

Transitioning to Independence: IBD Advisors' Perceptions of the RIA Model

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For Institutional Audiences only

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Background

- Charles Schwab is a leading provider of custodial, operational and trading support for more than 6,000 independent fee-based registered investment advisors (RIAs).
- Since 1987, Schwab has supported independent RIAs 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.
- The “Transitioning to Independence: IBD Advisors’ Perceptions of the RIA Model” survey is designed to measure the perceptions and understanding of the RIA model among advisors employed by Independent Broker Dealers and insurance firms.

What

- 10-minute online study conducted by Koski Research.

Who

- 157 financial consultants and advisors of independent broker dealers and insurance firms.

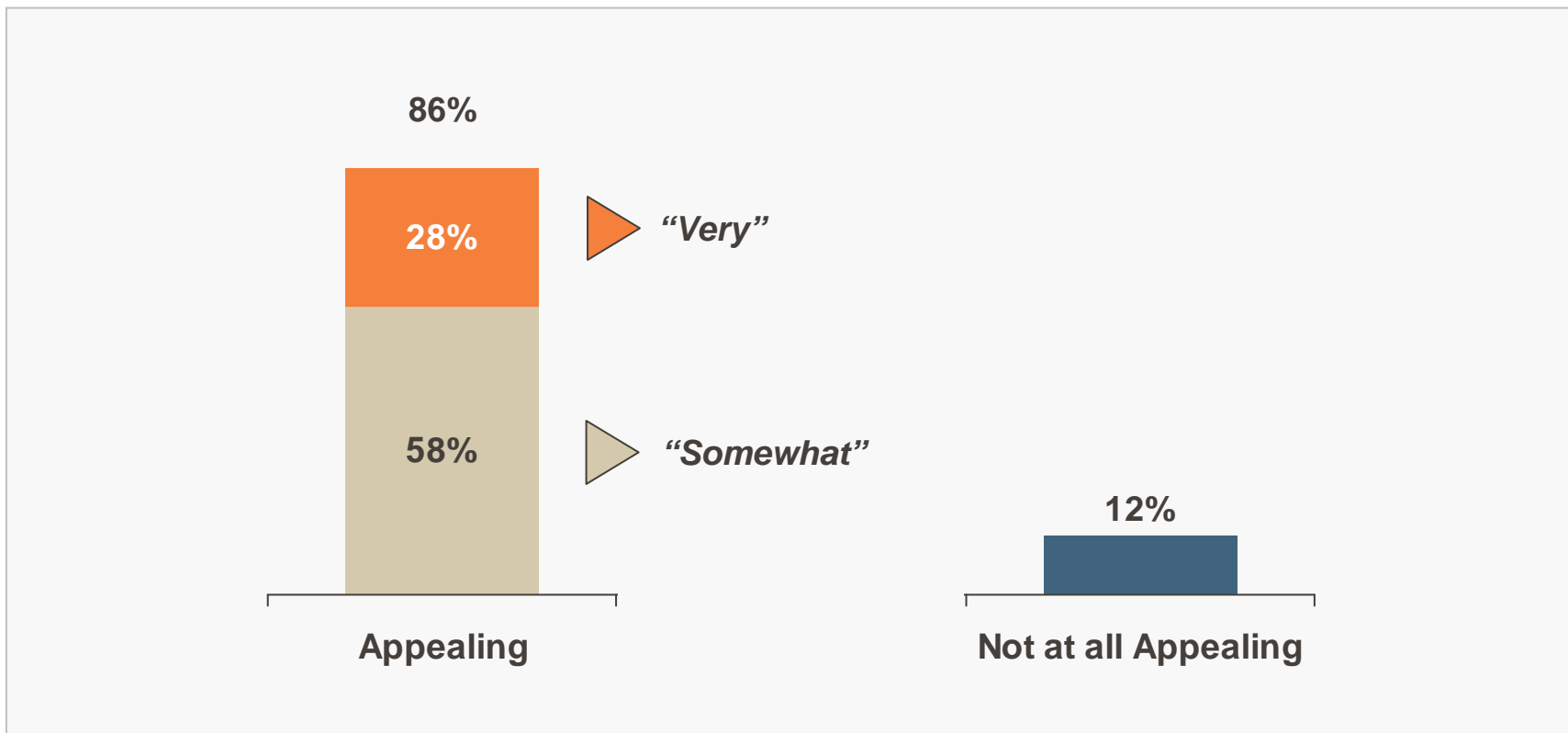
When

- Survey fielded January 5 to January 21, 2011.

Detailed Findings

A significant majority of survey respondents find the independent RIA model appealing

