

Independent Advisor Outlook Study

January 2009

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(0309-7164)

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Methodology

What

- The Independent Advisor Outlook Study is an online study conducted for Charles Schwab by Koski Research. The study has a 2.83% margin of error.
- Koski Research is neither affiliated with, nor employed by, Charles Schwab & Co., Inc.

Who

- 1240 advisors employed by independent investment advisor firms, whose assets are custodied at Schwab, completed the survey.
 - Participation was voluntary. Respondents were offered the opportunity to sign up for a summary of the results. The survey averaged around 12 minutes.
 - For this report, the majority of data are reported at the total sample level. When applicable, comparisons between each of the five waves of the study are made.

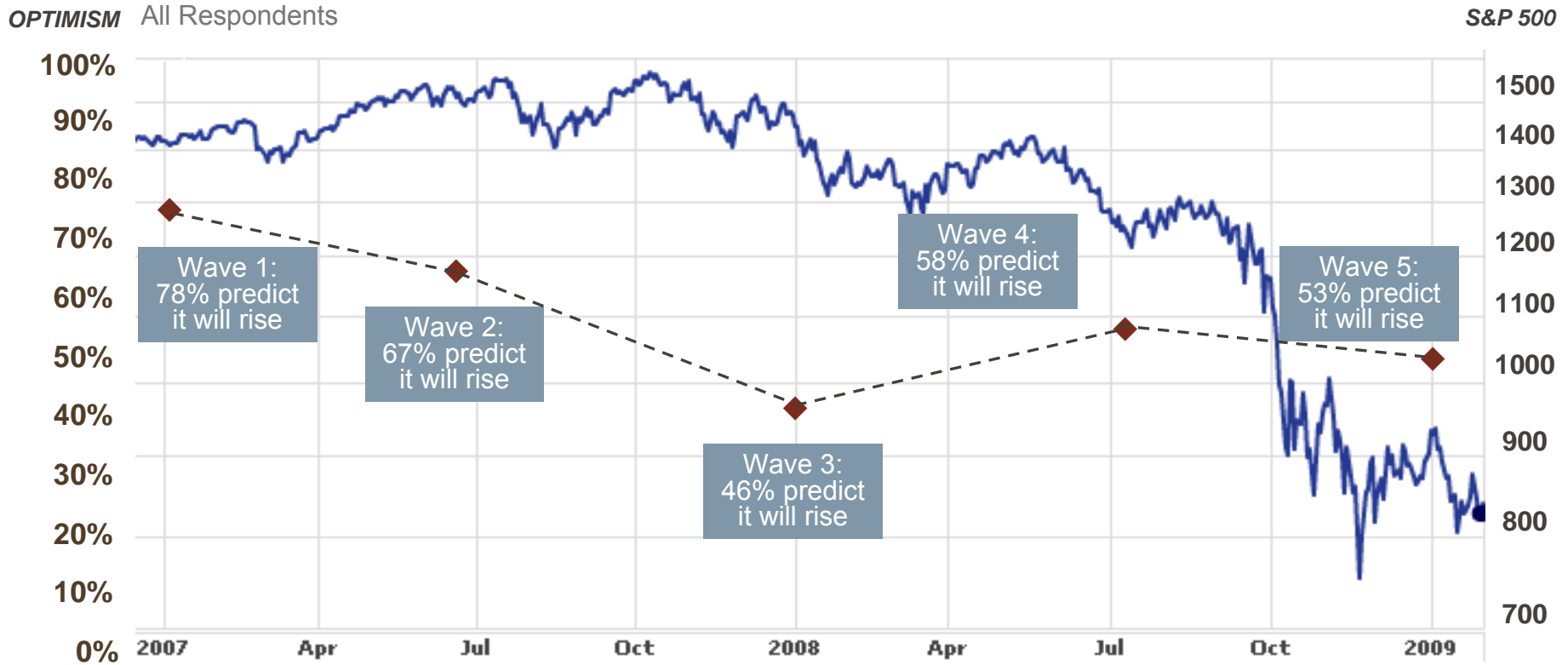
When

- The study was conducted from January 20 to January 30, 2009.

The Independent Advisor Outlook Study information is provided for general informational purposes only, should not be construed as investment advice, and is not a recommendation by Schwab.

Performance of the S&P 500 has plummeted, but more than half of advisors say it will increase in the next six months

PERFORMANCE OF THE S&P 500 BY ADVISOR OPTIMISM



AVERAGE	AVERAGE DAILY OPENING VALUE WHILE IN FIELD					
	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JAN '07 TO JAN '09
S&P 500	1429.28	1530.25	1337.63	1246.76	836.92	592.36 ▼
Optimism	78%	67%	46%	58%	53%	25% ▼

Source: Graph from <http://finance.yahoo.com>, retrieved on February 4, 2009

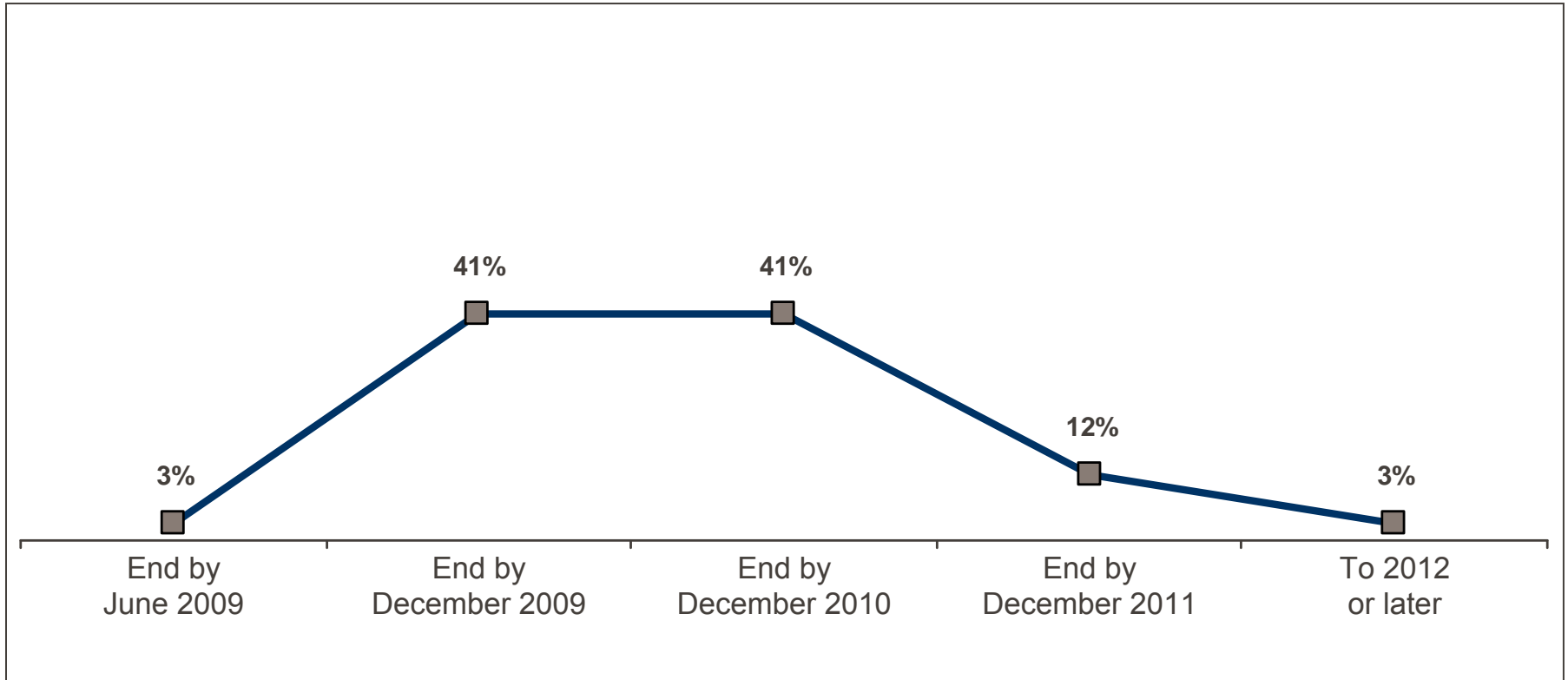
Q1: Which of the following best describes what you think will happen to the S&P 500 in the next six months? (Base = All respondents; Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1020)

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Advisors are divided about the duration of the current recession

LENGTH OF TIME EXPECT CURRENT RECESSION TO LAST—JAN '09

All Respondents



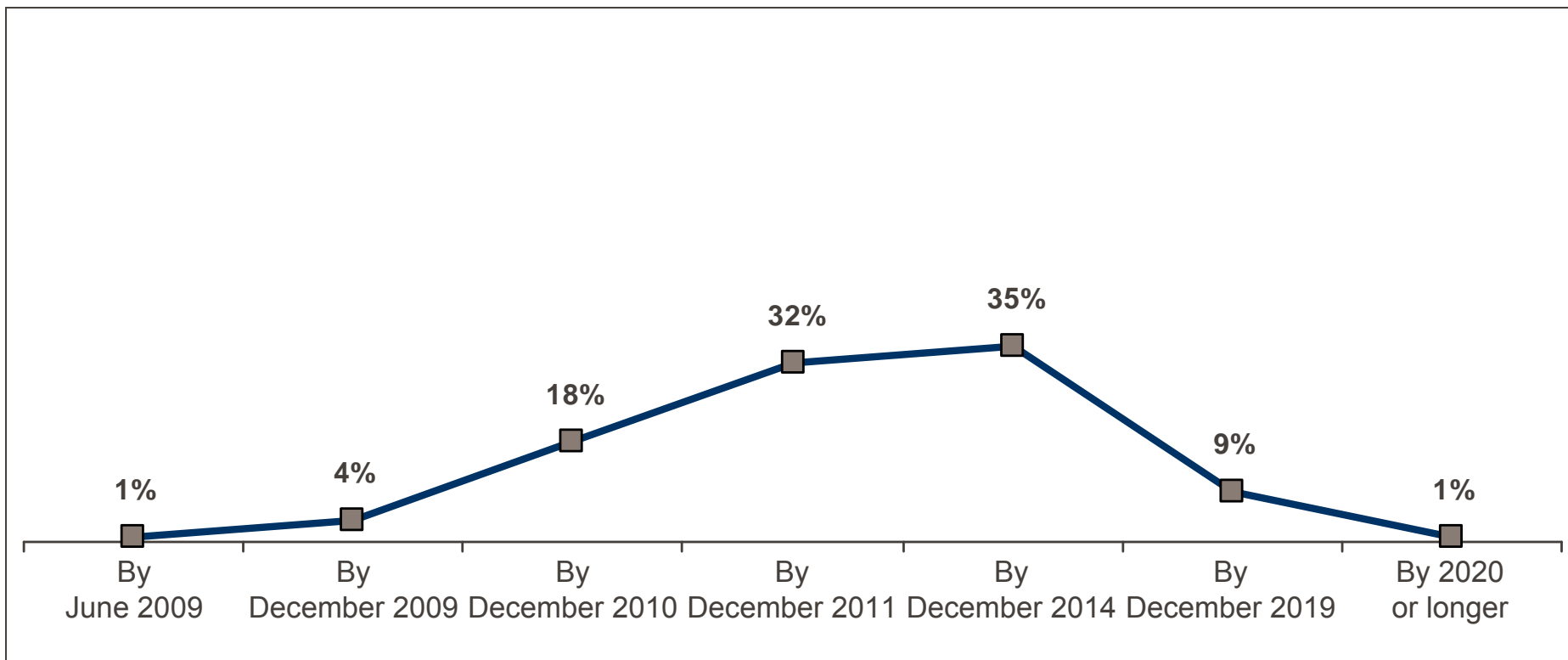
Source: Q4G: How long do you expect the current economic recession to last? (Base = Advisors responding; Jan '09 = 1220)
Excludes "Don't know" (n= 20)

