



*Own your tomorrow™*

# IMPACT<sup>®</sup> 2015

## **Conference takeaway**

Bring IMPACT to your firm with conference highlights and thought starters to share with your colleagues

## Introduction

This conference takeaway features highlights from IMPACT 2015 keynote presentations. We hope it helps you extend the value of IMPACT to every member of your firm and promotes positive changes that may resonate professionally and personally for years to come.

IMPACT strives to provide a diverse set of voices and opinions. These highlights reflect the unique perspectives of each speaker based on their presentations.

# Keynote Summaries



**Bernie Clark**  
Executive Vice President, head  
of Schwab Advisor Services®,  
Charles Schwab & Co., Inc.

“You have not only  
created an industry  
but a profession and  
a legacy for all of  
those that follow.”

## Bernie Clark

### Opening remarks

As the leader of Schwab Advisor Services, Bernie Clark has more than 30 years of financial industry experience serving individual and institutional investors. A leading visionary and supporter of the RIA model, he shares his perspectives on the future of the industry, including the significant growth opportunity that awaits advisors.

### RIAs: A position of undeniable strength

The numbers really tell the story.

- In just 10 years, the RIA industry has grown from a \$1.6 to a \$4 trillion dollar industry.<sup>1</sup>
- There are over 14,000 RIA firms today, with more being added every day.<sup>2</sup>
- RIAs now employ 32,250 people—you’ve helped create 10,000 jobs in the past decade.<sup>3</sup>

This phenomenal growth is because of you. You built an entire industry. You brought order and structure, evolved your businesses, and hired great people. And you’ve continued to perfect the model and differentiate yourself. You have created a profession and a legacy for those who will come after you.

### It’s not just what you do—it’s also how you do it

It’s not surprising that success continues to come your way. You place the interests of your clients first. Your relationships are at the heart of your business model. Clients trust you with their most important assets—their life savings and the financial well-being of their families. The work you do matters—and it matters most because of how you do it.

### Focusing on the opportunity

Advisors are not ones to focus only on past success. In fact, many of you told us that you don’t want to get complacent amidst decades of success. You are always looking forward, focused on the next opportunity. And that opportunity is huge. We looked at

<sup>1</sup> Cerulli Advisor Metrics, Schwab estimates, 2004–2014

<sup>2</sup> Cerulli Associates, 2013–2014

<sup>3</sup> Cerulli Associates and Research Partners, 2013–2014

affluent households with over \$500,000 in investable assets, and it turns out there is an approximate \$23 trillion opportunity for advisors.<sup>4</sup> That's **\$23 trillion** in assets sitting with clients who may be perfectly suited for the services you provide.

## Industry coming of age and shaped by both internal and external forces

It is not only a story about growth and opportunity, however. Advisors today must navigate change and the challenges that come with the increasing sophistication and maturity of the RIA industry. In the most recent Independent Advisor Outlook Study,<sup>5</sup> you said that the top three forces driving change *within* RIA firms were (1) talent, (2) an aging client base, and (3) technology. The top three forces driving change *outside* your firms were (1) the need to differentiate, (2) regulation, and (3) competition.

Schwab is committed to supporting you, to helping you win the opportunity in the marketplace, and to helping you face and overcome challenges. We champion RIA success through the following areas of focus.

- **Talent.** Attracting, developing, and retaining talent is paramount to your continued growth and profitability. That is precisely why we continue to invest in programs like the RIA Intern Program and the RIA Talent Advantage™ program, which not only feed the talent pipeline by helping to raise awareness of the RIA model as a viable career choice but also help bring much needed diversity to the industry. And we provide you with education and development opportunities to help cultivate employees into client-facing and leadership positions. These efforts can help prepare you for the future and help ensure you have the right talent to serve the next generation of investors.
- **Technology.** You told us that technology is one of the most important investments you can make to enable growth.<sup>6</sup> That is one of the reasons why we continue to innovate and provide you with solutions like Institutional Intelligent Portfolios™, sponsored by Schwab Wealth Investment Advisory, Inc. This technology enables you to combine wealth management expertise with the power of an automated investment management platform, allowing you to efficiently scale your business and reach new clients. And solutions like Schwab Advisor Mobile Connect and Schwab Intelligent Integration® also help you drive efficiency and differentiate your client experience.
- **Custody.** To help you exceed your clients' expectations, we are committed to delivering a world-class custody experience. From a trading platform that helps you make smarter, faster decisions to technology that helps your clients stay informed and connected, we help make it easy for you to work with your clients, integrate your technology, and offer a seamless mobile experience.

<sup>4</sup> Schwab strategy estimates, individual company financial reports, FDIC, ICI, Federal Reserve Flow of Funds, Cerulli Associates and Discovery Database, 2013–2014

<sup>5</sup> Schwab Advisor Services, Independent Advisor Outlook Study, November 2015

<sup>6</sup> Schwab Advisor Services, Independent Advisor Outlook Study, May 2015

- **Regulation.** Regulatory changes can affect your firm and put pressure on the strong foundation you have built. We support you by amplifying your voice in Washington, D.C. and staying ahead of regulatory changes so that this industry—and your firms—continue to grow and prosper.
- **Competition.** Traditional firms recognize your success and the value of your model—and they are trying to emulate it. We want to make sure investors understand the difference and the value of working with an RIA. That's why we have made updates to our RIA Stands for You Campaign, with new advertising based on consumer research, a refreshed website, and an extension of the target audience to reach not only traditional high-net-worth investors but younger affluent investors as well, so that when they are ready to choose an advisor they choose you.

## Advisors are primed to win

With all of this growth and success behind you, and all of this opportunity ahead of you, it is impossible not to be inspired by where this industry is heading. You are primed like never before to shape your future and take advantage of the opportunities that come your way. We are excited to be right by your side as you continue to grow and navigate through some of the most exciting times this industry has ever seen.

## Interested in learning more?

Ask your Relationship Manager for more details about how our programs, products, and services can help fuel your success. Visit the [Schwab Insights Hub™](#) for valuable research and intelligence about investors, advisors, and the industry.