Appeal of Becoming an Independent RIA

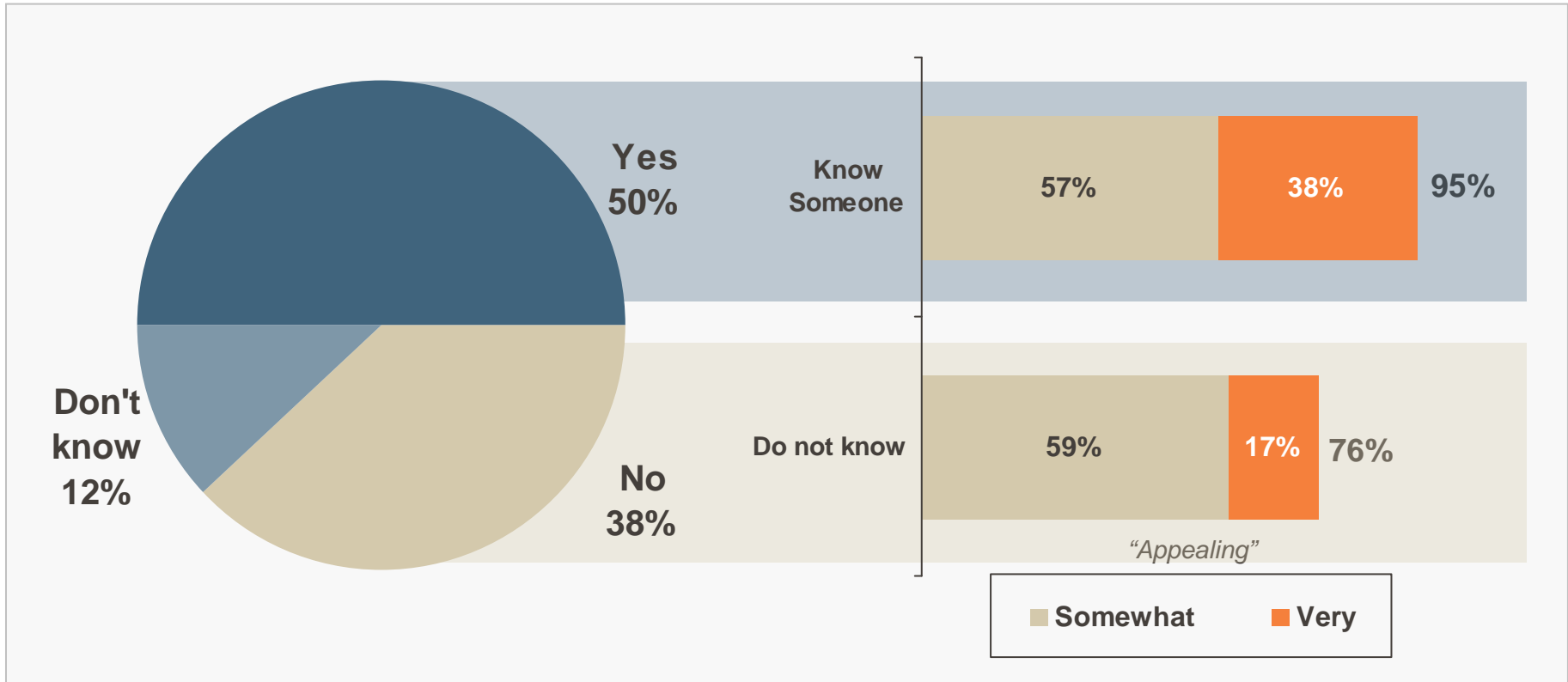


"Not Sure" = 3%

Becoming an RIA is more appealing to those who know someone who has joined or started an RIA firm

Know Someone Who has Joined or Started an Independent RIA Firm

Appeal of Becoming an Independent RIA By Knowing Someone Who Has Gone Independent

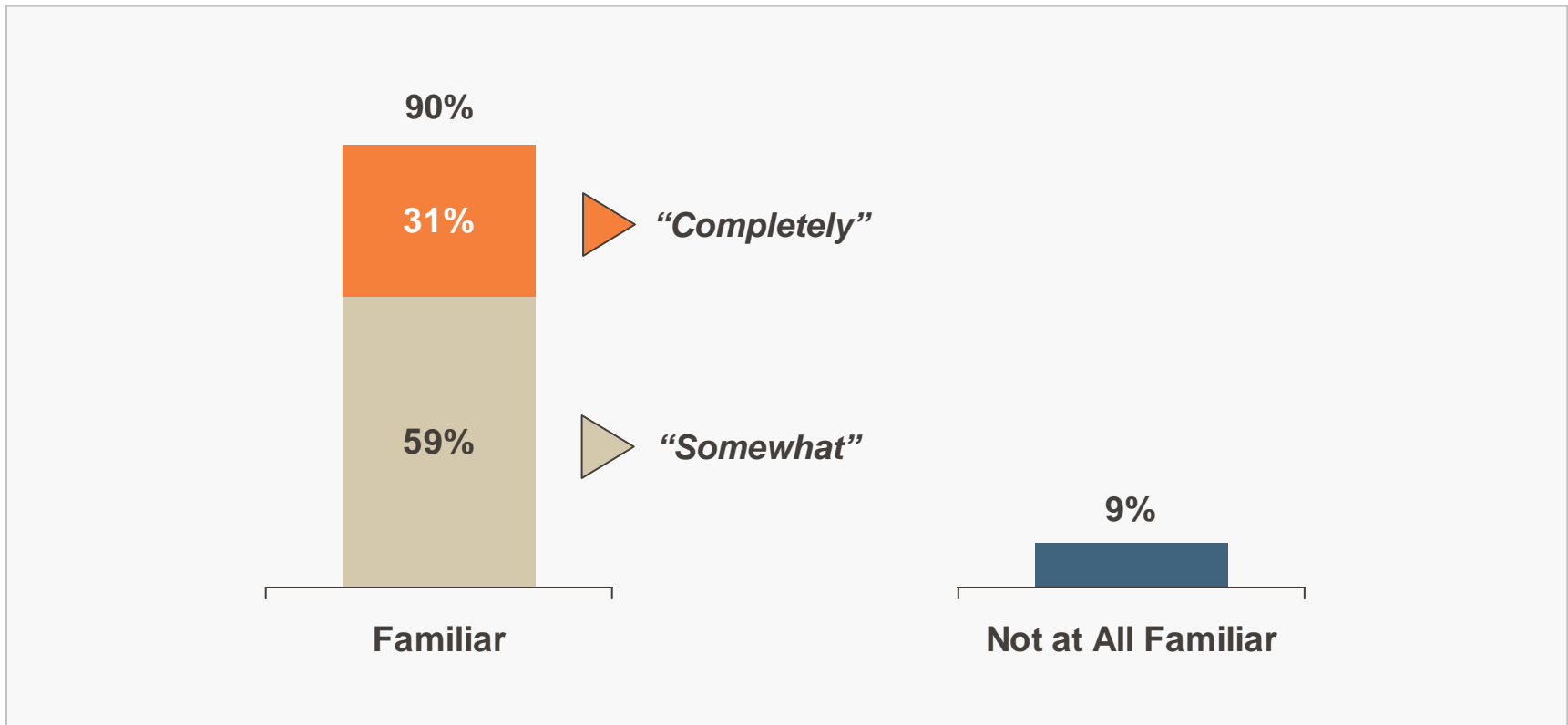


Q20. How appealing is the idea of becoming an independent registered investment advisor at some point in the future? (Base = By aware of someone who has become an RIA versus those who do not know someone who has become an RIA: 79/59)

Q24. Have any of your friends or colleagues joined or started, or are considering joining or starting, an independent registered investment advisor firm? (Base = Total: 157)

Nearly all respondents say that they are at least somewhat familiar with the independent RIA firm model