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Advisors also are divided on the time it will take clients to recoup market losses

ESTIMATED LENGTH OF TIME WILL TAKE CLIENTS TO RECOUP PORTFOLIO LOSSES—JAN '09

All Respondents



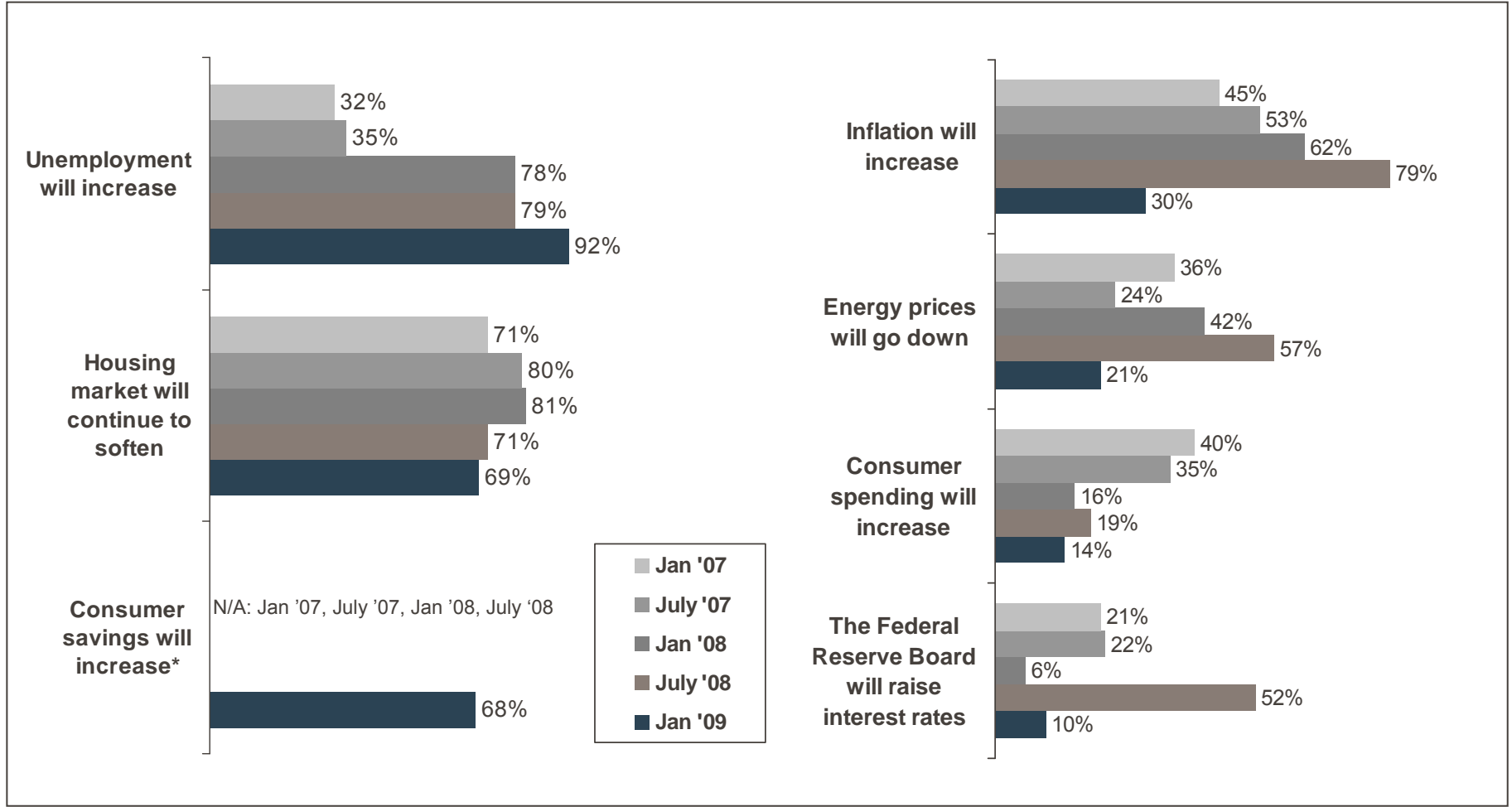
Source: Q22D: How long would you estimate it could take for your clients to recoup the losses in their portfolios, compared to the values of their portfolios of September 1, 2008? (Base = Advisors responding; Jan '09 = 1203)
Excludes "Don't know" (n = 37)

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Advisors have low expectations for unemployment and housing, but believe consumer savings is on the rise

LIKELIHOOD THAT EVENTS WILL OCCUR IN THE U.S. DURING THE NEXT SIX MONTHS

All Respondents



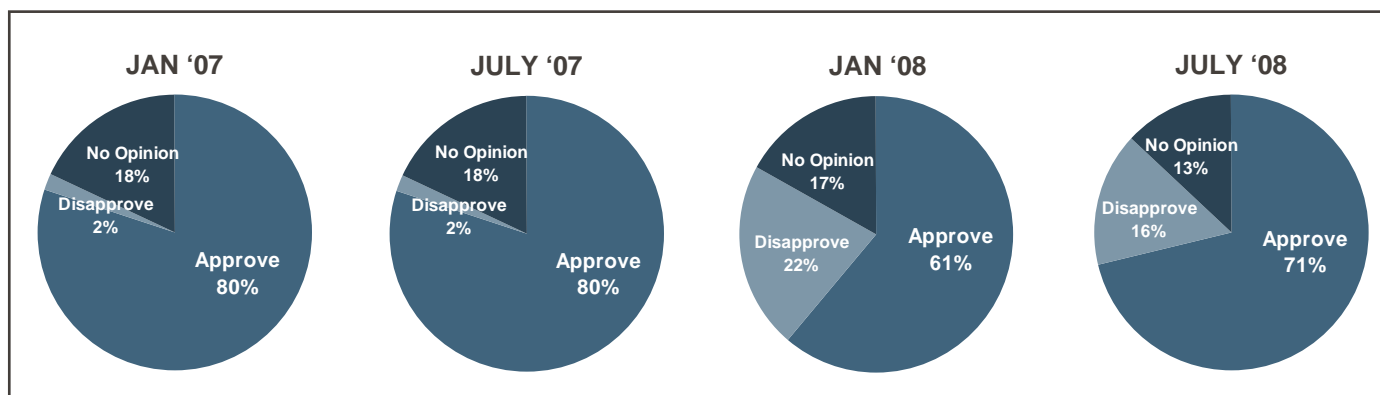
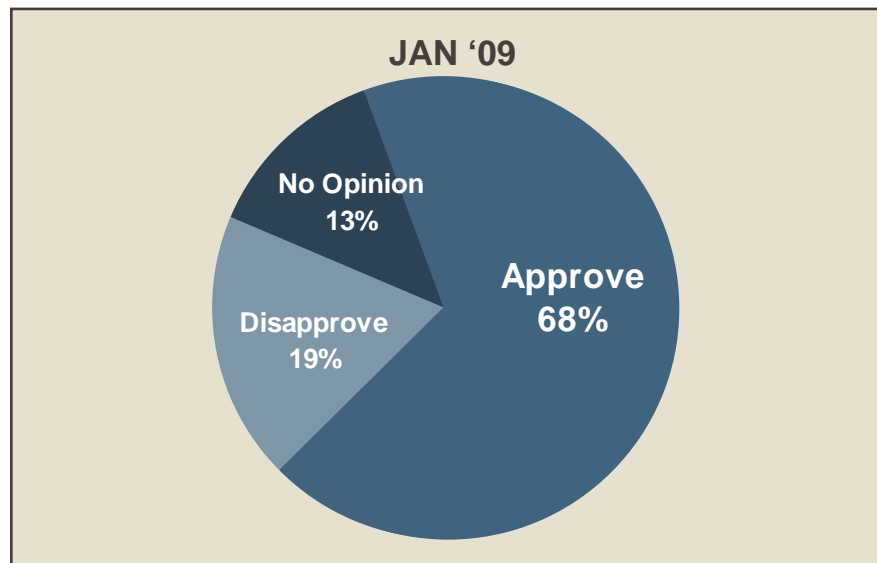
Source: Q2: Please choose the response that best describes your opinion of each of the below events occurring in the U.S. in the next six months. (Base = All respondents; Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010; Jan '09 = 1240)

*New to Jan '09.

Advisor opinion of Chairman Bernanke remains high

APPROVAL FOR BERNANKE'S FRB LEADERSHIP

All Respondents

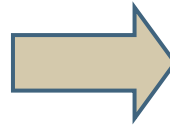
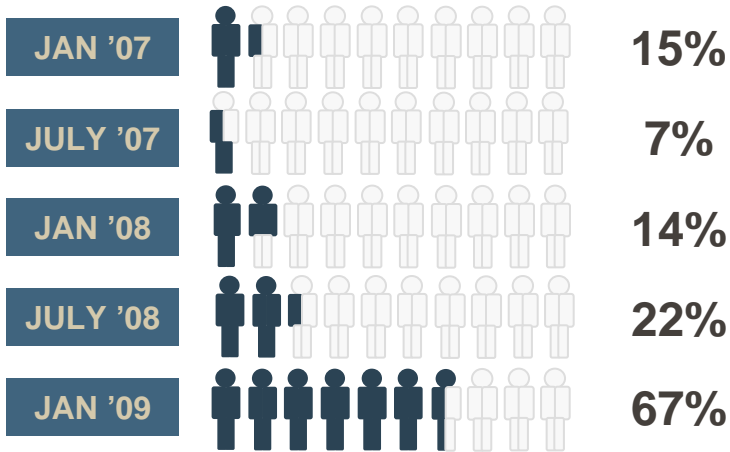


Source: Q3: Which of the following best describes your view of Chairman Bernanke's Federal Reserve Board leadership thus far? (Base = All respondents: Jan '07 = 1387; July '07 = 1044; Jan '08 = 1006; July '08 = 1010, Jan '09 = 1240)

Advisors expect the U.S. political landscape to be more united

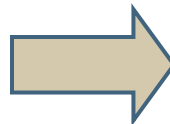
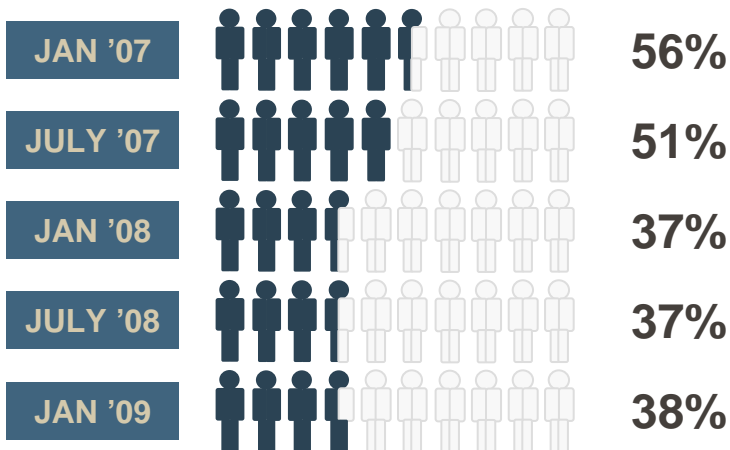
SIX-MONTH OUTLOOK ON THE POLITICAL LANDSCAPE

U.S. will become more united



- Two-thirds of advisors think the domestic political landscape will be more united in the next six months, a major increase from previous waves.

