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CHANGING TIMES

What to expect at the Fed and from mortgage and health care reforms
Thinking about buying or refinancing? Schwab Bank can help.

Get $1,000 toward closing costs when you apply by June 30.¹

Charles Schwab Bank’s home lending program provided by Quicken® Loans® will give you $1,000 toward closing costs on any purchase or refinance loan when you apply by June 30, 2014.¹

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Quicken Loans was ranked “Highest in Customer Satisfaction for Primary Mortgage Origination” in the U.S.—four years in a row by J.D. Power and Associates.²

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¹ In order to participate, you must apply for a mortgage—except for Home Equity Lines of Credit—that closes through Schwab Bank’s home lending program from Quicken Loans. The $1,000 closing cost discount includes the standard closing cost discount of $200 offered under Schwab Bank’s home lending program plus an additional $800 closing cost discount. You must apply by June 30, 2014, and June 30, 2014, to receive the $1,000 closing cost discount offer. Your application date is printed on the Good Faith Estimate (GFE). The closing cost discount will appear on your final HUD-1 statement at closing.

² Quicken Loans received the highest numerical score in the proprietary J.D. Power 2010-2013 Primary Mortgage Originator Studies.² 2013 study based on 3,287 total responses measuring 13 lenders and measures opinions of consumers who originated a new mortgage. Proprietary study results are based on experiences and perceptions of consumers surveyed in July–August 2013. Your experiences may vary. Visit jdpower.com.
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**CORRECTION**

Thank you to readers who pointed out an error regarding custodial brokerage accounts in our Spring issue. For 2014, if a child is younger than 19, or younger than 24 and a full-time student, the first $1,000 of investment income is untaxed and the next $1,000 is taxed at the child's rate. Any investment income over $2,000 is taxed at the parent’s rate.

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The Personal Portfolio Review is complimentary, although the implementation of any recommendations made during the consultation may result in trade commissions or other fees, charges or expenses. The Personal Portfolio Review is available only to clients with at least $25,000 in assets at Schwab or prospects with at least $25,000 in assets available to bring to Schwab. Individualized recommendations are available only to Schwab clients and are limited to assets held in a Schwab retail brokerage account. Information provided to prospects, or pertaining to assets held outside of Schwab, as part of a Personal Portfolio Review, are examples of the kinds of recommendations available on assets held at Schwab. These examples do not constitute recommendations, solicitations or investment advice. (p. 14–16, 20–23)

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Diversification strategies do not ensure a profit and do not protect against losses in declining markets. (p. 32, 50–51, 52)

All expressions of opinion are subject to change without notice in reaction to shifting market conditions. (p. 5, 6, 12–13, 20–23, 28–30, 50–51)

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The S&P Metals & Mining Select Industry Index is designed to measure the performance of narrow GICS® sub-industries. The index comprises stocks in the S&P Total Market Index that are classified in the GICS metals and mining sub-industry. (p. 4)

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The personal portfolios of millions of investors around the world are being impacted by current events. Many are seeking guidance about what will happen in the future. We can answer pressing market questions.

Changing Times

You Navigate

This issue of OnInvesting addresses the importance of this moment, and the questions at times like these. Many of us are worried about what will happen as interest rates rise, the impact of new tax reforms, and the effects of these changes on our finances.

In the following pages, we address all of these questions at times like these.
Schwab Helps You Navigate Changing Times

We can answer pressing market questions.

It’s no surprise that interest rates have been on many investors’ minds recently. They affect multiple dimensions of our lives—from the cost and availability of mortgages, to returns on savings and fixed income products, to the direction of the stock market. Since rates have been low for such a long time, many of us are worried about what will happen if and when they continue to rise.

One reason we have built a comprehensive team of specialists at Schwab is to help answer your questions at times like these. What moves might the Federal Reserve make in the coming year, and how could those changes impact your finances? What fixed income investments might make sense in a rising rate environment? How is your access to mortgages likely to change with new reforms?

In this issue of On Investing, we address all of these questions and more. In addition, you can turn to Schwab professionals at any time for perspective on what’s happening in the markets. Our Fixed Income Specialists are here to help you navigate the bond market and adjust your plans as necessary. And, as always, our Financial Consultants are here to help you translate the implications of market developments for your investment goals.

As markets change, Schwab will be here to help. Our goal is to offer the advice and information you need—delivered at a great value.

Sincerely,

Walt Bettinger
President & CEO

"You can turn to Schwab professionals at any time for perspective on what’s happening in the markets.”
Panning for Profits
Can mining stocks dig out of their slump?

Despite the 29% overall rise in the S&P 500® Index in 2013, the S&P Metals and Mining Select Industry Index was a disappointment, dropping 8.2%. The contrary performance has some investors wondering if now is the time to invest in this troubled sector.

Probably not, says Brad Sorensen, Director of Market and Sector Analysis at the Schwab Center for Financial Research. “One of the big mistakes investors tend to make is believing that an asset that has sold off must come back,” Brad says. “Sometimes, the reasons for the selling off can persist for quite a while.”