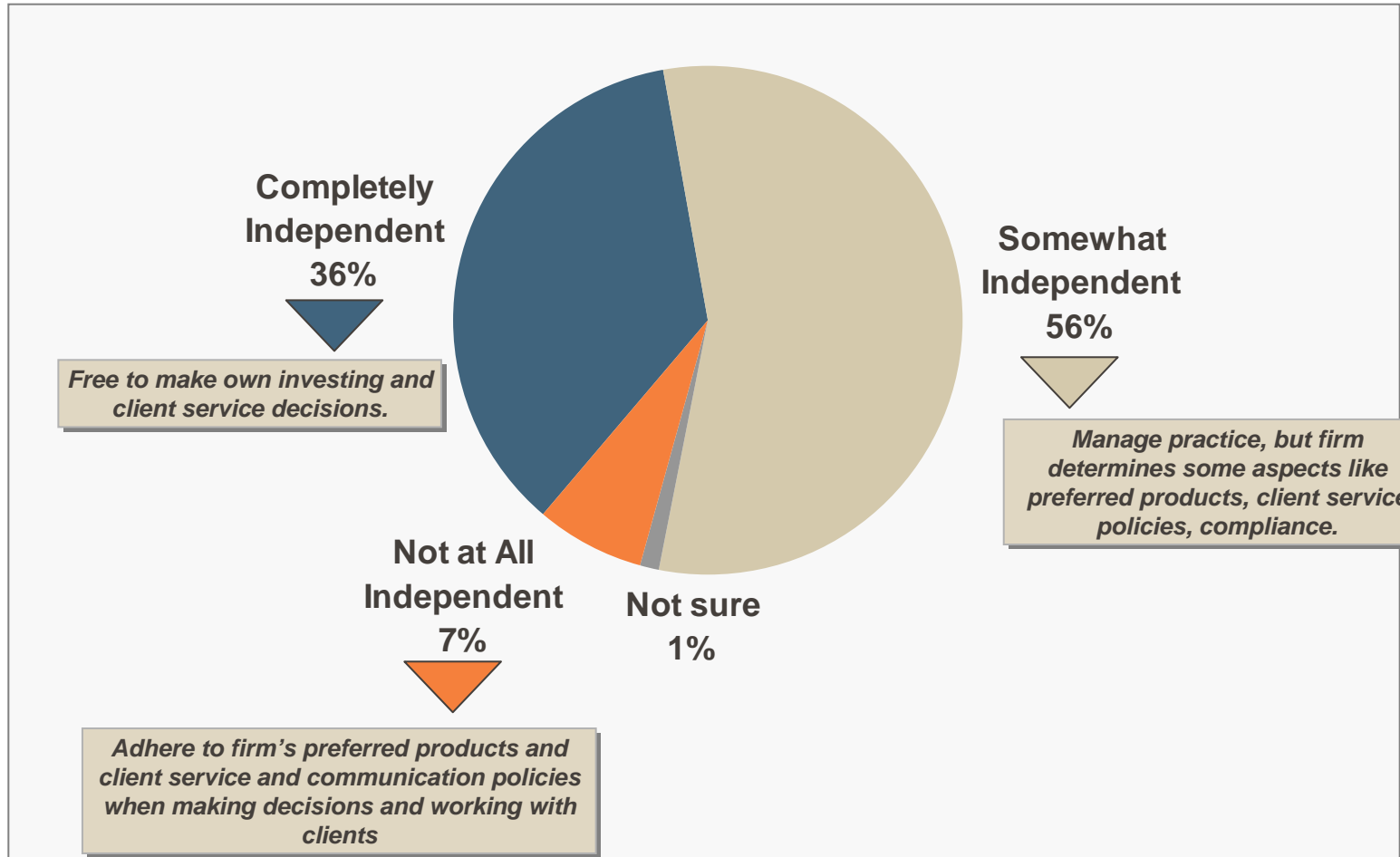
Familiarity with Independent RIA Firm Model



"Not Sure" = 1%

Most survey respondents currently consider themselves “independent” in some way

Respondent’s Level of Independence at Current Firm

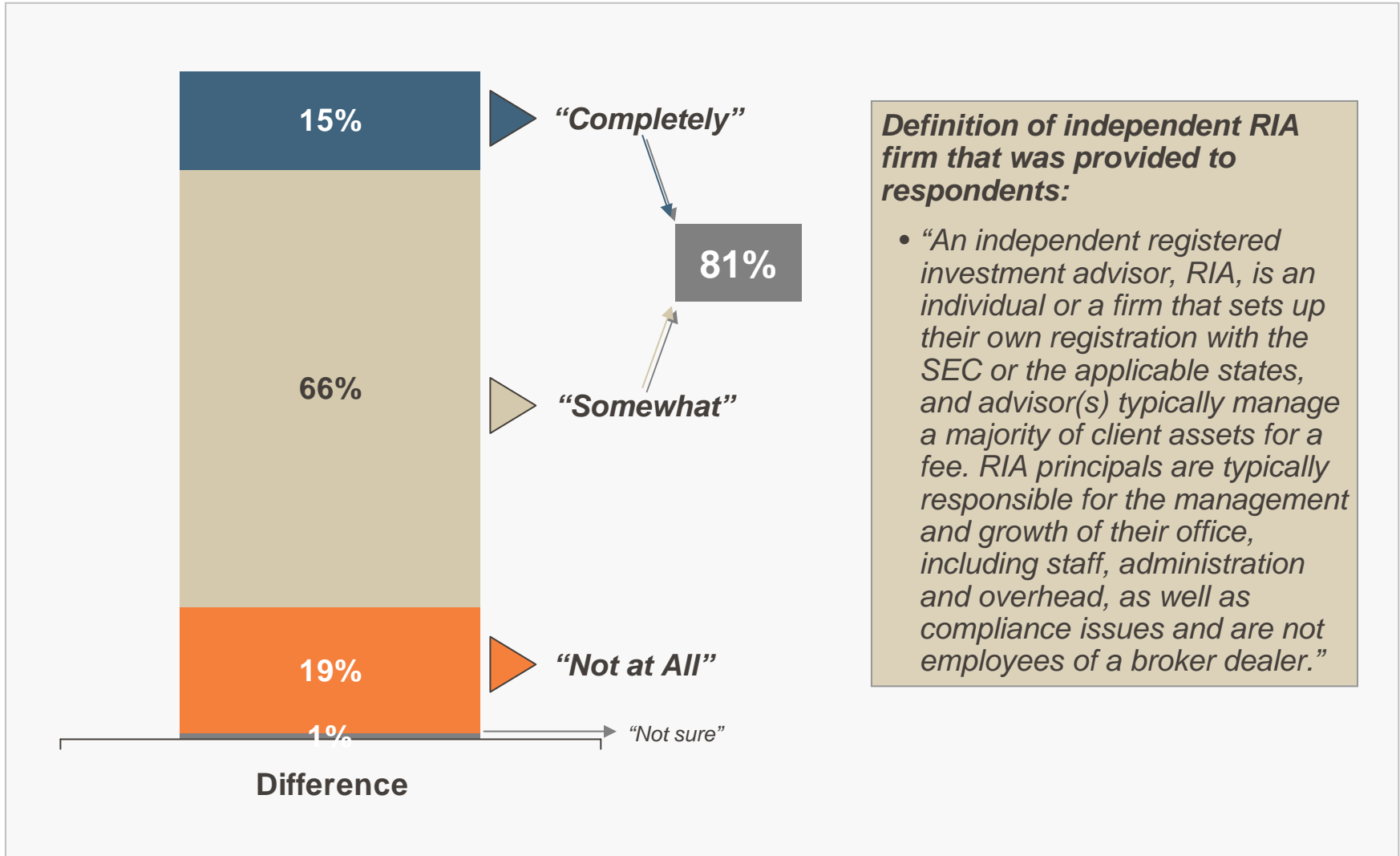


Base: Total (n = 157)

Q17. Thinking about how you attract and service clients under the management and oversight of your current firm, do you consider yourself...?