Global landscape will become more volatile

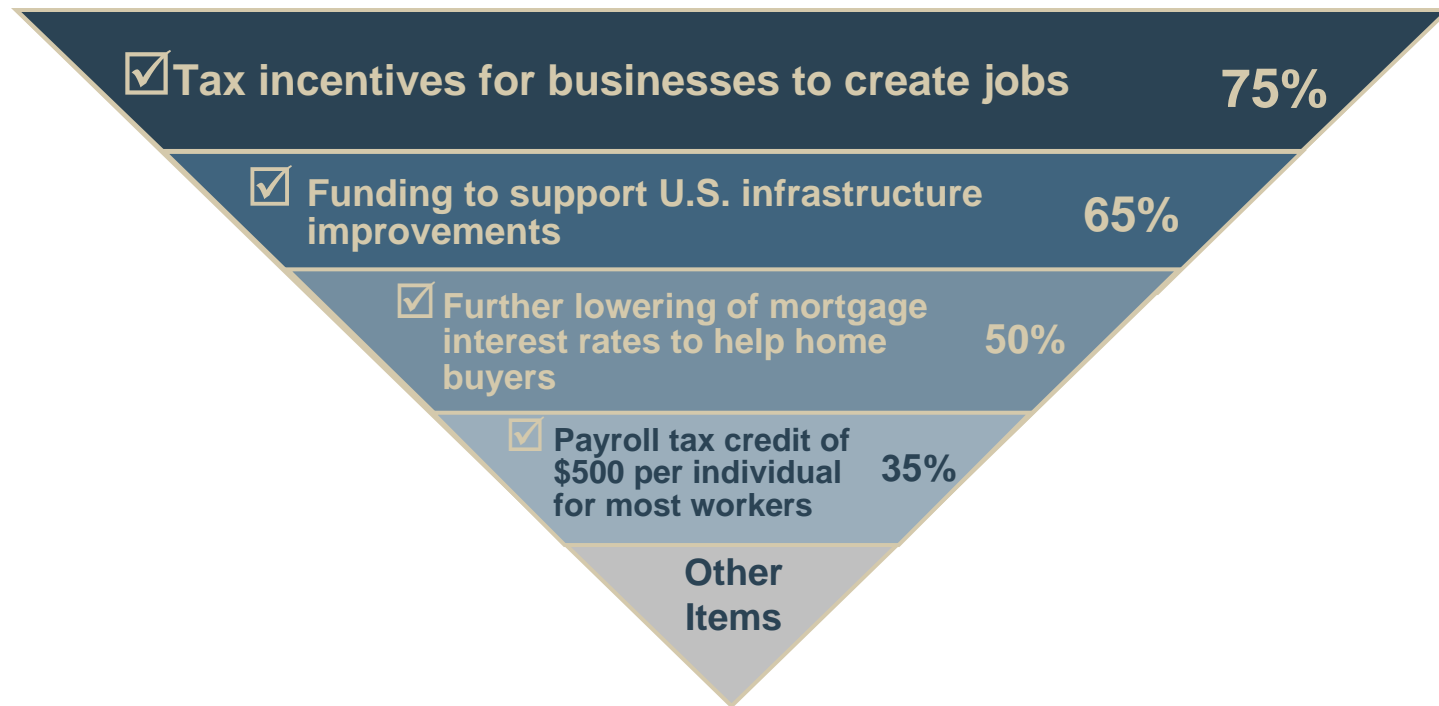


- Just under 40% of advisors think that the global political landscape will become more volatile in the next six months.

Tax incentives for businesses and funding for U.S. infrastructure are seen by advisors as most beneficial

PROPOSED COMPONENTS OF PRESIDENT OBAMA'S ECONOMIC STIMULUS PLAN THAT WOULD BE MOST BENEFICIAL FOR U.S. ECONOMY—JAN '09

All Respondents



Other Items	%
Loans to states from the federal government to subsidize health care and education costs	21%
Elimination of income taxes for seniors making < \$50K per year	14%
Business subsidies to provide extension of temporary health care benefits to laid off and retired workers	11%
Expansion of unemployment insurance to part-time workers	6%
None of the above	7%

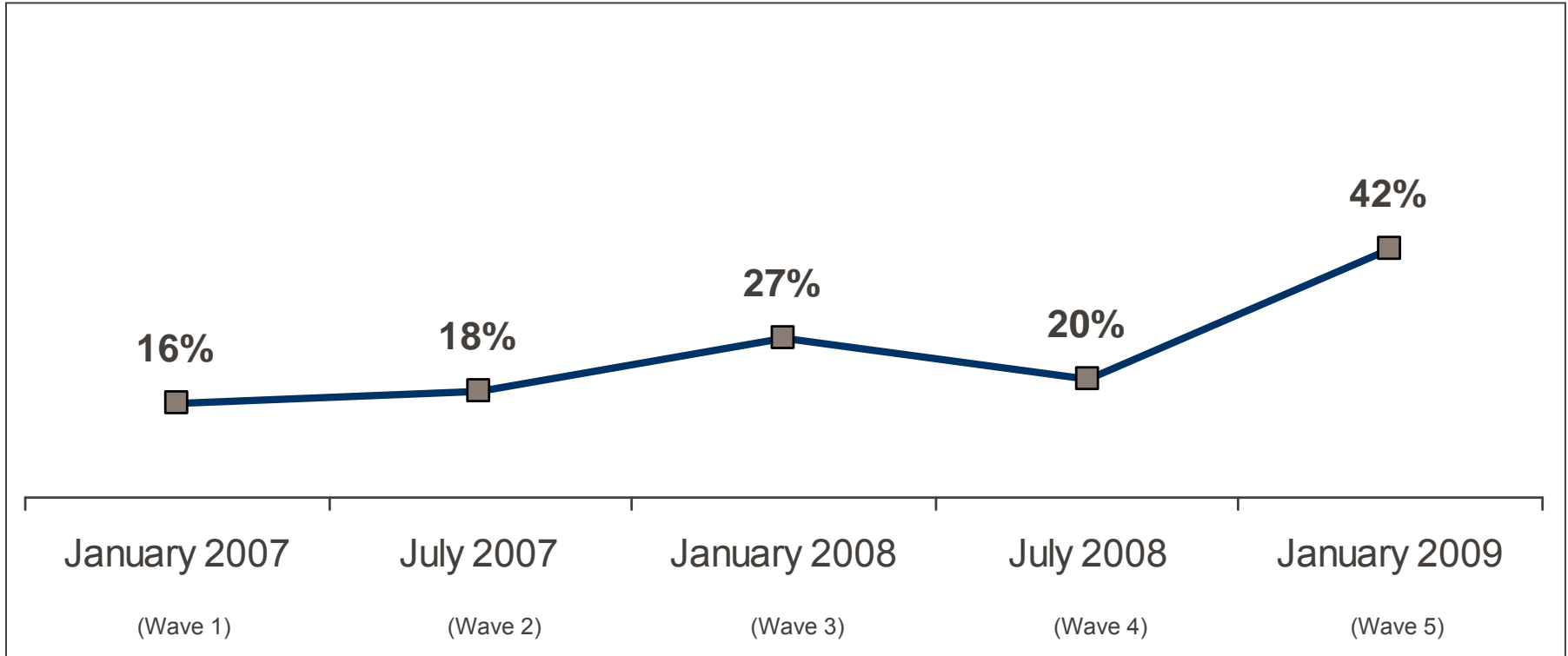
Source: Q4E: If all of the following potential components of President Obama's economic stimulus plan are proposed, which three would be most beneficial to the U.S. economy? (Base = All respondents; Jan '09 = 1240)

Investment Outlook

Advisors' plans to increase investment in fixed income have more than doubled

LIKELIHOOD TO INVEST MORE IN FIXED INCOME

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)

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Plans for domestic equity investing also on the rise; cash and international falling

PLANS FOR INVESTING DURING THE NEXT SIX MONTHS

All Respondents

ASSET CLASS	INVEST MORE					KEEP CURRENT LEVEL					INVEST LESS BUT NOT ELIMINATE					ELIMINATE				
	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09	JAN '07	JULY '07	JAN '08	JULY '08	JAN '09
U.S. Large Cap Equities	39%	32%	34%	30%	38%	54%	58%	52%	56%	48%	7%	9%	14%	13%	12%	1%	<1%	1%	1%	1%
U.S. Small Cap Equities	7%	7%	9%	22%	27%	58%	59%	49%	57%	54%	33%	32%	38%	19%	16%	2%	2%	4%	2%	3%
Fixed Income	16%	18%	27%	20%	42%	68%	66%	58%	60%	45%	15%	15%	14%	19%	12%	1%	2%	1%	1%	1%
Cash	11%	16%	28%	22%	20%	68%	69%	55%	54%	46%	19%	13%	16%	23%	32%	2%	1%	1%	1%	2%
International Large Cap Equities in Developed Markets	31%	29%	29%	21%	17%	62%	64%	59%	66%	55%	6%	6%	11%	12%	23%	1%	1%	1%	1%	4%
International Large Cap Equities in Emerging Markets	18%	19%	20%	20%	14%	60%	63%	58%	61%	50%	18%	15%	18%	15%	25%	5%	3%	4%	3%	11%
International Small Cap Equities in Developed Markets	16%	16%	12%	14%	12%	64%	66%	58%	65%	52%	17%	16%	25%	18%	26%	3%	2%	4%	3%	10%
International Small Cap Equities in Emerging Markets	10%	12%	11%	14%	9%	58%	61%	55%	61%	49%	25%	20%	25%	19%	26%	7%	6%	9%	6%	16%

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)

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Advisors expect to invest more in ETFs and high yield bonds; commodities and REITs get less of a push

PLANS FOR INVESTING DURING THE NEXT SIX MONTHS—JAN '09

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	79%	34%	39%	5%	1%	5%	15%
REITs	63%	12%	37%	12%	3%	8%	29%
High Yield Bonds	62%	24%	27%	7%	3%	9%	30%
Commodities	51%	16%	26%	8%	2%	7%	42%
Real Estate	50%	8%	29%	11%	3%	5%	45%
SMA	45%	12%	25%	5%	3%	2%	54%
Mutual Funds that Employ Hedging Strategies	41%	10%	21%	5%	5%	3%	56%
Donor-advised Funds	31%	3%	20%	5%	4%	2%	67%
Private Equity	28%	4%	14%	5%	5%	3%	69%
Hedge Funds	28%	2%	12%	6%	7%	1%	72%
Mutual Fund Wrap Products	28%	4%	15%	4%	5%	2%	70%
Foreign Currency/Foreign Currency Money Market Funds	25%	4%	13%	5%	4%	3%	71%
Options	27%	6%	13%	3%	5%	3%	70%
Structured Notes	25%	3%	12%	5%	4%	3%	72%
ETF Wrap Products*	23%	4%	13%	2%	4%	3%	75%

