

Independent Advisor Outlook Study

January 2011

Wave 9

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Alternative investments involve specialized, enhanced risks and may not be suitable for every investor.

Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified professional.

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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 December 31, 2010 client assets custodied with Schwab Advisor Services stood at \$654.9 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 2.74% margin of error.
- Koski Research is neither affiliated with, nor employed by, Charles Schwab & Co., Inc.

Who

- 1,337 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 previous eight waves of the study are made.

When

- The study was conducted from January 18 through January 28, 2011.

Results

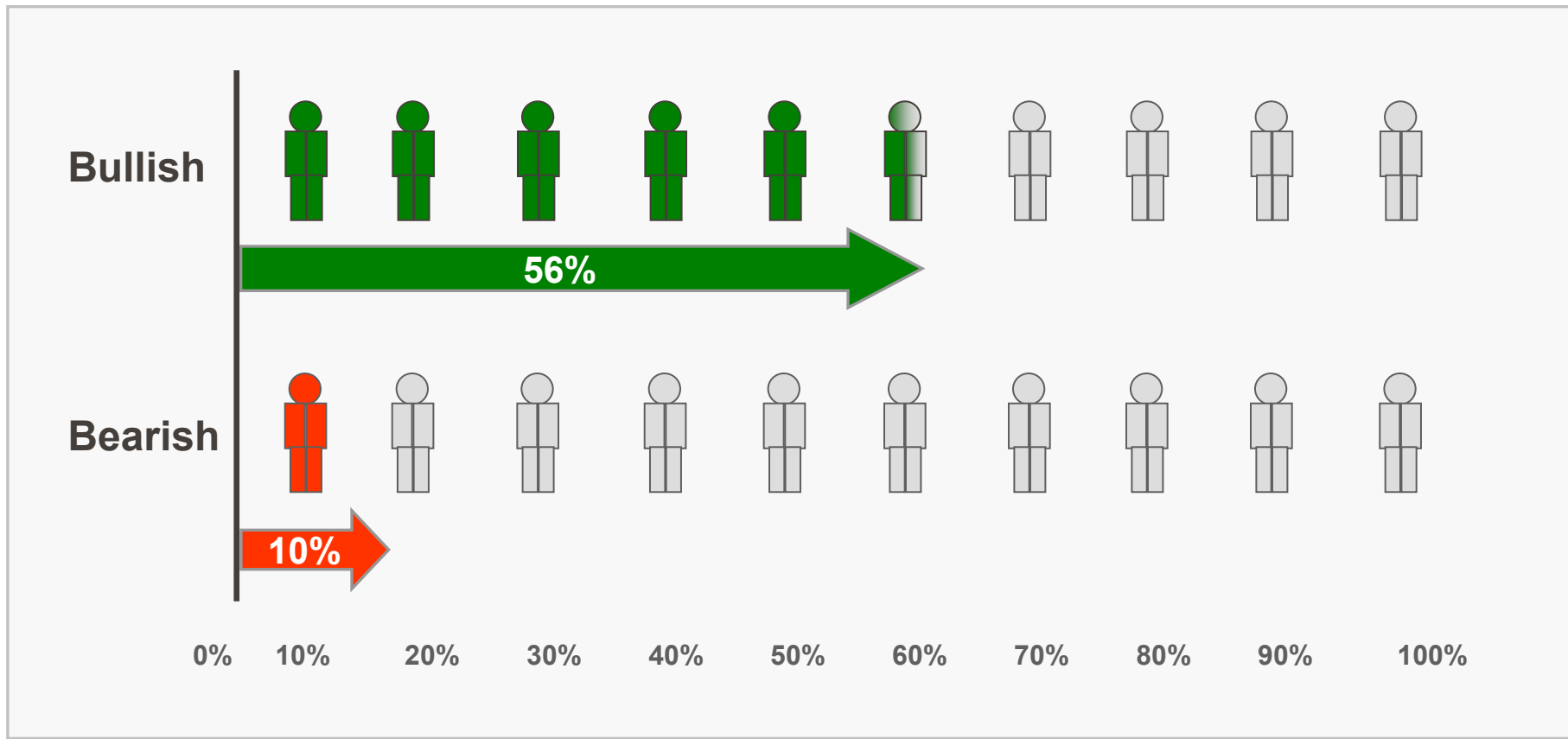
Economic Outlook

The majority of advisors are bullish about the market

STOCK MARKET'S PERFORMANCE IN NEXT SIX MONTHS: BULLISH OR BEARISH?—

NEW JAN '11

All Respondents



"Neither" = 34%

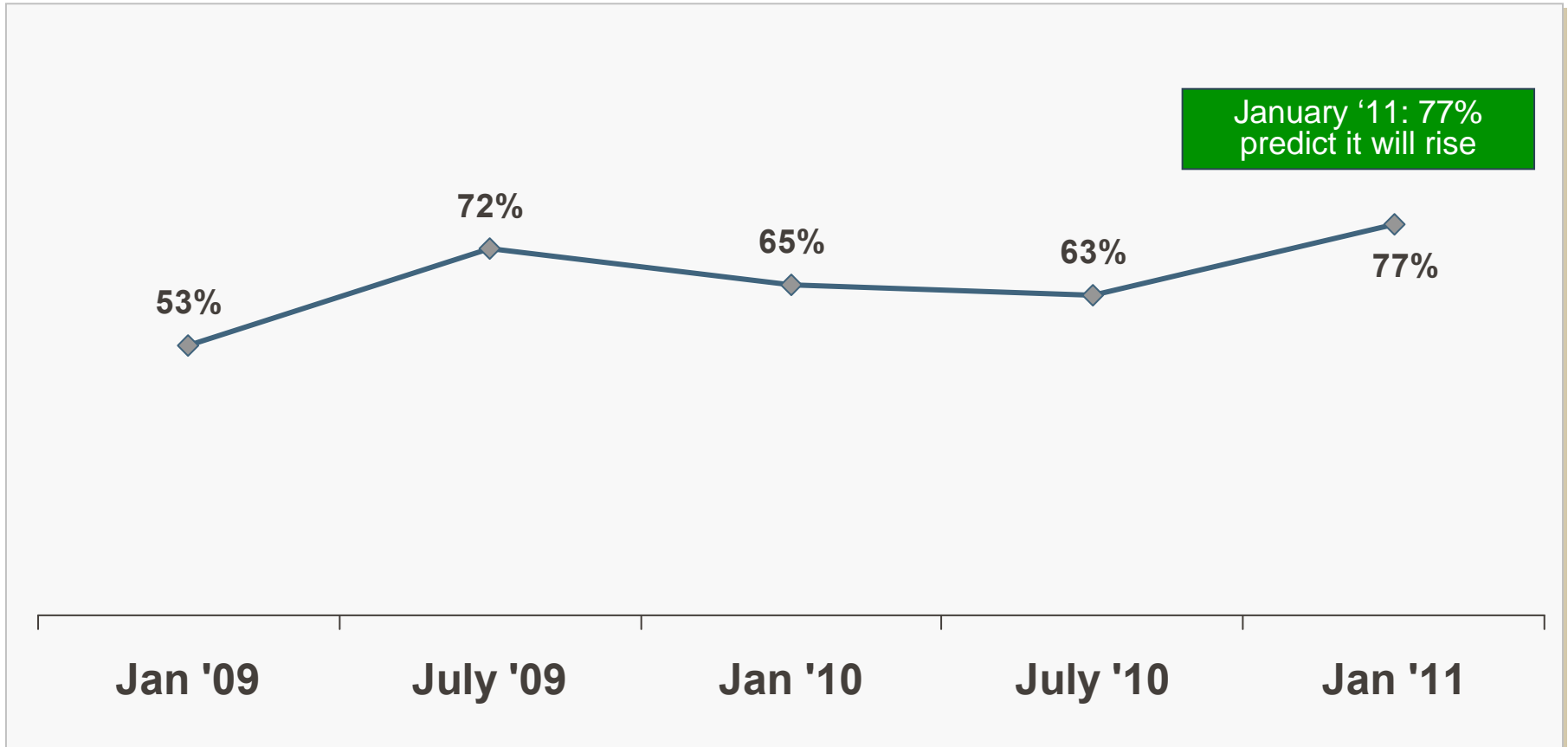
Source: Q1a: Thinking about the stock market performance in the next six months, do you consider yourself...?(Base = All Respondents; Jan '11 = 1337)

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Over three-quarters of advisors predict the S&P will rise— 22% more advisors than in July 2010

ADVISORS' PREDICTIONS S&P 500 WILL INCREASE

All Respondents



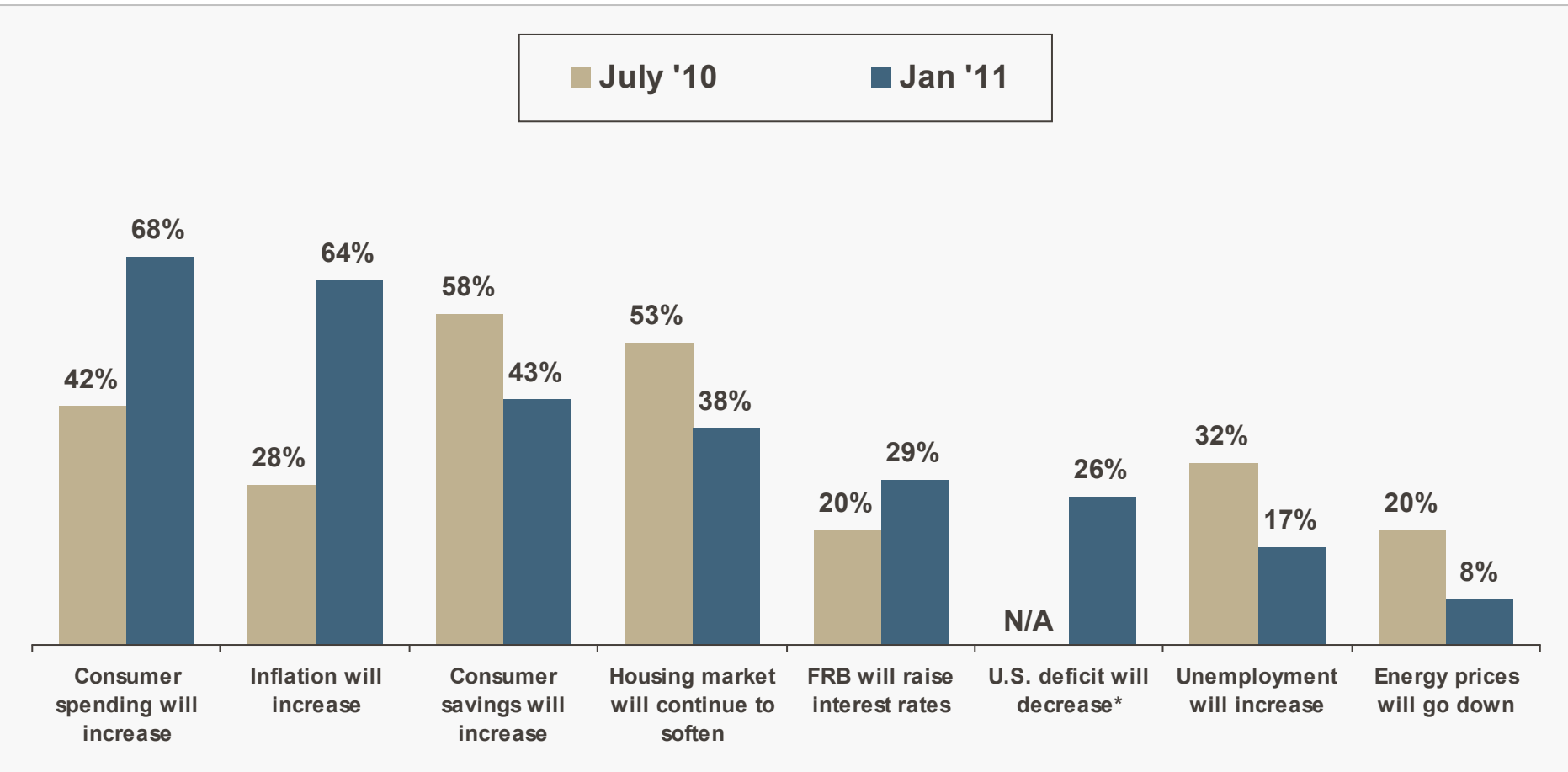
Source: Q1: Which of the following best describes what you think will happen to the S&P 500 in the next six months? (Base = All Respondents; Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1197; Jan '10 = 1144; July '10 = 1199; Jan '11 = 1337)

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Advisors predict an increase in consumer spending, while fewer see a continued housing market decline

CHANGES IN THE U.S. DURING THE NEXT SIX MONTHS— JULY '10 AND JAN '11

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, Jan '11 = 1337)

See appendix for past waves.