That’s likely the case with mining stocks, at least as a group, he says. One big reason for the sector’s recent malaise is China, where leaders are cutting back on infrastructure investment and focusing instead on structural reforms. As the world’s top consumer of metals such as copper and iron ore, China has an outsized impact on the global metals market.

Individual mining companies might provide more opportunity for investors. Brad suggests analyzing the Schwab Equity Ratings® of individual mining companies. Comparing companies’ capacity utilization rates, or operating rates, can help identify potential outperformers. This rate shows how much production is being used. But for the risk-averse, it might be best to wait until the sector’s overall fundamentals improve, Brad says.

1S&P Dow Jones Indices, as of December 28, 2013.
3“Chinese Iron Ore Futures Hit 2-Week High on Supply Concerns,” Reuters, December 30, 2013.

See page 2 for important information.
(0514-0504)
Borrowing Is Back
U.S. household debt is rising again.

Five years after the global credit crisis, people are taking on debt once again. 2013 was the first year since 2008 to register an increase in household debt, in part due to the improving housing market, as banks have relaxed their tight grip on lending. The aggregate balances of U.S. mortgages, the largest component of household debt, increased by 1.9% in the fourth quarter of 2013, according to the Fed. Non-housing debt, which includes auto and student loans and credit card balances, saw an even bigger increase—3.3%.

While overall consumer debt remains more than 9% below the 2008 peak, potential homebuyers should pay close attention to how much debt they have. Under new government regulations, homebuyers with debt-to-income ratios of more than 43% won’t be able to obtain a “qualified mortgage,” which could mean paying a lot more in interest.

But borrowers should aim for a ratio much lower than 43%, says Rande Spiegelman, Vice President of Financial Planning at the Schwab Center for Financial Research. “Don’t confuse what you can borrow with what you should borrow,” he says. “The total amount you spend every month on debt payments—including credit cards, auto loans and mortgage payments—generally shouldn’t exceed 36% of your pre-tax income.”

Sell in May and Go Away
Is there any truth to this adage about seasonal market patterns?

“Sell in May and go away,” also known as the “Halloween indicator,” is a common belief among some traders that stocks underperform during the time period from May through the fall.

Those who believe in this market pattern tend to sell stocks at the start of May and then buy them back later in the year. But this tactic would have backfired in 2013, when U.S. stocks, as measured by the S&P 500 Index, gained 12% between May and December.1

Despite last year’s performance, a historical look at market returns during the summer months indicates that there is some merit to this old saying. Randy Frederick, Managing Director of Trading and Derivatives with the Schwab Center for Financial Research, looked back more than 60 years and found that the S&P 500’s average performance between Memorial Day and Labor Day was only 1.3%, lagging the average annual return of about 7.5%.

Although the 68 trading days between the two long weekends make up about 27% of all trading days in the year, they account only for about 17% of total average annual returns. In other words, it’s true that summers have historically underperformed the rest of the year, on average.

However, 2013’s summer gain is proof that past performance is no indicator of future events. For longer-term investors, it may make more sense to simply ride out the summer slowdown and stay invested in the market.

LEARN MORE
Read more about lending requirements in “The New Mortgage Rules” on page 24.

Next Steps
Read more trading articles at schwab.com/OImarketinsight.

2Ibid.

See page 2 for important information.
(0514-1775)
Most prices on everyday items are in dollars and cents. The costs of financial products, on the other hand, are often quoted in basis points (bps). A basis point represents 1/100 of a percentage point, or 1/10,000 of 100%. A mutual fund with expenses of 0.85%—or an expense ratio of 85 basis points—charges $8.50 per year on a $1,000 investment.

The difference between a fund charging 85 bps and one that charges 75 bps might seem small, but those 10 basis points can mean a significant difference in your compounded earnings. For instance, on a hypothetical $20,000 investment held over 20 years that averages an annual gross return of 6%, the difference between the net investment earnings would add up to almost $1,050, or 5.24% of the original amount invested.

Similarly, individual bonds often trade in denominations of tens of thousands of dollars, so tiny differences in coupon interest rates can have a big dollar impact. For a $50,000 bond, with a 20-year term, a difference of 25 bps would change the amount of interest the bondholder receives by $2,500 over the life of the bond.

In late January, the U.S. Treasury issued its first-ever floating-rate notes. Floaters, as they are widely known, are a type of bond with a coupon rate that “floats”—meaning the bond doesn’t have a fixed interest payment. People tend to invest in these if they believe interest rates will rise, as seen in recent investment trends. Floating-rate note exchange-traded funds attracted more than $9 billion in net assets last year. 2013 also saw an influx of more than $50 billion in bank loan mutual funds, which share many of the same characteristics.

The new floating-rate notes are the first security launch from the Treasury since 1997, when it introduced Treasury Inflation-Protected Securities (TIPS). The goal of this new offering is to expand the Treasury’s borrowing options.

But should investors consider this new investment option? Perhaps, says Collin Martin, Senior Research Analyst at the Schwab Center for Financial Research, who specializes in fixed income. The answer may depend on the outlook for short-term Treasury rates.

