	3%	36%
Fixed Income ETFs***	58%	14%	36%	7%	1%	4%	38%
Precious Metals**	57%	11%	37%	8%	1%	3%	40%
Alternative Investments***	53%	20%	27%	4%	2%	4%	43%
SMA	48%	12%	30%	4%	2%	1%	51%
Foreign Currency/Foreign Currency Money Market Funds	34%	6%	22%	4%	2%	3%	63%
Donor-advised Funds	32%	4%	23%	3%	2%	2%	66%
Options	31%	6%	19%	4%	2%	3%	66%
Mutual Fund Wrap Products	31%	5%	20%	4%	2%	1%	68%
ETF Wrap Products*	25%	3%	17%	3%	2%	1%	74%

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 '10 = 1199)

\*New to Jan '09.

\*\*New to July '09.

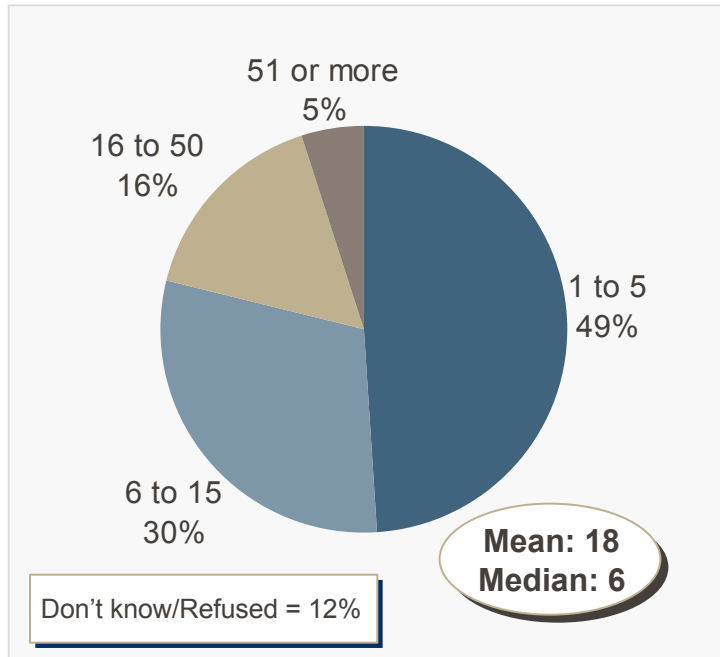
\*\*\*New to July '10.