## Questions for consideration

- What is your plan to help capture the \$23 trillion opportunity that is currently sitting outside the RIA channel?
- What do you need to do to ensure you have the right talent in place to meet the needs of the evolving investor demographic?
- What opportunities do you have to leverage technology to aid you in your ability to work more effectively with clients, enhance client interactions, and meet their service expectations?
- How could individuals at your firm build relationships with local legislators to help them understand your firm, the work that you do, and how it benefits their constituents? How could you share your views about pending proposals?



**Walt Bettinger**  
President and  
Chief Executive Officer,  
The Charles Schwab Corporation

## Walt Bettinger

### A conversation with Walt Bettinger

As a former entrepreneur and owner of a retirement services business that eventually became one of Schwab's largest clients, Walt Bettinger has a unique appreciation for the independent advisor profession. Since assuming his role as president and CEO in 2008, he has reaffirmed and strengthened the company's commitment to its Advisor Services business and to independent advisors as a solution for investors. Now celebrating his twentieth anniversary at Schwab, Walt shares his perspective on the strategic importance of advisors and his optimism about their prospects for continued success and growth.

### Your importance to Schwab's business

We're a challenger. We're a company that tries to disrupt the status quo in the financial services industry on behalf of investors and all of you who serve them. You do the same—your whole industry is a challenger industry, disrupting the status quo—and it's working. This year, our net new client assets (NNA) will surpass \$100 billion for the fourth consecutive year, and advisor growth is a big driver of this. In fact, Schwab Advisor Network® had one of the best years ever—last year we had \$5 billion in NNA and already we have almost \$6 billion in closed business with advisors through just the first nine months of this year.

While the fed funds rate environment has significantly limited our revenue growth and masked our fundamental success with clients, we know that when the Fed does finally make a move, it will open up opportunities for more investments in our capabilities on your behalf. But in the meantime, we will continue to disrupt and fight as a challenger, working alongside you to do what's right for the investor.

### Advisor success is key to Schwab's strategy

As you all know, the advisor business continues to grow, which is just phenomenal. You now custody \$1 trillion in client assets with us, which equates to about 45% of our total client assets and translates into 24% of our revenues. We're grateful for the trust and faith that you put in us, and we are proud to support you. We are thrilled by your success. Your growth is our growth, and we want to do everything we can to help you grow even more.

Schwab's strategy has remained consistent over the years, and advisors are absolutely an essential part of that strategy. We firmly believe that RIAs are the best solution for high-net-worth investors with complex needs. Our retail business, on the other hand, is designed to serve a different kind of client—and it operates with a more scalable

"Your whole industry is a challenger industry, disrupting the status quo—and it's working."

structure that will always be more standardized and less customized than what independent RIAs offer. Overlying all of this is one clear point: There is approximately \$23 trillion in affluent assets (investors with over \$500,000 in investable assets) that sits outside the RIA channel. We want to do whatever we can—whether that is through our advertising or by encouraging investors to ask questions, to help shake them loose from the traditional model and bring those assets to either Schwab or to RIAs.

## **Automated investing and implications for advisors**

It's clear that there is growing demand for automated investing services in the marketplace, and we are very optimistic about the growth opportunities this will bring to advisors. Last year, 50% of you said that you could see a role for digital advice within your business, and now that number has gone up to 70%, which is a pretty substantial increase. As most of you know, Institutional Intelligent Portfolios™ launched this year and will allow you to combine your wealth management expertise with the power of an automated investment management platform to help you efficiently scale your business and reach new clients. We know that it will not be the right solution for all of you, and we know it will not be the right solution for all of your clients, but we wanted to make the platform available to you so that you could make the choice of whether it is a good fit for your business.

## **Making it easier to participate in the 401(k) space**

We are excited about the work we have been doing to help open up the 401(k) market. The bundled service providers do a great job, but their strategy is to direct money into proprietary target date funds. While that may be a good option for some, target date funds are not customized beyond the single factor of the investor's age. As advisors, you know the value of offering your clients the right advice for their particular situations, considering a range of factors and preferences that might influence an investing plan. That is what we have tried to do with our new advisor-managed account feature for 401(k) plans—to provide an option where you can offer customized, personalized advice to potentially thousands of employees in a plan. It's new, it's disruptive, and it's unique, but most of all it's the best thing to do for employees.

## **We continue to listen to your needs**

You have told me that technology is incredibly important, and it's not just all about automated investing. You are looking for technology that helps you be more scalable, more productive, and deliver greater service to your clients—and do it in a way that is of great value for them and profitable for you.

Demographics and wealth transfer are huge issues. You know that trillions of dollars are going to change hands in the next few years, and you want to make sure your talent reflects the growing diversity in the marketplace.

Competition is always present, and as others see the success of your model, they want to copy you. They are trying to look like you, become like you, and blur the distinctions between them and you among consumers, which means we all have to work together to help investors understand your unique value. That's why some of our current advertising encourages investors to "Talk to Schwab or one of the thousands of independent advisors that work with us." This is just one of the ways that we are committed to help shake loose that \$23 trillion opportunity that sits outside the RIA channel.

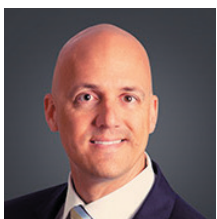
## Schwab and RIAs: A successful relationship

Both Schwab and RIAs are challengers. We push against the status quo, trying to do the right thing for investors, asking questions, and refusing to accept practices that are not aligned with the interests of investors. RIAs have built an entire industry—a profession—the best kept secret in financial services because you challenged, because you knew there was a better way. As long as we both keep doing this, there is an incredible future ahead of us.

The most important thing that we can do for you is to never put you in a position in which you have to apologize or explain to your clients why you've chosen to custody their money at Charles Schwab. That means we are committed to being the same conservatively run company that you've grown to expect.

## Questions for consideration

- In what ways is your firm a challenger, disrupting the status quo with new ideas and approaches to serving clients?
- How are you responding to the increased competition, particularly as those competitors copy your model and look more like you?



**Jeffrey Kleintop**  
Chief Global Investment Strategist  
and Senior Vice President,  
Charles Schwab & Co., Inc.

## Jeffrey Kleintop

### Global markets outlook: Building HOPE

Jeffrey Kleintop helps investors unravel and analyze global economies, government policies, fundamentals, and market trends to make sense of global investment opportunities. Kleintop has looked at the data and believes HOPE is the new watchword for investors.