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 '08 = 1010; Jan '09 = 1240)

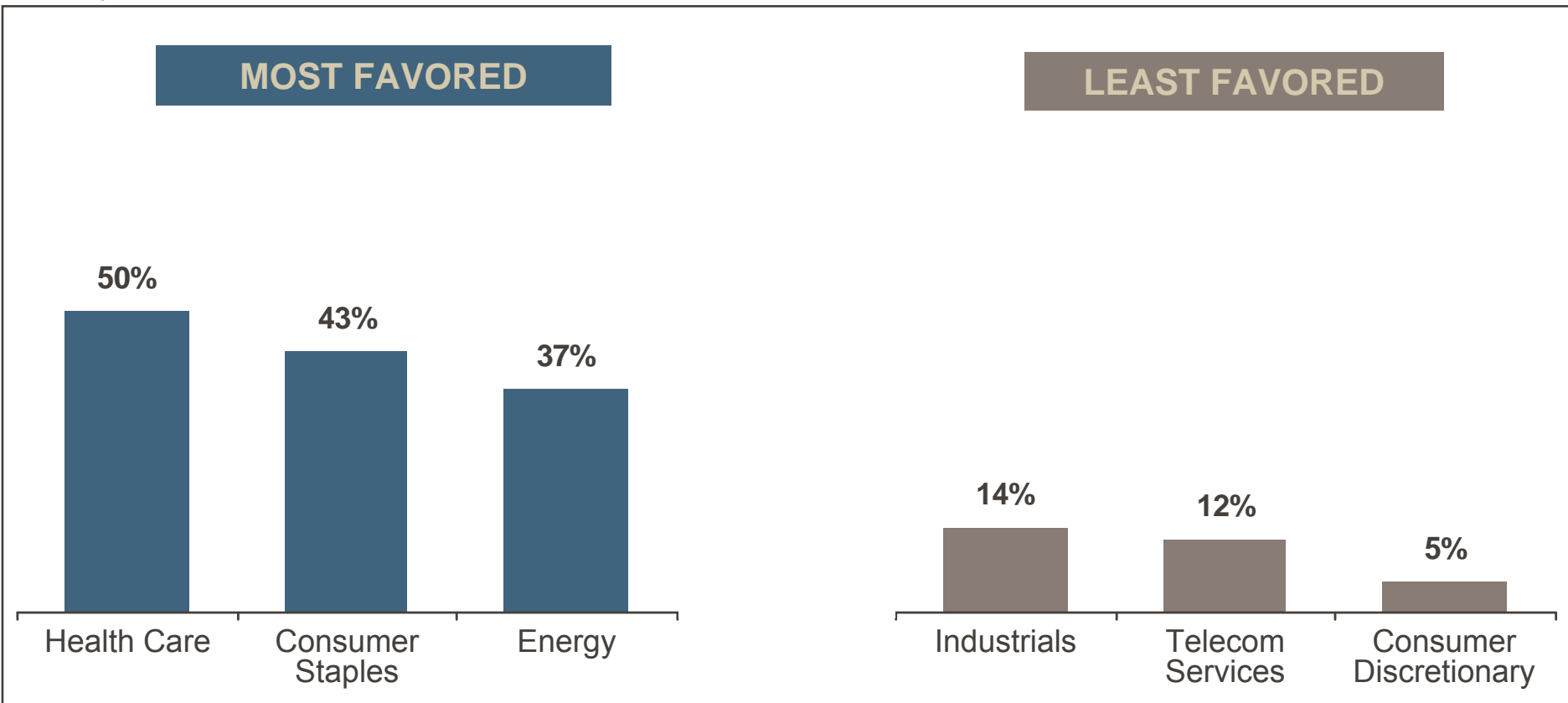
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*New to Jan '09.

Health care, consumer staples, and energy seen as tops

MARKET SECTOR PERFORMANCE IN NEXT SIX MONTHS—JAN '09

All Respondents



Source: Q12: Which three market sectors do you think will perform best in the next six months? (Base = All respondents; Jan '09 = 1240)

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Client Outlook

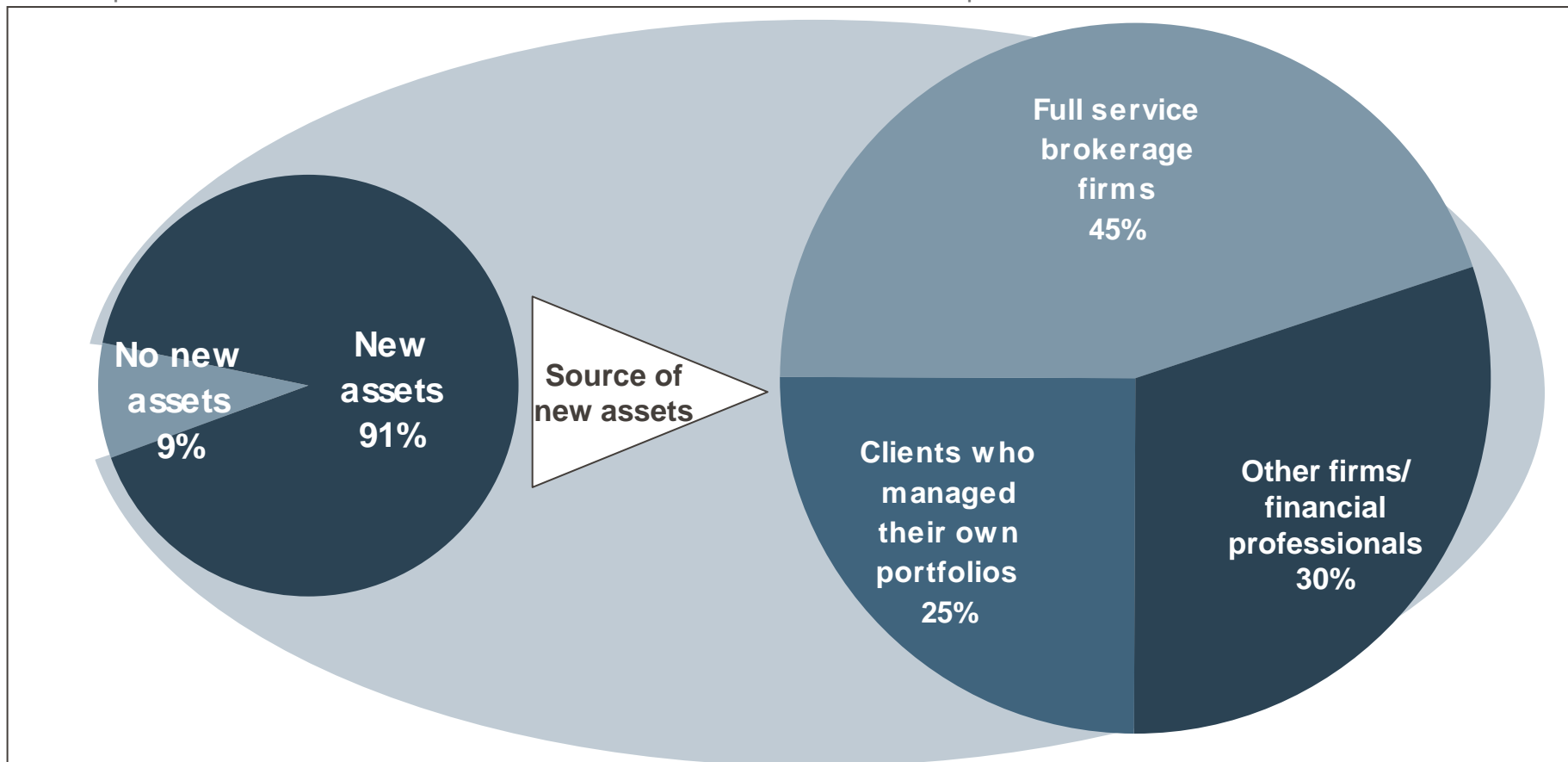
Over 90% of advisors had new assets during the past six months; almost half came from full service firms

NEW ASSETS DURING PAST SIX MONTHS—JAN '09

All Respondents

AVERAGE PERCENT OF NEW ASSETS FROM EACH SOURCE—JAN '09

All Respondents



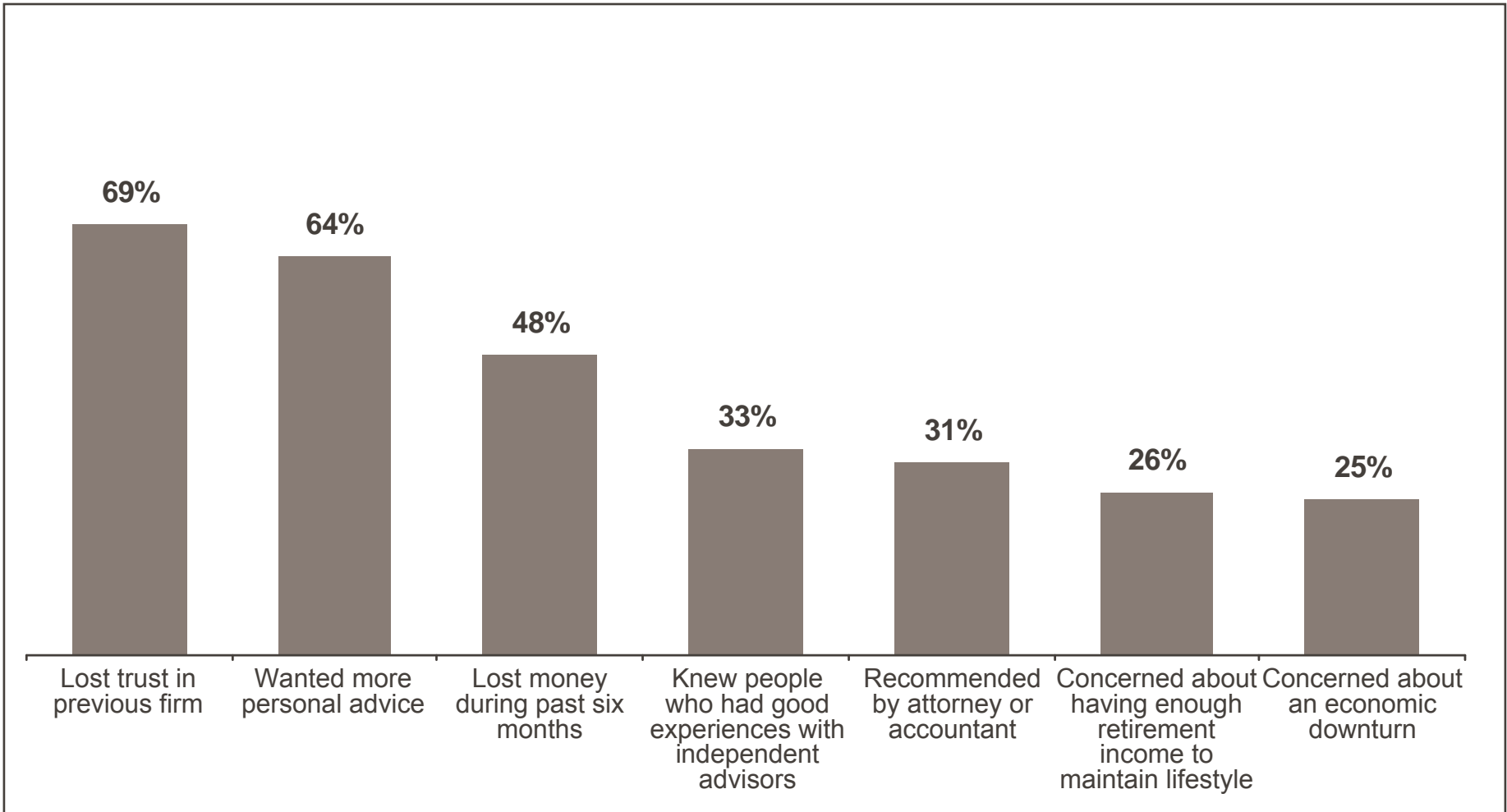
Source: Q13C.0: What percent of your new assets in the past six months came from the following sources? (Base = All respondents; Jan '09 = 1240)