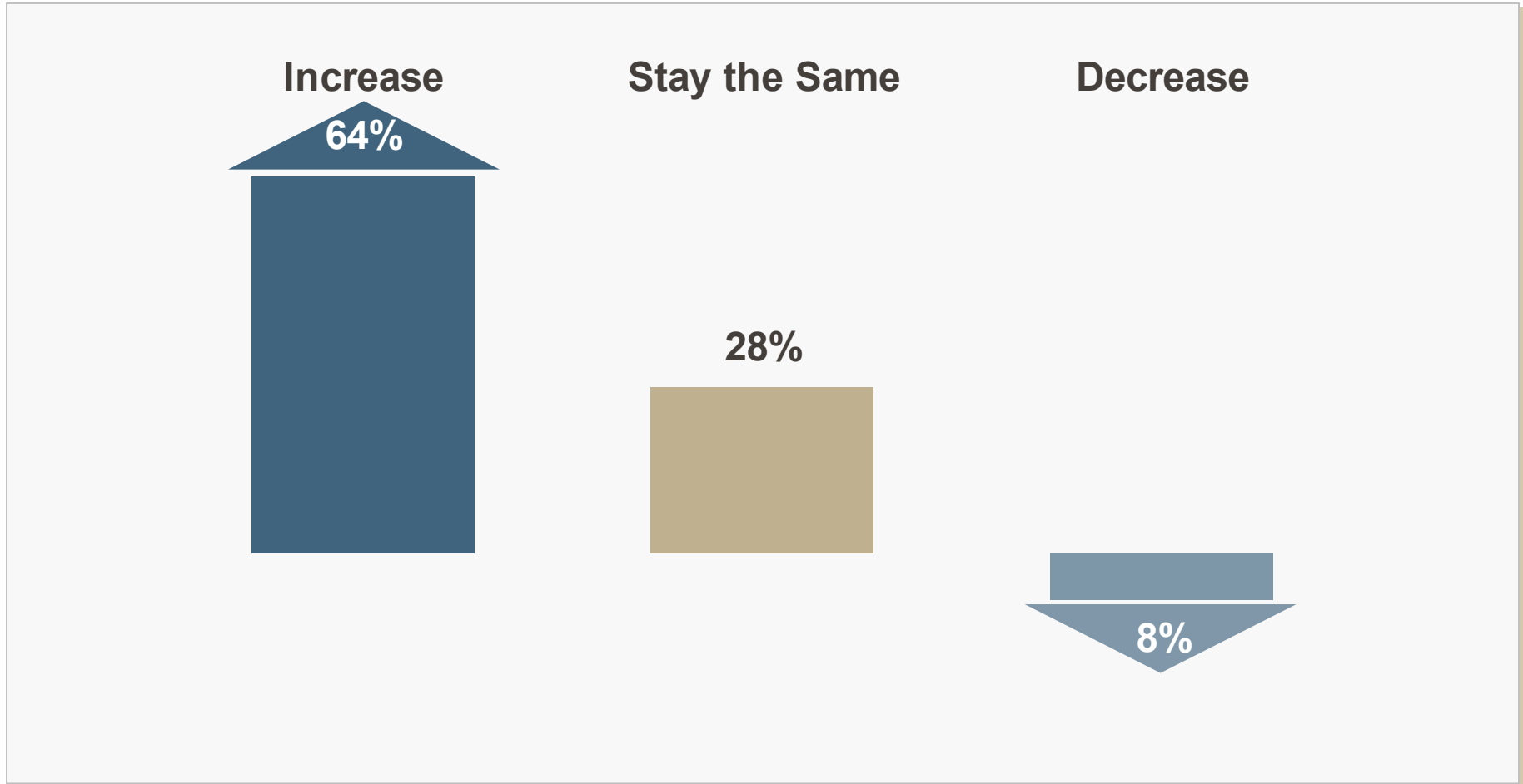
*Not asked in July '10

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Six in ten respondents believe that interest rates on T-Bills will increase during the next six months

U.S. TREASURY YIELDS IN NEXT SIX MONTHS—NEW JAN '11

Excludes "Not sure"

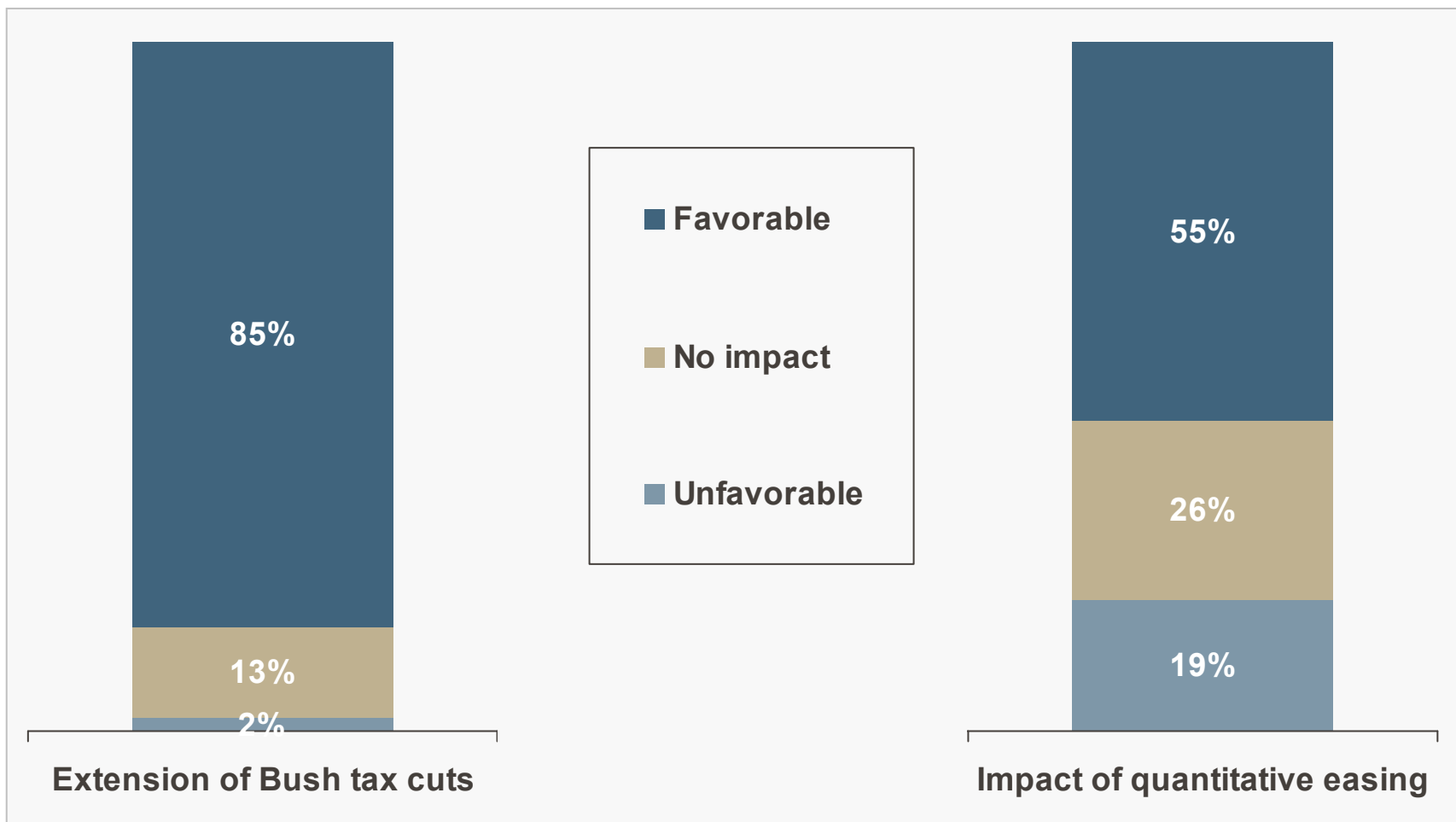


Source: Q6d: In the next six months will U.S. Treasury yields? (Base = Excludes "Not sure"; Jan '11 = 1262)

Majority of advisors see extension of Bush tax cuts as favorable, while they are slightly more mixed on quantitative easing

IMPACT OF GOVERNMENT PROGRAMS ON ECONOMY & STOCK MARKET—NEW JAN '11

All Respondents

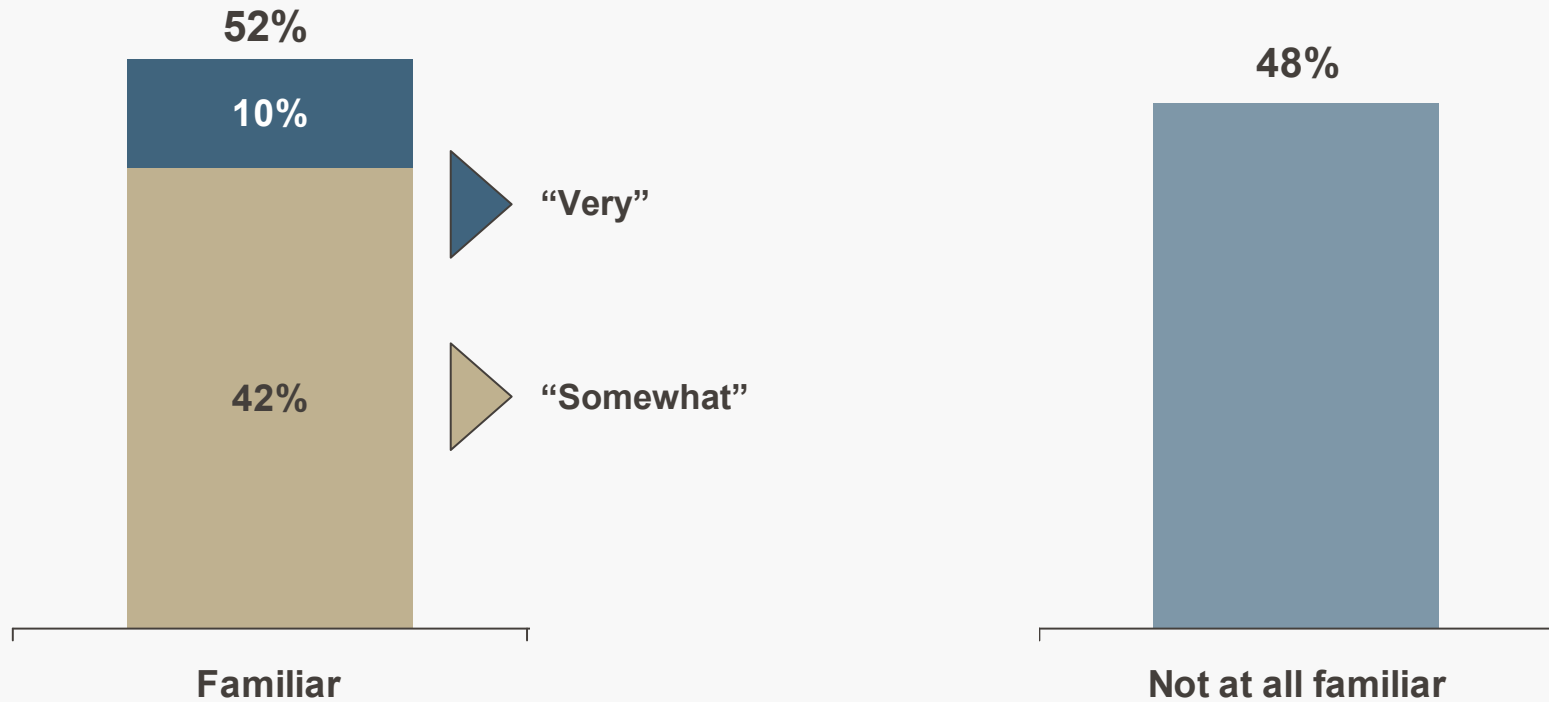


Source: Q2a: In the next six months will the impact of quantitative easing on the U.S. economy be...; Q2b. What effect will the Bush tax cuts being extended for the next two years have on the U.S. stock markets? (Base = All Respondents; Jan '11 = 1337)

Advisors report their clients are not very aware of the impact of cost basis legislation on their taxes