**Investing is an act of hope.** Investors have every reason to be hopeful if they look at financial data; but they're acting on fear and keeping cash on the sidelines rather than putting it to work to improve their futures. Many investors have been losing hope, as evidenced by outflows from equity mutual funds in each of the past six months,

“The naysayers are wrong. Hope is a strategy and a long-term one. It’s for the strong and the tough times. We need to build it now during this time of volatility.”

according to the Investment Company Institute. They’re focused on returns and risk but less so on mitigating risk. Investors can achieve a decent rate of return *and* lower their downside risk, but they first have to be optimistic about the future. We need to build hope with investors so that they can stop focusing on risk and start seeing the opportunities.

There are good reasons to be positive about the future: Global economic data is generally exceeding expectations, and most forecasters expect 2016 to post the best global economic growth in years.

## **So let’s build some HOPE**

**H is for home bias.** Many investors have a home bias when it comes to investing, shunning non-U.S. investments. A better strategy comes from having a global perspective and global portfolio exposure.

- Sector matters much more than country when it comes to performance. In developed markets, stocks in every sector correlate very highly with other global stocks in their sector and are less correlated with stocks in different sectors of their own country.
- Rewarding performance is not just about gains; it is also about minimizing losses. International stocks have provided similar returns to U.S. stocks over the long term, but have suffered less in terms of losses. That risk diversification paid off in 2015 and may continue if volatility rises.

**O is actually zero and reminds us that the yield curve measures the difference between short- and long-term interest rates.**

- The yield curve has been a helpful indicator of oncoming recessions and market declines around the world, with a perfect forecasting track record in many countries.
- Global yield curves are not currently signaling an oncoming global recession, but with short-term rates starting to rise in 2016, we need to watch them closely.
- Remember, “When the yield curve is below zero, don’t be a hero.”

**PE stands for price-to-earnings ratio, which can be a powerful tool in supporting hope for long-term gains for stocks.** Historically, stock valuations have tended to move with stock market price returns.

- Valuations across many major countries and regions are pointing to similar 5% to 10% returns over the next 10 years, suggesting that international diversification may be obtained without a trade-off in performance.
- While a 5% to 10% total return for global equities is below the long-term average, it supports hope for gains in the future.

## For those with HOPE, here's a global investment idea

### Consider Japan

- Its stocks behave like tech and financials, our favorite cyclical sectors.
- Japan's stocks are inexpensive compared with U.S. stocks.
- Japan's yield curve is relatively flat but not at zero, and inflation expectations may soon pick up and lift the curve.
- Powerful policy-driven forces support its stocks.

### Interested in learning more?

For continued updates from Jeffrey, please visit the [Markets & Economy](#) page on the Schwab Advisor Services® website or read his latest white paper, [The case for a global perspective](#).



**Liz Ann Sonders**  
Chief Investment Strategist  
and Senior Vice President,  
Charles Schwab & Co., Inc.

## Liz Ann Sonders

### Economic and market health

Liz Ann Sonders gets to the heart of the factors affecting this year's U.S. stock market performance. Using historical and recent data, she explains why investor angst about the economic outlook is misplaced seven years into the secular bull market and offers her assessment of what to expect next year.

### 2015: A tough year for individual investors

While overall performance for 2015 has not been dramatic, extreme month-to-month swings from outperforming to underperforming across asset classes (e.g., commodities and real estate investment trusts) proved confusing to investors. No one can figure that out in the short term. Instead, a broadly diversified portfolio will nearly always "smooth the ride."

According to Sir John Templeton, markets move because of investor behavior: "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria." We are now likely in a "mature on optimism phase" (i.e., still far from "die on euphoria").

“Markets tend to care more about ‘better or worse’ than they care about ‘good or bad’ but individual investors miss this all the time.”

## Key themes to explain why the market has behaved the way it has this year

### Central bank policies: Divergences abound

- Global central banks are no longer acting in concert: The Fed has begun the process of taking away some global liquidity, but plenty is being added by other central banks.
- Global growth has recently ticked back up, but remains sluggish in absolute terms. However, investors should focus on *changes in fundamentals*. From a market perspective, “*better or worse*” matters more than “good or bad.” Changes in direction tend to trigger market movements more than absolute data. And remember, the stock market tends to *lead* the economic data.
- In the volatile August–September period, asset-class correlations moved sharply higher.
- Despite a recent spike in the correlation between U.S. and Chinese stock markets, worries about China dragging down the U.S. market are overdone. From a trade perspective, the effect of China on the U.S. economy is <1%. (Exports represent 13% of U.S. growth, and China represents 7% of U.S. exports.)

### Low risk of recession for U.S. and global economies

- U.S. leading indicators haven’t yet taken out their prior (2006) high, which suggests the “expansion” phase still remains, and recession risk in the near-term is low.
- The U.S. economy is closer to “escape velocity” (i.e., self-sustaining, no longer needs fiscal accommodations) than recession.
- Global growth has picked up recently.

### Federal Reserve’s dual mandate sending mixed messages

- The Fed is the only global central bank with two mandates—inflation and employment. Inflation is running well below the Fed’s 2% target, which is the case globally too.
- However, there is a potential asset-inflation problem, as measured by household financial assets (dominated by stocks and homes) relative to incomes.
- The Fed is trying to avoid asset bubbles of the past and is becoming anxious to move off the zero bound of rates.
- Since the recession ended, cumulative U.S. job gains of 13.2 million well exceed the 8.8 million job losses from 2008 to 2010.
- Even the jobs picture is mixed and involves nuances in Fed policy:
  - There now exists an unprecedented gap between unemployment claims (which are at record lows) and interest rates (which have been near zero since 2008).
  - The Fed has been “taking cover” behind subdued wage growth.

- Context provides some extenuating circumstances behind weak wage growth:
  - Demographics are contributing to weak wage growth. Higher-paid baby boomers are leaving the workforce and being replaced by lower-paid millennials. There's been a notable pickup in job openings, but a skills-gap problem has been persistent (i.e., companies having trouble finding qualified workers).
- Markets and investors should be less focused on the date of the initial hike and more focused on the speed of hikes thereafter. Slow tightening cycles (i.e., the Fed pausing along the way) have historically meant better stock market performance than fast tightening cycles (i.e., at most or all consecutive Fed meetings).

