

News Release

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NEW SCHWAB INSTITUTIONAL STUDY MEASURES ADVISOR SENTIMENT, UNCOVERS PROBLEMS IN PORTFOLIOS OF THEIR NEW CLIENTS

SAN FRANCISCO, March 5, 2007 — Schwab Institutional, a leading provider of custodial, operational and trading support for more than 5,000 independent investment advisors, today released the findings of the Independent Advisor Outlook Study, its new semi-annual survey of independent investment advisors that measures their views on the geo-political landscape, economy and investments. According to Cerulli (Cerulli Quantitative Update: Intermediary Markets 2006), by the end of 2006, there were more than 15,000 RIAs across the country managing nearly \$1.8 trillion of U.S. wealth. Nearly 1400 independent investment advisors with some \$347 billion in assets under management participated in this study.

Political Sentiment: Despite Political Divide, Investments are Stable

Advisors who participated in the study express strong viewpoints about domestic political division and global political unrest, but they are confident their clients' investment portfolios are stable. More than half of those surveyed (53%) say the domestic political landscape is more divided following the November Congressional elections; however, a significant majority also say that neither the recent elections nor further decline in Presidential approval ratings will have an effect on their investment decisions in 2007 (76% and 81% respectively). More than half of advisors (56%) believe the global political landscape will become more volatile during the next six months, but the majority also say that potential adverse events abroad will cause minimal impact on their investment decision-making during the next six months.

Economic Sentiment: Relatively Neutral

Advisors are positive – but not exuberant – in their outlook for the S&P 500: 78% percent of advisors think the S&P 500 will go up during the next six months, but just 8% of those think it will increase by more than 10%. And they are downbeat on a few key economic indicators: 71% think the housing market will continue to soften; 45% think inflation will increase; and 43% think it is unlikely that the U.S. deficit will decrease during the next six months.

Nearly half of advisors took a neutral stance on achieving client investing goals in the next six months, with 47% saying it will be neither easy nor difficult; only one in five advisors feel it will be easy. But their clients appear to be calm and confident: on average, advisors say just 15% of their clients needed reassurance about achieving their investment goals during the past six months and 57% of clients have realistic expectations about their returns. According to independent advisors, their clients' top three concerns are: retirement (79%), financial security for their family (63%), and paying too much in taxes (47%); less than 10% of advisors report that long-term care and health care expenses are the top concern for their clients.

“Independent advisors are incredibly steady and sensitive to the needs of their clients – objectivity and accountability are in their DNA,” says Deborah Doyle McWhinney, President of Schwab Institutional. “This study is designed to spotlight their practices and views so consumers can begin to better understand what makes independent advisors unique and sets them apart from other purveyors of advice.”



Independent advisors provide customized advice and wealth management to affluent consumers with complex needs. Many of them are their own proprietors, and according to Cerulli (Cerulli Quantitative Update: Advisor Metrics 2005), they, on average, serve fewer clients than brokers, have longer tenures as advisors, and are more likely to hold the Chartered Financial Analyst® designation. McWhinney noted that consumers can learn more about independent advisors at a new site (www.exploreindependence.com) which includes a free white paper entitled "Investing in More Objective Advice."

Additional outlook from advisors on financial products, markets and sectors includes:

- Advisors have an affinity for large cap equities overall: nine out of ten advisors (93%) plan to maintain or accelerate their investments in both domestic and developed international large cap equities during the next six months.
- Advisors are also very enthusiastic about investing in ETFs: The majority of advisors (75%) invest in ETFs today and half of those plan to invest more in the next six months.
- Advisors are less enthusiastic about REITs and real estate: 25% of those who now invest in REITs plan to invest less or discontinue their investments in the next six months; 17% of those who now invest in real estate express the same sentiments.
- Hedge funds are being used by more than one-third of advisors, and one-third of all advisors say that they would be more likely to invest in hedge funds if there were more SEC oversight; however, 62% of those who do not currently invest in hedge funds and private equity have no plans to begin investing in those vehicles during the next six months.
- Advisors think healthcare, information technology, and the financial sectors will be top performers in the next six months.
- Japan, Hong Kong and Singapore are deemed the top up-and-coming developed international markets; China and India are cited as the emerging international markets that will perform best during the next six months.