AWARENESS OF IMPACT OF COST-BASIS LEGISLATION ON CLIENTS' TAX SITUATION

All Respondents



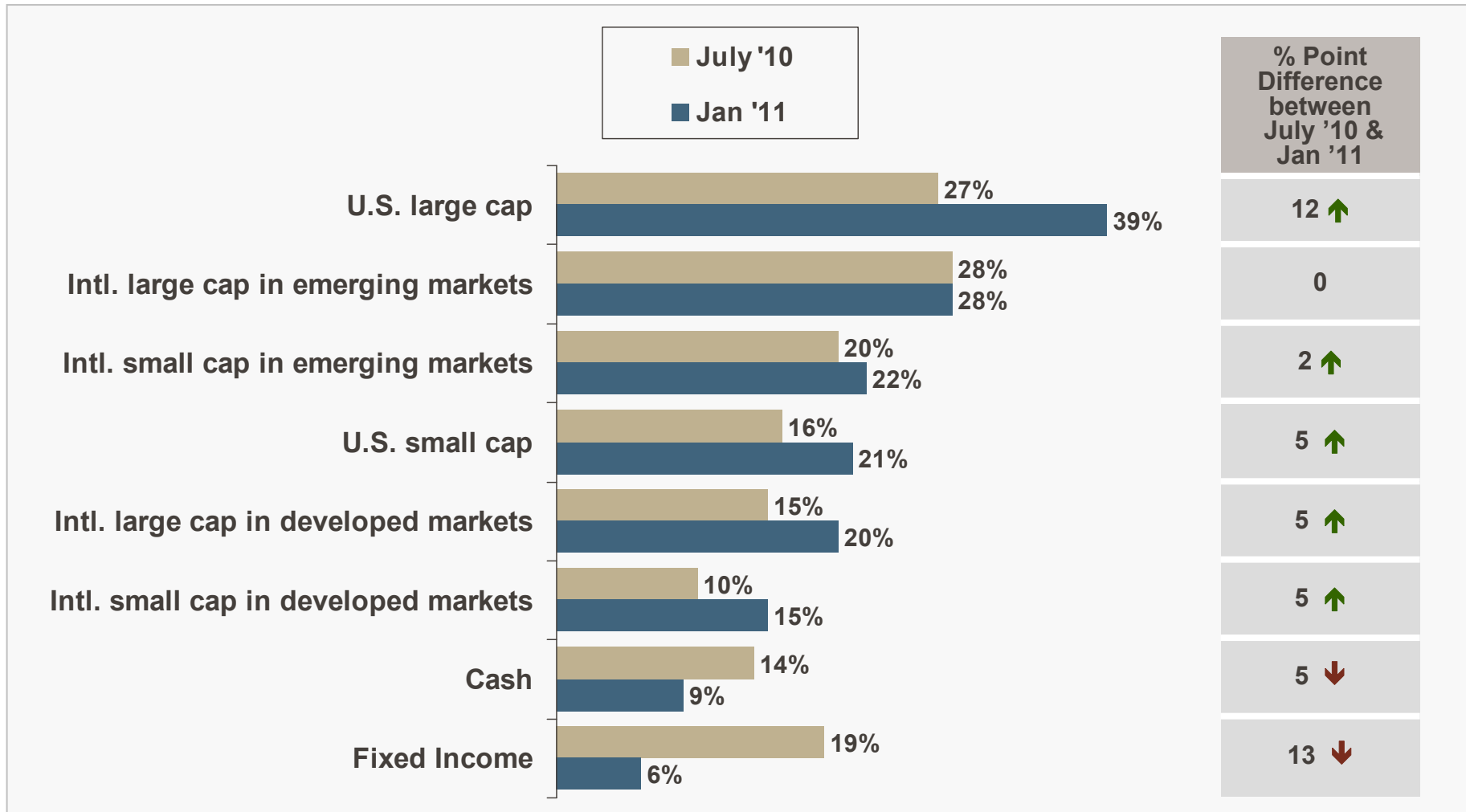
Source: Q22P: How aware are your clients about the impact of the cost basis legislation on their tax situations? (Base = All Respondents; July '11 = 1337)

Investment Outlook

Advisors are investing more in equities, specifically large cap investments

ASSET CLASSES LIKELY TO INVEST MORE IN THE NEXT SIX MONTHS—JULY '10 AND JAN '11

All Respondents



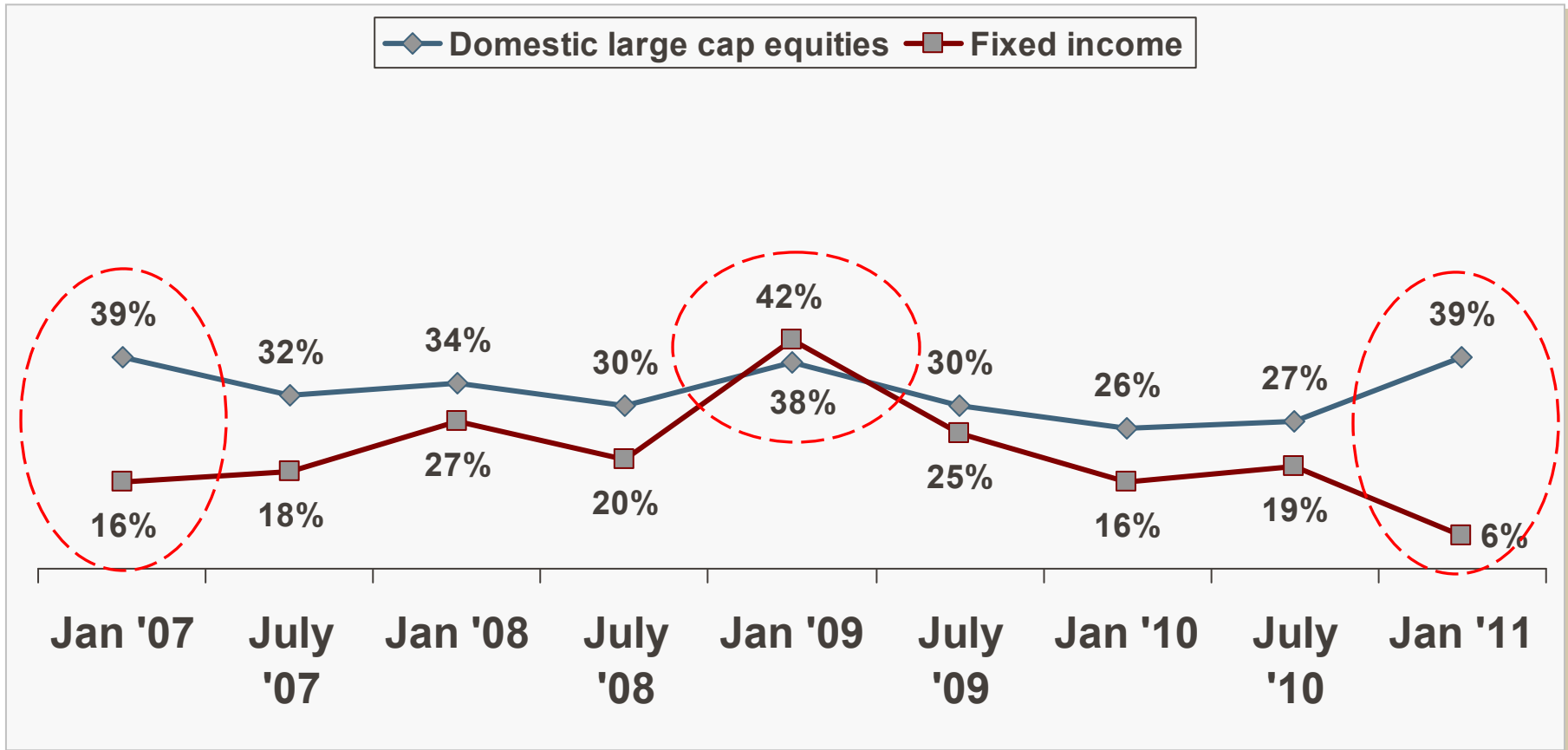
Source: Q8: For each of the following asset classes, please choose the response that best describes how you plan to invest in that asset class for your clients in the next six months. (Base = All Respondents: July '10 = 1199; Jan '11 = 1337)

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Move toward domestic large cap investments back to January '07 and '09 levels

LIKELY TO INVEST MORE IN DOMESTIC LARGE CAP EQUITIES

All Respondents



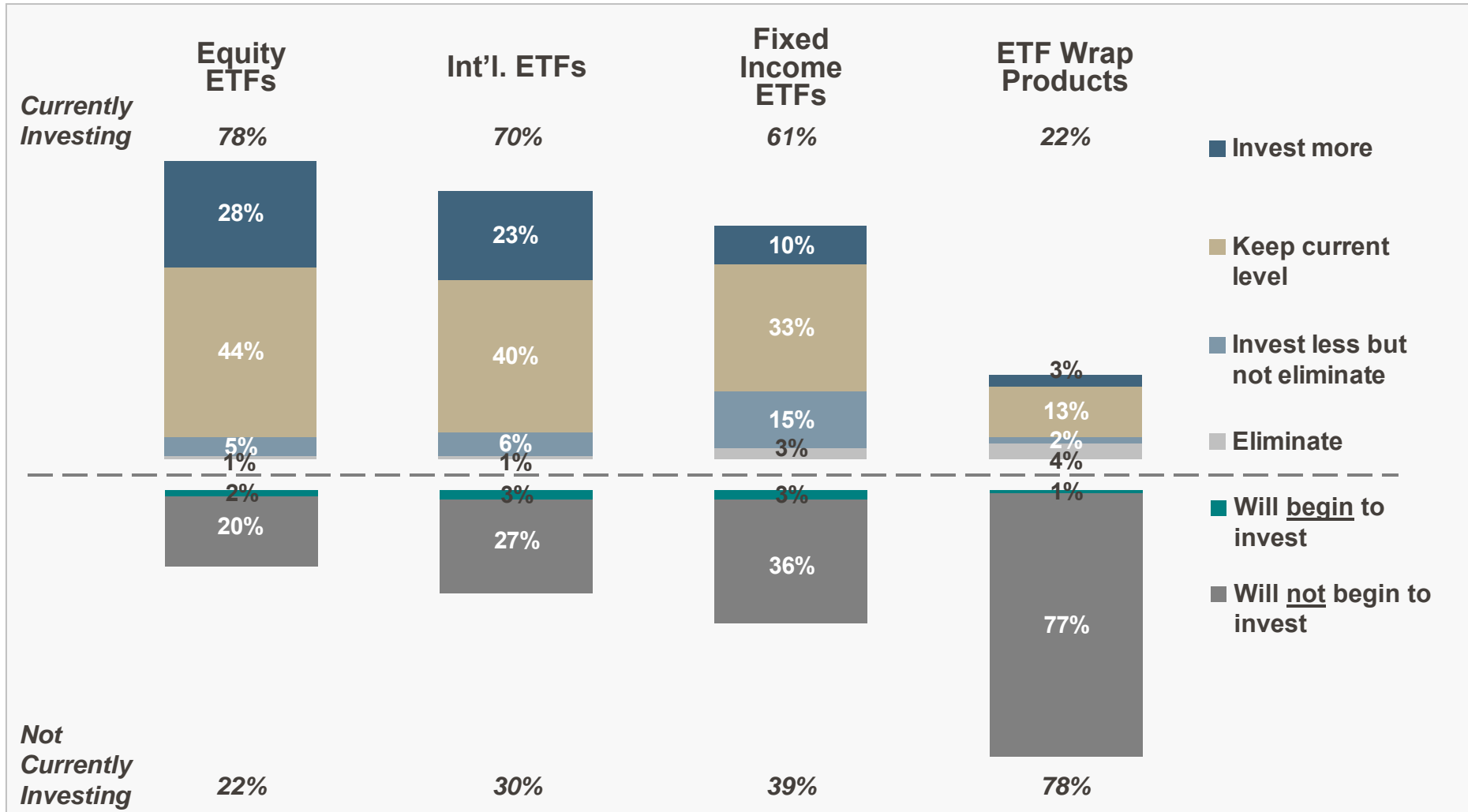
Source: Q8: For each of the following asset classes, please choose the response that best describes how you plan to invest in that asset class for your clients in the next six months. (Base = All Respondents: Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1198; Jan '10 = 1144; July '10 = 1199; Jan '11 = 1337)

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Equity ETFs continue to be popular among advisors . . .