The new floaters—which have a two-year maturity and interest rates that are set almost weekly, based on the most recent 13-week Treasury bill auction—will likely appeal to investors who want to take advantage of higher short-term rates. However, Collin believes that short-term rates aren’t rising anytime soon. Because of this, coupons are unlikely to rise on floaters, and you may be better off in short-term fixed-rate Treasuries. “We’ll need to watch the market and see where the yields settle down before evaluating their attractiveness relative to other liquid investments,” he says.

Pay Attention to Basis Points
What a difference “bps” can make.

U.S. Treasury Launches New Form of Debt
Should you take advantage of U.S. floating-rate notes?

Nex T sTePs
Visit schwab.com/OIfees to learn about the different fees that might affect returns.
1. While tuition at public and private universities keeps climbing...

![Graph showing average tuition and fees in 2013 dollars (4-year colleges)]

2. ...parent and student income is footing a smaller share of the bill.

![Pie chart showing share of tuition bill covered by combined parent and student income and savings]

- 2009: 46%
- 2012: 38%

3. Increasingly, students are using loans to make up the difference...

![Graph showing share of tuition bill covered by student borrowing]

- 2009: 14%
- 2012: 29%

4. ...resulting in higher levels of debt among graduates.

![Graph showing average amount of debt per bachelor’s degree recipient]

- Private Non-Profit:
  - 2009: $18,000
  - 2012: $19,500
  - Increase: 8%

- Public:
  - 2009: $11,700
  - 2012: $14,300
  - Increase: 22%

**STUDENT LOAN TYPES: KEY DIFFERENCES**

<table>
<thead>
<tr>
<th>FEDERAL LOAN PROGRAMS</th>
<th>Direct Subsidized</th>
<th>Direct Unsubsidized</th>
<th>Perkins</th>
<th>PLUS</th>
<th>Private Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undergraduate or graduate?</td>
<td>Undergraduate</td>
<td>Both</td>
<td>Undergraduate</td>
<td>Both</td>
<td>Both</td>
</tr>
<tr>
<td>Eligibility requirement</td>
<td>Financial need</td>
<td>None</td>
<td>Exceptional financial need</td>
<td>Financial need</td>
<td>None</td>
</tr>
<tr>
<td>Aggregate loan limits</td>
<td>Combined $31,000, with a $23,000 max for subsidized loans</td>
<td>$27,500</td>
<td>Cost of attendance minus other financial aid received</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
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<td>Fixed</td>
<td>Fixed</td>
<td>Fixed</td>
<td>Fixed</td>
<td>Variable</td>
</tr>
</tbody>
</table>

**NEXT STEPS**

Explore college savings strategies at schwab.com/OIstrategiesforsaving.

**Learn More**

Visit studentaid.ed.gov/types to learn more about the different types of college loans.

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3. Typically, a portion of college costs is paid for by grants, scholarships and other sources.

As with any investment, it is possible to lose money by investing in a college savings strategy.

(0514-1971)
Dear Carrie,
I'm a 65-year-old widow and am considering getting married again. Should I take any financial planning steps before I tie the knot?
—A Reader

Dear Reader,

Marriage, at any age, is one of the most important personal decisions you can make. And joining your lives and your money when you're older—especially when it's a second marriage—can be complicated. Of course, a decision to marry should be based on love and a desire to make an emotional commitment. But the financial implications can be pretty significant, particularly if you're marrying later in life, after both you and your future husband have had time to acquire and manage assets for many years.

And it's not just about numbers. There's an emotional side to marrying your finances. You need to examine your own feelings about things like financial independence. You'll also want to take into account the feelings of your loved ones, particularly adult children.

There's a lot to consider—both practical and personal. To me, it's not just about understanding the financial issues on your own, but about coming to an understanding with your fiancé. Although it may feel uncomfortable, it's important to talk openly and honestly about your finances with your partner.

Here are some things to consider together.

Dollars and cents
Many of the financial benefits that come with marriage relate to Social Security and estate planning.

For instance, if you marry, you'll be eligible for both spousal and survivor Social Security benefits based on your new husband's work record. If you're currently collecting survivor's benefits on your late spouse's record, you could either continue to receive those benefits (because you're remarrying past age 60) or switch to the spousal benefit if that is higher.

When it comes to estate planning, a married person can leave an unlimited amount of money to his or her spouse without incurring any estate tax, assuming the spouse is a U.S. citizen. In addition, the surviving spouse can use any unused portion of the deceased spouse's lifetime estate tax exclusion upon his or her death. Under current law, this means that a married couple can pass on up to $10.68 million free of estate tax. For example, let's say your spouse gives away $4 million and you give away $1 million during your lifetimes. If one of you passes away, the surviving spouse will have a $5.68 million estate tax exemption ($1.34 million of unused exemption from your spouse plus $4.34 million of your unused exemption).