## **Bull market not dead, but expect continued bouts of volatility**

- Volatility with a capital V (i.e., the VIX Index) was subdued all year until its eruption in August when stocks began their correction. Other measures of volatility (with a lowercase v)—such as the percentage of trading days with moves of more than 1% or swings above/below the market's 50-day moving average—have contributed to investor angst.
- The correction was more about excesses that had built (elevated valuations, weak earnings, deteriorating breadth) and less about dramatically weaker global growth. U.S. stocks had gone nearly four years without a correction. (They usually occur every 1.58 years.)

## **Valuation**

- Earnings need to catch back up to valuations. The market is not expensive, but it's not cheap either.
- We are now likely in an earnings recession, but it's unlikely to be accompanied by an economic recession. Negative earnings growth is concentrated in the energy sector, courtesy of the plunge in oil prices, but lower oil prices are an economic positive overall.
- Four times since 1980, earnings have gone negative without a recession coming. All were periods when oil prices had plunged, like this period. U.S. recession risk is low.

## **Investor behavior: No euphoria problem**

- The “wall of worry” that stocks like to climb is intact: Massive asset flows into bond funds over the past couple of years are not surprising. What is surprising is the lack of any net new money flowing into U.S.-only equity funds (mutual funds and ETFs) on a cumulative basis during this entire almost-seven-year bull market. Investors are skeptical and distrustful of markets, which is perhaps understandable after the “lost decade” from 2000 to 2009.
- Investor optimism is rebounding, but remains subdued longer-term, which bodes well for the market.

- Investors have been quickly bouncing between enthusiasm and panic, at times based on minimal changes in fundamentals.

## Looking ahead

- We maintain a “neutral” rating on U.S. equities, which means maintaining normal equity allocations but also “adding on dips and trimming on rips.”
- The secular bull market lives on, but bouts of volatility will likely persist.

## Interested in learning more?

For continued updates from Liz Ann, please visit the [Markets & Economy](#) page on the Schwab Advisor Services<sup>®</sup> website.



**Greg Valliere**  
Chief Political Strategist,  
Horizon Investments

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## Greg Valliere

### Economic policies and the political climate

With more than 30 years' experience as a chief political strategist, Greg Valliere is a keen interpreter of politics and its effect on financial markets and investors. In a year when conventional wisdom has been turned on its head, he gives his take on the budget deal, what to expect from Congress, the Federal Reserve's inaction, and the presidential footrace.

### The budget deal: Beltway shift to stimulus spending and impact on markets

- The Washington climate of fiscal restraint, prevalent for nearly a decade, is beginning to loosen.
- We will see the pendulum swing away from austerity to new stimulus.
- The new budget deal has more spending. Even with the Republican Congress, we will see approximately \$118 billion in new spending over the next few years. This infuriates the conservatives, but it was the only way that they could arrive at a budget deal.
- This means some sectors will do quite well. It may be a favorable environment for Pentagon spending. The clear upswing for defense outlays is a prime example of the loosening of fiscal restraint. It may also be favorable to lab companies that work with the National Institutes of Health (NIH) because they'll benefit from NIH's higher research and development budget.

### What this means for the deficit, tax reform, and Paul Ryan

- The deficit is not likely to rise in the next few years. In fact, it could fall a bit further, thanks to a surprisingly strong flow of receipts to the Treasury.

“I never thought I would see an environment where just about everyone in our industry wants a rate hike.”

- Any major reduction in the deficit would require two key ingredients: tax hikes and cuts to programs like Social Security. Both are extremely unlikely to occur.
- Despite a need to act, it's doubtful that Congress will reform entitlements in the next two years.
- Investors shouldn't see major changes in individual tax laws for at least two more years. The most intriguing tax proposal is the “repatriation” of U.S. earnings stashed in Europe—a potentially huge development for drug and tech companies.
- A repatriation deal, engineered by House Speaker Paul Ryan, would devote much of the tax windfall to infrastructure projects, such as highways, bridges, subways, and cybersecurity. Repatriation would also be a big deal for mergers and acquisitions, and dividends. Ryan will create a better climate for tax reform in the next two to three years.

## **Will it be doves or hawks?**

- Make no mistake: This is the most dovish Federal Reserve in our lifetime.
- A Federal Reserve interest rate hike in December is looking more likely, but rates will rise slowly in 2016. They will most likely stay remarkably low for another couple of years.

## **2016 presidential elections: Democrats nervous; Republicans a play in two acts**


- Barring something totally unforeseen, Hillary Clinton will be the Democrats' nominee. She has moved leftward on issues like Wall Street regulation, trade, and the environment, but it remains to be seen whether she will pivot back to the center ahead of the general election.
- Democrats are nervous about her high negative ratings and will be more concerned if additional bad news surfaces.
- The Republican free-for-all is a two-act play:
  - Act 1 is the “primal scream” phase where angry voters are venting and favoring outsiders (Trump, Carson, Fiorina) over the Washington establishment, but this phase is nearly over.
  - Act 2 is the “temperament” phase, which focuses on the candidates' personalities and behaviors to find out who has the temperament to be president and narrowing it down to who is actually electable.
  - This process will happen throughout the Iowa caucuses, followed by multiple primaries. It may take until June to pick the candidate.
  - Don't rule out a brokered convention to pick the Republican candidate in Cleveland next July. We could even see talk of a third-party candidate if Bush gets the nomination.

- At least one “establishment” candidate should emerge:
  - #5: Chris Christie, the underdog
  - #4: John Kasich, first-rate governor and good congressional record but too moderate for some Republicans
  - #3: Jeb Bush, lackluster campaigner with \$100 million war chest who could rise if he shows more boldness
  - #2: Ted Cruz, ambitious and will get Trump’s supporters if he bows out
  - #1: Marco Rubio, the most talented politician in the field by far
- Trump and Carson are possible nominees, but both have a ceiling of 30% to 35% with voters.
- Rubio is the guy to watch. He is an uplifting, Reaganesque speaker who is focused on youth and future, and his family narrative plays well.
- It’s important to note that while the Electoral College map favors the Democrats, the House will stay Republican, putting a check on Clinton if she’s elected.
- Demographics of women, young people, and Hispanics will remain key in this presidential race. Even if Rubio becomes the Republican nominee, the Hispanic vote will still probably go to the Democrats.
- Don’t believe the pollsters. Their polling methods are outdated, and they’re getting it wrong.

