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Advisor Services

Mastering the moment

Why RIAs own the future

Own your tomorrow.



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The next great investment firm will be an RIA

The data is clear: The Registered Investment Advisor (RIA) model will be the growth story of the next decade.¹

With a track record of growth, RIA firms have proven that independence delivers long-term competitive advantages, and these advantages can shine in both bull and bear markets. While the responsibilities of managing a firm's P&L may be high, so are the opportunities that come from asserting control.

Agility, responsiveness, creative thinking, and clear communication—the hallmarks of a successful RIA—are needed now more than ever.

In the coming years, while other channels are expected to shed investment advisor market share, RIAs and hybrid RIAs are projected to gain people power² and be the biggest winners in asset market share.³

Success on this scale was unimaginable when the first entrepreneurial financial advisors left traditional wirehouses and broker-dealers. Yet, freed to execute their own bold strategies on behalf of clients, RIAs are reinventing the industry.

Functioning like an accelerator for RIA firms and helping investment advisors find their independent voices, Schwab Advisor Services™ continually invests in the innovative products and solutions that today's firms and investment advisors need.

Five forces are helping to put RIAs in the driver's seat. For investment advisors looking to capitalize on the moment, the time is now.

The next great investment firm will be highly responsive to the needs of investors

Today's investors are seeking trust, transparency, and a custom approach in their investment advisor relationships.⁴

Highly educated and sophisticated, investors now demand more from the companies they work with. And when investment advisors fall short of rising expectations, today's investors are unforgiving. Thanks in part to RIAs in the marketplace, investors have options—and it's easier than ever to make a change.

The fiduciary standard has long been a mainstay for RIAs. But the financial crisis of 2008 made

it top of mind. Regulators pushed for it.⁵ And more important, clients demanded it. "You had high-net-worth clients saying to advisors, 'I don't like the practices going on at your firm' or 'I want you to be able to have access to a greater array of products and services,'" says Mindy Diamond, president and founder of Diamond Consultants, a leading financial advisor consulting and recruiting firm. "They might not have had the



language to say, 'I want you to break away and become an RIA,' but they were absolutely looking for something different."

Data supports the client preference for the independent RIA model. According to a recent Schwab Advisor Services™ study, more than 75% of high-net-worth (HNW) investors surveyed said that working with investment advisors who make investment decisions that are "in their best interest at all times" is crucial.⁶

This same research shows that the independent RIA model aligns with what HNW clients expect:

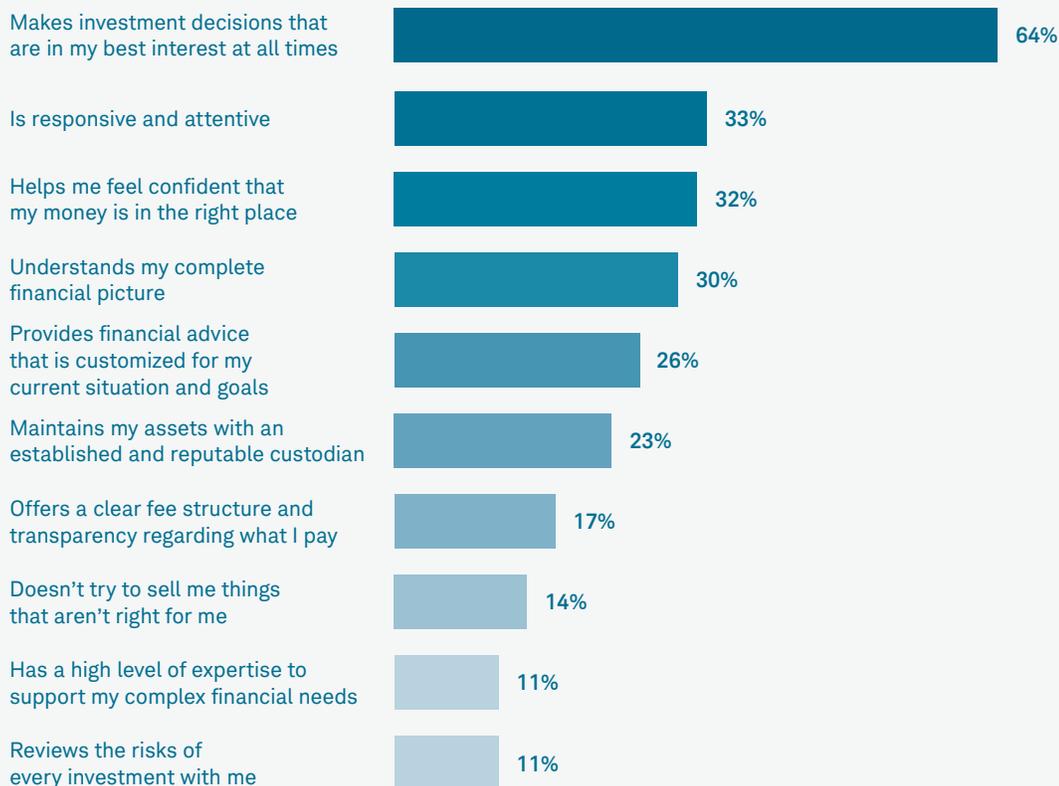
- Customized guidance based on their entire financial picture
- An investment advisor who's responsive, attentive, and personal
- A fee structure that's simple and transparent
- An investment advisor who makes decisions that are in the best interest of clients at all times

What HNW clients want—and how to keep them

When asked which attributes are most important in their investment advisor relationships, HNW clients named trust, responsiveness, and a custom approach.⁷ These are the very same qualities the independent RIA model exemplifies, which is a key reason why RIA clients report high levels of satisfaction.

Those clients who are *not likely to switch advisors* rank RIA attributes as most important

(Percentage of satisfied investors who rate these attributes as critical)



High-Net-Worth Advisor Choice Research, June 2019.

“One thing we do is lead by example. We don’t just talk about financial planning; we actually do it. We don’t talk about acting in our clients’ best interests. We put ourselves on the hook legally to do that as fiduciaries at all times. Period. No exceptions,” says Dan Moisand, principal and financial advisor at the independent firm Moisand Fitzgerald Tamayo, LLC in Orlando and Melbourne, Florida. His firm reaps the benefits of that commitment with 55% of clients referring the firm over the past two years.

“The American public desperately needs and, frankly, deserves the ability to get honest, unbiased, objective help to navigate very complex financial systems.”

—Dan Moisand

Principal and Financial Advisor,
Moisand Fitzgerald Tamayo, LLC

Unburdened by legacy systems or cumbersome structures, the independent RIA business model allows investment advisors to serve clients’ best interest out of the gate while the rest of the industry plays catch-up. When it comes to serving clients, independent RIAs are already leagues ahead.

That extends to periods of market volatility. When clients are concerned and their financial plans are challenged, independent investment advisors can rise to the occasion. Why? They are held to the highest standard of care, and they have flexibility and access to technology and support structures that help them meet it.