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Clients moved from full service firms due to trust erosion and need for personal advice

REASONS FOR LEAVING FULL SERVICE BROKERAGE FIRMS—JAN '09

Advisors With New Clients From Full Service Firms



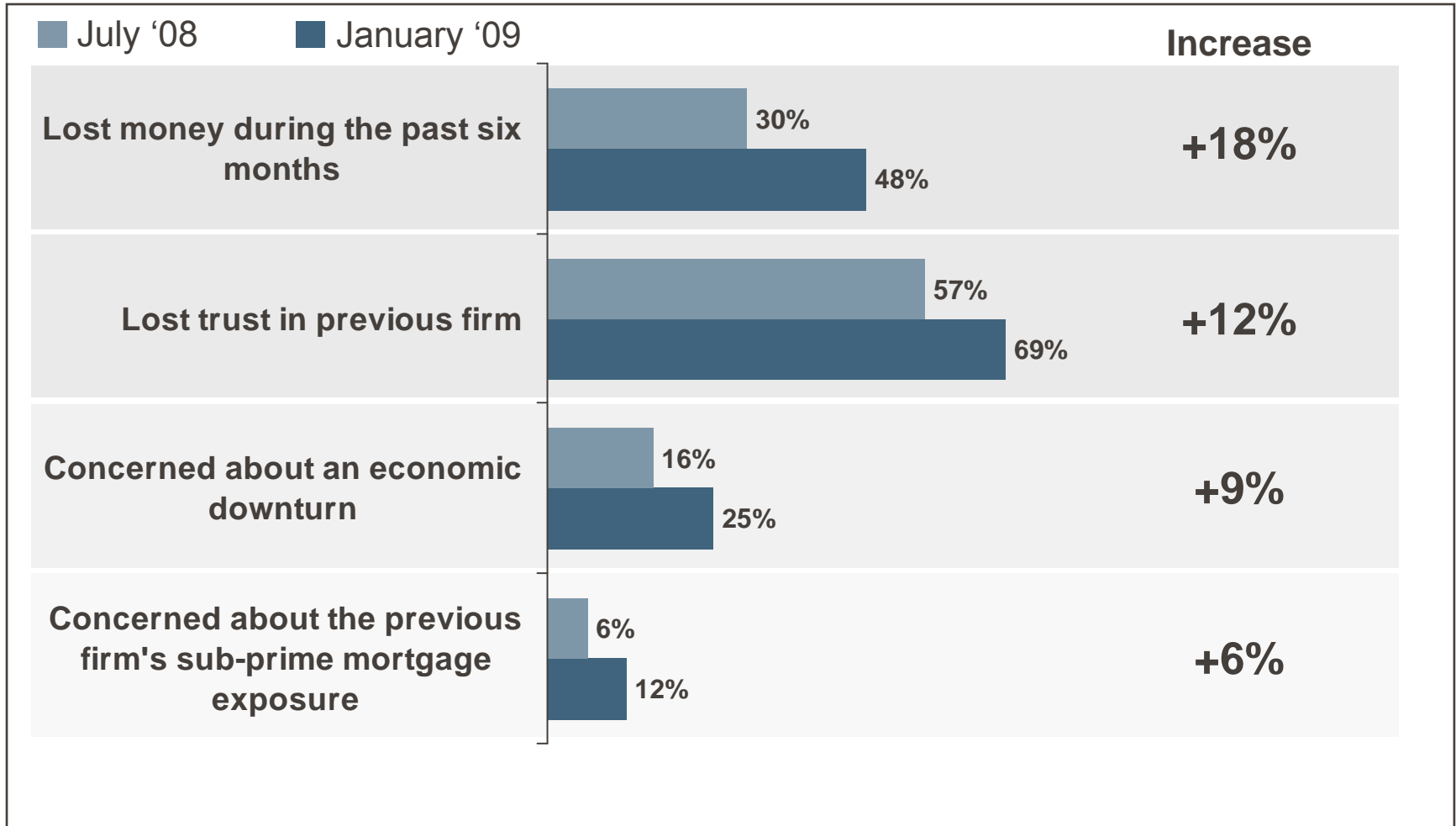
Source: Q13C.1: For which of the following reasons, if any, did your new clients from full service brokerage firms move their assets to your firm during the past six months? (Base = Have new clients from full service brokerage firms; Jan '09 = 998)

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More investors are moving to independent advisors due to performance and lack of trust

LARGEST INCREASE IN REASONS FOR LEAVING FULL SERVICE BROKERAGE FIRMS JULY '08 VS. JAN '09

All Respondents



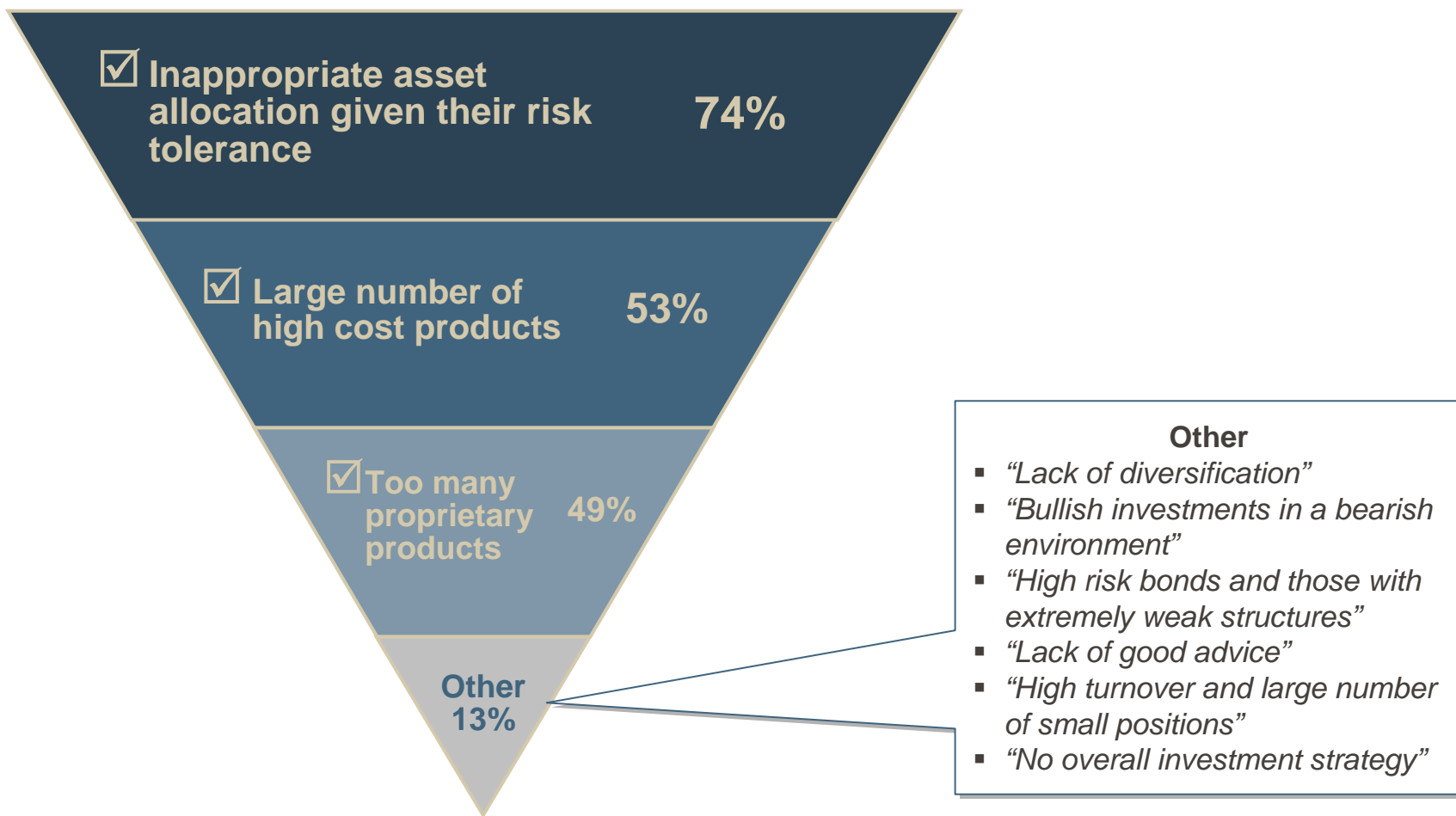
Source: Q13C.1: For which of the following reasons, if any, did your new clients from full service brokerage firms move their assets to your firm during the past six months? (Base = All respondents; July '08 = 1010; Jan '09 = 1240)

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Advisors say the biggest problems in new clients' portfolios are inappropriate asset allocation, high cost products

PROBLEMS WITH PORTFOLIOS OF NEW CLIENTS—JAN '09

All Respondents

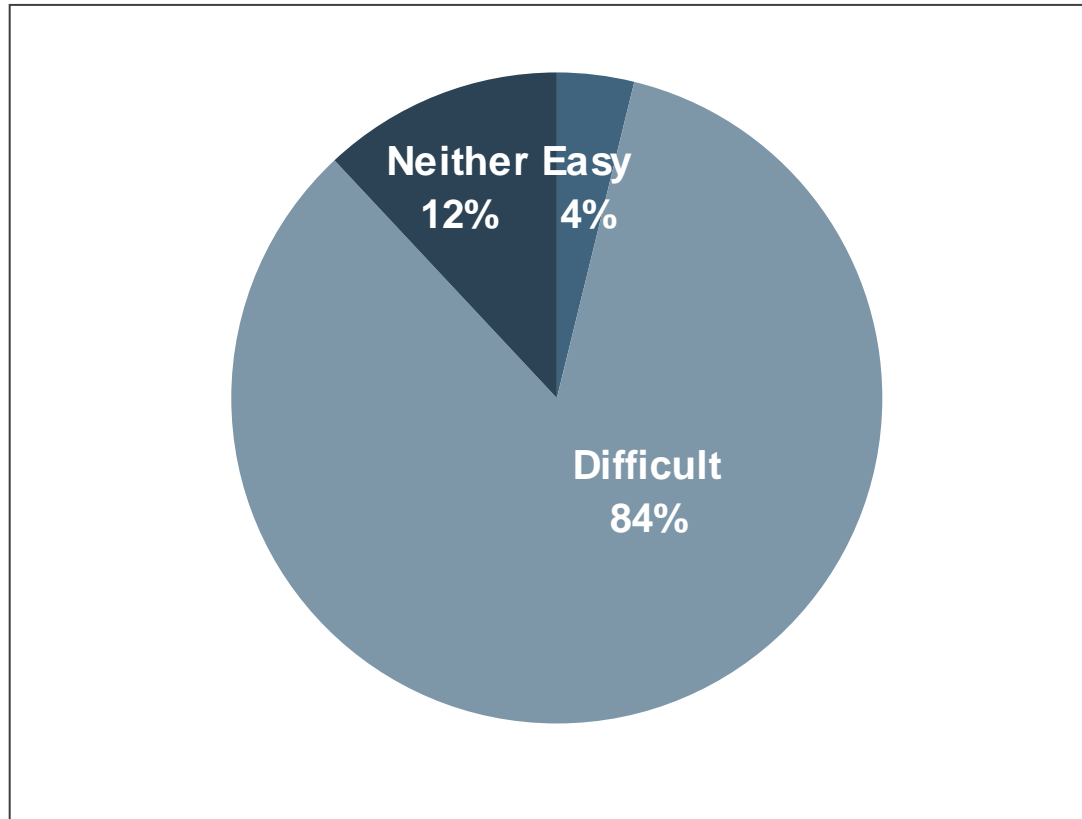


Source: Q13C.2: Which of the following problems, if any, have you seen in portfolios coming from new clients? (Base = All respondents; Jan '09 = 1240)