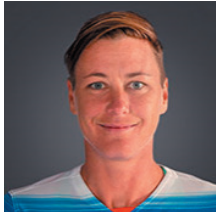
## **What keeps Greg up at night**

- Unfunded liabilities remain an issue. Chicago is an example of this, where people are facing a crisis over paying for things that they can’t afford, such as pensions and health insurance.
- The Obama White House will try to govern the last year through regulations and executive authority because it is unlikely to prevail with new legislation.
  - The most troublesome regulation in our industry is the highly controversial financial advisor rule, which should move next spring, despite being opposed by half the Democrats and all the Republicans. It may get watered down.
- Geopolitics
  - Concern about China’s economic growth is fading. The Chinese are going to do whatever it takes to keep their economy stimulated, and, as a communist regime, it can do what it wants. It is unlikely that China will drag the rest of the world down.
  - In the Middle East, it is surprising that Russia wants to take on ISIS after the humiliating defeat of the old Soviet Union in Afghanistan; but, if the Russians want to take on ISIS, go for it. The U.S. is war-weary and won’t become more involved. A new alliance may emerge in the Middle East.

## Interested in learning more?

For continued updates from Greg, please visit the Market Reports page, under Research on [Schwab Advisor Center<sup>®</sup>](#) .

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**Abby Wambach**  
2015 Women's World Cup  
Champion

## Abby Wambach

### Competition, leadership, and following your own path

Soccer icon Abby Wambach is known as much for her intense physical play and diving headers as for her all-in leadership style, energy, and focus on teamwork. Her talent and leadership have netted a long list of accolades. She was awarded FIFA Player of the Year in 2012; has played on four World Cup teams, including the 2015 championship team; and is a two-time Olympic gold medalist.

### The formative years

Being the youngest of seven children taught me how to be a member of a team from a very young age. With encouragement from my parents, I was exposed to a variety of different sports and activities along with my siblings. As an example, my experience playing basketball gave me skills that translated to the soccer pitch, including how to read the trajectory and speed of the ball, and how to jump. These were all critical to diving headers. Everything I experienced contributed to my future success in some way.

Women's sports were in their infancy, and professional soccer wasn't even on my radar when I was young. However, not having that vision did not deter me from dreaming about success. The 1999 Women's World Cup and growing interest in the sport proved anything was possible.

I was recruited to play for the Washington Freedom alongside my idol, Mia Hamm. From her I learned my first lessons about leadership, both on and off the field. I watched and listened to see how Mia led, how she worked with sponsors, fans, and others, always remembering to say "thank you." I played at a higher level and made more money during my career because of those who came before, including Mia, who inspired me to strive to leave the game in a better state than I found it.

### On learning to lead

I assumed a leadership role with the team following Mia's departure and wasn't sure that others would follow me. There's no way I would have been able to assume Mia's role without leaning on my teammates. We were family in a lot of ways.

“You have to go inside your heart, find your passions, and make sure the people you’re trying to lead are going in the same direction.”

I was scared and didn’t know how to get people to follow me. I was trying too hard at being first. To be a leader, you need to focus on what makes *you* tick, what *your* passions are. You also need to understand each teammate’s motivation—every individual is different. Some may be motivated by financial gain, others by forming emotional connections. Leaders need to understand each individual if they want to keep them engaged and pointed in the same direction.

## **The humility and teamwork of leadership**

Instead of downplaying mistakes, we all need to hold ourselves accountable. Sometimes saying “my bad” is the most effective thing to do. If your teammates are family and you all care about each other and are working toward the same objective, you will work harder for each other. I’ve scored 183 goals in international play—more than any other player, male or female—but it’s important to acknowledge that apart from penalty kicks, I’ve never scored a goal by myself. That’s what life is like. We don’t achieve success by ourselves; we rely on our loved ones, teammates, and colleagues.

You have control of what you do every single day of your life. Good things happen if you acknowledge that each of us is unique and that we are all motivated differently. It’s important to hear all voices, even those we disagree with. If we can be open and honest with each other and with ourselves—if we can move and inspire each other—we can effect positive change together.

Moving forward, I want to transcend the pitch, break new ground, and take what I do off the field to a whole new realm. This is a moment in time where gender equality and the pay gap are in the forefront, and we have an opportunity to make serious change happen. I’m fighting to make sure we have more women in powerful positions all over the world and that they are given the opportunities they deserve.

## **Interested in learning more?**

Visit Abby Wambach’s [website](#).

## **Questions for consideration**

- Discuss when admitting a mistake, either as a leader or a team member, has contributed to a positive outcome for your firm.
- Consider evaluating whether each member of your team understands how the other is motivated.



**Fareed Zakaria**  
Author, Journalist,  
and Columnist

“The biggest trend in the world is the expansion of the global economy—the rise of the rest.”

## Fareed Zakaria

### The case for American optimism

Fareed Zakaria is considered a maverick thinker who is able to synthesize history, current events, geopolitics, and economics to deliver thoughtful analyses of what’s happening at home and abroad. He makes the case that we have reason to be optimistic about where we, and much of the world, are headed. The hopeful outlook is found by looking at the world through the prism of history.

### Current events create uncertainty and unease

The unease and sense of gloom that pervades the U.S. these days are very troubling, especially because America has always been viewed as a beacon of opportunity, energy, and optimism.

We get fixated on the day-to-day, the crises of the moment—and these crises are real—but we lose the ability to step back and ask ourselves what’s going on. We have reasons to be optimistic but feel the world is dangerous and uncertain due to the violence, chaos, political turbulence, and terrorism in the Middle East.

What we are seeing is a breakdown of an entire historical order. Middle Eastern countries were run by secular, repressive dictatorships that maintained control but which proved to be brittle. Once they were overthrown, there was no state underneath: no institutions, no bureaucracy, or administration to maintain social order or moral cohesion. Instead, you find warring tribes (e.g., Shi’ites, Sunnis, Kurds) rather than nations.

So, it is going to be very messy for a while. Ultimately, the Middle East will stabilize, but it will take many years.

It’s important that we remember to put this in perspective.

### The Middle East is not a key player in the global economy

If three years ago someone told you that the Middle East was going to crumble, you probably would have assumed that the price of oil would rise and most likely be extraordinarily high. Yet oil prices haven’t skyrocketed, as predicted, but have dropped 50%. Why?