However, eight in ten view their current model as “Different” from an independent RIA firm, when given a definition

Difference Between Current Firm and RIA Firm

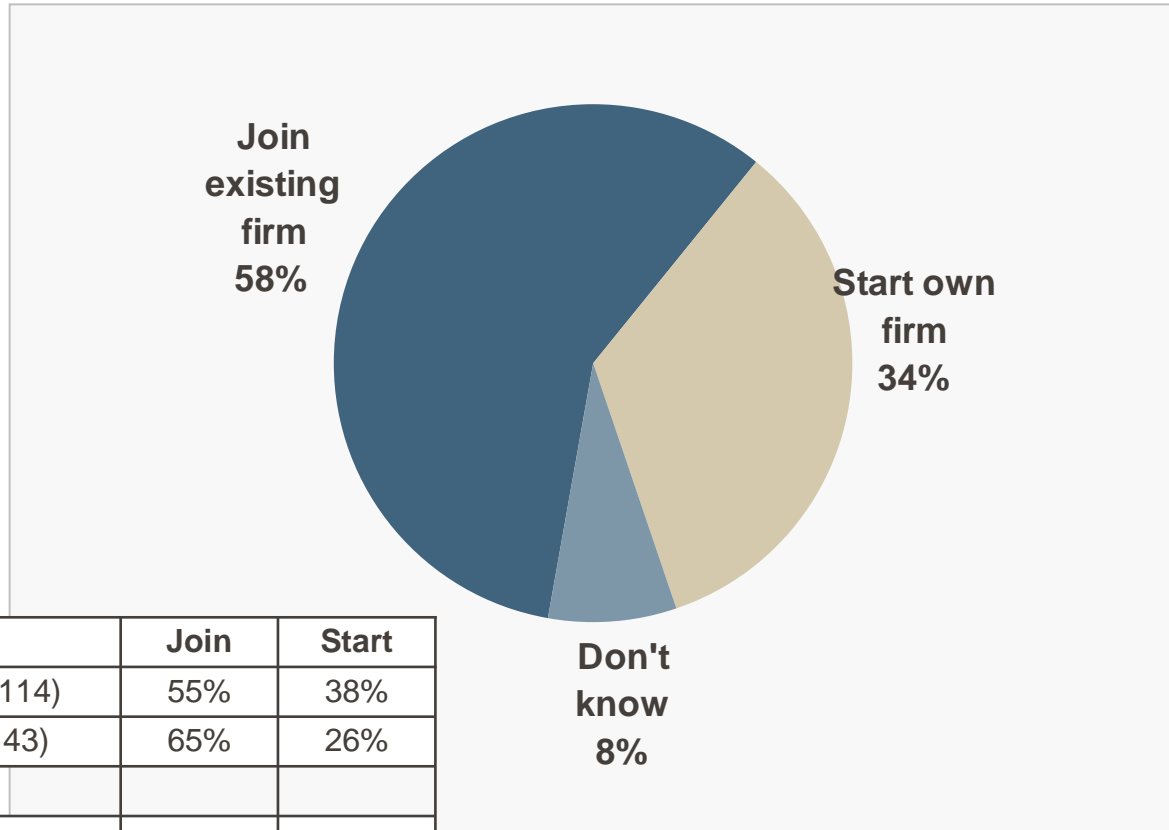


Base: Total (n = 157)

Q18. If you joined or started an independent investment advisor (RIA) firm, how different would your practice be than it is today?

The majority of respondents would prefer to join an existing independent RIA firm, while more than one-third would start their own firm

Preference of Joining Existing or Starting Own RIA Firm



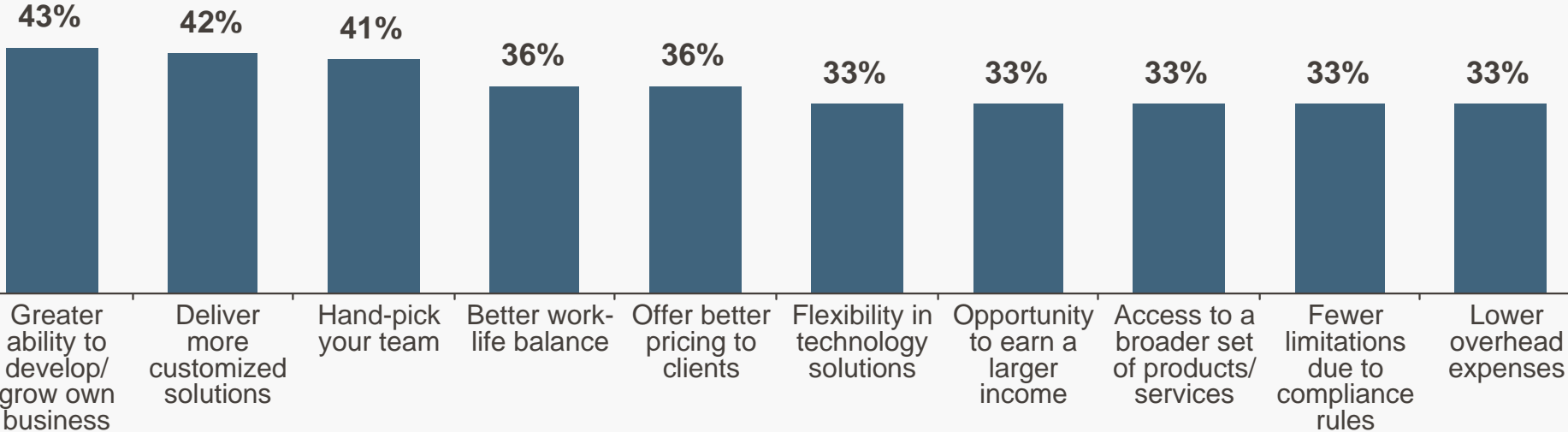
Asset level split	Join	Start
Less than \$100M (n = 114)	55%	38%
More than \$100M (n = 43)	65%	26%
Split by # of clients currently managing		
Less than 200 (n = 87)	60%	34%
More than 200 (n = 75)	56%	35%

Base: Total (n = 157)

Q21 Assume you were going to join or start an independent registered investment advisor firm. Would you prefer to...?