Most advisors anticipate difficulty achieving client investment goals in the current market

EASE OF ACHIEVING CLIENT INVESTMENT GOALS IN CURRENT MARKET—JAN '09

All Respondents

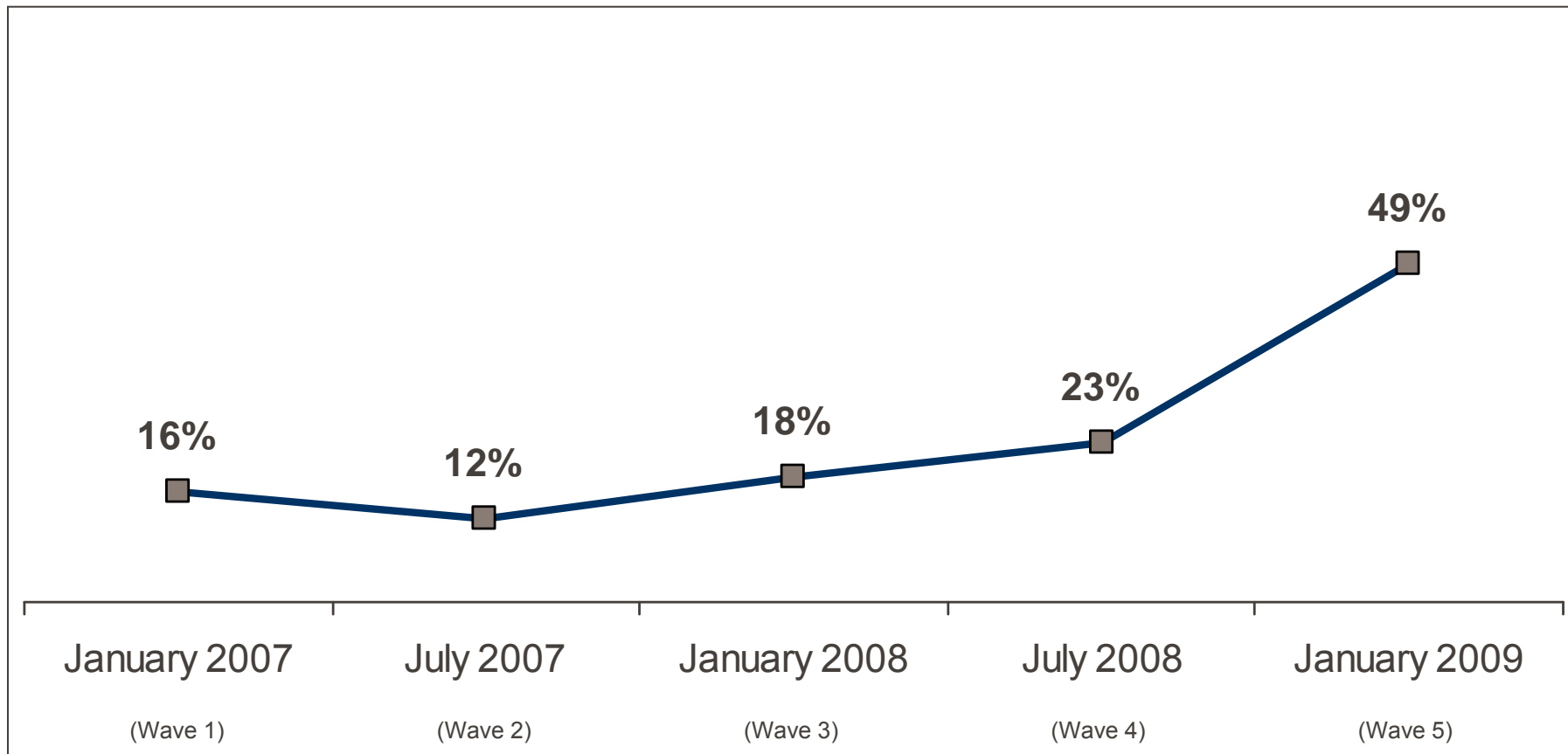


Source: Q7: Which of the following best describes how easy or difficult you think it will be to achieve your clients' investment goals in the current market environment? (Base = All respondents; Jan '09 = 1240)

Clients need more reassurance in the current market

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 '09 = 1240)

Advisors are providing more proactive contact and education for clients; increasing capital preservation activities

CHANGES IN INTERACTIONS WITH CLIENTS DUE TO CURRENT ENVIRONMENT—JAN '09

All Respondents

- ✓ Increasing amount of proactive contact: 78%
- ✓ Providing more education about the market: 71%
- ✓ Creating more long-term financial plans: 27%
- ✓ Implementing more short-term financial plans: 23%
- ✓ Conducting back-to-basics budgeting for clients: 22%
- ✓ Talking to family members about the family assets: 16%

TOP ACTIVITIES FOR CLIENT CAPITAL PRESERVATION DURING PAST SIX MONTHS—JAN '09

All Respondents

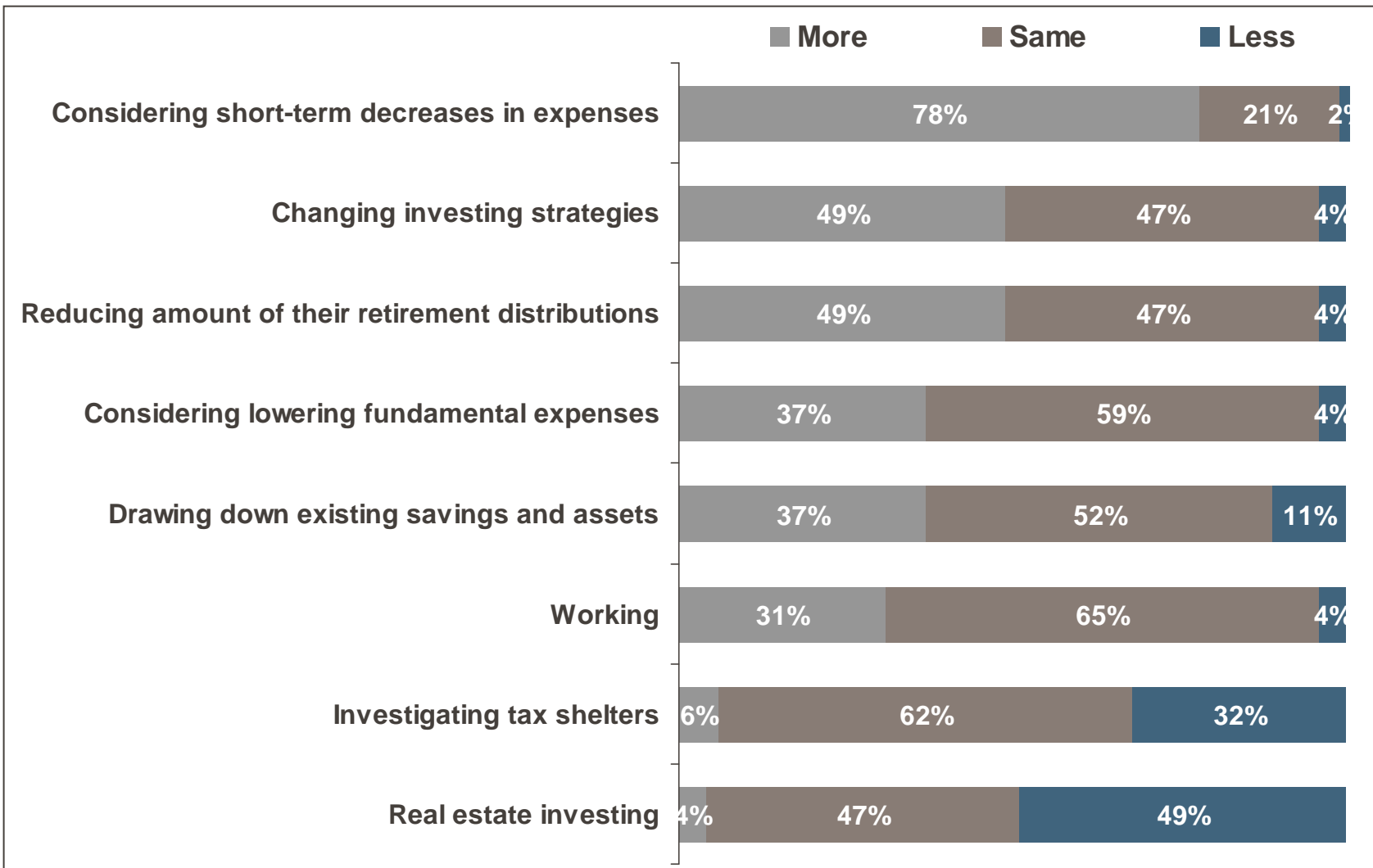
- ✓ Increasing use of short-term, liquid vehicles such as CDs and T-bills: 68%
- ✓ Lowering their equity exposure: 62%
- ✓ Paying down their mortgages or other debt: 38%
- ✓ Purchasing annuities to guarantee cash flow: 11%
- ✓ Selling non-financial assets (i.e., art, antiques, real estate that is not primary residence): 4%
- ✓ Cashing in life insurance policies: 3%

Source: Q19B0.1: Which of the following, if any, are you doing differently in your interactions with clients in the current market environment?;
Q19B0.2: Which of the following capital preservation activities have your clients begun undertaking in the last six months? (Base = All respondents; Jan '09 = 1240)

Many of advisors' retired clients are making more short-term decreases in expenses