*charles* SCHWAB

# Firmographics

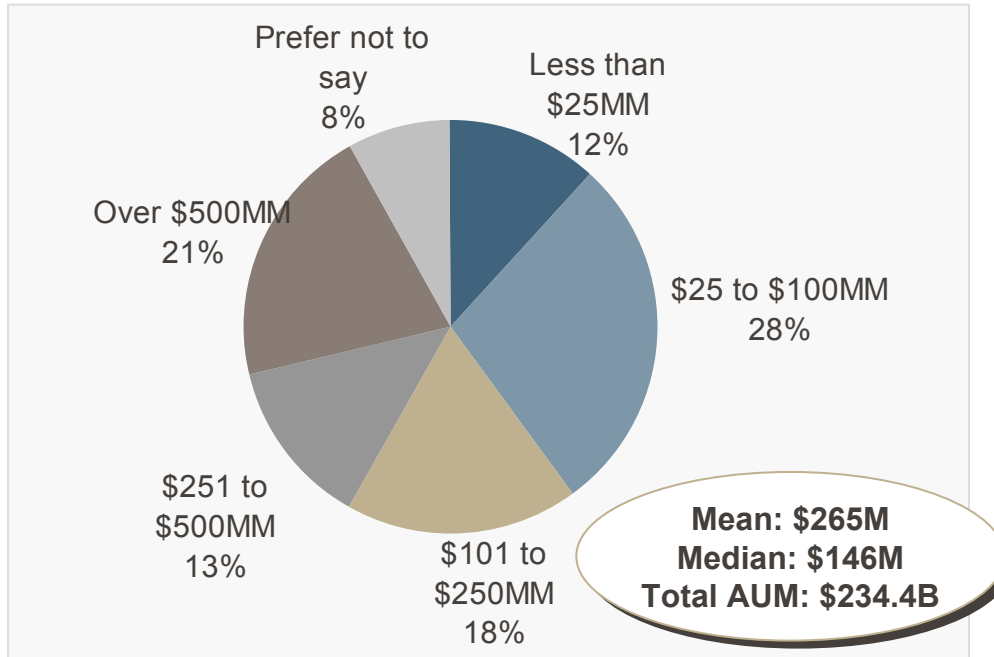
## NUMBER OF EMPLOYEES AT FIRM—JULY '10

Firm Level



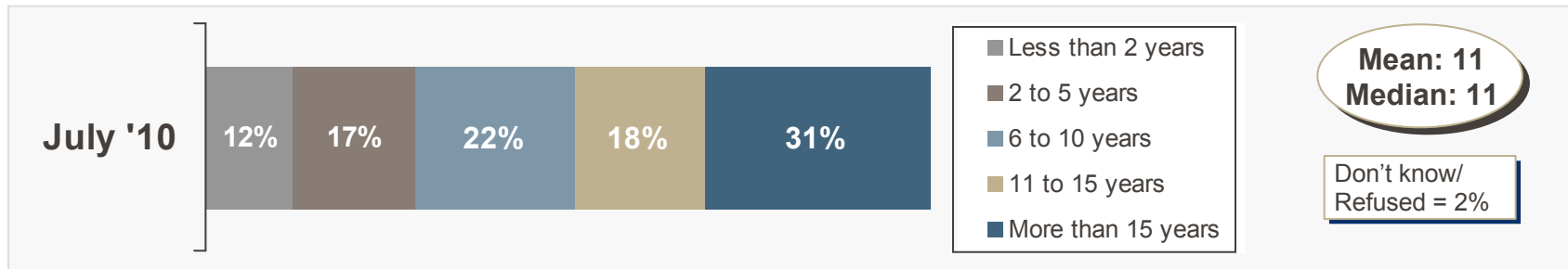
## ASSETS UNDER MANAGEMENT (AUM) AT FIRM—JULY '10

Firm Level



## NUMBER OF YEARS WORKED FOR INDEPENDENT ADVISORY FIRM—JULY '10

Advisors Responding

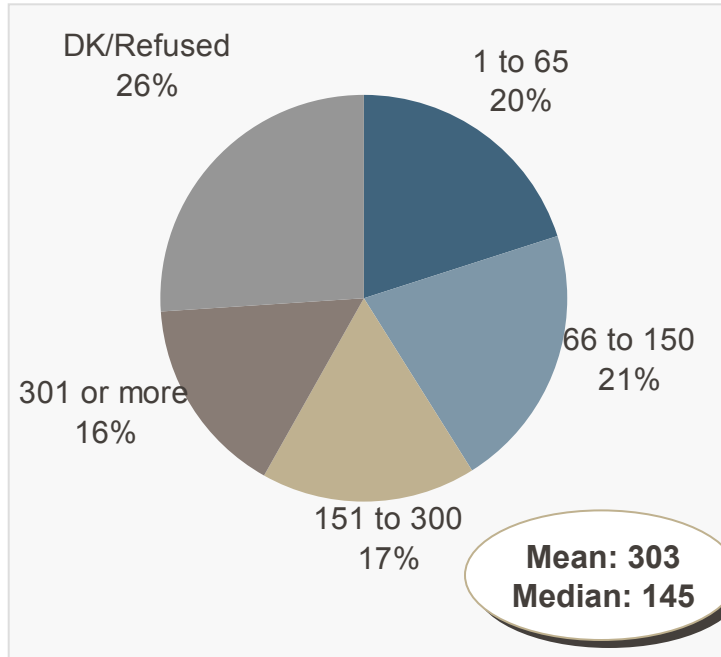


Source: Q23: How many employees, including yourself, are at your firm? (Base = Firm level; July '10 = 974); Q24: How long have you worked for an independent investment advisory firm? Please include the time at your current firm, as well as any time with other investment advisory firms (Base = Advisors responding; July '10 = 1194); 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 '10 = 965)