In addition, spouses who are both U.S. citizens can transfer an unlimited amount of property to each other free of any tax reporting responsibilities or gift tax. You'll also be able to use “gift splitting,” which allows a married couple to share a gift's total value so that each contributes half the amount when giving to a third party. Gift splitting requires the filing of a gift tax return.

The Financial Side of Remarrying Later in Life
What to consider before tying the knot.

BY CARRIE SCHWAB-POMERANTZ
**Difficult tasks**
You may need to make some hard decisions with your fiancé. To help you get through them, approach difficult tasks as partners and come to an agreement on how to handle them. Here are some things to think about:

- **Will you need a prenuptial agreement?** If so, consult an attorney to draft the initial terms. Even if you decide against a formal legal document, it’s essential to openly discuss your finances and put your decisions in writing.

- **How will you handle your estate?** Discuss your individual responsibility to children and grandchildren—or any other dependents or family members—and how you want to provide for them. For example, a Qualified Terminable Interest Property trust could provide for a surviving spouse while ensuring a residual amount goes to the children of a prior marriage. Also be sure to update beneficiaries on all pertinent accounts, such as retirement plans, pensions or annuities, and make sure all assets are titled correctly. Talk about any charitable organizations that you want to support. And don’t forget about your late spouse’s wishes for his heirs.

- **Do you have someone who can advise you on important financial decisions?** Depending on the complexity of your financial situations, it may be wise to consult a financial advisor and estate planner together before you’re married. A trustworthy advisor can help you organize your finances in a way that helps protect both of your individual assets while forging a new, supportive financial relationship.

**The importance of communication**
There can be a lot of sensitivity around a late-in-life second marriage, so you may want to include your kids and any other close family members in your plans. Assure them that you’ve thought through the financial implications and are protecting yourself. If you decide on a prenuptial agreement, consider giving adult children a copy. Likewise, be upfront about your estate plans so there are no surprises later.

Most importantly, keep talking to each other. I believe the most essential issues go beyond numbers and should be discussed with complete candor before a second trip down the aisle.

Communication is the key to any successful relationship, and talking about finances is an important part of it. While it’s not always comfortable talking about money, if you listen to each other and honor each other’s feelings, you may find that financial honesty actually teaches you about each other’s values and priorities and, ultimately, brings you closer together.

Carrie Schwab-Pomerantz, CFP®, is President of Charles Schwab Foundation and Senior Vice President of Schwab Community Services at Charles Schwab & Co., Inc. Her latest book, The Charles Schwab Guide to Finances After Fifty (Crown Business, 2014), is available in bookstores nationwide.

Estate and gift tax exemptions are adjusted annually for inflation.

See page 2 for important information.

(0514-0506)
What Changes at the Fed Mean for You

The Fed leadership has changed—and so might its policy with Janet Yellen at the reins.

BY KATHY JONES

At first glance, new Federal Reserve Chair Janet Yellen appears to be an ideological twin of her predecessor Ben Bernanke. After all, Yellen was a key architect of the stimulus program that Bernanke and the Fed put in place in 2008—a historic program that helped drive interest rates to record lows and keep them suppressed for the past several years.

But just because the two chairs might have similar views doesn’t mean the “Yellen years” will be an extension of Bernanke’s eight-year tenure. While an extended bear market for bonds is still likely, investors might want to consider taking steps now to mitigate the impact of rising rates on their bond portfolio.

A time of transition

Yellen’s appointment as Fed chair, which went into effect on February 1, came at a time of great transition for the U.S. central bank. With Yellen succeeding Bernanke, her position as vice chair opened up and the Fed created a second vice chair position to oversee regulatory matters. Also, of the 12 voting members of the Federal Open Market Committee (FOMC), the group that makes key decisions about interest rates and the growth of the U.S. money supply, four will be new members due to departures of existing members or vacancies. Additionally, with the annual rotation of regional Fed presidents, two presidents who are known to be more “dovish” in their views—meaning they prefer low interest rates as a means of promoting economic growth—will be replaced by two “hawks,” who tend to favor relatively higher interest rates.

The recent turnover among the voting members of the FOMC is unprecedented. Combing through records dating all the way back to December 1913, when the Federal Reserve System was founded, reveals no past instances of a similarly disjointed Fed.

As a result, it may be harder for Yellen to build consensus between members, especially since the Fed is also in the midst of changing its policies. The Fed announced in December that it would wind down its bond-buying program. In addition, the Fed will rely more on its communications policy, “forward guidance,” to maneuver the direction of interest rates. This could mean more volatility in the markets as the Fed transitions to the new structure and policies.

Investment implications

What do the changes at the Fed mean for investors? First and foremost, Yellen will most likely continue to wind down the quantitative easing (QE) program at a measured pace. As the Fed eases up on that monetary stimulus, interest rates likely will rise, depressing bond prices. That means we might be on the cusp of an extended bear market in bonds, given the very low starting point in yields.

While the prospect of rising interest rates means bond prices will fall, a bear market in bonds does not necessarily mean investors will face steep losses. Limiting duration to high-quality, intermediate-term bonds and reinvesting principal and interest as rates rise can help mitigate the impact of rising rates.