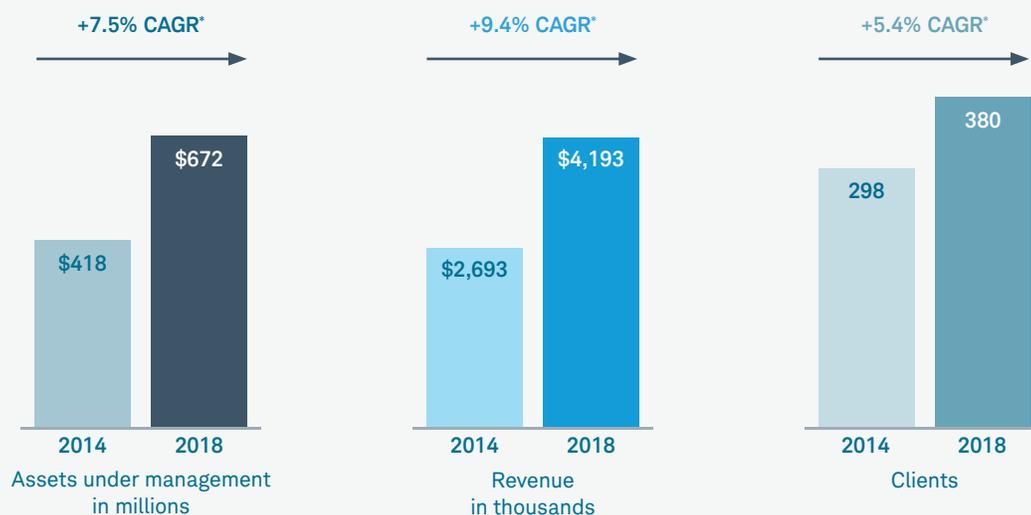
“Times like this prove out the RIA model for the strength that it brings to the investing public,” says Tim Oden, national managing director of business development at Schwab Advisor Services™.



The independent RIA model allows for rapid response. It empowers investment advisors to react quickly and communicate with clients in a meaningful, direct, and dynamic way. When the markets move, investment advisors can take to real-time communication tools like webinars or social media. Goals-based planning software can let them record and send out videos within reports so that clients can better understand their current situations and goals. While responsiveness and clarity are vital for trusted client relationships, so is depth.

“Independent advisors are able to get the right message to the right people at the right time,” says Oden. “That’s comforting to owners of wealth. It’s so much more effective than a corporate message, because advisors are talking to clients as a trusted partner and a member of their community.”

Firms saw strong five-year growth in assets, revenues, and clients



*Median compound annual growth rate (CAGR) over the five-year period from 2014 to 2018 for all firms with \$250 million or more in assets under management (AUM).

Past performance is not an indicator of future results. Median results for all firms with \$250 million or more in AUM. 2019 RIA Benchmarking Study from Charles Schwab, fielded January to March 2019. Study contains self-reported data from 1,310 firms. Participant firms represent various sizes and business models categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups—by AUM size.

2019 RIA Benchmarking Study from Charles Schwab, July 2019.

A new era: When clients' interests come first

Investment advisors find that doing what's best for clients is also a recipe for their own success. The independent RIA channel achieved the strongest five-year compound annual growth rate from 2014 to 2018, outpacing all other channels.⁸ Over that same period, RIAs saw strong growth in assets, revenues, and clients.⁹

HNW investors are voting with their dollars, and RIA firms are winning. According to a 2019 study, new client assets at RIA firms are more than five times greater than net asset flows from existing clients.¹⁰

“What that says is that owners of wealth are choosing the RIA model at a disproportionate rate,” says Oden. “It also suggests that new clients can be a key source of organic growth for independent RIAs during times of market uncertainty.”

Demographics are helping drive a surge in movement to the independent RIA model: The average age of investment advisors is 51.¹¹ And, with a potential succession crisis looming, many see the RIA path as a flexible way to monetize their books of business, control their legacies, and position themselves for lucrative exits.

As Mindy Diamond sees it, investment advisors are going independent for themselves and their clients. “Advisor sentiment has shifted,” she says. “Advisors have moved to placing greater value on freedom, flexibility, and control than on most anything else. They want more open architecture, to be free of bureaucracy, and to be able to deliver a more creative and transparent approach to serving clients.”

The next great investment firm can master growth through M&A

Today's RIAs are sophisticated enterprises with the M&A know-how to grow fast and smart.

The ability to better serve clients may have fueled organic RIA growth. But today, inorganic growth opportunities are accelerating RIA movement and driving it to new heights.