Greater flexibility to grow and the ability to provide customized solutions to clients are the two biggest perceived benefits of the RIA model

Benefits for Joining Existing or Starting Own RIA Firm

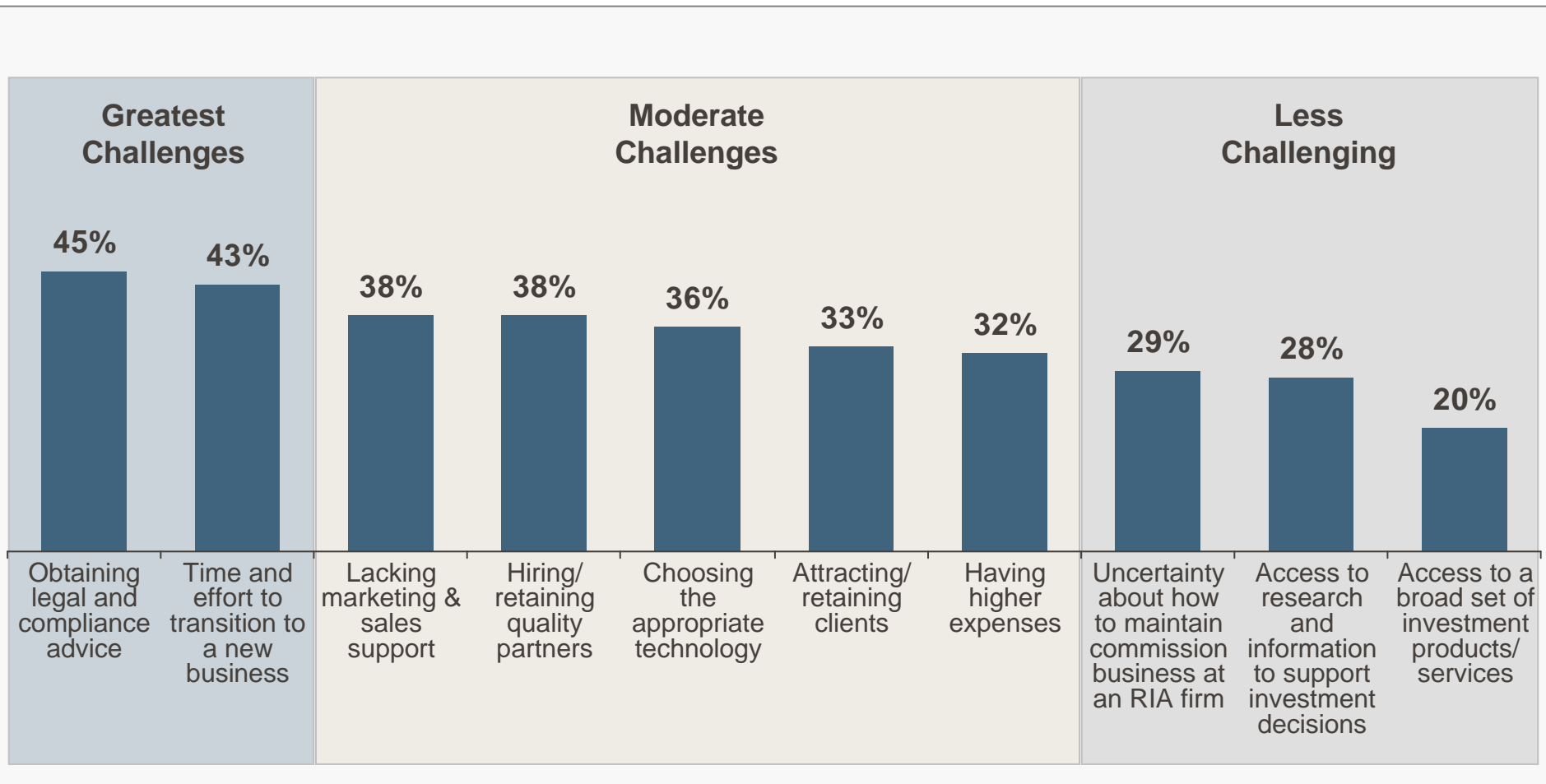


“None of the Above ” = 3%
“Don’t Know” = 2%

Base: Total (n = 157)
Q22. Which of the following, if any, are the potential benefits of joining or starting an independent registered investment advisor firm?

The greatest perceived challenges in becoming an independent RIA are obtaining legal and compliance advice and the time and effort needed