RETIRED CLIENT INVESTING BEHAVIOR COMPARED TO 6 MONTHS AGO—JAN '09

All Respondents

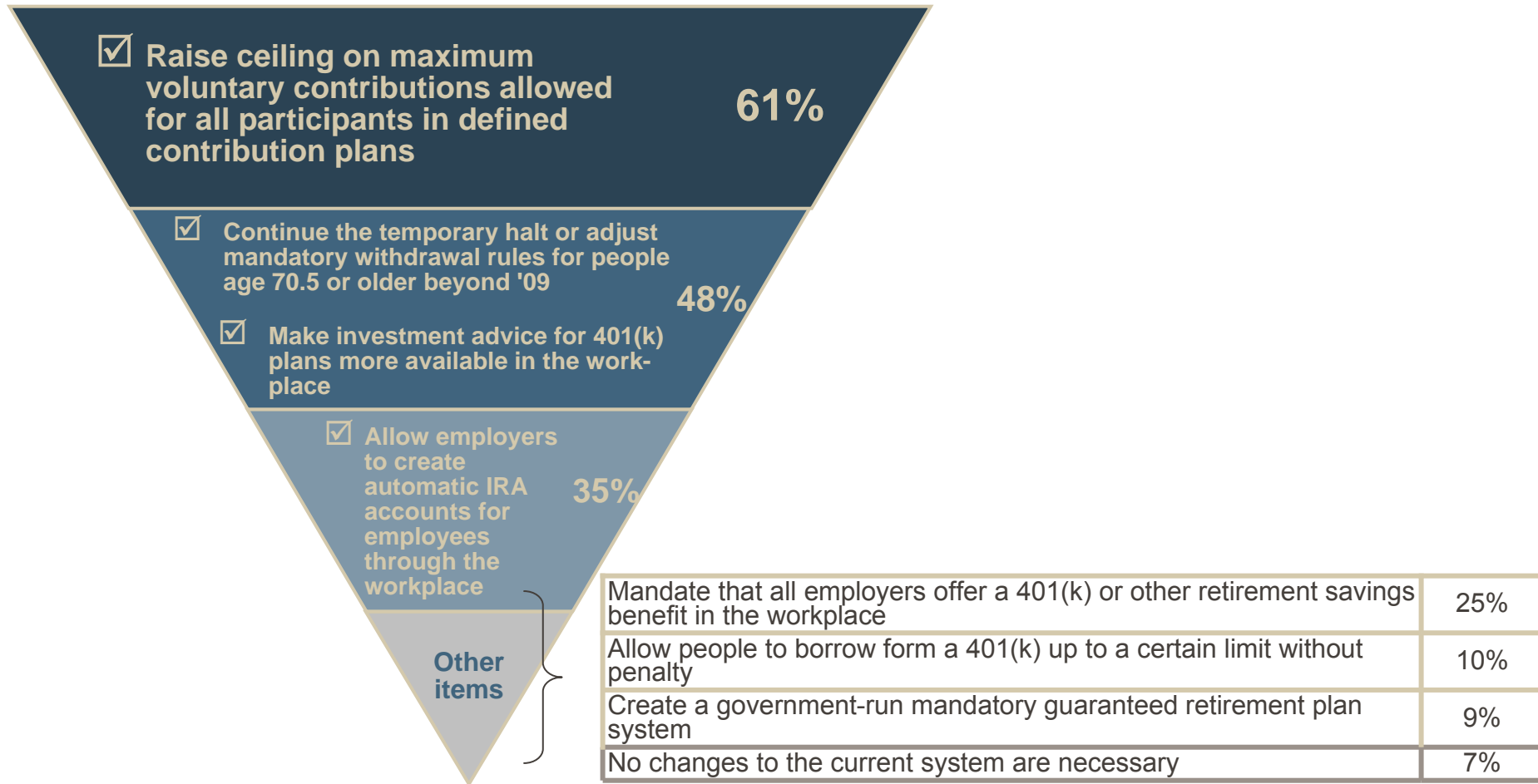


Source: Q22f: Thinking specifically about your clients who are in retirement, are they doing more, the same, or less of the following compared to six months ago? (Base = Advisors with clients in retirement; Jan '09 = 1197)

Advisors believe raising the ceiling for contributions to defined retirement plans would most impact Americans' ability to retire

PROPOSED CHANGES THAT WILL HAVE GREATEST IMPACT ON AMERICANS' ABILITY TO RETIRE—JAN '09

All Respondents



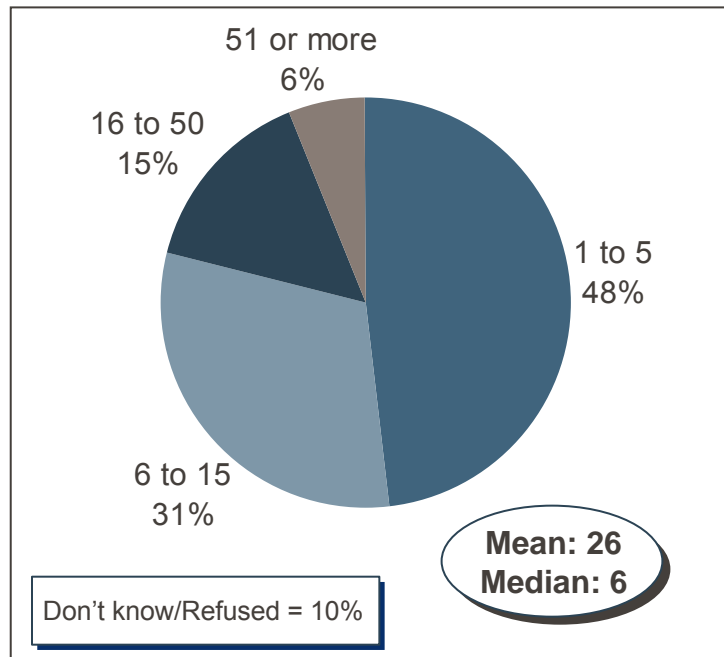
Source: Q22g: If all of the following potential changes are proposed, which, if any, would have the greatest positive impact on improving the ability of Americans to retire? (Base = All respondents Jan '09 = 1240)

Advisor Profile

Advisors' firms function as wealth managers, have five or fewer employees, and approximately \$262MM AUM

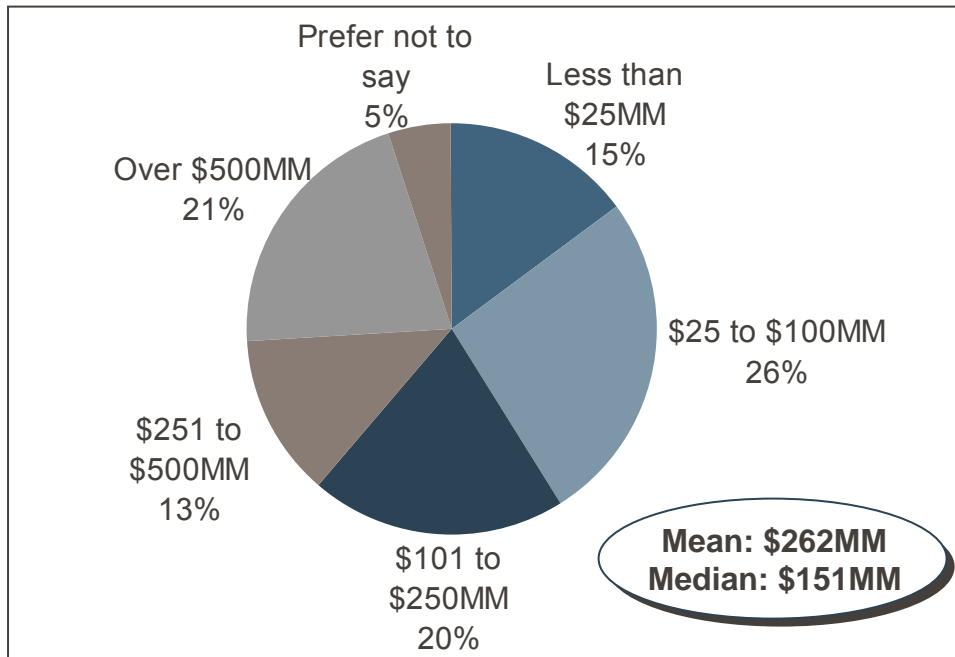
NUMBER OF EMPLOYEES AT FIRM—JAN '09

Advisors Responding



ASSETS UNDER MANAGEMENT (AUM) AT FIRM—JAN '09

Advisors Responding



TYPE OF FIRM—JAN '09

Advisors Responding

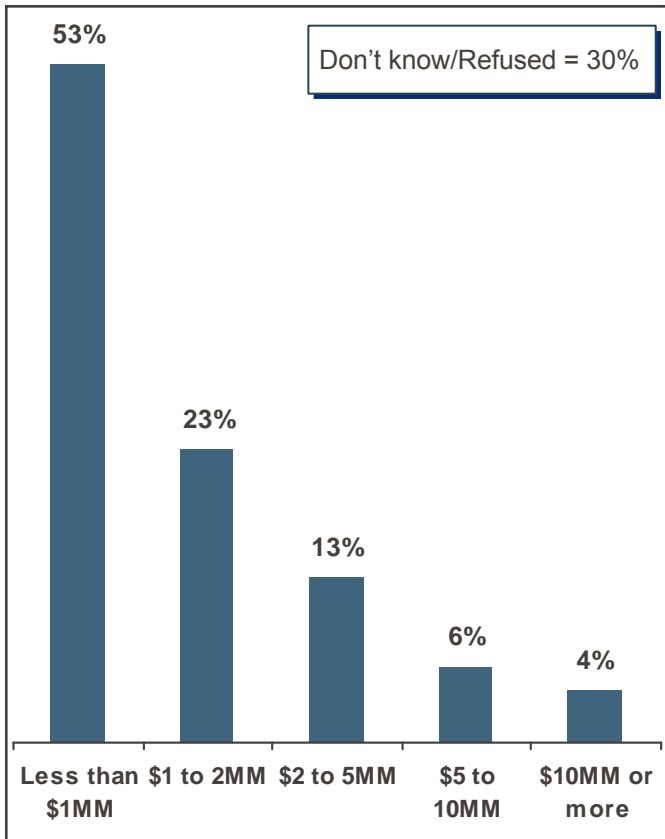
FIRM	PERCENTAGE OF RESPONDENTS
<i>Wealth Manager</i> : Firm provides a broad range of services to address the financial needs of clients	52%
<i>Money Manager</i> : Firm's primary focus is managing assets and investment performance	34%
<i>Financial Planner</i> : Firm's primary service is financial planning and investment management	14%

Source: Q23: How many employees, including yourself, are at your firm? (Base = Advisors responding; Jan '09 = 1117); 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 = Advisors responding; Jan '09 = 1232); Q30: Which of the following best describes your type of firm? (Base = Advisors responding; Jan '09 = 1016)

Approximately half of advisors' clients have less than \$1MM in assets; average client age is 58 years

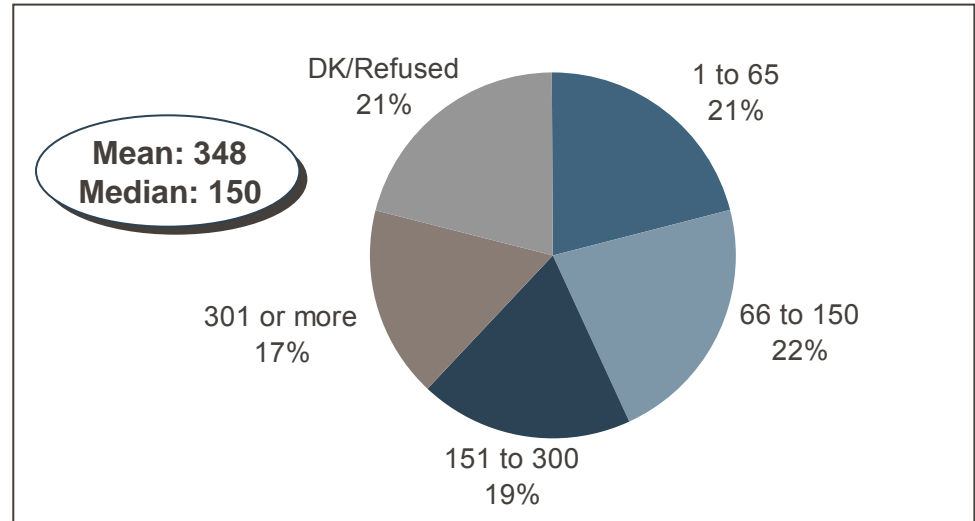
AVERAGE CLIENT ACCOUNT SIZE BY ASSET RANGE—JAN '09