The last six years have seen record-breaking merger and acquisition (M&A) activity¹² as investment advisors prioritize, scale, and add new capabilities, according to a recent Independent Advisor Outlook Study.¹³

“We’ve seen power of scale become the number one driver of mergers and acquisitions in the RIA space.”

—David DeVoe

Founder, DeVoe & Company

M&A allows firms to add high-demand services such as tax and estate planning. It also can radically expand a firm's geographic reach. A solid M&A strategy can supersize footprint and fame.

By joining forces with a larger entity, investment advisors can offer clients a greater breadth of services and capabilities—and respond faster to clients' evolving needs.

A proliferation of buyers in the marketplace means greater freedom to scale up in accord with an investment advisor's vision. “Today's buyer pool is made of smart, intelligently run businesses with sophisticated management teams backed by deep pockets,” says David DeVoe, founder of DeVoe & Company.



Independent investment advisors have more flexibility than ever in identifying the right M&A partner. For example, Focus Financial Partners, a firm that invests exclusively in fiduciary wealth management businesses, preserves the autonomy of each one of its partner firms.

At the opposite end of the spectrum, owners can sell to an existing firm and relinquish any or all management responsibilities. The continuum is broad, and the possibilities are endless.

Mastering M&A

The strong M&A market is evidence of industry maturity. With their operations and culture in order, many RIA firms are turning to strategic growth and employing teams focused solely on M&A opportunities.

The legacy builder

Sequoia Financial Group

Manages billions in AUM

Number of transactions: 5

Locations: 5 throughout Ohio, Michigan, and Florida

M&A motivation

Grow AUM and profits.

“Early on, we hired a number of young advisors. Ten years later, they were ready to take over bigger profit centers. Inorganically, we could grow faster and unleash the creativity of those younger advisors.”

—Tom Haught

President and CEO, Sequoia Financial Group

The synergist

The Colony Group

Manages billions in AUM

Number of transactions: 10+

Locations: 14 throughout the U.S.

M&A motivation

Expand firm capacity.

“What you learn from your merger partner is invaluable. Together, we do better things than we would have been able to before.”

—Michael Nathanson

Chairman and CEO, The Colony Group

Inorganic growth opportunities

M&A can be a force multiplier for firms that have a well-developed strategy and vision. A growing network of M&A consultants that specialize in serving RIAs is accelerating the trend.

“Buyers may be looking at a firm’s technology capabilities, their suite of services, or how they offload different administrative activities.”

—David DeVoe

Founder, DeVoe & Company

“In today’s M&A ecosystem, investment advisors deeply attuned to client needs can find a lot of market opportunities,” says DeVoe. “Buyers may be looking at a firm’s technology capabilities, their suite of services, or how they offload different administrative activities.”

The top RIA firms approach M&A not as one-off deals, but as a practice—one that can be studied and perfected. The Colony Group’s approach is a great example. “We’re proud that every one of our mergers has been really successful,” says Jennifer Geoghegan, chief strategy officer at The Colony Group. “We believe it’s because we have sound structure around the process. We have people dedicating time to mergers, we make sure there’s a good fit, we think through the integration, and we deeply engage both the employees and clients throughout and after the merger.”

The Colony Group CEO Michael Nathanson refers to the firm’s M&A approach as the “better than before” strategy. “Our test for every merger is: Does this merger make us better than before? And does it make our merger partner better than before?”

Firms such as The Colony Group are likely to continue experiencing inorganic growth success in the coming decade. According to a 2019 Cerulli report, as investment advisor retirements accelerate, larger RIAs are positioned to thrive: “Not only are [larger RIAs] more likely to have the capital to acquire smaller practices, but they can also more easily absorb clients and advisors without straining internal resources.”¹⁴

M&A may always deliver scale, but the best strategies deliver more client responsiveness, notes Schwab’s Tim Oden. “M&A activity allows firms to bring in new intellectual capabilities and succession planning opportunities, and acquire talent that can meet the moment. It allows firms to be extremely dynamic and respond to changing market conditions and client needs,” he says. “M&A fuels all of that.”



