Executive Summary

RIAs like what’s ahead in 2018

- The tax plan is the #1 item to impact client portfolios, say independent registered investment advisors (“RIAs”), who are also watching earnings and interest rates.

- Seventy percent of RIAs expect to see economic growth in the US and abroad this year.

- Roughly half are bullish on equities, with financials, materials and industrials expected to perform better in 2018.

- Their own optimism aside, RIAs say that money in retirement, taxes and estate planning top clients’ biggest concerns.

RIAs opt for ETFs in client portfolios

- About 55 percent of RIAs use ETFs more than mutual funds or stocks in client portfolios.

- A third of RIAs use cash to fund clients’ new ETF investments, while 27 percent say the sale of mutual funds will fund new ETFs in 2018.

- The top reasons advisors like to use ETFs are: asset allocation, lower costs and liquidity.

- The construction of the underlying index is the #1 reason to choose a particular ETF, followed by performance and total cost.
To keep up 2017’s momentum, RIAs look to marketing, not M&A

- More than three-quarters of RIAs say firm assets will rise in 2018; nearly half expect assets to grow faster than 2017.

- RIAs ended 2017 with revenue growth averaging 15 percent, and with full-service brokerage firms supplying a third of their new clients.

- RIAs say they will spend more on marketing in 2018, as they consider it the #1 way to drive growth.

- Tech investments in 2018 will focus on improving client experience, a top strategic priority for RIAs.

- Though M&A is not in the cards for most, RIAs who are considering it want to acquire or add to their firms, versus merge or sell.

- Regulations and lack of client awareness are biggest threats to RIA growth in 2018 - only 1 percent are extremely concerned about the threat of robo-advisors.
Results for the TD Ameritrade Institutional 2018 RIA Sentiment Survey are based on a telephone survey, conducted by MaritzCX on behalf of TD Ameritrade Institutional, a division of TD Ameritrade, Inc., between Nov. 27 and Dec. 7, 2017. 300 independent registered investment advisors (RIAs) participated in this study. Participants, both clients of TD Ameritrade Institutional and non-clients, were asked to share their views on economy, the outlook for their firms and the RIA market overall. The margin of error is ± 5.6%

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RIAs on the Economy and Markets
Taxes and earnings are top of mind for RIAs

Top Potential Influencers on Client Portfolios

- **Tax plan**: 87%
- **Corporate earnings**: 85%
- **Interest rate increase**: 79%
- **Geopolitical tensions**: 74%
- **Fed balance sheet unwinding**: 65%
- **Unemployment**: 56%
- **Healthcare**: 51%
- **Oil/gas prices**: 49%
- **Social tensions in US**: 34%
- **Cybercrime**: 27%

Base: Total (n=300)
Q7. Which of the following headlines are you watching for their potential impact on clients' portfolios? (Multiple responses accepted)
RIAs expect a strong start to 2018

Q3. Looking ahead to the next six months, what is your outlook for the global economy through the first half of 2018? Would you say it is very pessimistic, somewhat pessimistic, neutral, somewhat optimistic or very optimistic?

Q4. Again, looking ahead to the next six months, what is your outlook for the U.S. Economy through the first half of 2018?
Optimism for the US economy remains high

Trend in U.S. Economic Outlook

In 2018, “Very Optimistic” remains high at 14%

Base: Total Respondents (n=300)

Q4. Again, looking ahead to the next six months, what is your outlook for the U.S. Economy through the first half of 2018?
RIAs expect stocks to move even higher in 2018

**Stocks vs. Fixed Income**

- **Stocks**
  - Increase: 46%
  - Remain / Same: 31%
  - Decline: 23%

- **Bonds**
  - Increase: 40%
  - Remain / Same: 49%
  - Decline: 11%

Base: Total Respondents (n=300)

Q5. What is your outlook on the **U.S. stock market** through the first half of 2018? Do you think the stock market will...?

Q6. What is your outlook on the **U.S. bond market** through the first half of 2018? Do you think the bond market will...?
RIAs expect financials to see biggest gains

Sector Outlook for First Half of 2018

- Financials
  - Better: 58%
  - Same: 25%
  - Worse: 17%

- Materials
  - Better: 38%
  - Same: 38%
  - Worse: 12%

- Industrials
  - Better: 37%
  - Same: 49%
  - Worse: 14%

- IT
  - Better: 47%
  - Same: 18%
  - Worse: 12%

- Energy
  - Better: 45%
  - Same: 43%
  - Worse: 12%

- Health Care
  - Better: 40%
  - Same: 32%
  - Worse: 28%

- Consumer Staples
  - Better: 59%
  - Same: 29%
  - Worse: 12%

- Consumer Discretionary
  - Better: 40%
  - Same: 40%
  - Worse: 20%

- Telecoms
  - Better: 54%
  - Same: 27%
  - Worse: 19%

- Utilities
  - Better: 57%
  - Same: 30%
  - Worse: 13%

Base: Total (n=300)
Q8. What's your outlook for the performance of these sectors for the first half of 2018, compared to 2017? (Better, Worse, or Same)
RIAs like large cap equities and corporate bonds