- Fundamentally, the world has discounted the Middle East. Everyone knows it’s unstable and that instability is viewed as a matter of degree.
- The U.S. is producing more liquid hydrocarbons and China’s demand has declined, which has impacted oil prices.

The Middle East's merchandized exports are small—equal to Finland's. To put this in perspective, Nokia exports more products in a good year than the entire Middle East.

## **There is greater democracy and stability nearly everywhere**

Compare Latin America, Africa, and Asia 30 years ago to today.

### **Latin America**

- Then: Many countries were anti-trade, anti-American, military dictatorships.
- Now: Countries are mostly democratic. They embrace free markets and free trade, and most are liberalizing their economies. Brazil and Mexico have come the farthest. Cuba and Venezuela are the stragglers, not the norm.

### **Africa**

- Then: Most suffered under dictatorships (Idi Amin in Uganda was one of the most rapacious dictators) and had almost no economic growth.
- Now: We have seen about 50 democratic elections in the past 20–30 years; one-third of the continent is democratic; and 33 countries have an annual growth rate of 3% or higher. Uganda is building infrastructure and has a sovereign wealth fund.

### **Asia**

- Then: Asia transformed earlier than other regions.
- Now: Over the past 5–6 years, we have seen pro-market, pro-trade leaders who want economic reform elected in Indonesia, India, and Japan. China is engaging in market reforms and many Asian countries have signed the Trans-Pacific Partnership, which is expected to be the largest expansion of free trade in the past 20–30 years.

### **Europe**

- Then: Countries fought wars with each other 100 or more years ago, including two between Germany and France that became world wars.
- Now: We have a European Union (EU) that is able to maintain extraordinary peace and has an integrated economy. The EU has gotten bigger, not smaller, and fears of Greece, Portugal, and Spain pulling out of the EU haven't materialized.

Of course, each country will go through its troubles and challenges, but it is important to always have a long-term perspective.

## **The biggest trend: Global expansion**

The proof is in the number of countries growing at 3% or more annually, which has tripled to 85 since 1979.

Globalization is accelerating, thanks to greater stability (end of the Cold war), economic convergence (everyone wants to play the same game), and technological connectivity (information revolution).

- We are at the beginning of a technological explosion. Think of Moore's Law that computing power doubles approximately every 18 months. The supercomputer in your pocket (cell phone) is 100X more powerful than the computers NASA used to put a man on the moon and bring him back.

These three forces—political, economic, and technological—are binding the world together as never before.

## **Where the U.S. stands globally**

U.S. industries are dominant: Nine of the 10 largest market cap companies are American. It used to be more dispersed geographically. The U.S. leads in the key growth areas of the future, such as nanotechnology, social media, biotech, and telephony.

The U.S. has the most dynamic economy in the world and is the most dynamic society in the world. This is the only large, rich country that is going to be demographically vibrant for as far as the eye can see. It takes in immigrants and assimilates them well. Other countries are challenged by this. Japan is aging and Italy looks like Florida demographically. East Asian countries have low birth rates and no one knows if China's new two-child policy will actually help drive population growth. The U.S. will also be more demographically vibrant than Mexico and China.

We will become the largest producer of liquid hydrocarbons, larger than Saudi Arabia and Russia.

The American government actually works well compared to the rest of the world. The financial crisis is an example: Country leaders came together quickly with big monetary and fiscal responses, reform and recapitalization of banks, and financial help for key industries. The results: The U.S. is growing 2X faster than Europe and 4X faster than Japan; our stock market rebounded; American banks dominate globally; and we have low unemployment and high productivity.

Compared with idealized versions of life that some people have, it may not be perfect, but compared to the other world players, we've done pretty well. Don't worry. Be happy. You live in the U.S.

## **Interested in learning more?**

Watch *Fareed Zakaria GPS* on CNN, or follow Mr. Zakaria's commentaries at his [website](#).

## Questions for consideration

- Given the general unease and negativity that is prevalent in the U.S. today, what can you do to help your clients gain optimism and see the opportunities?
  - When we get fixated on day-to-day problems and the crisis of the moment, we lose our ability to step back and ask ourselves what is really going on. How can your firm find ways to stop and take a long-term view of where your firm is headed?
  - How might Moore's law (defined as computing power doubles approximately every 18 months) and resulting rates of change affect your approach to building or refining your strategy and business plan?
- 



**Alan Mulally**  
Former Chief Executive Officer,  
Ford Motor Company



**Neesha Hathi**  
Senior Vice President,  
Schwab Advisor Services<sup>®</sup>,  
Charles Schwab & Co., Inc.

## Alan Mulally

### Creating a culture of teamwork and accountability

Alan Mulally led the turnaround of Ford Motor Company by following four core lessons learned at Boeing. Using these as his playbook, he restored the struggling automaker to profitability, making it the leading U.S. auto manufacturer and one of the top vehicle makers worldwide.

In a conversation with Neesha Hathi, senior vice president, Schwab Advisor Services<sup>®</sup>, Mr. Mulally gave an inside look at what compelled him to leave a stellar career at Boeing to take on the challenge of turning around a company that was close to bankruptcy.

### On coming to Ford

I had been at Boeing for 37 years and had worked on the design of every Boeing airplane. I never thought I'd leave the company. Then I got a call from Bill Ford. He knew he needed help. For a CEO to give up his job, it must be the right thing to do for the company—and he felt it was the right thing to do for Ford. As Bill was describing the situation during our call, I knew I was in trouble because I didn't say "no." I felt like I was being asked to serve a second American icon.

On the first day at Ford, I was picked up in a Land Rover. We drove into the executive garage, and there was not one Ford vehicle. There were Jaguars, Aston Martins, Land Rovers, and Volvos. And, I thought, note to self: I wonder what this team is working on because I bet it's not Ford. I was becoming more and more terrified, but also saw the opportunity to really come together around a focused plan.

We did that by following four fundamental lessons:

“Your emotional resilience is important. You have to trust the process, trust and appreciate each other, and help one another by seeking to understand before you seek to be understood.”

## **Lesson 1: Have a compelling vision**

“What was the vision of Ford going to be?” Asking—and answering—this fundamental question was critical in getting the company back on the right path. The vision needed to be clear, it needed to be compelling, and it needed to show the value that Ford brought to the marketplace. And, equally as important, it needed to be something that the entire company could get behind.