Trend watch: RIAs become chief dealmakers

RIAs became the dominant buyers of RIAs in 2019—accounting for 60 transactions (45% of market total), up from 41 (35%) in 2018.¹⁵

The meridian has been crossed: RIAs are now the biggest players in the growth game.

“RIAs are an attractive buyer,” says DeVoe. “It can be easier to join a company run by someone like you—someone who built a company from scratch or took it from a billion to tens of billions.”

The next great investment firm will have a culture centered on innovation

RIAs are well positioned to identify and capitalize on market opportunities.

Over the next quarter century, some \$70 trillion in assets is expected to pass from one generation to the next—the largest wealth transfer in U.S. history.¹⁶ It's an event spurring a new wave of innovation at independent RIA firms. Today's RIA firms offer robust suites of financial services that go well beyond portfolio management, ensuring RIA growth and longevity.

“Retirement planning, college planning, educational planning, multigenerational wealth transfer planning—all of that is coming to bear on the financial services industry faster than anybody anticipated,” says Schwab's Tim Oden. “The fact is that, compared to wirehouses, independent advisors are more capable of adjusting their business model to meet that changing demand.”

Wealth management will look and feel different to the next generation of clients. Already, some RIA firms are rolling out new high-touch, high-tech services that appeal to the fresh faces of wealth. Take San Francisco firm Wetherby Asset Management. The woman-founded, women-run firm is a Certified B Corporation and has a diversity, equity, and inclusion committee. Wetherby serves multigenerational families and HNW clients by specializing in environmental, social, and governance (ESG) investing. It starts by reviewing the social and environmental challenges clients hope to address. Then a customized impact investing strategy is developed. Impact classifications are integrated directly into the firm's financial reporting systems, and an online portal gives clients real-time summaries of their



impact portfolio. Balancing purpose and profit is one of many ways to appeal to next-gen clients.

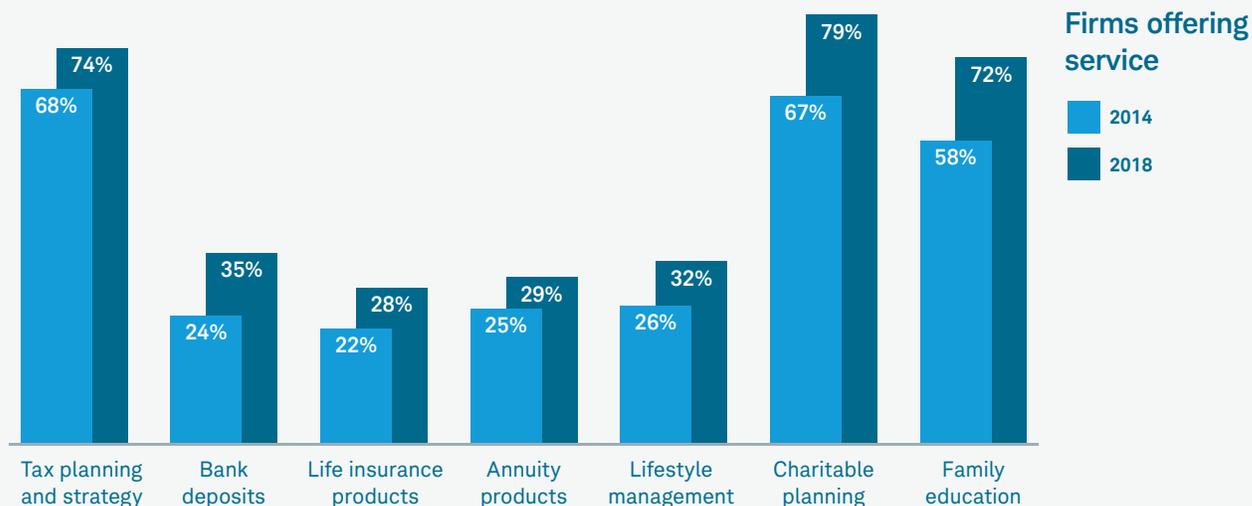
But the next generation isn't alone in driving the need for a more robust suite of services. According to a recent Cerulli report, 55% of current RIA clients receive comprehensive,

ongoing planning advice—a figure that's expected to climb to 59% as soon as 2021.¹⁷

As some independent RIAs expand their service set, they are in turn diversifying their talent pool to include estate planners, marriage counselors, life coaches, lawyers, and more.