ETF INVESTING—NEW JAN '11

All Respondents

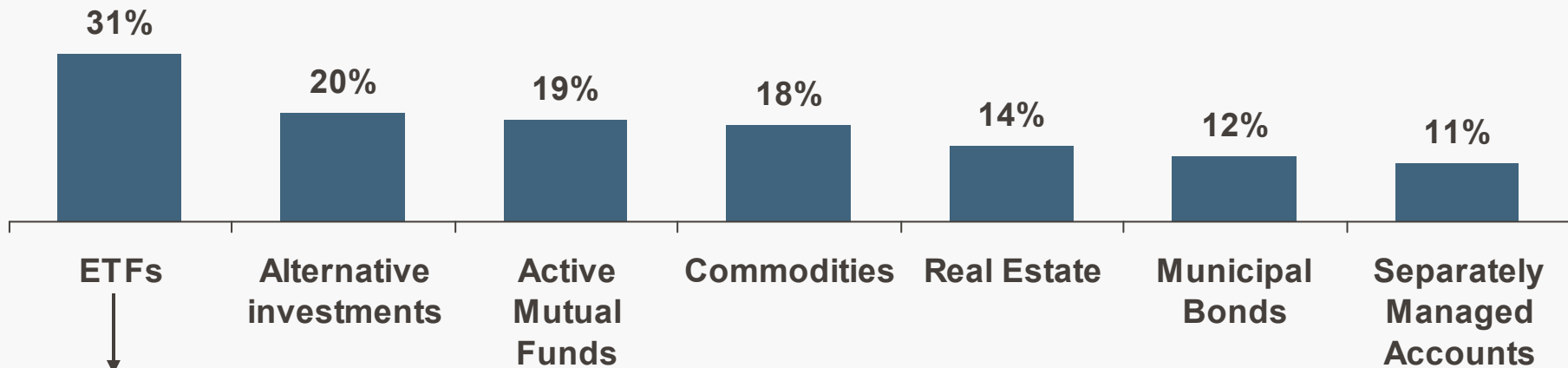


Source: Q9a: For each of the following ETF product types, please choose the response that best describes how you invest for your clients and what your plans are for the next six months. (Base = All Respondents; Jan '11 = 1337)

... and are the top investment vehicle in which advisors are likely to invest more

TOP INVESTMENT VEHICLES LIKELY TO INVEST MORE—JAN '11

All Respondents



Overall, 84% of Advisors currently invest in ETFs.

See appendix for other investment vehicles asked this wave.

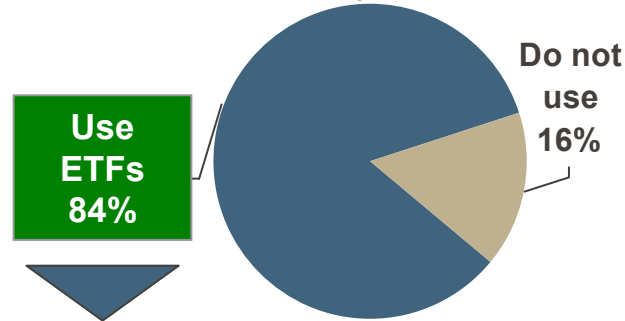
Source: Q9: For each of the following investment vehicles, please choose the response that best describes how you invest for your clients now and what your plans are for the next six months. (Base = All Respondents; Jan '11 = 1337)

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Advisors report using ETFs because of their lower cost, flexibility and as a way to diversify client portfolios

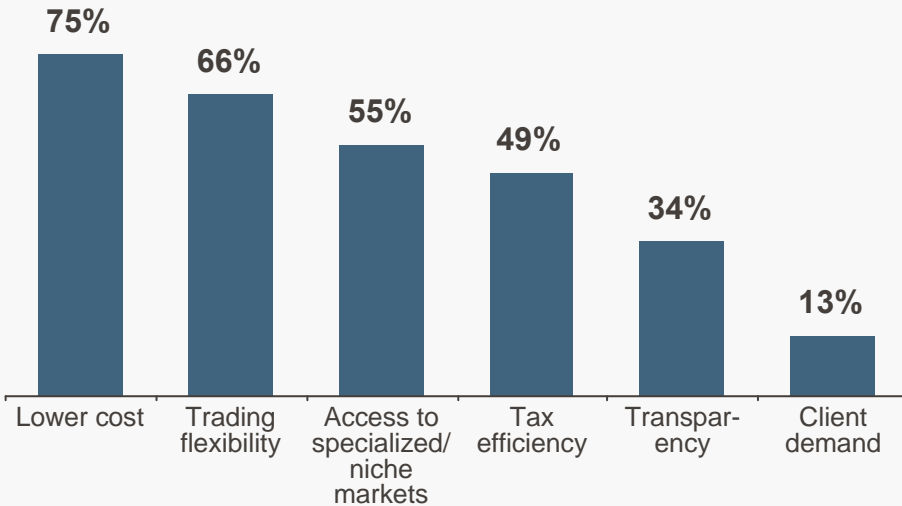
ETF Usage Among Advisors

All Respondents



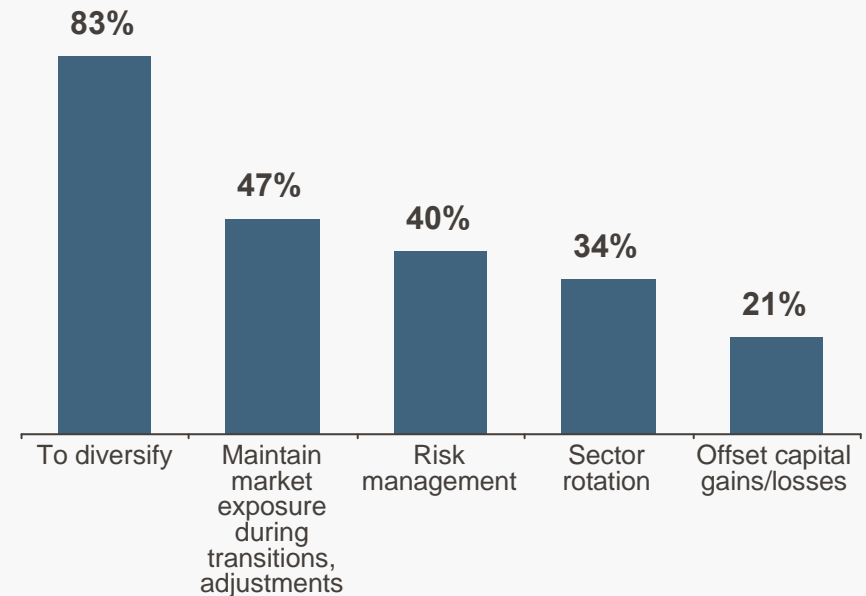
REASONS FOR INITIAL USE OF ETFs— NEW JAN '11

Use ETFs



HOW ETFs ARE USED IN CLIENTS' PORTFOLIOS— NEW JAN '11

Use ETFs

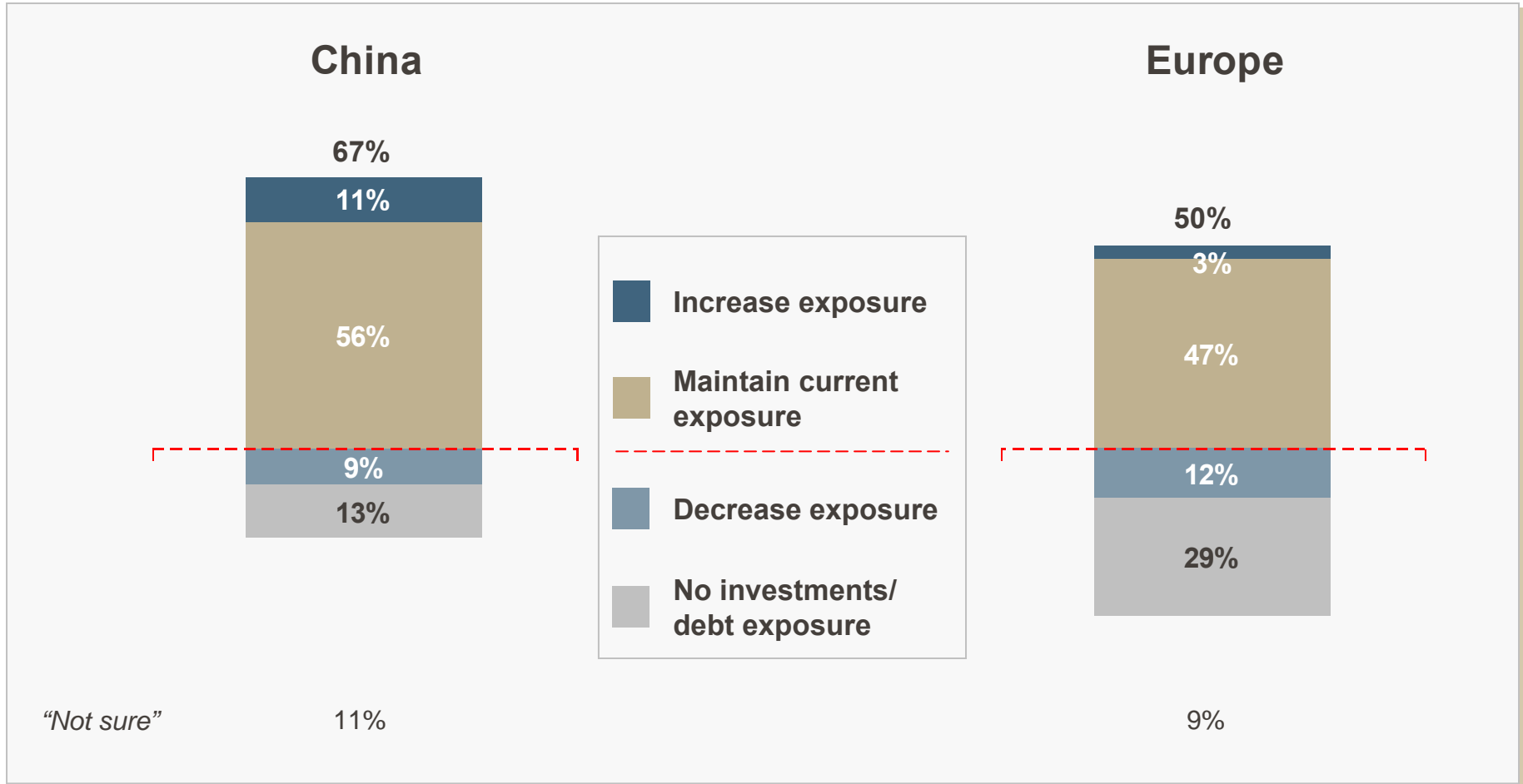


Source: Q9b. Which of the following prompted you to use ETFs initially?; Q9c. Which of the following are ways you put ETFs to work in your clients' portfolios? (Base = Use ETFs; Jan '11 = 1122)

Two-thirds of advisors are investing in China with one in ten increasing exposure; while they are slightly less active in Europe