# Firmographics

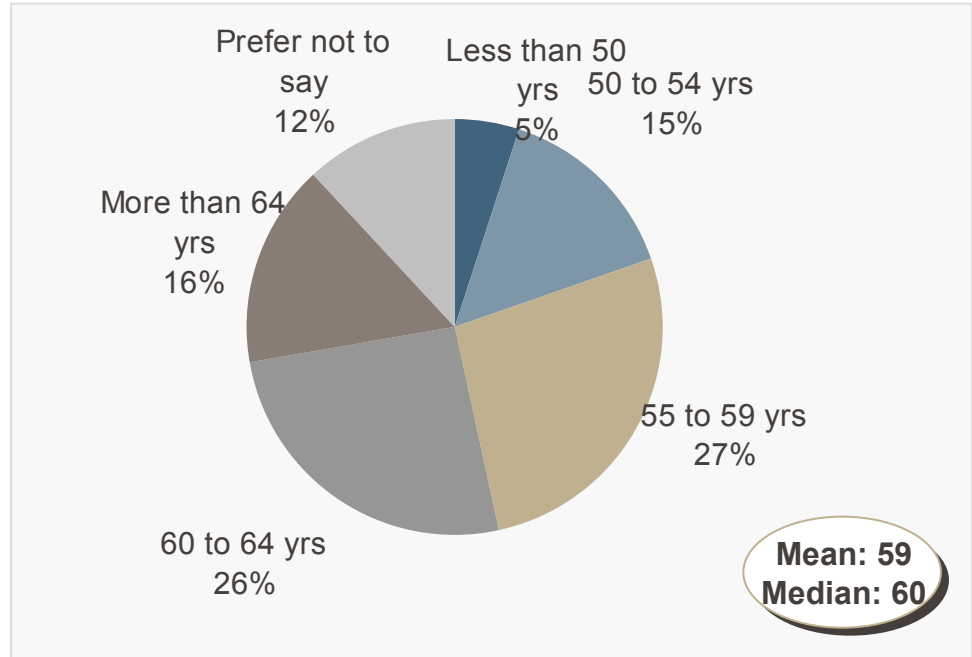
## AVERAGE NUMBER OF EMPLOYEES PER FIRM—JULY '10

Firm Level



## AVERAGE CLIENT AGE BY RANGE—JULY '10

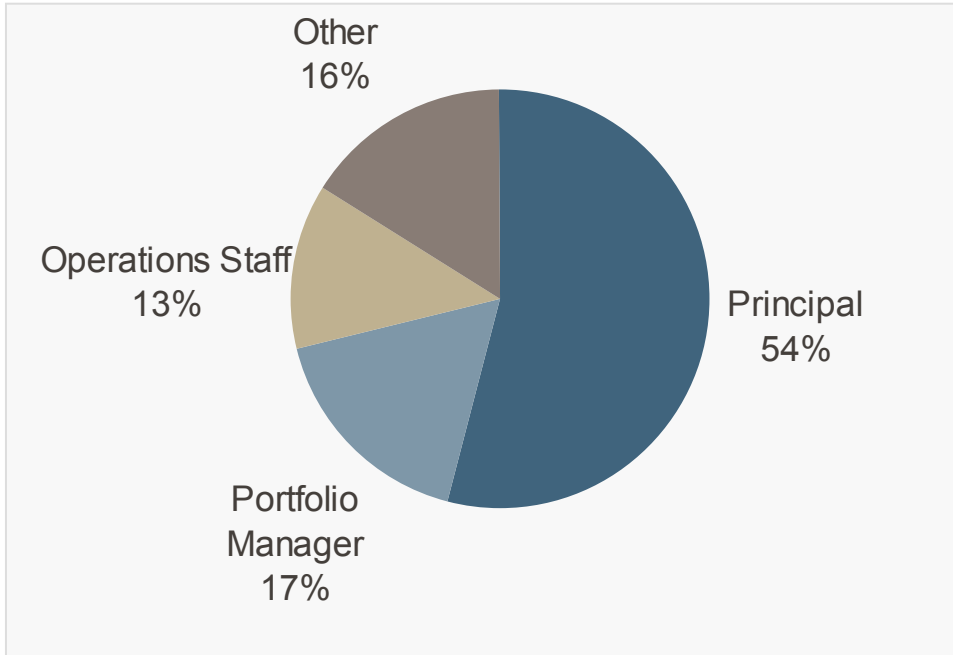
Advisors Responding



# Firmographics

## PRIMARY ROLE AT FIRM—JULY '10

Advisors Responding



## GENDER—JULY '10

Advisors Responding

