

News Release

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INDEPENDENT INVESTMENT ADVISORS SAY FRUGAL IS THE NEW NORMAL FOR AFFLUENT AMERICANS, ACCORDING TO SCHWAB STUDY

SAN FRANCISCO, March 2, 2010 – Independent investment advisors see a renewed emphasis on personal financial discipline emerging as the silver lining of the worst stock market downturn since the 1930s, according to Charles Schwab's most recent survey of independent registered investment advisors.

Charles Schwab is a leading provider of custodial, operational and trading support for approximately 6,000 independent registered investment advisors (RIAs). The semi-annual Independent Advisor Outlook Study ("study") measures the views of independent RIAs on a variety of topics. More than 1,100 independent investment advisors with more than \$252 billion in total assets under management participated in the study between January 19 and January 29, 2010.

Thirty-two percent of advisors who participated in Schwab's latest study cite "frugal spending habits" as the new consumer behavior that will have the greatest staying power, followed by a "focus on saving money" (26%). In fact, 59 percent of advisors surveyed expect consumer savings to increase during the next six months. Nearly two-thirds of advisors (62%) say that their own clients have been more focused on paying off debt in the current market environment. However, advisors clearly feel that consumers should do even more: the majority of advisors (55%) recommend that American consumers save at least nine percent of their personal income, which is well above the current national savings rate of 4.8 percent¹.

"Advisors tell us that the pain of the last 18 months may have been the catalyst for some positive behavioral changes regarding saving and personal financial responsibility," said Bernie Clark, senior vice president and head of Charles Schwab Advisor Services™. "But the recent downturn also made many people realize that they need help and guidance, and advisors can play an important role in helping people achieve their long-term goals."

Increased Confidence among Advisors and Clients

While recognizing that there is still hard work ahead, advisors feel more confident about achieving their clients' investment goals. Today, 57 percent of advisors say that achieving client goals will be "very or somewhat difficult," compared to 84 percent who felt that way a year ago. Investment advisors also believe that their clients need less reassurance now, saying that one-third (31%) needed reassurance during the last six months, compared to 49 percent in January 2009. However, clients are still hungry for more services and are asking for more support on basics such as financial planning (56%), tax planning and accounting services (38%), and general education on investments and finance (38%).

"We know from this study that advisors have spent considerable time over the past year communicating with their clients," said Clark. "But while many advisors that we work with say that they are in more of a 'back to business' mode, there is clearly a continuing need for advisors to play a role as educators for their clients."

¹ Source: Bureau of Economic Analysis, personal savings rate as a percentage of disposable personal income in December 2009.

New Client Perspective

The study also finds that consumers are continuing to turn to independent RIAs. More than 90 percent (92%) of advisors report that they won new clients in the last six months and that 46 percent of these new clients were previously served by full-service wirehouse advisors. And their independent status appears to be a key driver: 86 percent of advisors surveyed say being independent gives them an edge over full-service wirehouse advisors. Eighty-three percent say their role as a fiduciary helps them win new business. Sixty five percent of advisors state that one of the reasons they feel they won new business was that the clients had lost trust in the previous firm. Almost 60 percent of advisors say that a desire for more personal advice was another reason they won new clients.

Economic and Market Outlook

Advisors have a generally more optimistic view on the stock market and economy than they did last year. Sixty-five percent of advisors believe the S&P 500 Index² will rise in the next six months, and considerably fewer advisors believe that unemployment will continue to increase (40 percent, as compared to 81 percent in July 2009).

More advisors—though a minority at 39 percent—believe that the Federal Reserve Board will raise interest rates in the next six months. Nearly half of advisors (46%) believe that the housing market will continue to soften.

Federal Reserve Chairman Ben Bernanke continued to enjoy a high approval ranking among independent advisors, with 73 percent of those surveyed expressing satisfaction with his leadership.

Investment Strategies, Vehicles and Sectors; ETFs Play a Critical Role

Following a trend first seen in the July 2009 survey, advisors are continuing to gravitate toward large-cap equities – particularly international large-cap— and signaling moves away from fixed income and cash. One-third (33%) say they plan to invest more in emerging market large-cap stocks, while another 28 percent say they intend to invest more in large-cap stocks from developed markets. Just over one-quarter of advisors surveyed (26%) expect to increase their investments in U.S. large-cap stocks.

More than one-third of advisors (35%) expect to invest less in cash, and only 10 percent plan to invest more, compared to a high of 28 percent in January 2008. Only 16 percent plan to invest more in fixed income, compared to a high of 42 percent in January 2009.

ETFs remain the preferred investment vehicles for advisors surveyed, with 36 percent planning to invest more in ETFs during the next six months. To achieve additional ETF allocations, advisors say they will pull mostly from cash (37%) and mutual funds (33%). After ETFs, commodities ranked second in popularity (18%), followed by mutual funds with hedging strategies (17%), precious metals (14%), REITs (13%), real estate (11%) and separately managed accounts (11%). Internal Schwab data indicates that more than 70 percent of advisors who custody assets with Schwab are using ETFs.

Clark noted the recent launch of proprietary Schwab ETFs, which have some of the lowest operating expense ratios on the market and can be bought and sold without commissions in Schwab accounts if purchased online. "Advisors have told us loud and clear that ETFs are central to the investment strategies they put into place for their clients," remarked Clark. "Schwab is the place for ETFs, and we are focused on making these investments available to advisors and investors."

As the market continues to rebound, advisors expect information technology (44%), health care (42%), energy (37%), consumer staples (24%), and financials (23%) to be the top performing sectors over the next six months.

² According to Standard & Poor's, the S&P 500 Index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities.

The Independent Advisor Outlook Study, conducted for Schwab Advisor Services by Koski Research in January 2010, has a 2.96% margin of error. Koski Research is not affiliated with nor employed by Charles Schwab & Co. Inc. ("Schwab"). Detailed findings can be found at www.aboutschwab.com/advisors.

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(0310-1449)