Kathy Jones is Vice President, Fixed Income Strategist at the Schwab Center for Financial Research.
bonds was positive in 23 of those 28 years. The key to positive returns was the rising coupon income. An investor who used a strategy that allowed for reinvesting principal and income annually, such as with a bond ladder, would have benefited from the increase in the coupon rate, while the rising income would have helped offset price declines.

Because most bond yields began to rise in summer 2013, the much-anticipated bear market in bonds probably has begun. Ten-year Treasury yields closed 2013 more than 1% higher than the 1.6% low established that spring. Looking ahead, 10-year Treasury yields might return to the 3–3.5% range this year. Longer term, yields might move back to the 4% region, or higher.

How fast rates rise will largely depend on how the economy performs and the way the Fed communicates. If Yellen and her colleagues are able to skillfully wind down the quantitative easing that marked her predecessor’s term, then the rise in bond yields could be gradual.

What to do now
While the prospect of rising interest rates means bond prices will fall, a bear market in bonds does not necessarily mean investors will face steep losses. Limiting duration to high-quality, intermediate-term bonds and reinvesting principal and interest as rates rise can help mitigate the impact of rising rates.

Do convertible bonds make sense?
Investors looking for bond yields may be wondering if convertible bonds are the way to go. After all, issuance of U.S. convertible bonds increased more than 50% in 2013 as issuers took advantage of both low interest rates and high equity prices. Does that make these bonds appealing now?

A convertible bond is a type of corporate bond that allows the bondholder to convert it into a specified number of shares of the issuer’s underlying common stock. Convertibles have many of the same characteristics of non-convertible bonds, such as fixed par (face) values and set maturity dates. In addition, the amount of shares the bond can be converted into, and at what price, is specified in advance. Convertible bonds generally offer lower yields than traditional bonds because they have the potential to generate higher total returns if stock prices rise and the stock in the company exceeds the conversion price.

Investors looking for higher yields generally are better off in traditional bonds, not convertible bonds. And, if investors are looking at convertible bonds because of the potential for higher returns from rising stock prices, they may want to consider allocating funds from the equity portion of their portfolio, not from their fixed income allocation.

NEXTE STEPS
To discuss the potential impact of rising rates on your bond investments, call a Schwab Fixed Income Specialist at 866-893-6699.

1Data from Morningstar, Inc.
See page 2 for important information.
Past performance is no guarantee of future results.
(0514-0603)
Checking Up on the Affordable Care Act
What the new law could mean for your taxes.
BY RANDE SPIEGELMAN

With all the commentary and debate surrounding the Patient Protection and Affordable Care Act, or “Obamacare,” it can be difficult to figure out what to expect as an individual. The effects of the new law will vary from person to person and from state to state, but as investors, we should pay particular attention to five key tax changes.

1 Increased Medicare tax for high earners
Last year saw an increase of 0.9% in the Medicare tax levied on earned income of more than $200,000 for single filers and $250,000 for married couples filing jointly. High earners are now paying a new marginal Medicare tax of 2.35%.

For example, a single filer who earns $300,000—$100,000 over the single filer threshold—has to pay $900 more in Medicare taxes (0.9% of $100,000).

A married couple earning the same amount only pays $450 in extra tax because they earned $50,000 more than their $250,000 threshold (0.9% of $50,000).

If you fit either description, you might not have noticed the change in your pay until late last year. Employers are only required to begin the additional withholding when your Medicare wages exceed $200,000, regardless of your filing status.

Importantly, for married couples filing jointly in which one spouse makes more than $200,000 but combined wages are less than $250,000, you can claim a credit for the excess withholding on your tax return.

2 Surtax on unearned income
The Affordable Care Act will add a surtax of 3.8% on net investment income for single filers earning more than $200,000 ($250,000 for married filers). Net investment income includes interest, dividends, royalties, rental...
income, gross income from a trade or business involving passive activities, and net gain from disposition of property other than that held in a trade or business.

With the new surtax, long-term capital gains and qualified dividends can be taxed at a top rate of 23.8% (20% + 3.8%), while non-qualified dividends, interest and rental income can be taxed at a top ordinary rate of 43.4% (39.6% + 3.8%).

A single filer earning $100,000 in ordinary wages and $25,000 in investment income wouldn’t pay any extra taxes because that person’s income doesn’t exceed the $200,000 threshold. But if a single filer with $100,000 in ordinary wages had $125,000 in investment income, $25,000 would be taxed at the 3.8% rate, meaning a $950 tax bill.

A married couple with $240,000 in ordinary wages and $60,000 in investment income would find themselves $50,000 over the threshold and would have to pay 3.8%, or $1,900, in extra taxes. And a married retired couple with no ordinary wages and $260,000 in net investment income would have to pay $380 in extra taxes (3.8% of $10,000).

### 3 Modified threshold for claiming medical expense deductions

The new health care reform increases the adjusted gross income (AGI) threshold for claiming an itemized deduction for medical expenses from 7.5% to 10%. However, the 7.5% threshold will continue to apply through 2016 for individuals 65 and older and their spouses.