Asset Allocation in Client Portfolios

Equities 62%
- Large Cap 49%
- Mid Cap 18%
- Small Cap 14%

Fixed Income 24%
- Corporates 48%
- International 19%
- Government/Agencies 23%
- Municipals 20%

Cash 7%
Real Estate 3%
Commodities 2%
Other 2%

Base: Total Respondents (n=300)
Q9. Approximately what percentage of assets that you manage for clients today is allocated to the following asset categories? (Mean with zero included)
Q10. Approximately what percentage of assets that you manage for clients today is allocated to the following asset categories Equities? (Mean with zero included)
Q11. Approximately what percentage of assets that you manage for clients today is allocated to the following asset categories Fixed Income? (Mean with zero included)
Retirement issues concern clients the most

Biggest Investing Concerns for Clients

- Having enough money to retire: 87%
- Spending in retirement: 81%
- Taxes: 62%
- Wealth transfer/estate planning: 47%
- Education expenses: 35%
- Caring for elderly parents: 32%
- Investing a windfall: 24%
- Purchasing a home: 10%

Base: Total (n=300)
Q79: What are clients biggest investing concerns these days?
Spotlight on Exchange-Traded Funds (ETFs)
RIAs choose ETFs over stocks and mutual funds

Use of ETFs vs Individual Securities

- I only use ETFs: 12%
- More frequently: 43%
- About the same: 20%
- Less frequently: 22%
- I don't use ETFs: 3%

Use of ETFs vs Mutual Funds

- I only use ETFs: 17%
- More frequently: 37%
- About the same: 21%
- Less frequently: 22%
- I don't use ETFs: 3%

Base: Total (n=300)
Q76a. How frequently do you use ETFs in client portfolios compared to individual securities?
Q76b. How frequently do you use ETFs in client portfolios compared to Mutual Funds?
A third will use cash to fund new ETF investments

Main Source of New ETF Assets In 2018

- Cash / cash products: 33%
- Mutual funds: 27%
- Existing ETF holdings in their portfolios: 21%
- Individual securities: 9%

Base: Total (n=253)
Q77. From where do you expect the majority of your clients' new assets for future ETF investments in 2018 to come?
Asset allocation is #1 reason RIAs use ETFs

Top Reasons RIAs Use ETFs

- Asset allocation: 78%
- ETFs lower costs: 69%
- Liquidity: 60%
- Transaction costs: 58%
- Access new asset classes: 50%
- Replace individual stocks: 40%
- New ETFs from preferred provider: 21%

Base: Total (n=253)
Q48. What are your top reasons for buying or switching ETFs?
Index quality is deciding factor in ETF selection

The Biggest Influencer on RIA Purchasing Decisions for ETFs

- Quality or Construction of the Underlying Index: 38%
- Performance: 23%
- Total Costs: 14%
- Liquidity of the ETF: 11%
- Expense Ratio: 10%
- Tracking Error: 2%
- Brand: 2%
- Trading Costs: 1%

Base: Total (n=253)
Q49: What's the #1 factor influencing your decision to purchase a specific ETF?
RIAs on Growth and Industry Landscape
RIAs say AUM will grow faster than 2017

2018 AUM Outlook
- Decline: 21%
- Slower growth rate: 30%
- Faster growth rate: 48%
- Remain about the same: 2%

AUM Growth in Past Six Months
- Increased: 85%
- Remained the Same: 13%
- Decreased: 2%

Average Growth Rate
- 2018 AUM Outlook: 16%

Q18. Have your firm’s total assets under management decreased, increased, or remained about the same over the past six months? (n=300)
Q19. You mentioned your firm has experienced AUM growth over the past six months. By approximately what percentage has your firm’s AUM grown? (Base: those who Experienced AUM growth n=256)
Q25. In 2018, what is your outlook for your firm’s assets under management relative to 2017? (n=300)
RIAs saw year end gains in clients and revenue

**Revenue Growth - Past Six Months**

- Increased: 81%
- Remained about the same: 16%
- Decreased: 3%

**Average Growth Rate**: 16%

**New Client Growth - Past Six Months**

- Increased: 65%
- Remained about the same: 30%
- Decreased: 4%

Q15: Has the total **number of clients** served by your firm decreased, increased, or remained about the same over the past 6 months? (n=300)
Q16: ...By approximately what percentage has your firm's client base grown? Base: Those who increased clients (n=196)