After much thought, the leadership team determined that the original Henry Ford vision, “Opening the Highways to All Mankind,” which was found in a 1925 ad, was as applicable today as it was back then. This vision laid the direction for affordable, safe, and efficient transportation for everyone. It was something “worthy of committing our lives to” and one that could guide the strategic business plan.

## **Lesson 2: Deploy a comprehensive strategy**

Once the vision is adopted, the next step is to focus on the strategy. Ultimately, this should not be a solitary act, but rather a disciplined leadership team exercise. The team needs to buy in to the strategy, know what’s required to make it work, and understand the status of the strategy against the plan. Employees also need to be clear on the strategic plan and their role in it.

## **Lesson 3: Engage in a relentless implementation plan**

You need a rigorous and disciplined process to be successful. Ford instituted a weekly business plan review meeting, where team leads around the world were brought together to go through every element of the plan and provide a status update on their progress against the company’s turnaround goals. Team members were asked to project their performance five years out, leaders were held accountable for their performance, and positions had to be backed up with data.

All of the information was distilled down to a set of charts and graphs with specific color-coding to make it clear to everyone what was on track and where the issues were. With this approach, everything was in one place, and everyone could see and understand the situation, paving the way for relentless implementation of the plan.

## **Lesson 4: Employ talented people who can work together**

To achieve relentless implementation, you need the ability to work together toward a common goal, which requires transparency. At Ford, that was a challenge. The culture was siloed and employees believed they should not raise an issue unless they had a solution. Essentially, everybody was managing secrets. This was an issue because it’s difficult to work on solutions if you don’t know what the problems are.

One of the main benefits of the business review plan meeting was to promote transparency and make problems visible to get people to work together on resolving them. After several meetings during which no one admitted to having any problems, one employee finally shared a major issue. “I was thrilled! I started to clap when he explained what was happening and asked how we could help him. The managers in the room started offering ideas and data to solve the problem. I knew that if we couldn’t break through that mindset and start the culture change, we wouldn’t be able to save the company. After that meeting, I knew that no matter what happened to us going forward, we could handle it as a team if we operated this way.”

## **The big idea**

Teamwork, and the high-accountability, high-performance behaviors that go with it, were the most important contributors to Ford’s turnaround. Implementing the concepts above led to Ford’s financial recovery, greater innovation, and an 88% employee satisfaction rate.

## **Interested in learning more?**

You can read about Alan Mulally’s journey in *American Icon: Alan Mulally and the Fight to Save Ford Motor Company*.

## **Questions for consideration**

- Are there measures you can undertake to improve understanding and adoption of your firm’s vision and each employee’s role in it?
  - Do you have a method for systematically identifying what’s working and not working, so that you can course correct?
  - What behaviors are encouraged/discouraged in your culture and do these support your ability to achieve your strategic vision?
  - If you do not have a culture of transparency and teams that work well together, what measures can you take to positively influence employees’ attitudes and outlooks so that they feel a greater sense of empowerment and responsibility?
-



**Yo-Yo Ma**  
Cellist and Cultural Ambassador

“Culture teaches us to be curious about why things are the way they are, to put ourselves in other people’s positions, and to work hard to connect with them.”

## Yo-Yo Ma and Friends

### Musical perspectives on culture

Cellist and cultural ambassador Yo-Yo Ma has a discography that includes more than 90 albums, among them 18 Grammy Award winners. His latest project in a multifaceted career is Silkroad, founded to promote cross-cultural musical performances and collaborations between education, business, and the arts.

### Openness leads to new ideas, and new ideas lead to new solutions

At the heart of childhood is wonder, the belief that the world can be magical. It entails an openness that allows one person to experience another’s reality, or imagine a world that doesn’t exist. The arts, the humanities, and even the pure sciences—essentially the world of culture—all require this childlike openness and wonder to achieve greatness

As we grow older, we grow fearful. The world is constantly changing and people are often tempted to view solutions in narrow political or economic terms, which further fragment society. They forget that openness spurs hope and creativity, leading to better solutions.

### The importance of imagination

Music, literature, and science require imagination if they are to flourish. In music, the technical elements are only a part of the experience. It takes imagination to connect the dots and find the emotion or idea in a piece that binds it together—in other words, its DNA. Musicians and audiences must both do this. People engage in the creative process just by listening.

If a performer plays a work of music without understanding its DNA, the audience will realize something is missing. Curiosity and openness help a musician bring to life what somebody else has expressed. When he or she succeeds, the audience feels the coherence and can grasp what the piece is about. This interplay helps bring to life the unique power that culture can have in our society.

### The value of culture

Culture encourages curiosity and openness to new ideas and interpretations. It forces people to use their imagination, and in so doing, reminds us of its power. This is why music from hundreds of years ago still speaks to people today. Curiosity allows us to transcend boundaries between people and across millennia.

Culture demands sharing and empathy. Seeing the world through the perspective of others is fundamental to creativity, whether in music, drama, or science. You can’t create something of value unless you’re thinking about how it will be received by others.

Empathy is fundamental to getting past people's fear of the "other" and into a place where it's possible to be hopeful together.

Culture is regenerative. It teaches people how to connect and collaborate, to turn ideas from all over into something new, to push the boundaries of what's possible. In music there's no shortage of melodies, harmonies, or rhythms, and the same potential for creativity and originality exists in science and other disciplines. New ideas build on old ones, and in turn spark new ideas.

### **Culture as a teacher**

People tend to see themselves as political citizens and economic entrepreneurs. But they also need to be cultural citizens and entrepreneurs, committed to listening, watching, and reading; to discovery and expression; and to openness, understanding, and connection. Culture expresses who we are at our core. It teaches us to find meaning and share it with others, and to hear what others are sharing with us. It teaches us to revel in that process and not to fear it. It matters because we do it for life's sake.

Culture is a journey of us all. When we engage with culture we unlock our own creativity. And that creativity can help us to address society's most intractable problems.

### **Interested in learning more?**

Discover more about Yo-Yo Ma and the [Silk Road project](#).