Diversifying services and delivering more value to clients

Data from Schwab's RIA Benchmarking Study confirms that more RIAs are moving beyond portfolio management in response to changing market forces.¹⁸



Results from the 2015 and 2019 RIA Benchmarking Study from Charles Schwab. Results for all firms with \$250 million or more in AUM.

Past performance is not an indicator of future results. 2019 RIA Benchmarking Study from Charles Schwab, fielded January to March 2019. Study contains self-reported data from 1,310 firms. Participant firms represent various sizes and business models categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups—by AUM size.

The spectrum of RIAs—as unique as their clients

Many independent RIAs are bucking the notion that behemoth is better. They realize they don't have to be large to deliver results, both on their profit and loss statements and for clients. In fact, firms that manage less than \$100 million in AUM represent 75% of the RIA channel.¹⁹

Independent investment advisors have an advantage in that they can specialize in and

build robust referral cultures around a particular community. “Typically, advisors start by following their passion,” says Tom Bradley, senior vice president at Schwab Advisor Services™. “For example, an advisor may focus on socially responsible investing. They'll attract other clients who share that passion. And they'll grow their businesses with similar clients through referrals.”

Many RIA firms also find success in developing alternative business models. AdvicePeriod, a Los Angeles-based firm, has developed a two-pronged approach led by two distinct business groups. The first focuses on serving ultra-affluent clients, while also piloting new technology, workflows, and pricing models upon which the entire company can draw. The second, called AP4, provides those newly developed business services to partner investment advisors.

“With a custodian’s support, advisory firms of all sizes, even those that run super lean, do not have to focus on the back-office operations. That’s an incredible competitive advantage for RIAs.”

—Tom Bradley

Senior Vice President, Schwab Advisor Services™

“Our goal is to reinvent wealth management,” says Steve Lockshin, AdvicePeriod principal and co-founder. Since launching in 2016, AP4 has attracted more than 20 like-minded investment advisors, and the firm’s AUM has increased by several billion dollars.

Other RIAs future-proof their businesses by creating a firm culture that aligns with client culture. The Colony Group launched Her Wealth®, an initiative that provides women with the financial education and resources to manage their own wealth. The Her Wealth initiative offers weekly articles, radio programming, and a scholarship that is awarded to a woman pursuing a CFP® certification, a CPA license, or a financial degree.



“Women are controlling more wealth—personally and for their families,” says Nina Mitchell, co-founder of Her Wealth and co-president of Colony Sports and Entertainment. “We’re bringing our clients together as a community, and they’re engaging. It’s been remarkable.”

“Our vision is to offer everything even the largest wirehouses can, while also operating in a client-centric, fee-only manner that isn’t all about the money,” says The Colony Group’s Michael Nathanson. “It’s about finding meaning and joy in the work we do for clients and in the people with whom we work.”

The next great investment firm will be technology forward

RIAs are able to move fast and adopt smart digital solutions that deliver exceptional client experiences.

Process automation, real-time asset intelligence, intuitive client dashboards. New technologies are giving independent RIA firms big advantages over their industry peers. For less than the price of the average midsize sedan, RIA firms can acquire best-in-class systems that streamline planning, customer relationship management, and portfolio management. That means from day one, independent investment advisors are operating with cutting-edge digital solutions.