### 4 A new $2,500 limit on health care flexible spending account contributions

The Affordable Care Act lowers the contribution level from the previous year to $2,500 for health care flexible spending accounts. This lower limit could potentially increase an individual’s tax liability, if they were setting aside more than $2,500. The dollar amount will be inflation-indexed after 2013.

Note that both the additional Medicare tax on wages and the surtax on net investment income are subject to estimated tax penalties if you fail to pay withholding or quarterly payments, so plan accordingly.

### 5 Penalty for failing to have insurance

The penalty for the uninsured starts at $95 or 1% of taxable income in 2014, whichever is greater. In 2016, it will increase to the greater of $695 or 2.5% of taxable income. Unlike income levels subject to increased Medicare taxes, which are not indexed for inflation, the penalty for failure to insure will be adjusted for inflation. Subsidies will be made available to those who can’t afford insurance.

Rande Spiegelman, CPA, CFP®, is Vice President of Financial Planning at the Schwab Center for Financial Research.

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**NEXT STEPS**

Stay up-to-date on new reforms at schwab.com/MarketInsight.

1 All other taxes still apply regardless of amount or filing status.

See page 2 for important information.

The examples provided are hypothetical and provided for illustrative purposes only. They are not intended to represent a specific taxpayer’s situation or liability.

(0514-1123)
Will You Have Enough for Retirement?

Turning your retirement savings into steady income.

BY ROB WILLIAMS

Fun fact: The vast majority of lottery winners blow through their money very quickly, some within just five years of their payday. Why? It’s simple: They fail to plan ahead.

Retirement savers face the same risk, but average savers have far fewer funds at their disposal than lotto millionaires. Most of us understand that we need to save for retirement, and we’ve been diligently setting aside a portion of our income on a regular basis for years. But it’s far rarer—and no less important—to have figured out how to convert those savings into lasting retirement income.

Creating income during retirement may sound daunting, but it doesn’t have to be. We recommend that you approach this challenge with three simple steps that can help guide you into and through retirement: plan, allocate and distribute.

Here, we’ll take a look at the first of these three steps.

Your life, your plan

No two retirement plans are going to be the same. We each have different goals, resources and circumstances.

Your plan should encompass your vision for your retirement: what you want to do and what resources you will need to help meet those goals. It should also involve an assessment of your savings and whether you will have outside income sources available.

Here are some helpful questions to ask yourself before you begin the planning process:

- How do you see yourself spending time in retirement?
- What are the costs associated with your projected activities?
- What future expenses are unavoidable?
- How much do you expect to earn from a pension or Social Security?

With the answers in mind, you can move forward with the first part of retirement planning: determining whether your desired spending is achievable, given the amount you’ve saved.

How much will you need?

To help evaluate whether you’ll have the money to maintain the standard of living you want, you first need to anticipate your annual spending.

One school of thought states that you’ll need 75–80% of your current income. That’s based on the assumption that during retirement, certain costs—such as mortgage payments or work-related expenses like clothing and commuting—might decrease or go away. However, while some costs may be reduced, others, such as travel, entertainment and health care, may increase. Therefore, it might be safer to assume that you will need roughly the same amount of annual income that you have now, minus the amount you currently save for retirement each year.

As an example, let’s take someone earning $100,000 a year and saving $10,000 for retirement. Based on the 75–80% school of thought, that person would anticipate spending between $75,000–80,000 a year in retirement. But it’s safer to assume that person will spend $90,000 annually—that is, $100,000 minus the $10,000 they are currently allocating to retirement savings.

$100,000 annual income today

- $10,000 annual retirement savings

$90,000 annual income needed in retirement

©John Kuczala
How much can you afford to pay yourself?

Schwab’s online budget planner, available at schwab.com/OIbudgetplanner, can help you get started. We recommend you approach the retirement budget planning process by breaking anticipated expenses into two groups: discretionary and essential expenses. Discretionary expenses include travel, entertainment and gifts. Essential expenses are those you can’t do without, such as housing, food, clothing, utilities and health care. Be sure to factor in taxes and extras, such as long-term health care and financial responsibilities to children or elderly parents. And, if you own your home, you’ll want to set aside a little extra for expenses like major appliance replacements, improvement projects and other major repairs that may occur during your retirement.

Once you have an idea of how much you’ll spend in retirement each year, you can begin to calculate whether you’ll have the resources to sustain that level of spending. First, tally up all sources of income other than your portfolio, such as Social Security, pensions, rental income, etc. Then subtract that amount from your estimated expenses to determine how much of your income will come from your existing savings.

For example, let’s say you’re shooting for $90,000 in annual spending. Assuming that your non-portfolio income will amount to $30,000 per year, you will need $60,000 a year from your portfolio.
According to the Schwab Center for Financial Research, if your portfolio is roughly 25 times as large as the amount you withdraw from your portfolio in the first year of retirement, you can feel reasonably confident that your savings will last 30 years. So to generate the $90,000 in our example, you would need an aggregate portfolio of approximately $1.5 million ($60,000 × 25).