Challenges of Joining Existing or Starting Own RIA Firm

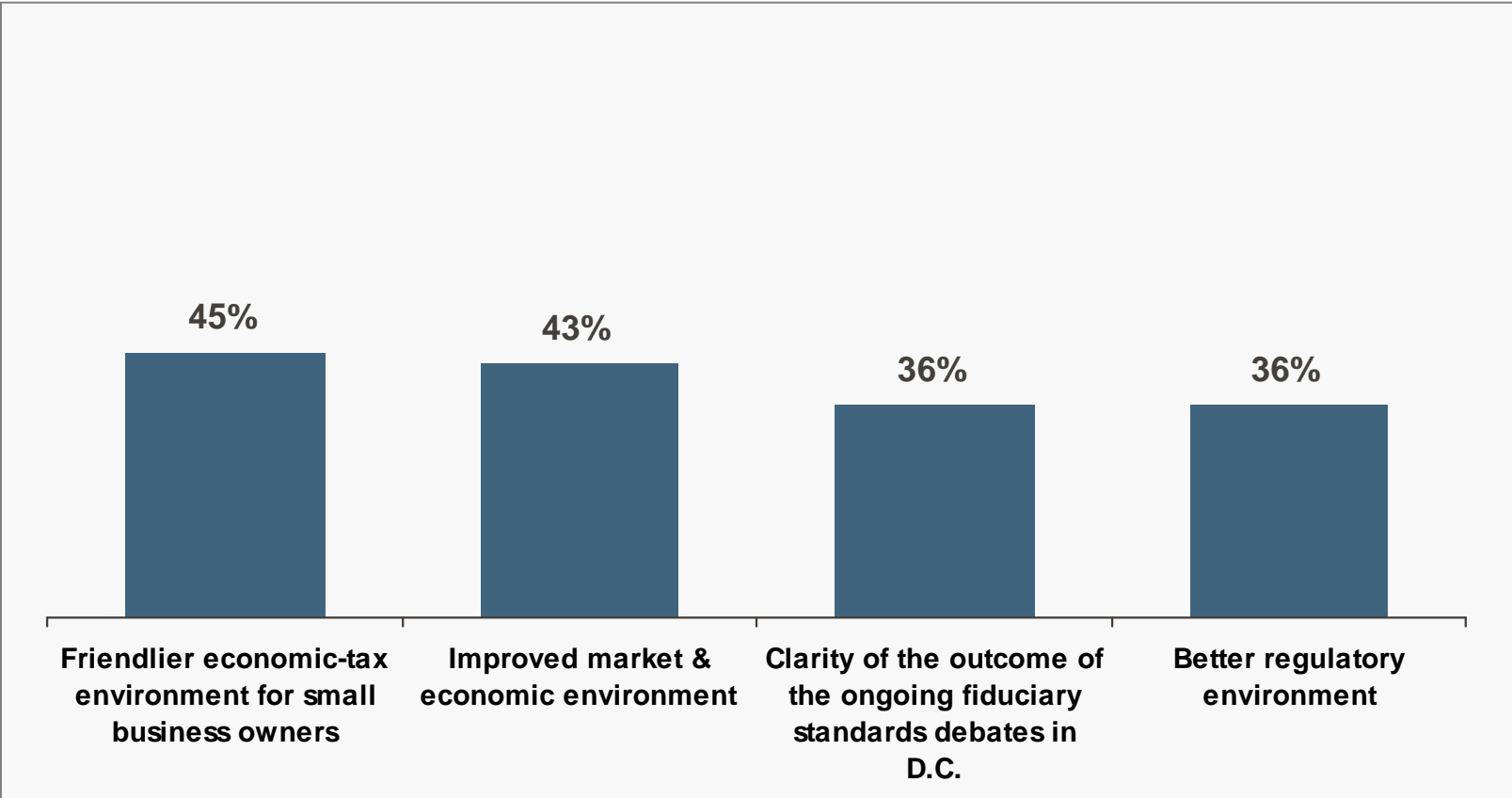


Base: Total (n = 157)

Q23. Which of the following, if any, are the potential challenges of joining or starting an independent registered investment advisor firm?

A friendlier environment for small biz and improved economy would make respondents more likely to join or start an independent RIA firm

Factors that Would Increase Likelihood of Joining Existing or Starting Own RIA Firm

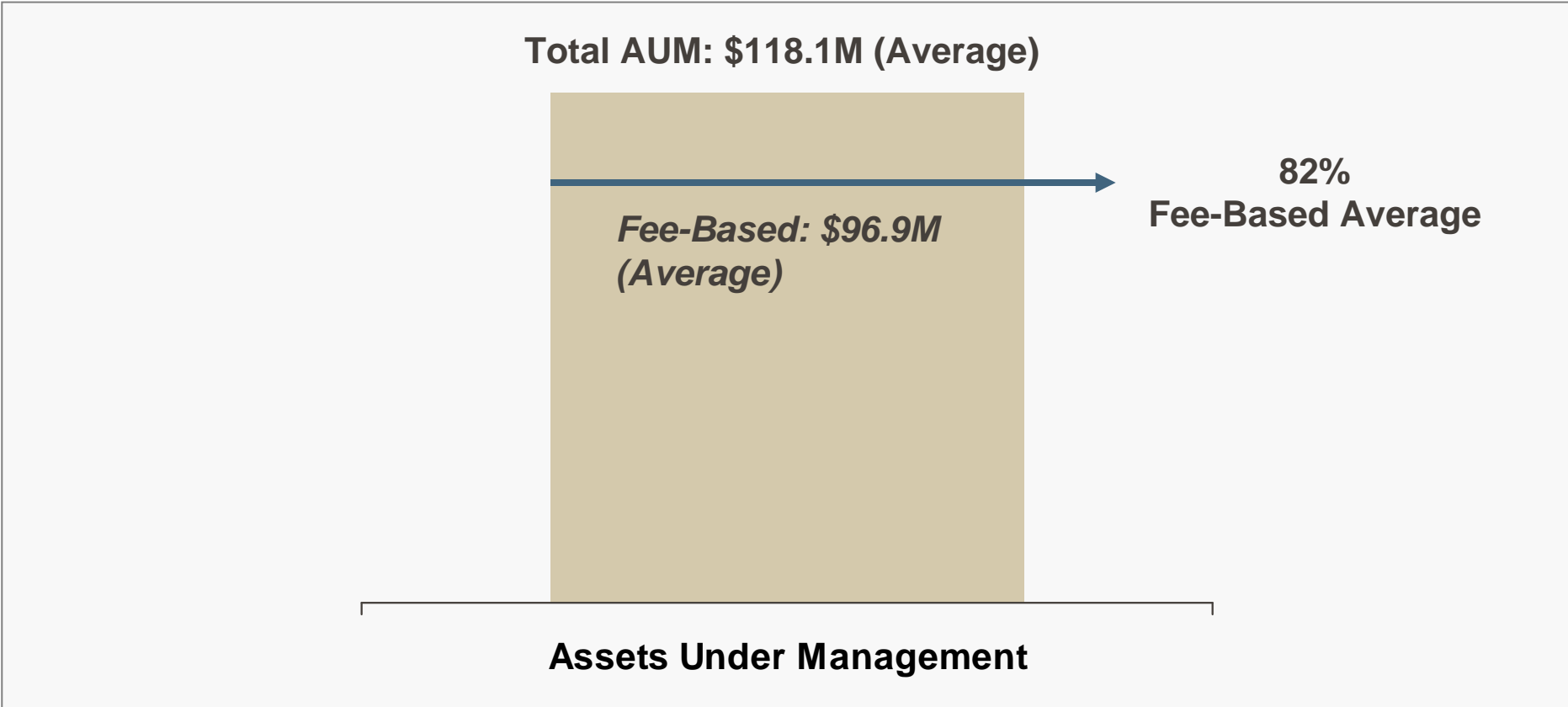


“None of the above” = 12%
“Don’t know” = 6%

Base: Total (n = 157)
Q25. Which of the following potential environmental factors would make you more likely to join an independent registered investment advisor firm, if any?