Q21. Over the past six months, has your firm's **revenue** decreased, increased or remained the same? (n=300)
Q22. ...By approximately what percentage has your firm's revenue grown? Base: Those who increased revenue (n=241)
Most new clients are from full-commission brokers

Sources of New Clients – 2017

- Full-commission brokers: 17%
- Other RIAs: 13%
- Banks: 4%
- Self-directed investors: 13%
- Clients who are new to investing: 4%
- Merger, acquisition, or new advisor onboarding: 15%
- Independent broker-dealers or other places: 9%
- Others: 13%

Base: Total (n=300)
Q24: Over the past year, from which type of competitor did the majority of your firm’s new client assets come?
In 2017, RIAs spent more on tech, less on hiring

2017 Biggest Increases in Spending

- Technology: 31%
- Legal/Compliance: 26%
- Marketing: 15%

2017 Biggest Decreases in Spending

- Hiring/HR: 18%
- Real estate: 18%
- Outsourcing: 17%

Base: Total (n=300)
Q33: In 2017, in which of the following areas did your firm see the biggest increase in spending?
Q34: In 2017, in which of the following areas did your firm see the biggest decrease in spending?
This year, RIAs will boost their marketing spend

Where RIAs Intend to Spend More in 2018

- **Marketing**: 23%
- **Hiring/HR**: 17%
- **Technology**: 16%
- **Client Relations**: 16%
- **Legal/Compliance**: 14%
- **Professional Development**: 7%
- **Real Estate**: 6%
- **Outsourcing**: 3%

Base: Total (n=300)
Q35: In 2018, in which of the following areas do you expect your firm will realize the biggest increase in spending?
Marketing is the #1 way RIAs plan to fuel growth

Growth Initiatives Planned for 2018

- Marketing/Advertising: 30%
- Enhance Client Experience: 19%
- Adding New Staff: 12%
- Improve Efficiency: 11%
- Digital Presence: 9%
- Professional Development: 6%
- Merger and Acquisition: 6%
- Technology: 5%
- Outsourcing: 2%

Base: Total (n=300)
Q32: What's your top initiative to fuel growth in 2018?
RIAs invest in tech to improve client experience

### Technologies Under Consideration in 2018

<table>
<thead>
<tr>
<th>Technology</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Digital documents/eSignature</td>
<td>16%</td>
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<tr>
<td>CRM tools</td>
<td>16%</td>
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<tr>
<td>Financial planning</td>
<td>14%</td>
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<tr>
<td>Client-facing tools</td>
<td>14%</td>
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<tr>
<td>Cybersecurity</td>
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<tr>
<td>Performance reporting</td>
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<tr>
<td>Rebalancing</td>
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<tr>
<td>Portfolio accounting</td>
<td>4%</td>
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<tr>
<td>Robo-advice</td>
<td>3%</td>
</tr>
<tr>
<td>Mobile apps</td>
<td>3%</td>
</tr>
</tbody>
</table>

Base: Total (n=300)

Q39: Which ONE of the following **technologies** are you **considering** investing in most to help drive your growth in 2018?
RIAs interested in M&A want to acquire, not merge

2018 Merger and Acquisition Activities

- Not considering any M&A related activities: 50%
- Acquire another firm(s): 26%
- Add new partners/owners: 26%
- Merge with another firm: 21%
- Sell to another firm: 9%
- Join roll-up/aggregator firm: 5%

Base: Total (n=300)
Q38. Which of the following merger and acquisition activities are you considering for 2018?
Regulations, lack of awareness are top obstacles to growth

Top competitive threats to RIA growth in 2018

- Regulations: 50%
- Lack of consumer awareness of RIAs: 46%
- Wealth transfer to non-clients: 43%
- Larger RIAs: 40%
- Self-directed investors: 26%
- Robo-advisors: 24%
- Shortage of young advisors to hire: 22%
- Wirehouses/Brokerages: 17%
- Other: 3%

Base: Total (n=300)
Q14. What are the top competitive threats to your business growth in 2017?
Majority of RIAs are not alarmed by robo-advisors

**RIA Concern Over Robo-Advisors**

- **Extremely Concerned**: 1%
- **Somewhat Concerned**: 45%
- **Not At All Concerned**: 54%

Base: Total (n=300)

Q43: How concerned are you that "robo-advisors" pose a threat to your firm?
Survey Demographics
Q77. From where do you expect the majority of your clients' new assets for future ETF investments in 2018 to come?
About TD Ameritrade Institutional

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