Ongoing planning
The planning stage can be revealing. While some investors will find themselves on target, others will discover that their current vision is out of sync with their savings. That’s never a welcome realization, but it does provide the incentive to think carefully about your spending or to delay retirement in order to bridge the gap.

It’s also important to remember that retirement income planning isn’t a one-time activity and a retirement plan isn’t a “set it and forget it” document. Rather, your retirement plan should be a working document that is reevaluated annually to account for any changing needs, preferences, spending, market conditions and life expectancy. For example, you might be comfortable spending a bit more early in retirement, if you think you’ll be able to reduce your spending later. It’s helpful to think about these types of alternatives as you create and regularly review your retirement plan.

We’ll explore the allocate and distribute steps of retirement planning in subsequent articles.

This may sound like a lot of work, but following these steps will help guide you through the process so you can plan confidently.

Rob Williams is Director of Income Planning at the Schwab Center for Financial Research.

LEARN MORE
Talk to us about retirement planning.
Call 888-484-5340 or visit a branch near you to schedule a Personal Portfolio Review.

2This is a general estimate only. It is recommended that investors use a retirement plan calculator with Monte Carlo simulations for a more refined, customized estimate.
Pulling the Plug

How risk management can help reduce your trading losses.

Most people buy a stock because they think its price is going to go up. But what if it loses value instead? For many investors, the tendency is to hold the stock and wait, hoping for a rebound. But traders with shorter time horizons need to embrace a different approach, or else they risk losing their trading successes to a few bad trades. This is where risk management—a disciplined approach to entering and exiting a trade—is key.

*On Investing* recently sat down with Lou Mercer, Trading Services Market Manager at Schwab, to talk about what effective risk management looks like for traders.
On Investing: Why is risk management so important for traders?

Lou Mercer: Ultimately, risk management is about preserving trading capital. As traders, we want to limit losses as much as possible, and if the vast majority of our capital is lost in one or two bad trades, we’ll have a very hard time mounting a comeback.

That's where risk management comes in. A lot of traders focus on how to get into trades, but they don't pay nearly enough attention to how to exit them—whether it's for a profit or loss. While they might incur just a few losses each year, those losses can be catastrophic. Risk management is all about curbing emotions in an attempt to make those inevitable losses as small as possible.

Oi: How do you set up a risk management strategy?

LM: Before you place a trade, you should understand why you're buying a stock in the first place. This may seem obvious, but many people buy a stock before they've decided whether they'll be trading or holding it. When you know that you're buying a stock to trade it, it's easy to put safeguards in place. I recommend following these three steps:

1. Determine risk amount
First, figure out how much money you're willing to lose on any given trade. The risk amount is typically calculated as a percentage of total trading capital. I've found that most people are willing to risk 1–3% of their trading portfolio on a single trade. But keep in mind, this is just a guideline. You need to know your own risk appetite before you buy a position.

2. Identify stop price
Your next step is to figure out your stop price, or the price at which you'd like to sell the stock if the trade goes against you. Look at where the stock is trading right now. How low can it go before it drops below the amount you're willing to lose on this position? Determining your stop price depends in part on your time frame. A longer time frame usually demands a wider stop, while a shorter one requires a tighter stop.

3. Calculate position size
The final step is to figure out your position size or how many shares you might trade. For example, let's assume your risk amount is 2% and you have a trading portfolio worth $100,000. This means you're willing to risk $2,000. If you're looking at a stock with an entry price of $22.67 and a stop price of $20.67, your estimated risk per share is $2. This assumes your stop order will be executed at your stop price, which is not always the case. But using this model, given your $2,000 risk, you can buy up to 1,000 shares.

Oi: We've heard that some traders don't like to set a stop price. Why?

LM: Some traders shy away from stop orders because they've gotten burned in the past, when an order was filled at a significantly lower price. That's because a stop order generally guarantees execution, but does not guarantee that execution will be at or even near a specific stop price.

However, stop orders can be a critical aspect of risk management, as they prevent emotions from getting the best of us. By the time most traders are ready to say "enough...
is enough,” the loss is typically too big. So I’m a big fan of putting stop orders on trades because that means I’ll get out of them.

Take a look at the chart below. A trader entered a trade at $22.67. He placed a $20.67 stop order to attempt to limit his loss to $2 per share. After hitting a high of $23.50, the stock moves down to the $20.67 level a few months later. This triggers the stop and it becomes a market order to sell. If the trader had not set a stop order, his losses could have been much more than $2 per share.

OI: How can I stick to my risk management strategy?
LM: When you’ve taken on an extra amount of risk, adhering to your plan is important. Know why you got into the stock in the first place, and if it hits the stop price, let the trade close.

STOP ORDERS CAN HELP LIMIT LOSSES
The stop order was triggered when the stock fell to the $20.67 level. The use of a stop order limited the loss to around 9%, versus a loss of more than 33% had the trader held the stock longer.