INVESTING IN CHINA AND EUROPE—NEW JAN '11

All Respondents

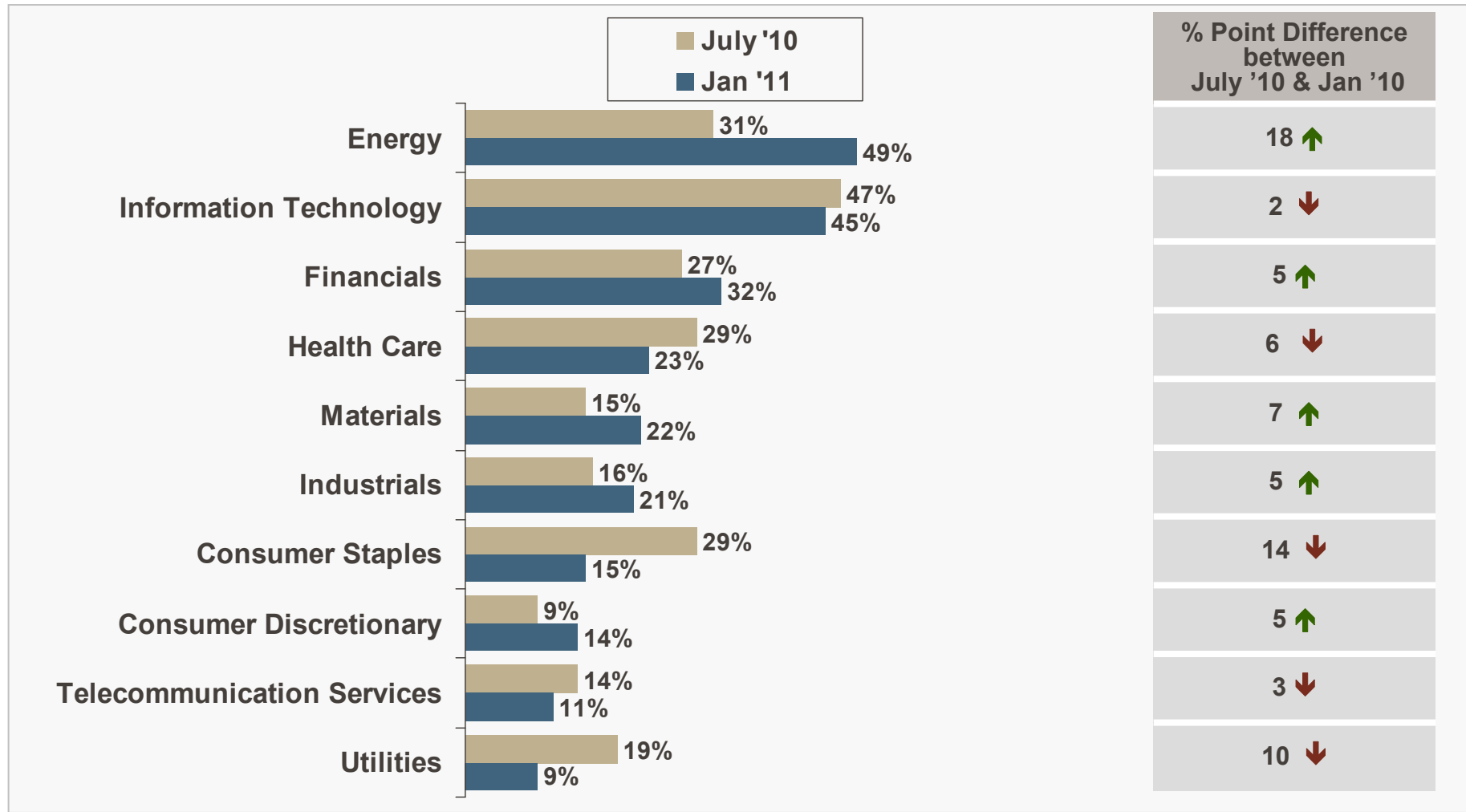


Source: Q6b: As a result of debt levels in some European countries, overall in the next six months will you...? Q6c. In the next six months will you...
(Base = All Respondents; Jan '11 = 1337)

Energy and IT are top sectors this wave

TOP RANKED MARKET SECTORS—JULY '10 AND JAN '11

All Respondents



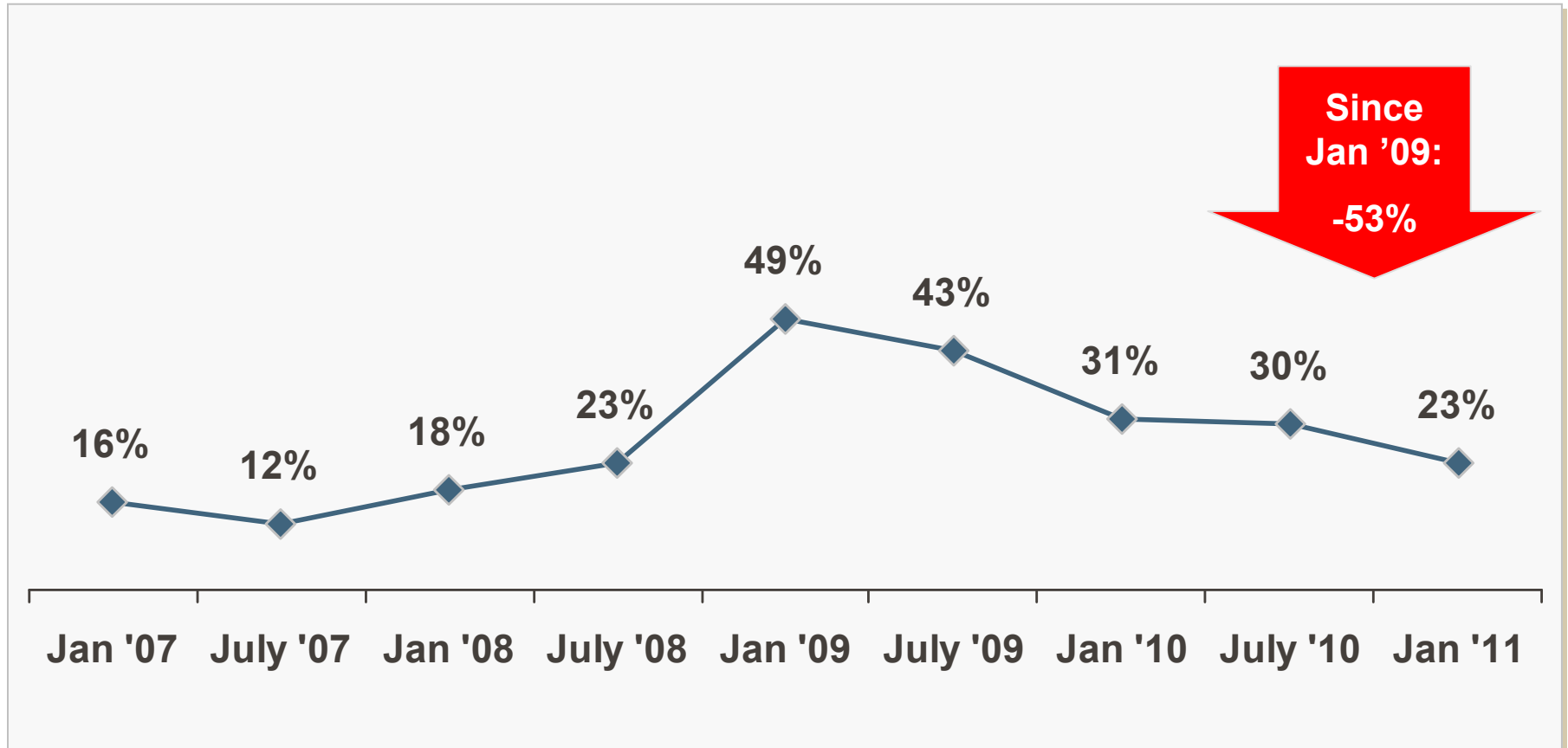
See appendix for all market sectors per wave.

Client Outlook

On average, just under a quarter of advisors' clients needed reassurance—down significantly from the 2009 peak

AVERAGE PERCENT OF ADVISORS' CLIENTS WHO NEEDED REASSURANCE ABOUT REACHING THEIR INVESTMENT GOALS

All Respondents



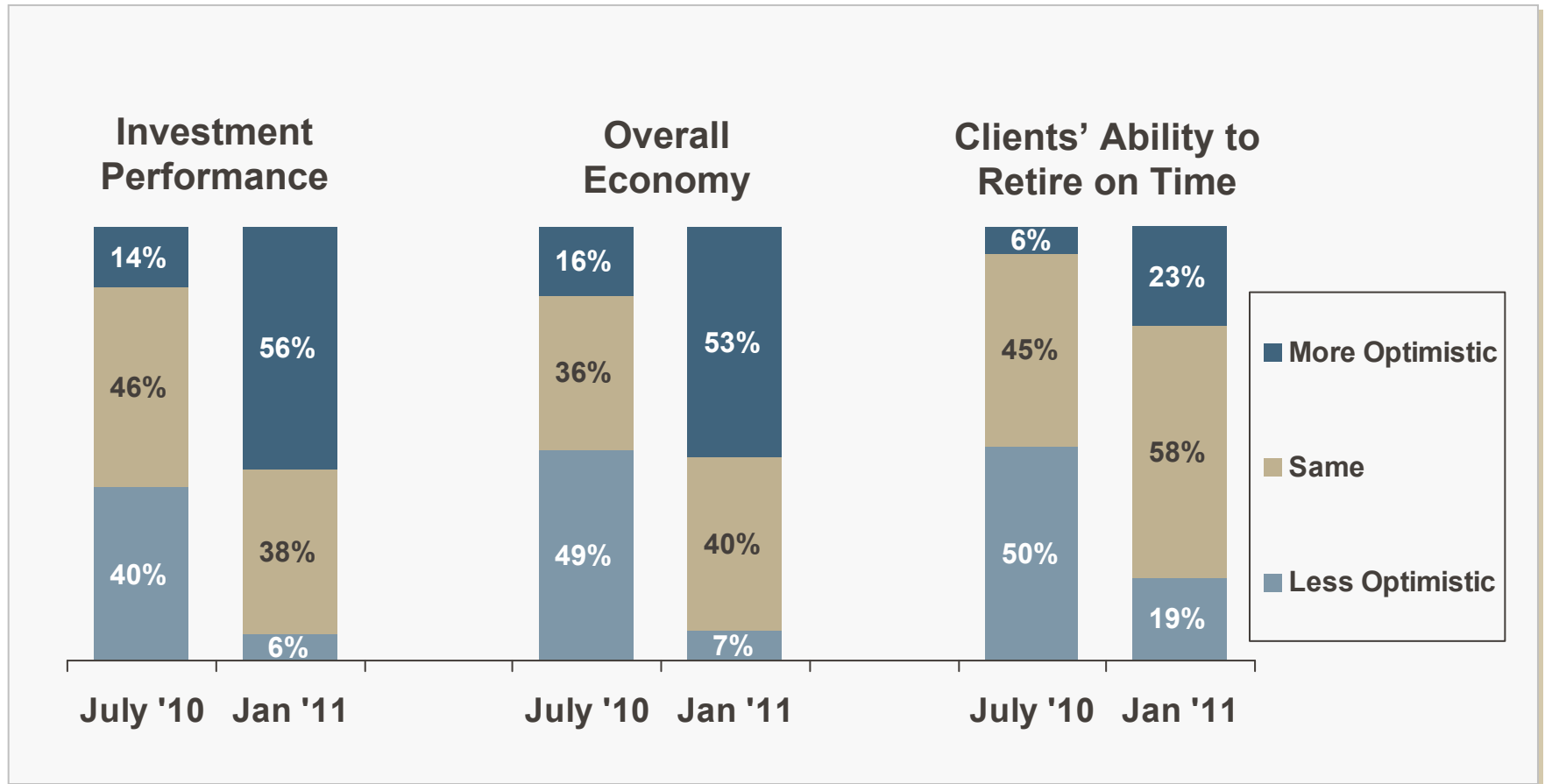
Source: Q13: In the past six months, what percent of your clients have you needed to reassure that they will achieve their investment goals? (Base = All Respondents: Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240; July '09 = 1197; Jan '10 = 1144; July '10 = 1199; Jan '11 = 1337)

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Advisors report that their clients are substantially more optimistic than they were six months ago