The musical pieces featured in this performance were:

- Cristal, César Camargo Mariano
- Chanson Russe, Igor Stravinsky
- Wine Madness, arr. Wu Tong/Liu Lin
- Turning, Terry Riley, arr. Gyan Riley
- Milagre dos Peixes, Milton Nascimento, arr. Sérgio Assad
- Mera joota hai Japani, Traditional, arr. Evan Ziporyn
- Passo de Anjo, arr Sérgio Assad

### **Questions for consideration**

- Musicians can take ideas from across time and across cultures to create something new. How can you work with members across your firm to do the same thing?
- Describe and discuss your culture's DNA—the thing that binds you all together.



**David Brooks**  
Author, Commentator,  
and Op-Ed Columnist

## David Brooks

### *The Road to Character: The Humble Journey of an Excellent Life*

David Brooks writes about politics and culture for *The New York Times* and is a commentator on the PBS *NewsHour*, NPR's *All Things Considered*, and NBC's *Meet the Press*. Brook's latest book, *The Road to Character*, explores the essence of a meaningful life.

#### External résumé virtues vs. internal eulogy virtues

Occasionally you run across people who radiate an inner light. They can come from any walk of life. They seem deeply good. Their spirit is infused with gratitude. An encounter with them can make you feel valued.

How can we all radiate that inner light? What is the path we take to get to that kind of goodness, especially in a culture focused on striving and trying to win?

The answer, in part, may lie in looking more closely at our two sets of virtues—the “résumé,” or marketplace virtues, and the “eulogy” virtues. Résumé virtues contribute to our ambitiousness, desire to conquer the world, and belief that effort leads to reward and practice makes perfect. The eulogy virtues, such as courage, honor, and being loving operate on an inverse logic: Giving is more important than receiving, you must surrender to something outside yourself to gain inner strength, and you have to conquer your desires to get what you crave.

However, when I look at the people I admire who radiate joy, not only do they reflect eulogy virtues, but they are also capable of making ferocious commitments outside of themselves. I have come to believe that to achieve that inner light, making commitments is key.

#### The meaning of commitment

Commitment-making requires four things:

- **An act of love.** Making a commitment starts with that moment you fall in love with something. It can be a person, place, or company.
- **A cause.** Commitment is not just about the emotion of love. It involves love that has been morally ratified. You need to believe that you are contributing to something good.
- **Motivation.** In order to commit to a cause that is good, you must have had an “agency moment”—a moment that provides you with internal moral criteria. The discovery of a solid set of criteria helps you determine “right” or “wrong” so that you’re able to make your own judgements.
- **Discipline.** To reach this level of motivation requires discipline. You must be able to see the world plainly, face unpleasant truths, and have a devotion to your craft.

“We emphasize freedom of choice... but it is not freedom *from* (choice)...it’s freedom *for* (choice).”

The lives of the following six people serve as examples of how to live a life of meaning built on eulogy virtues and the power of commitments.

## **What six individuals teach us**

### **Dwight Eisenhower: The necessity of self-defeat**

Understanding his core weakness was one of Eisenhower's most important struggles in life. He overcame a bad temper and hatred that he masked with a gregarious persona. By the time he was an Army General and president, Eisenhower had made himself strong in his weakest spots. His most important conversation was with his mother after he had a severe temper tantrum as a boy. She told him that he who conquers his own soul is greater than he who takes a city (paraphrased from the Bible).

### **Dorothy Day: Love is always on the move**

A free-wheeling activist and atheist in her twenties, Day was spiritually transformed by the birth of her daughter and became a Catholic lay worker who spent the next 60 years helping the poor and living among them. She was inspired to not only do good, but to be good.

### **Frances Perkins: The power of picking a vocation**

An unfocused activist in her early twenties, Perkins witnessed a terrible factory fire in New York City. After seeing people leap to their deaths rather than burn in the building, she doggedly pursued worker safety. Perkins became a lobbyist and later served under FDR as the first female Secretary of Labor. "Perkins discovered a meaningful vocation by looking around the world and asking herself not 'What do I want to do in the world,' but 'What problems do my circumstances present for me?'"

### **George Marshall: The power of service to an organization**

The U.S. Army provided a structure and instilled discipline in Marshall. He realized he was not born unto himself, but was born into institutions that he needed to serve and to strive to make better. When given the opportunity by Franklin D. Roosevelt to lead the D-Day invasion, Marshall chose not to advocate for himself, though he personally wanted to lead the charge. He had a code that his personal ambition shouldn't supersede the best interests of the country. FDR chose another general, Dwight Eisenhower, to lead the D-Day invasion. Though personally painful to Marshall, he did not put his own ambition first.

### **Saint Augustine: The power of moving from ambition to meaning**

As a young man, he sought to escape from an overly controlling mother who attempted to direct his every move. She even tracked him down after he moved to Italy. At a certain point, his mother told him that he had become the man she wanted him to be

and that her role was done. Their final conversation was transcendent and filled with grace. “Hushed” was the word he used to describe their conversation. It was one filled with a deep tranquility of spirit.

### **Victor Frankl: The power of finding meaning in suffering**

A psychiatrist in the 1930s, Frankl was sent to a concentration camp by the Nazis. He learned *not* to ask, “What is my passion in life?” Instead, he asked what his life circumstances were asking him to do. He met people in the concentration camps who survived because they thought about things greater than themselves—the love of family and a sense of commitment to a bigger, cosmic order. He teaches us that suffering leads to self-knowledge, empathy, and the ability to transform pain through redemption.

### **Thoughts on leading a meaningful life**

- Don't live for happiness. It's better to live a good life with suffering than a happy, carefree life.
- The central theme of life is the struggle against sin and weakness, not the eternal climb to success. Humility is radical self-awareness and is the greatest virtue.
- Character is your ability to commit strongly to things outside yourself.
- Live a life full of moral occasions. The reward may be the inner tranquility, inner light.

### **Interested in learning more?**

You can read about David Brook's quest to understand how to live a life of depth and meaning in *A Road to Character: The Humble Journey of an Excellent Life*.

### **Questions for consideration**

How you live and act often influences how others view you as a leader and a colleague. It may be useful to consider some of the following questions.

- What are you doing to move closer to the eulogy you want?
- Name your last moral dilemma. What did it teach you?
- Who do you know who radiates an inner light?
- Reflect on the commitments you have made in your life. Which ones would you define as “ferocious commitments”?

Thank you.

Please let us know what you think of this conference takeaway, how you used it, and what improvements we can make in the future.

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