Advisors Responding



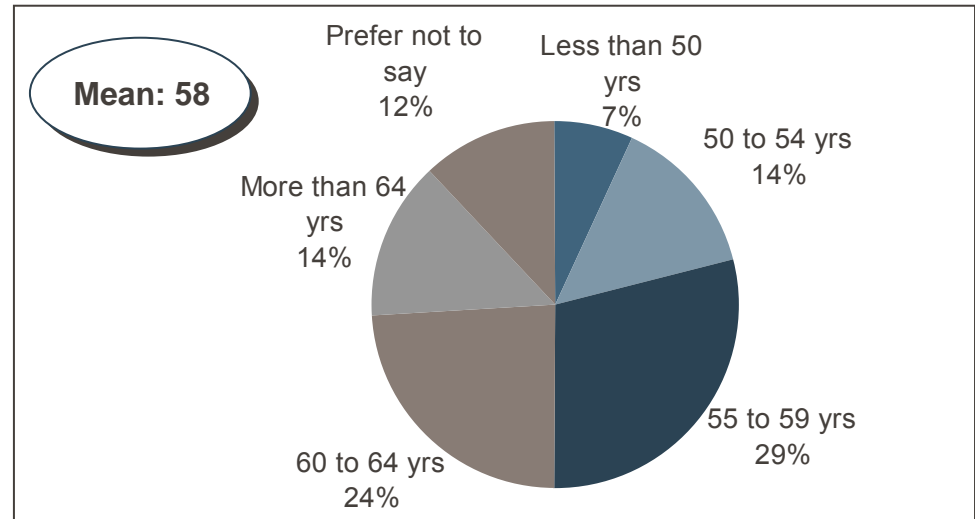
AVERAGE NUMBER OF CLIENTS PER FIRM—JAN '09

Advisors Responding



AVERAGE CLIENT AGE BY RANGE—JAN '09

Advisors Responding

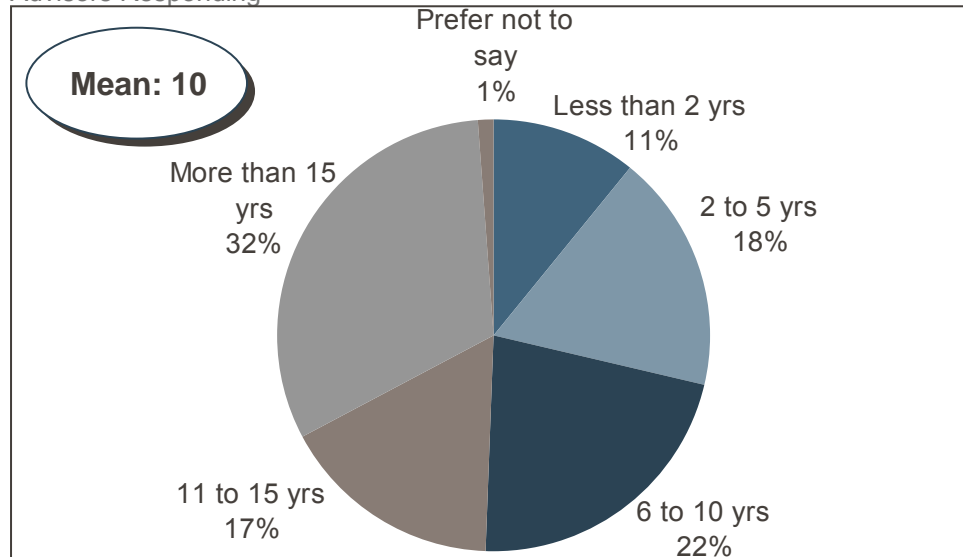


Source: Q26: Approximately, how many clients does your firm have in total? (Base = All respondents; Jan '09 = 1240); Q27: Approximately what percent of your clients have account sizes in each of the following asset ranges? (Base = Advisors responding; Jan '09 = 874); Q28: Which of the following categories best represents the average age range of your clients? (Base = Advisors responding; Jan '09 = 1238)

Nearly half of advisors have worked for independent firms for over 10 years and the majority are Principals

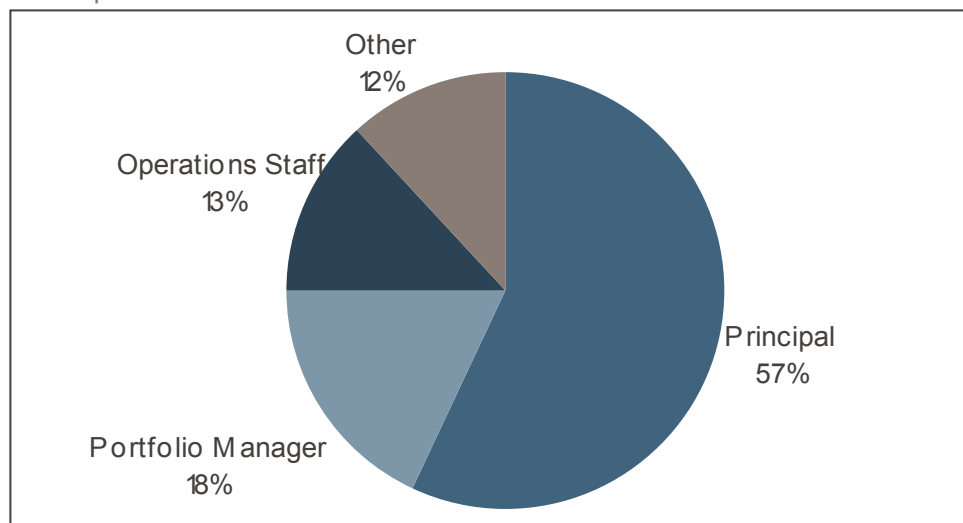
NUMBER OF YEARS WORKED FOR INDEPENDENT ADVISORY FIRM—JAN '09

Advisors Responding



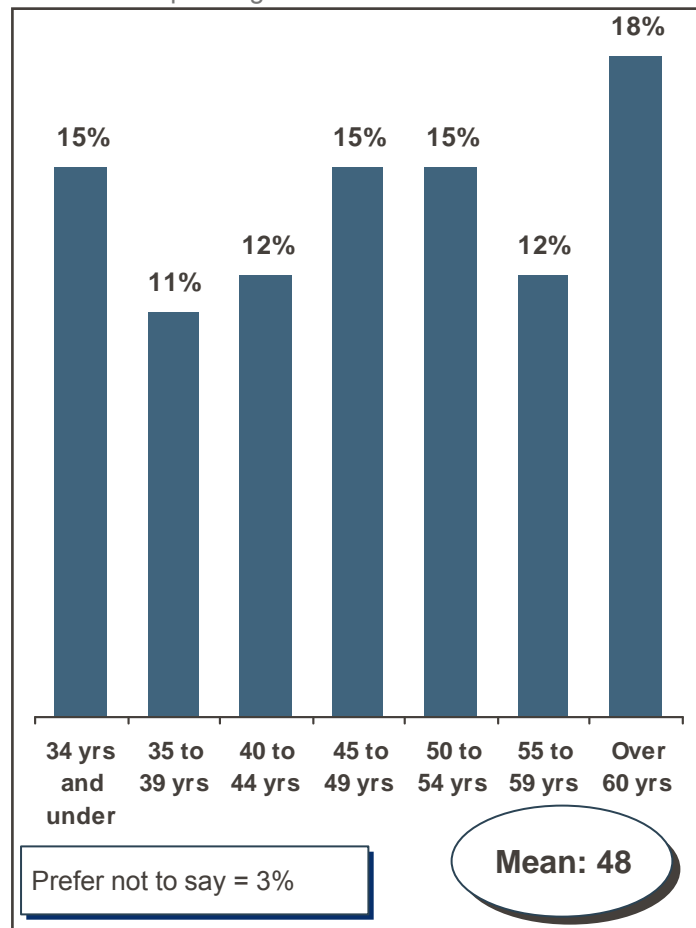
PRIMARY ROLE AT FIRM—JAN '09

All Respondents



ADVISOR AGE BY RANGE—JAN '09

Advisors Responding



Source: 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 '09 = 1238); Q29: Which of the following best describes your primary role in the firm? (Base = All respondents; Jan '09 = 1240); Q31: Into which of the following ranges does your age fall? (Base = Advisors responding; Jan '09 = 1239)

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They are also highly likely to be Republican and male

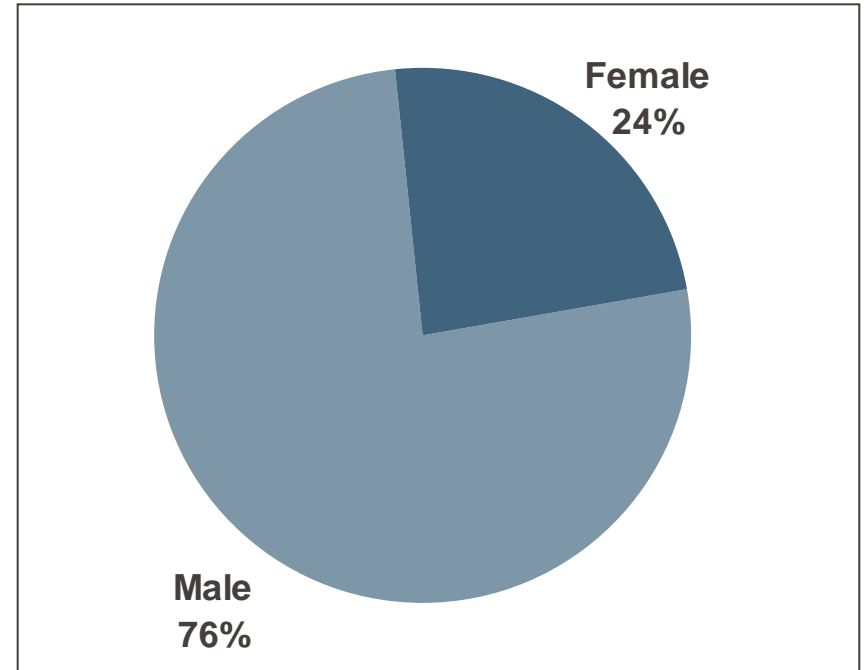
REGISTERED POLITICAL PARTY—JAN '09

Advisors Responding

POLITICAL PARTY	PERCENTAGE OF RESPONDENTS
Republican	44%
Democrat	15%
Independent	15%
None	12%
Other	1%
Prefer not to say	12%

GENDER—JAN '09

Advisors Responding



Appendix

Economic outlook at-a-glance

All Respondents

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

Key market sectors: Expected top performers

EXPECTED TOP PERFORMING MARKET SECTORS IN THE NEXT SIX MONTHS

All Respondents

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

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)