LEVEL OF CLIENTS' OPTIMISM COMPARED TO 6 MONTHS AGO—JULY '10 AND JAN '11

All Respondents

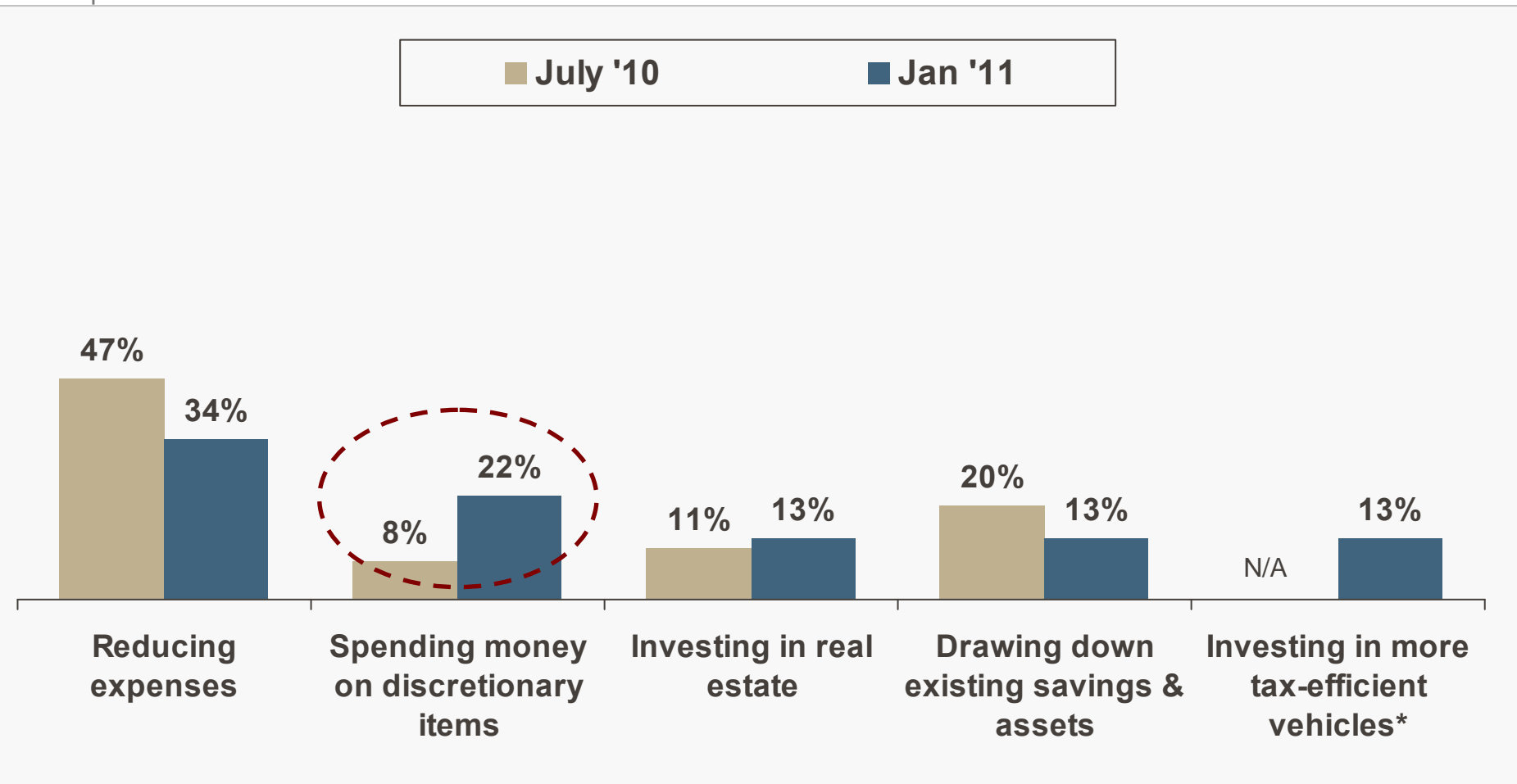


Source: Q22K: Please select the answer below that best describes your clients' current outlook on each of the following compared to 2009? (Base = All Respondents; July '10 = 1199; Jan '11 = 1337)

Advisors' clients are almost three times as likely to be spending money on discretionary items, compared to last summer

CURRENT CLIENT ACTIVITIES COMPARED TO SIX MONTHS AGO: ACTIVITIES CLIENTS ARE DOING "MORE"—JULY '10 AND JAN '11

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; Jan' 11 = 1337)

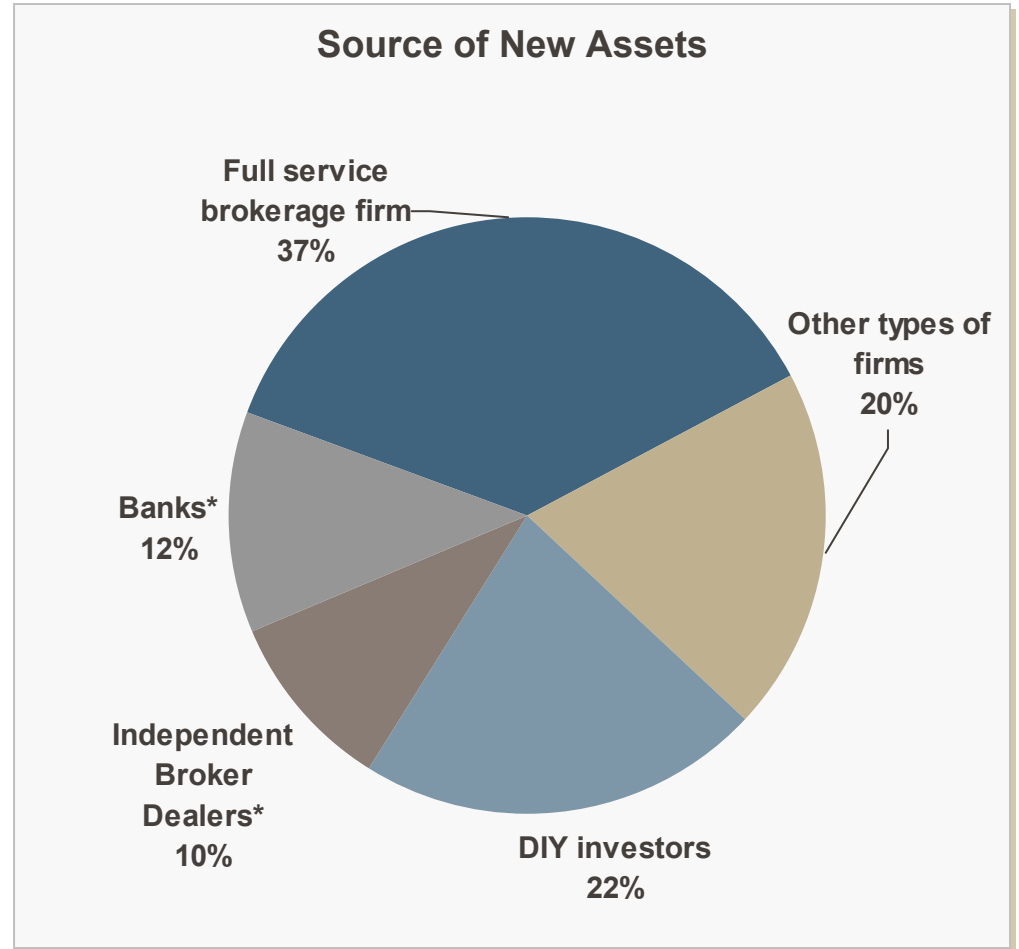
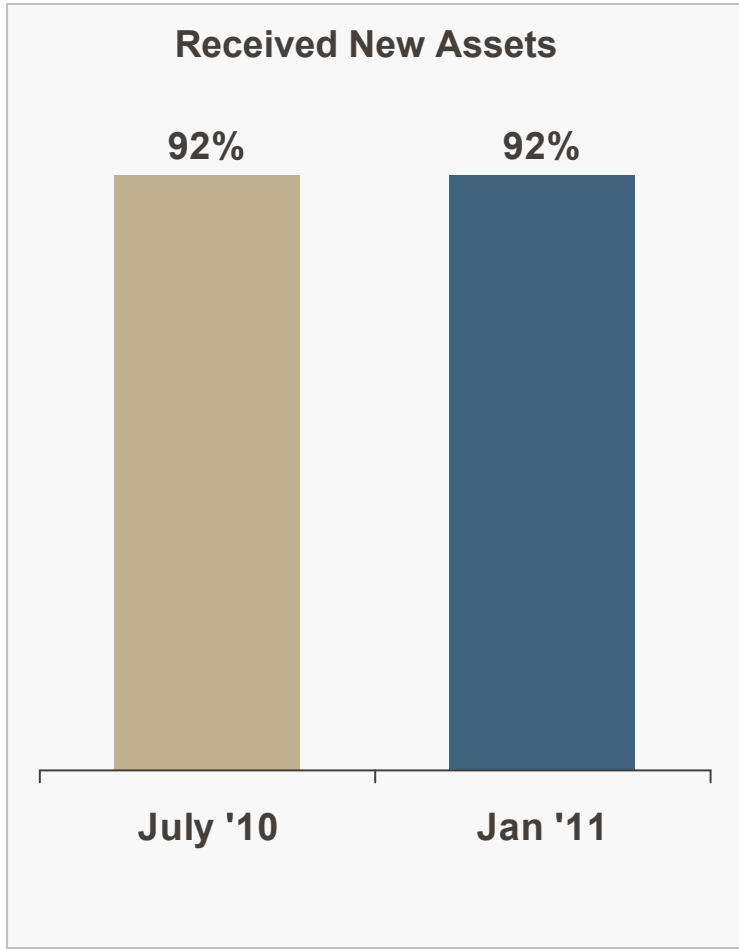
*New to study: Jan '11

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The vast majority of advisors report winning new assets; more than one in five new assets came from banks or independent broker dealers

NEW ASSETS DURING PAST SIX MONTHS—JULY '10 TO JAN '11

All Respondents / Those with New Assets in Past Six Months



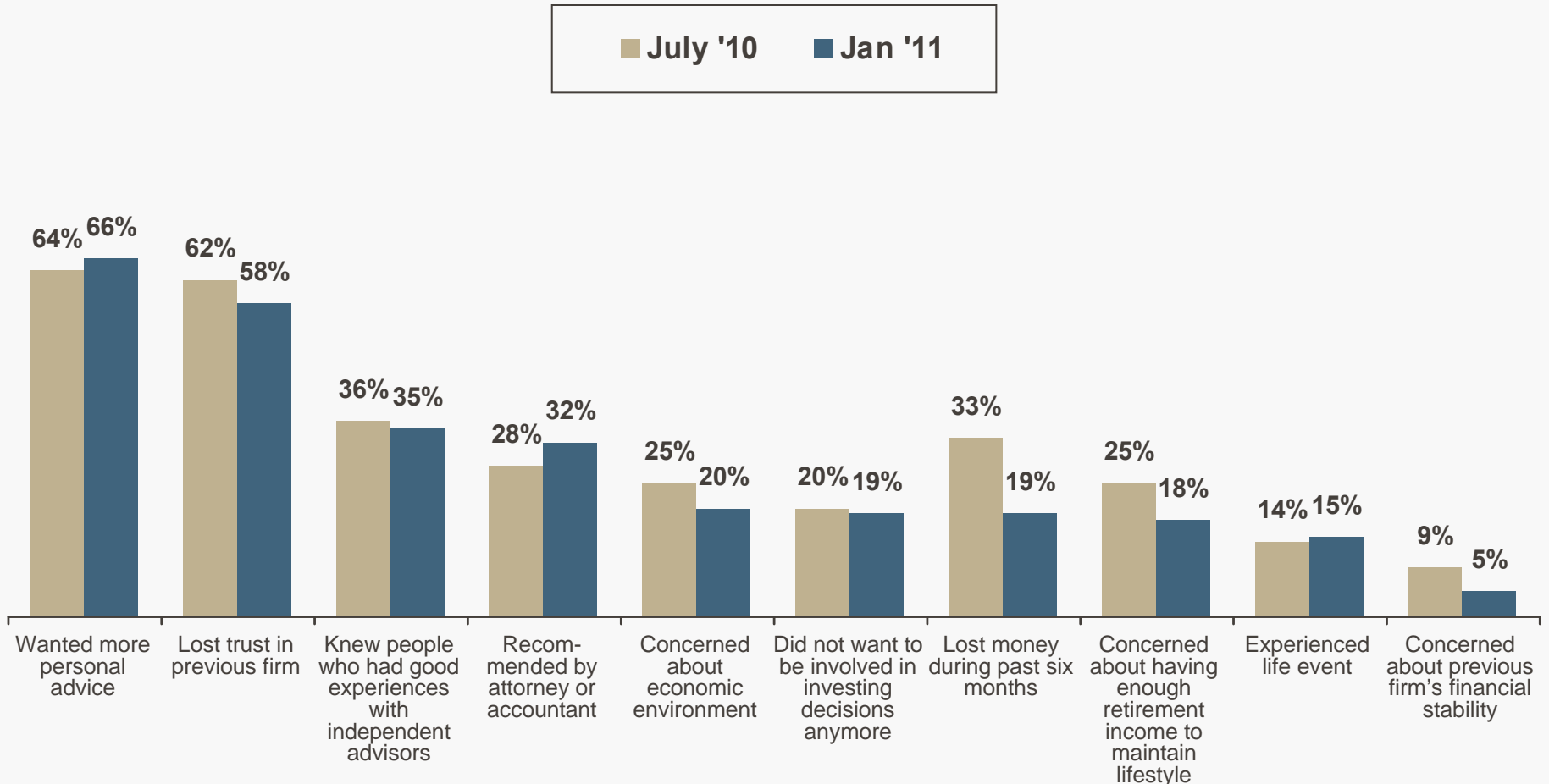
Source: Q13C0: What percent of your new assets in the past six months came from the following sources? (Base = Those with new assets in the past six months; July '10 = 1099; Jan '11 = 1226)

*New to study: Jan '11

Advisors continue to win clients from full-service firms because they want more personal advice or lost trust

REASONS FOR LEAVING FULL-SERVICE BROKERAGE FIRMS—JULY '10 TO JAN '11

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; Jan '11 = 1099)