Unlike the captive environment, where a dizzying number of stakeholders slow digital progress, independent RIA firms are built for agility. Unfettered by the legacy systems or one-size-fits-all technology bundles of the wirehouses, independent investment advisors can choose solutions and tailor their tech to meet clients' needs.

“Technology is the great equalizer. Instead of having to affiliate with a larger firm to get the tech that you need to serve clients, we see third-party vendors and plug-and-play fintech coming out of the independent space. That’s driving a better client experience and a better value proposition.”

—Eric Clarke

Founder and CEO, Orion Advisor Solutions



“There’s no other model out there that looks better than this incredible group of motivated, community-oriented people who are supporting owners of wealth. That’s what makes not just RIA firms but the entire RIA ecosystem innovative and inspiring.”

–**Tim Oden**

National Managing Director of Business Development,
Schwab Advisor Services™



“Wirehouse firms tend to approach technology as a way of managing to the lowest common denominator,” says Mindy Diamond of Diamond Consultants. “A sophisticated wirehouse team servicing high-net-worth clients has unique technological needs but has no leverage and no voice in what technology their firm chooses to implement. The freedom to customize technology and the way advisors serve a specific client base is a tremendous draw to the independent space.”

“The ability to compete with the Morgan Stanleys and UBSs and Merrills of the world and actually beat them on technology is pretty extraordinary,” Diamond adds.

In fact, technology investments and adoption rates are soaring among RIAs. According to the Schwab Advisor Services™ Independent Advisor Outlook Study, technology is the top change investment advisors are considering in 2020.²⁰

The study found that investment advisors are considering new tech for a number of reasons, but mainly to provide faster, more secure, and error-free service.²¹

Integrating the latest tech with existing systems—often the bane of digital adoption—is now also much simpler. Larger custodians like Schwab Advisor Services invest in secure integrations so that investment advisors can power up their businesses without needing to be tech experts themselves. Investment advisors who work with Schwab, for example, have access to over 140 strategic providers offering direct integration with Schwab Advisor Center®.²² That kind of support is another factor that helps accelerate the RIA innovation ecosystem.

“Everything that we build for a proprietary Schwab platform we make available for third parties to integrate into theirs,” says Andrew Salesky, senior vice president of Digital Advisor Solutions, Charles Schwab & Co., Inc. “We call that our services-first strategy.”

Such integrations also allow RIAs to deliver a tech-enabled, client-first process. “For ongoing client relationships, the ability to see real-time balances, to access tax reporting, and to move money efficiently all drive successful outcomes for advisor and client,” says Eric Clarke, founder and CEO of Orion Advisor Solutions.

Optimization, optics, and the will to evolve

Today's tech-savvy clients want an intuitive, secure experience when managing their wealth. And independent RIAs are meeting that demand.

Independent RIAs can leapfrog to digital solutions that free up investment advisors' time—time they can now spend on high-value work, such as strategic planning and serving their clients. For example, with new tools that digitize client onboarding, a labor-intensive task suddenly becomes a way to delight clients while requiring much less handholding from high-value employees. Where other investment advisors in other models get bogged down by bureaucracy, independent RIAs use technology to assure clients and prospects that they are working with a firm of the future.

Portfolio management solutions that include automated trading and rebalancing can help save investment advisors' precious time. Freed from selecting securities and doing their own asset allocations, they can focus instead on building scale or creating intricate customizations that cater to clients' needs. Certain portfolio optimization technologies can also be positioned as a powerful selling point to prospective clients. For example, Clarke is seeing more independent RIA firms use these technologies to replicate indexes, as opposed to buying ETFs or indexed mutual funds.

“The tech-optimization story is resonating very well with higher-net-worth prospects,” says Clarke. “It's allowing advisors to really go upmarket and win larger account sizes that would traditionally have gone to the wirehouse.”