The majority of respondents' assets under management is fee-based

Total Assets Under Management

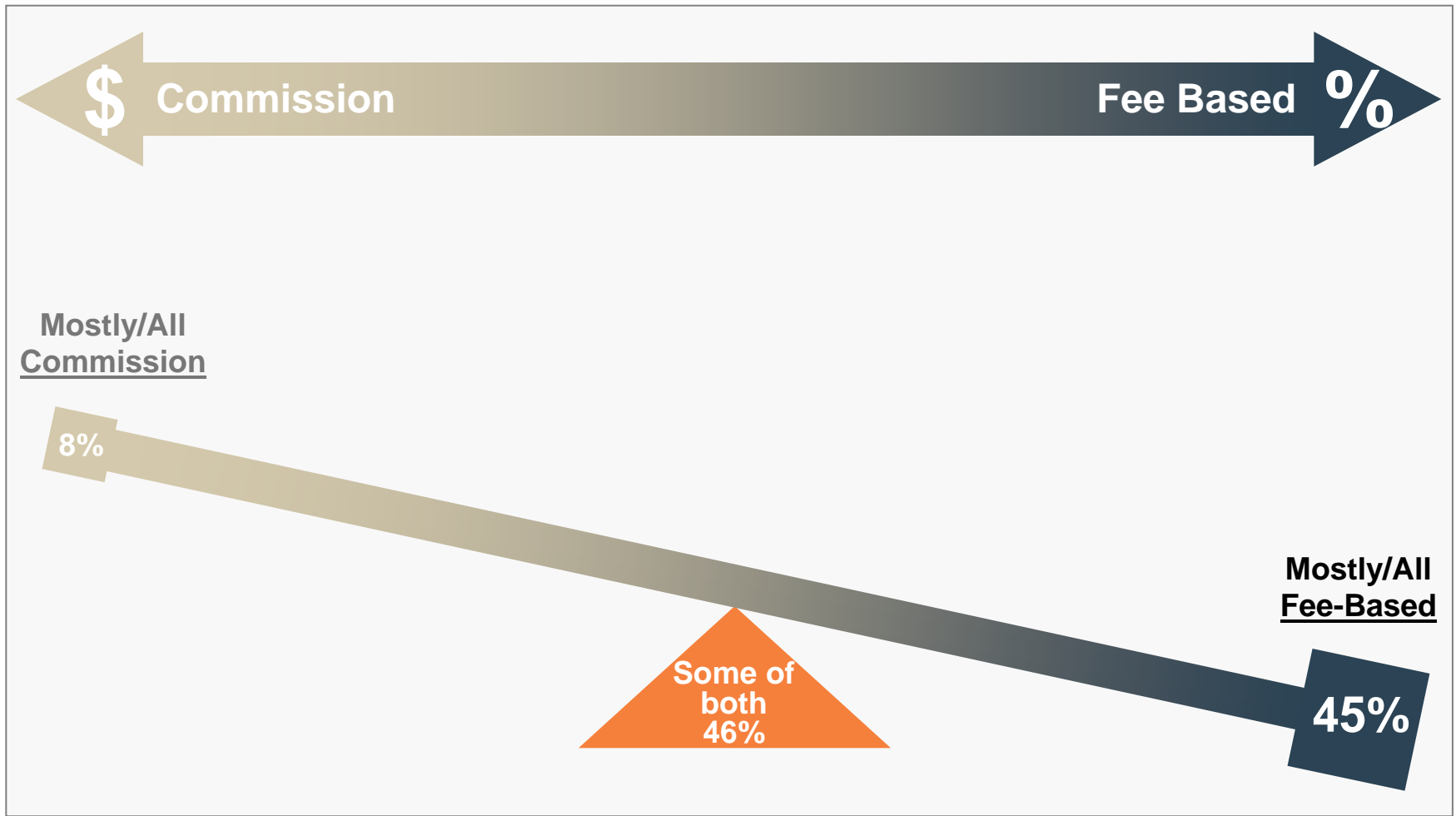


Base: Total (n = 157)

Q6. What is the total amount of assets that your clients hold that is included in your fee-based and commission business? Q7. What is the amount of assets that you hold for your clients that is fee-based only?

Nearly half of respondents are planning to transition to a primarily fee-based model

As Practice Evolves Business Will Become *Commission vs. Fee-Based*

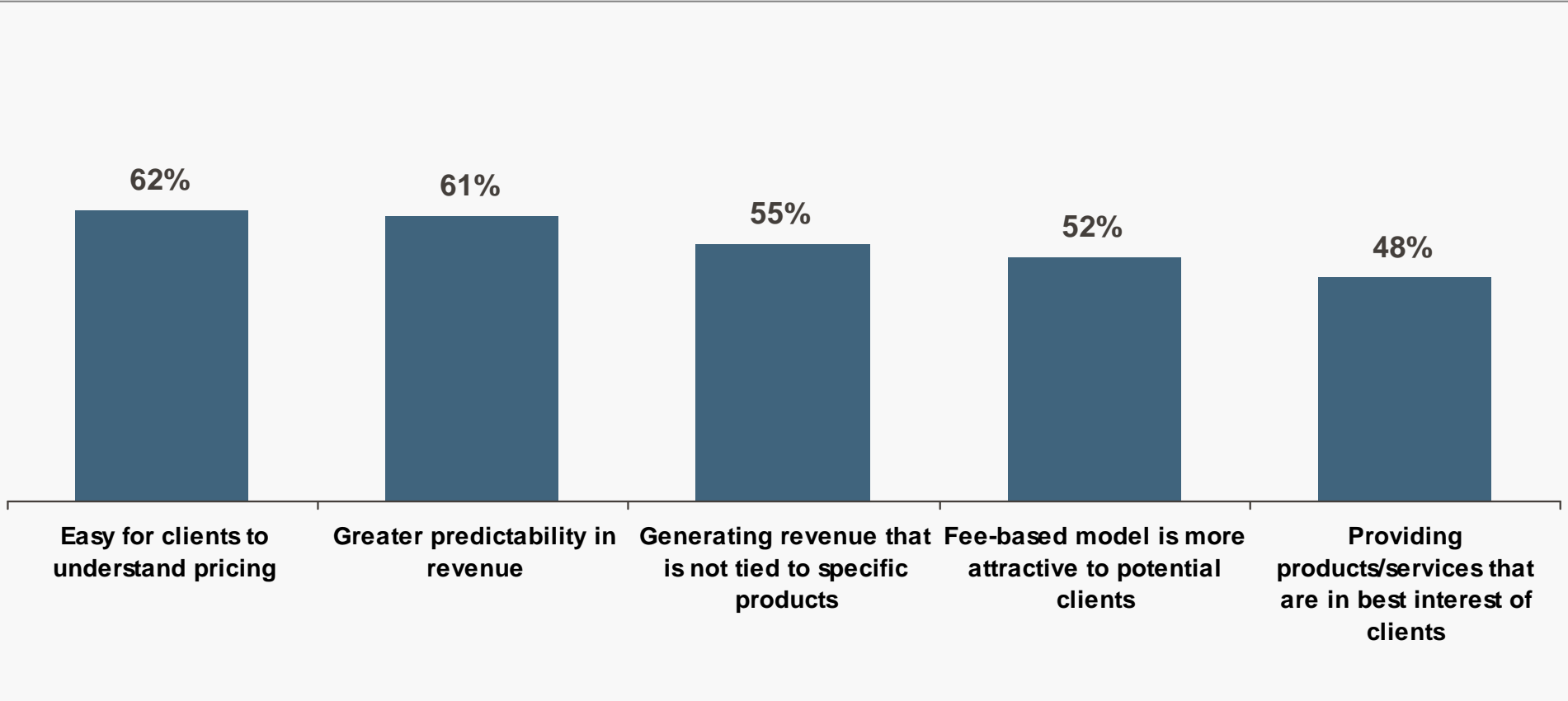


Base: Total (n = 157)
Q14. As your practice evolves, do you anticipate that your business will be...?