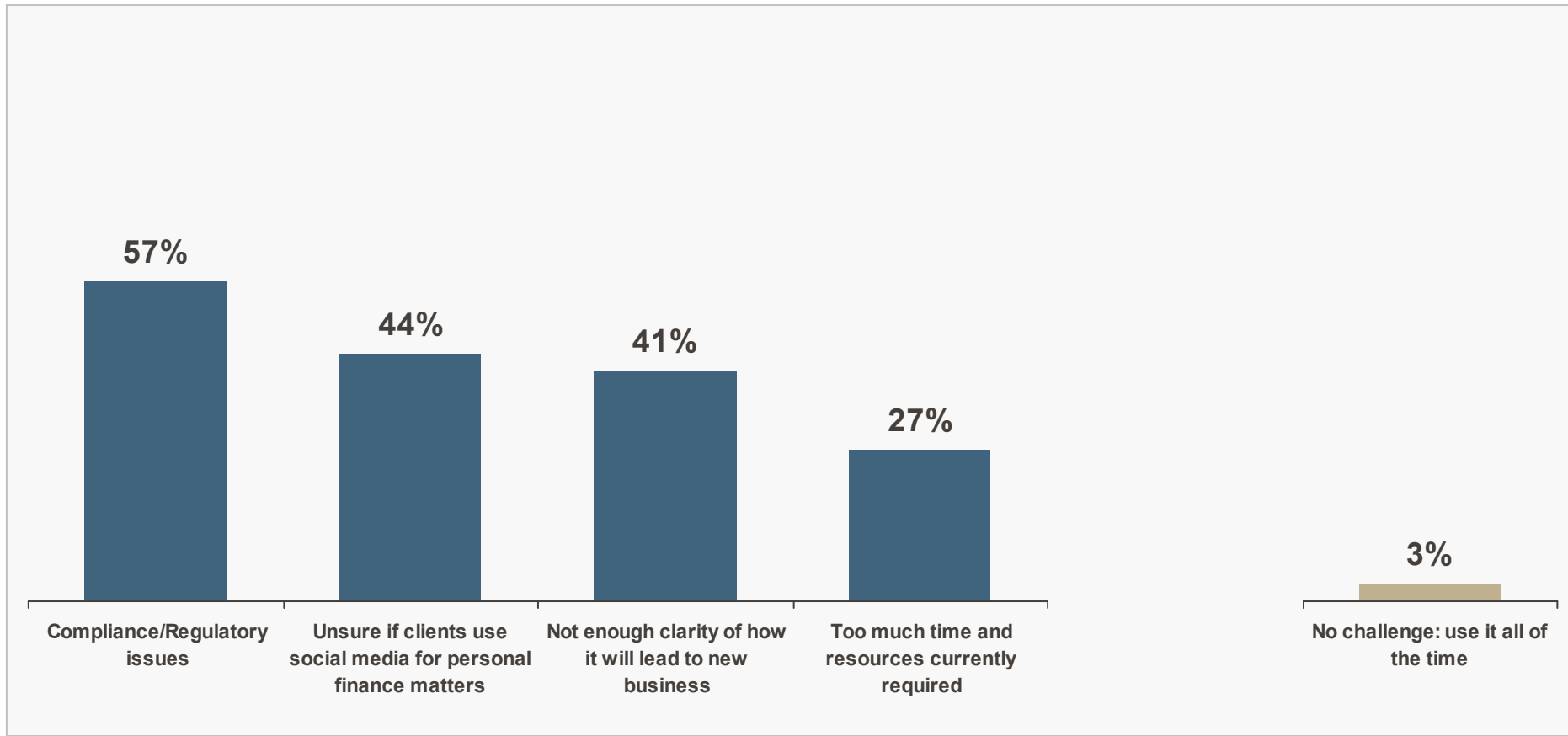
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Social Media

Compliance and regulation are the biggest road blocks to social media usage

CHALLENGES IN USING SOCIAL MEDIA—NEW JAN '11

All Respondents



Source: Q22Q: Which of the following are challenges for you in using social media (e.g., Facebook, Twitter, LinkedIn) professionally? (Base = All Respondents; Jan '11 = 1337)

Appendix

Economic Outlook at-a-Glance

All Respondents

	▲ ▼	JAN '07	JAN '08	JAN '09	JAN '10	JAN '11	JAN '07	JAN '08	JAN '09	JAN '10	JAN '11	JAN '07	JAN '08	JAN '09	JAN '10	JAN '11
S&P 500		UP—MORE/LESS THAN 10%					STAY THE SAME					DOWN—MORE/LESS THAN 10%				
Which of the following best describes what you think will happen to the S&P 500 in the next six months?	▲	78%	46%	53%	65%	77%	10%	13%	19%	13%	11%	12%	41%	28%	22%	12%
ACHIEVING CLIENTS' INVESTMENT GOALS		EXTREMELY/SOMEWHAT EASY					NEITHER					VERY/SOMEWHAT DIFFICULT				
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%	5%	4%	9%	20%	47%	25%	12%	33%	41%	32%	70%	84%	58%	39%
EVENTS		EXTREMELY/SOMEWHAT LIKELY					NEITHER					EXTREMELY/SOMEWHAT UNLIKELY				
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 spending will increase	▲	40%	16%	15%	47%	68%	30%	23%	17%	23%	19%	30%	61%	68%	30%	12%
Inflation will increase	▲	45%	62%	30%	49%	64%	30%	19%	18%	19%	19%	25%	19%	52%	32%	17%
Consumer savings will increase	▼	N/A	N/A	68%	59%	43%	N/A	N/A	14%	22%	32%	N/A	N/A	18%	19%	25%
Housing market will continue to soften	▼	71%	81%	69%	46%	38%	15%	10%	18%	24%	32%	14%	9%	13%	30%	30%
Federal Reserve Board will raise rates	▼	21%	6%	9%	39%	29%	26%	4%	15%	18%	19%	53%	90%	76%	43%	52%
U.S. deficit will decrease	N/A	41%	31%	N/A	N/A	26%	16%	13%	N/A	N/A	9%	44%	56%	N/A	N/A	65%
Unemployment will increase	▼	32%	78%	92%	40%	17%	34%	13%	3%	27%	28%	34%	9%	5%	33%	55%
Energy prices will go down	▼	36%	42%	21%	17%	8%	24%	17%	34%	25%	13%	40%	41%	45%	58%	79%

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	JAN '11
Energy	21%	44%	35%	38%	37%	35%	37%	31%	49%
Information Technology	38%	34%	27%	33%	29%	48%	44%	47%	45%
Financials	34%	17%	24%	27%	18%	34%	23%	27%	32%
Health Care	41%	33%	46%	33%	50%	28%	42%	29%	23%
Materials	10%	20%	12%	20%	16%	27%	21%	15%	22%
Industrials	14%	19%	10%	15%	14%	19%	14%	16%	21%
Consumer Staples	24%	21%	35%	31%	43%	24%	24%	29%	15%
Consumer Discretionary	10%	7%	5%	9%	5%	12%	11%	9%	14%
Telecommunication Services	21%	17%	12%	10%	12%	11%	13%	14%	11%
Utilities	11%	11%	30%	23%	27%	12%	19%	19%	9%
No View	25%	26%	21%	20%	16%	16%	17%	21%	20%

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; Jan '11 = 1337)

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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 '11	JAN '07	JUL '07	JAN '08	JUL '08	JAN '09	JUL '09	JAN '10	JUL '10	JAN '11	JAN '07	JUL '07	JAN '08	JUL '08	JAN '09	JUL '09	JAN '10	JUL '10	JAN '11	JAN '07	JUL '07	JAN '08	JUL '08	JAN '09	JUL '09	JAN '10	JUL '10	JAN '11
U.S. Large Cap Equities	39%	32%	34%	30%	38%	30%	26%	27%	39%	54%	58%	52%	56%	48%	57%	59%	59%	53%	7%	9%	14%	13%	12%	13%	14%	13%	7%	1%	<1%	1%	1%	1%	1%	1%	1%	1%
Int'l. Large Cap Equities in Emerging Markets	18%	19%	20%	20%	14%	37%	33%	28%	28%	60%	63%	58%	61%	50%	49%	51%	55%	59%	18%	15%	18%	15%	25%	10%	13%	13%	10%	5%	3%	4%	3%	11%	4%	3%	3%	3%
Int'l. Small Cap Equities in Emerging Markets	10%	12%	11%	14%	9%	27%	24%	20%	22%	58%	61%	55%	61%	49%	55%	55%	57%	60%	25%	20%	25%	19%	26%	13%	17%	17%	14%	7%	6%	9%	6%	16%	5%	5%	7%	4%
U.S. Small Cap Equities	7%	7%	9%	22%	27%	31%	16%	16%	21%	58%	59%	49%	57%	54%	56%	61%	63%	62%	33%	32%	38%	19%	16%	11%	21%	19%	16%	2%	2%	4%	2%	3%	2%	2%	2%	2%
Int'l. Large Cap Equities in Develop. Markets	31%	29%	29%	21%	17%	26%	28%	15%	20%	62%	64%	59%	66%	55%	60%	61%	62%	66%	6%	6%	11%	12%	23%	12%	9%	19%	12%	1%	1%	1%	1%	4%	2%	2%	3%	2%
Int'l. Small Cap Equities in Develop. Markets	16%	16%	12%	14%	12%	20%	19%	10%	15%	64%	66%	58%	65%	52%	61%	63%	63%	66%	17%	16%	25%	18%	26%	16%	14%	21%	15%	3%	2%	4%	3%	10%	4%	4%	6%	4%
Cash	11%	16%	28%	22%	20%	8%	10%	14%	9%	68%	69%	55%	54%	46%	41%	52%	55%	52%	19%	13%	16%	23%	32%	48%	35%	28%	35%	2%	1%	1%	1%	2%	3%	3%	2%	4%
Fixed Income	16%	18%	27%	20%	42%	25%	16%	19%	6%	68%	66%	58%	60%	45%	55%	55%	58%	46%	15%	15%	14%	19%	12%	19%	27%	22%	45%	1%	2%	1%	1%	1%	1%	2%	1%	3%

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; Jan '11 = 1337)

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Plans for Investing per Investment Vehicle: By Wave

PLANS FOR INVESTING DURING THE NEXT SIX MONTHS: INVESTMENT VEHICLES—JAN '11

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
ETFs	84%	31%	46%	6%	1%	1%	15%
Muni Bonds*	80%	12%	38%	26%	4%	2%	19%
Active Mutual Funds*	79%	19%	50%	8%	2%	1%	20%
Real estate	67%	14%	42%	9%	2%	6%	28%
Passive Mutual Funds*	67%	9%	45%	9%	4%	1%	33%
Commodities	65%	18%	38%	7%	2%	4%	30%
Alternative investments	57%	20%	29%	6%	2%	4%	39%
Gold^	53%	7%	29%	13%	4%	2%	45%
Separately Managed Accounts	47%	11%	28%	5%	3%	3%	50%
Foreign currency/Foreign currency money market funds	35%	7%	21%	5%	2%	3%	62%
Donor-advised funds	33%	4%	22%	3%	4%	2%	66%
Options	31%	6%	18%	3%	4%	3%	66%
Mutual fund wrap products	27%	3%	16%	3%	5%	1%	73%

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; Jan '11 = 1337)