Right now, independent investment advisors have incredible opportunity to leverage technology that could help them win and grow their business faster than they have historically been able to. “This is an exciting time to be in this business,” says Clarke. “I know there's a lot of uncertainty in the world, but now more than ever investors need help focusing on their long-term objectives and goals. Technology can and will play a key role in that.”

“The tech-optimization story is resonating very well with higher-net-worth prospects. It's allowing advisors to really go upmarket and win larger account sizes that would traditionally have gone to the wirehouse.”

—Eric Clarke

Founder and CEO, Orion Advisor Solutions

The next great investment firm will thrive in an era of dramatic pricing changes

Transaction costs are dropping lower and lower, another factor prompting RIAs to deliver value beyond investment management.

Not long ago, firms could rely on selling investment products and gaining commissions as a primary source of revenue. Those days appear to be numbered.

The elimination of trading fees, among other pricing changes, is forcing commission-based business models to adjust, and those still dependent on commissions are feeling the squeeze. RIAs, however, led the switch to fee-based business years ago. According to Cerulli research, asset-based fees now account for 69% of advisor compensation. That figure is expected

to rise to 75% by 2021.²³ Backed by powerful referral cultures and the ability to control their profitability, RIAs are much better positioned to respond to significant pricing disruptions in the market.

“The definition of being an independent investment advisor is about customization,” says Diamond Consultants’ Mindy Diamond. “The ability to add or subtract or change vendors in and out, based upon factors such as price, is what the RIA model is all about.”



To forge stronger, long-lasting relationships, many firms are adding more services—and potential value—for clients. For example, some RIA firms now offer financial planning to younger clients with high earning potential. While these clients may not have enough wealth to meet a firm's AUM minimum, many are willing to pay a reasonable fee for a personalized financial plan. The bet is that these clients will become the wealth holders of the future. Other firms, such as AdvicePeriod, have replaced their AUM-based fee structure with fixed fees for services delivered.

Large RIA firms are also getting creative in helping advisors build their books of business. The Sequoia Financial Group Growth Team developed a playbook that outlines a detailed strategy for investment advisors to grow their client base through targeted marketing, curated content, and outstanding service.

At Illinois-headquartered JMG Financial Group, the firm established a mentorship program to ensure employees' success as they advance. New investment advisors are assigned a coach, and senior partners transition new business to nonpartner investment advisors until they are ready to assume the partners' business relationships. It's one method for managing organic growth. And it could be a smart way for next-gen investment advisors to start with a client base they can build upon.

"There's no other model out there that looks better than this incredible group of motivated, community-oriented people who are supporting owners of wealth," says Schwab's Tim Oden. "That's what makes not just RIA firms but the entire RIA ecosystem innovative and inspiring."





How a trusted custodian fuels RIA success

The right custodian can be a game changer for RIA firms. More than a platform, they champion client-first service and firm growth.

As the industry leader, Schwab Advisor Services™ provides custodial, operational, and practice management support to more than 7,500 independent RIA firms. Our specialized support teams help you capitalize on trends and pursue what matters most—at every stage of your journey. We offer business startup consulting to help analyze the economics of your transition, design your ideal firm and client experience, and create a strategic business plan for success. Our dedicated transition teams have helped thousands of financial professionals move to the RIA model, and they are ready to help you take the next bold step in your career.

Beyond the tipping point

The RIA movement has been building. Now it's having its moment and putting the rest of the financial services industry on its heels.²⁴

Nimble and flexible, independent investment advisors are growing the businesses they have envisioned. It's a bold move that is satisfying and lucrative for investment advisors—and their clients.²⁵ Independence gives investment advisors the freedom to define the way they work and build exceptional client relationships. RIA growth is surging.²⁶ Investor needs are changing.²⁷ And the writing is on the wall: Those hoping to be a part of the next great investment firm will need to wield the capabilities offered by the independent RIA model.





Ready for greatness?

**Start a confidential
conversation about your
options for independence.**

Contact a Schwab Business Development
Officer at advisorservices.schwab.com or
call **877-687-4085**.

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