“Don't know = 1%

Clearer pricing for clients and more predictable revenue are biggest potential advantages of a fee-based model

Potential Advantages of a Fee-Based Model

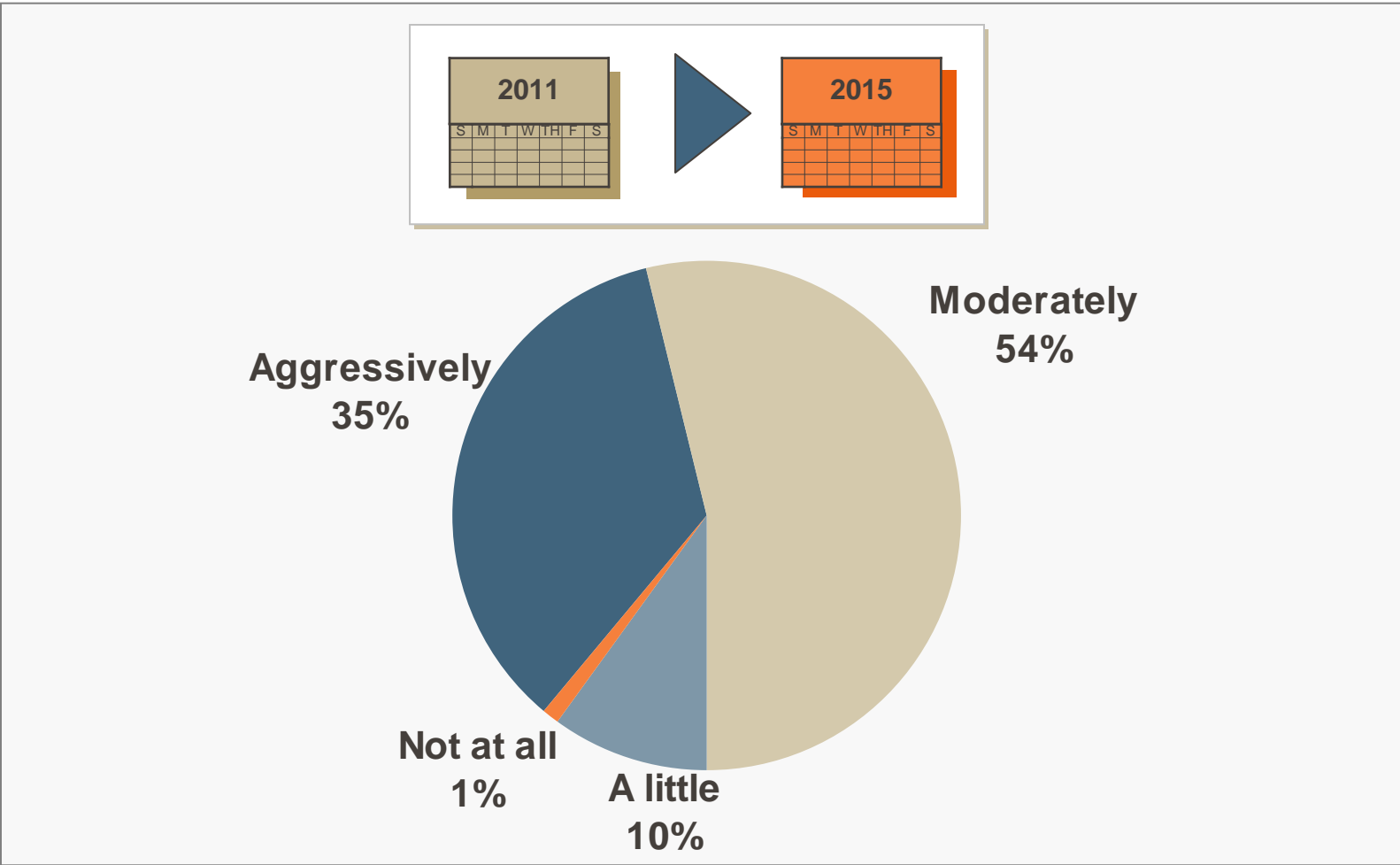


“None of the above” = 0%
“Don’t know” = 1%

Base: Total (n = 157)
Q15. Which of the following, if any, are potential advantages of a fee-based model?

Most respondents plan to moderately grow their book of business by 2015

Growing Book of Business by 2015



Base: Total (n = 157)
Q12. By 2015, do you plan to grow your book of business...?

Profile

Profile

Years Providing Financial Advice to Clients	
5 to less than 10 years	33%
10 to less than 15 years	33%
15 to less than 20 years	13%
20 to less than 25 years	11%
25 years or more	10%
MEAN	14.0 years
Number of Years with Current Firm	
Less than 5 years	17%
5 to less than 10 years	39%
10 to less than 15 years	29%
15 to less than 20 years	8%
20 years or more	7%
MEAN	10.6 years
Number of Clients Currently Advising/Managing Assets	
Less than 100	22%
100 to less than 200	30%
200 to less than 300	24%
300 to less than 500	17%
500 or more	7%
MEAN	234
Amount of Assets that Clients Hold Included in <u>Fee-Based</u> and <u>Commission</u> Business	
MEAN	\$118M
Amount of Assets that Clients Hold Included in <u>Fee-Based</u> Business	
MEAN	\$97M

Profile

Licenses Held	
Series 1	17%
Series 6	34%
Series 7	94%
Series 8	15%
Series 9	17%
Series 10	17%
Series 11	17%
Series 24	26%
Series 65	40%
CFP	27%
CFA	28%
ChFC	14%
CIC	6%
CIMA	6%
CPA	15%

Profile

Annual Income Earned for 2009	
Less than \$100K	11%
\$100K to less than \$150K	25%
\$150K to less than \$250K	26%
\$250K to less than \$500K	24%
\$500K or more	7%
MEAN	\$235K
Age	
Under 30	5%
30 to less than 40	37%
40 to less than 50	32%
50 to less than 60	18%
60 or older	7%
MEAN	44
Gender:	
Male	71%
Female	27%