*New Jan '11

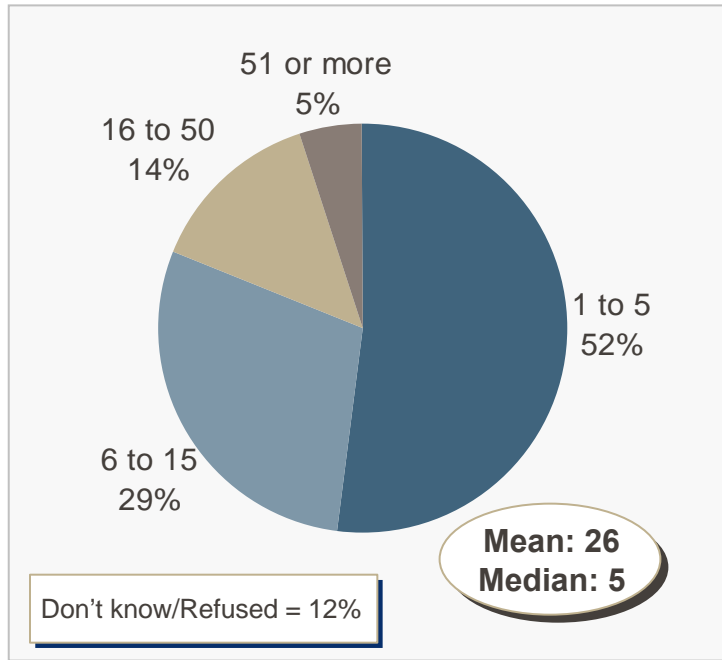
^Updated from "Precious Metals," Jan '11

charles SCHWAB

Firmographics

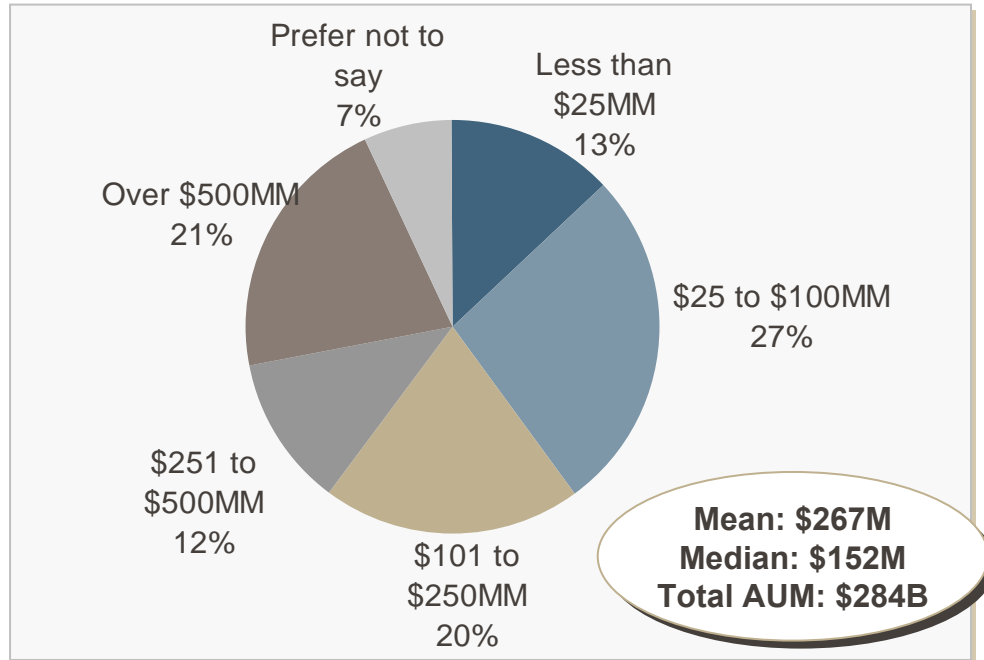
NUMBER OF EMPLOYEES AT FIRM—JAN '11

Firm Level



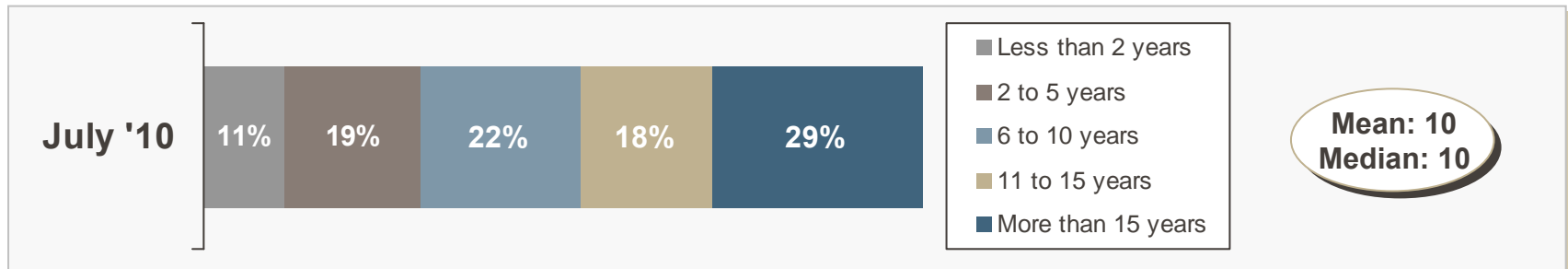
ASSETS UNDER MANAGEMENT (AUM) AT FIRM—JAN '11

Firm Level



NUMBER OF YEARS WORKED FOR INDEPENDENT ADVISORY FIRM—JAN '11

Advisors Responding

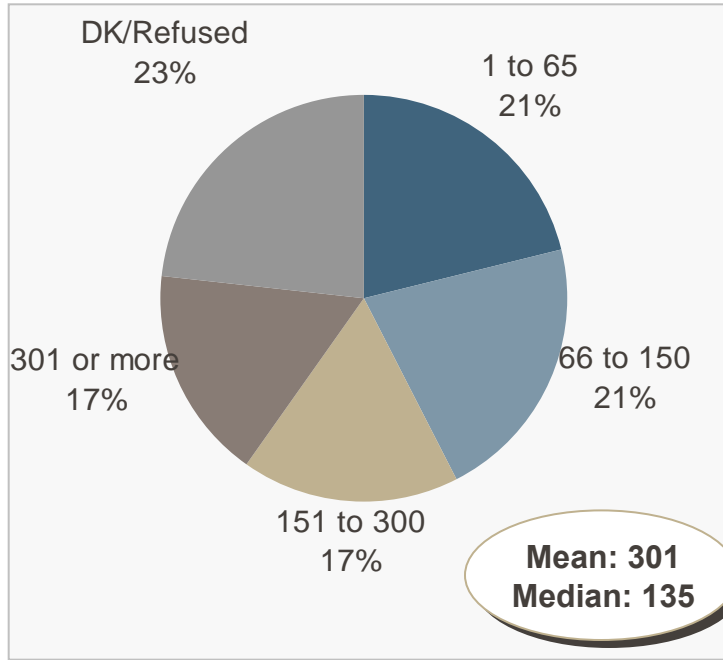


Source: Q23: How many employees, including yourself, are at your firm? (Base = Firm level; Jan '11 = 1075); Q24: How long have you worked for an independent investment advisory firm? Please include the time at your current firm, as well as any time with other investment advisory firms (Base = Advisors responding; Jan '11 = 1330); 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; Jan '11 = 1062)

Firmographics

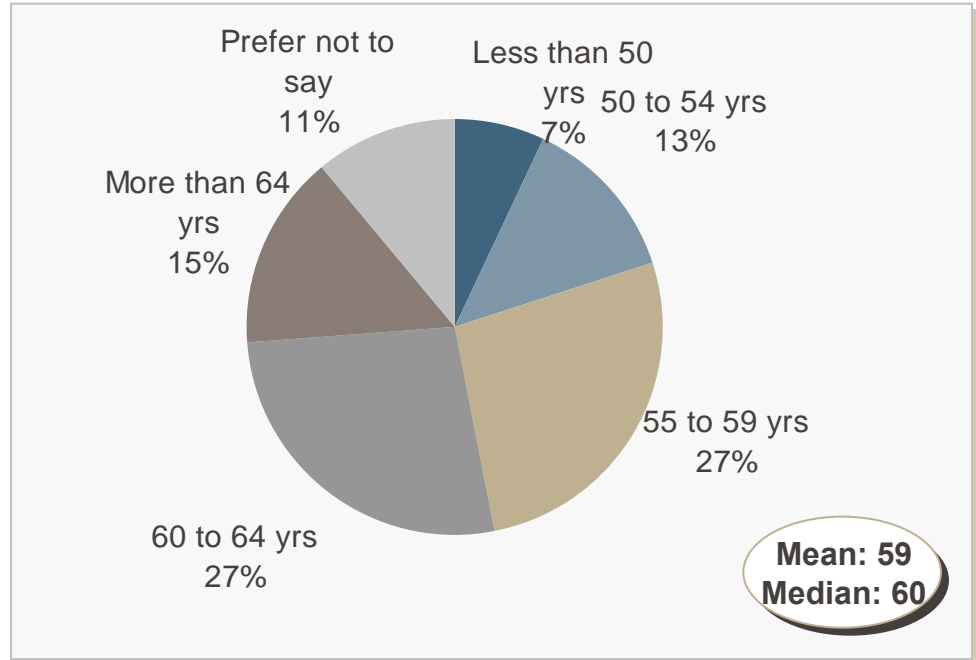
AVERAGE NUMBER OF CLIENTS PER FIRM— JAN '11

Firm Level



AVERAGE CLIENT AGE BY RANGE—JAN '11

Advisors Responding

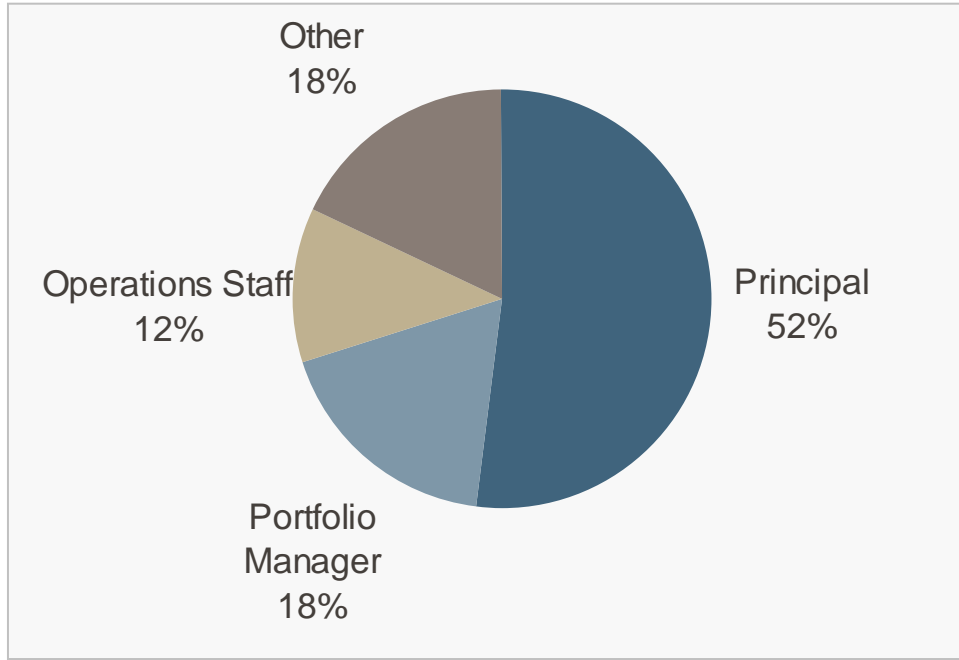


Source: Q26: Approximately how many clients does your firm have in total? (Base = Firm level; Jan '11 = 1073); Q28: Which of the following categories best represents the average age range of your clients? (Base = Advisors responding; Jan '11 = 1324)

Firmographics

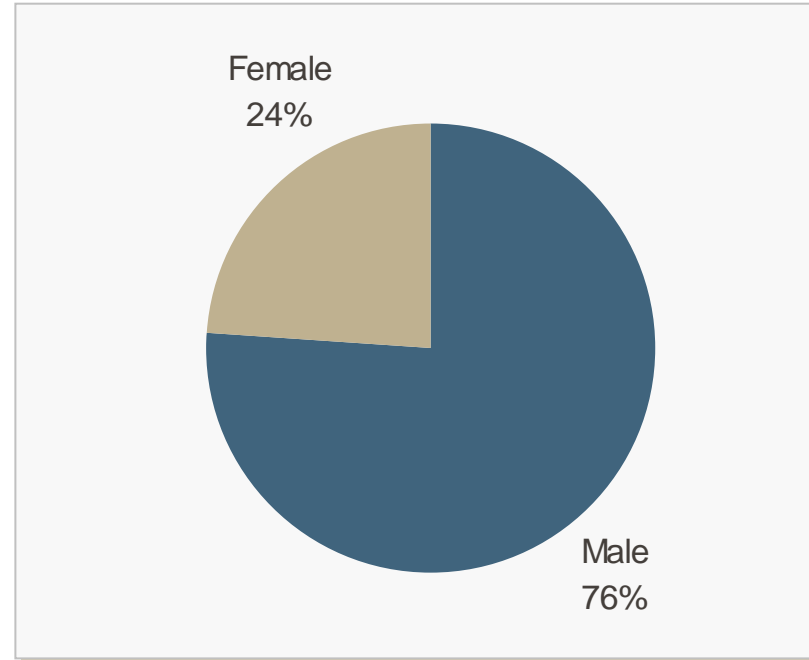
PRIMARY ROLE AT FIRM—JAN '11

Advisors Responding



GENDER—JAN '11

Advisors Responding



Source: Q29: Which of the following best describes your primary role in the firm? (Base = Advisors responding; Jan '11 = 1322); Q32: Are you...? (Base = Advisors responding; Jan '11 = 1312)