Views on economic/fiscal policy include:

- Eight out of ten advisors (80%) approve of Chairman Bernanke's leadership so far, and more than half (53%) of those surveyed do not think that the Federal Reserve Board will raise interest rates in the next six months.
- More than one-third of advisors (35%) would like to see a flat tax instituted, led largely by Republicans and Independents; Democrats were more likely to prefer significant reform of the current progressive tax system over a wholesale change.

Advisor Views on Client Concerns, Portfolios

Advisors were also asked about their new clients, nearly half (49%) of whom came from full-service brokerage firms last year. Among the findings:

- New clients who had previously worked with brokers typically came in without investment guideline statements that were aligned with their financial goals (75%) or appropriately structured estate planning documents (52%).
- Fully 60% of advisors say that new clients who had previously worked with brokers had portfolios that showed evidence of performance chasing.
- The most common problem with the portfolios of these new clients was an inappropriate risk profile for client goals (40%).

- Other problems cited were ownership of mutual funds with very high expense ratios (17%), too many proprietary products (16%), overweighting in one stock (14%), and overweighting in one sector (13%).

A New Index of Advisor Optimism

An index that measures advisor optimism has been formed from a subset of questions and has been benchmarked to 100 for the initial wave of the study. Changes to the index relative to this benchmark wave will be tracked over time. Based on the underlying set of questions, which focus on advisors' economic outlook, the results suggest that advisors are currently neutral. The Independent Advisor Optimism Index is based on 11 questions from the complete online survey. These questions reflect advisors' outlook on what will happen in the financial markets during the next six months. Responses to the questions are given a value of -2 to +2 with 0 as the midpoint. Each respondent is given an individual score based on the sum of the values to their responses to these questions. This score is divided by the number of questions and multiplied by 100 to provide an individual average score. The index is the average of the individual scores, and this average is established at 100 for the initial wave.

The Independent Advisor Outlook Study, conducted for Schwab Institutional by Koski Research in January 2007, has a 2.63% margin of error.

About Schwab Institutional

Schwab Institutional is a leading provider of custodial, operational and trading support for independent fee-based investment advisors. This year marks Schwab Institutional's 20th anniversary serving the independent investment advisor industry. Since 1987, Schwab Institutional 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, 2006, client assets custodied with Schwab Institutional stood at \$502 billion. These assets, managed by the approximately 5,000 independent advisor firms Schwab Institutional currently serves, represent approximately one-third of total client assets custodied with The Charles Schwab Corporation.

About Charles Schwab

The Charles Schwab Corporation (Nasdaq: SCHW) is a leading provider of financial services, with more than 300 offices and 6.8 million client brokerage accounts, 570,000 corporate retirement plan participants, 149,000 banking accounts, and \$1.3 trillion in client assets. Through its operating subsidiaries, the company provides a full range of securities brokerage, banking, money management and financial advisory services to individual investors and independent investment advisors. Its broker-dealer subsidiary, Charles Schwab & Co., Inc. (member SIPC, <http://www.sipc.org>), and affiliates offer a complete range of investment services and products including an extensive selection of mutual funds; financial planning and investment advice; retirement plan and equity compensation plan services; referrals to independent fee-based investment advisors; and custodial, operational and trading support for independent, fee-based investment advisors through its Schwab Institutional division. The Charles Schwab Bank, N.A. (member FDIC) provides banking and mortgage services and products. CyberTrader®, Inc. (member SIPC, <http://www.sipc.org>) is an electronic trading technology and brokerage firm providing services to highly active, online traders. More information is available at www.schwab.com. (0207-0351)

Important disclosures:

Please call the Schwab Institutional Mutual Fund Trading Desk at 1-800-757-9847 to order a prospectus. You should carefully consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information. The prospectus should be read carefully before investing.

Investing in REITs may pose additional risks such as real estate industry risk, interest rate risk and liquidity risk. Hedge funds incur special risks and may not be suitable for all investors. Foreign securities incur risks not normally associated with an investment in the US. The advisor and investor should consult with counsel to determine whether a particular investment is permissible or suitable for an

investor. Sector funds focus its investments on companies involved in the specific sectors, which may involve a greater degree of risk than an investment in other mutual funds with greater diversification.

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The Standard and Poor's 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The index tracks industrial, transportation, financial and utility stocks; it is a large cap index. The composition of the 500 stocks is flexible and the number of issues in each sector varies over time.

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