ENTRY AT $22.67

9% LOSS

MORE THAN 33% LOSS

Source: StreetSmart Edge®. The example is hypothetical and provided for illustrative purposes only. It is not intended to represent a specific investment product. Past performance is no guarantee of future results.

See page 2 for important information.
Investing involves risks, including loss of principal.
Schwab’s StreetSmart Edge is available for qualified Schwab Trading clients only.
(0514-0688)

NEXT STEPS
Learn more about risk management techniques and stop orders at the Schwab Trading Learning Center. Visit schwab.com/OItradingcenter.
IN COLLEGE, students learn many of the skills necessary for achieving financial independence, though, many recent graduates may feel underprepared.

Student debt plays a big part—the average college student graduates with nearly $30,000 in debt. Many new graduates have to account for student loan payments on top of other monthly expenses, some of which they will be facing for the first time.

Another challenge relates to savings. Adopting a saving discipline early in your career is important for realizing your long-term financial goals, but it can be difficult to know just how much you can sock away.

When Bridget Devine’s college internship turned into a full-time job shortly after graduation, she knew that some of her salary would go to savings. As early as age 14, her father taught her the importance of saving some of what she earned from babysitting and summer jobs.

After college, every time her checking account reached a certain level, she would transfer some money to her Schwab brokerage account. “The first $1,000 check was one of the hardest I’ve ever had to write, but after that it got easier,” says Bridget, now 25.

“I knew that if it was out of sight then it was out of mind, and that I wouldn’t be able to spend it,” she says.

What worked for Bridget may not work for everyone. Each individual has to devise their own plan when it comes to managing finances. With that in mind, here are five areas new graduates should focus on to build a firm financial foundation.
**BUDGETING**

Before you can even think about saving, you will need to get a handle on your monthly income and expenses.

Typically, rent is the biggest monthly expense and should be a prime consideration when deciding where to live. Most personal finance experts agree that your rent should account for no more than 30% of your income before taxes. If you earn $45,000—the national average starting salary of employed 2013 college graduates—your monthly rent should not exceed $1,125. Some college graduates live at home for the first few years out of college, or live with roommates, to help avoid or minimize rent.

Utilities such as electricity and water may be included in the rent, but it’s wise to check before signing a lease. Also, rent will likely increase over time, and renters who plan on staying put for a few years should account for this possibility.

Distinguish between essential costs—the ones that must be paid each month—and discretionary expenses by categorizing each as “need” versus “want.” It’s OK to indulge in a want now and then, as long as it doesn’t rule your spending and you’re not acting on impulse.

**MANAGING DEBT**

Graduating with student debt is a reality for a majority of American college students. Of the approximately 20 million people who attend college each year, nearly 12 million borrow annually to help cover the costs.

Typical federal loans give recent graduates a six-month grace period before they must begin repaying what they borrowed, but after that it’s the borrower’s responsibility to make timely monthly payments. Graduates can postpone or reduce loan payments if they qualify for loan deferment or forbearance. The Income-Based Repayment Plan, enacted in 2007, is available for borrowers who are experiencing financial difficulty, have low income compared to their debt or are pursuing a career in public service. If you’re not sure if you qualify for such debt relief, check with your lender.

In addition to college loans, many students also graduate with some credit card debt. Interest rates on revolving credit card debt—debt that’s not paid off each month—are typically much higher than on other forms of debt, so it’s important to pay off credit cards as quickly as possible.

Failure to make monthly debt payments can hamper the ability to secure a loan down the road. The most widely accepted measure of creditworthiness is the so-called FICO® score, which is determined by five things: payment history, length of credit history, credit utilization, frequency of new credit requests and types of credit used. Some amount of credit is actually beneficial, as long as you pay your bills on time and keep your balances low.

FICO scores range from 300 to 850 and are used by lenders as a quick measure of the ability to repay debt. The median score is around 725, but a score of 760 or higher typically results in the lowest interest rates.

One proven strategy for convenient debt repayment is to sign up for automatic withdrawals from your checking account. In some instances, it may be worth consolidating your student loans or credit card debt to secure a lower interest rate.
SAVING

Once you know how much of your income will go to rent, debt and other fixed costs, it’s a good idea to set aside a portion of the remaining funds for savings.

The most attractive savings vehicle employers may offer is a 401(k) retirement plan. Traditional 401(k) plans allow employees to have some of their income withdrawn on a pre-tax basis, meaning it comes out of your paycheck before income taxes are deducted. You don’t pay any taxes until you withdraw the money in retirement. A Roth 401(k), if available, doesn’t provide any up-front tax benefit but withdrawals in retirement are tax-free. A Roth could save you taxes when you retire, assuming you’re in a higher tax bracket down the road. Either way, the maximum individuals under age 50 can put into a 401(k) account this year is $17,500.

Many employers will match a portion of your savings, so it’s like passing up free money if you don’t participate. Before accepting a job offer, find out whether your prospective employer has a 401(k) plan, if an employer match is offered and how soon new employees can participate.

Bridget started taking advantage of her employer’s 401(k) plan as soon as she could. “I contribute as much as possible,” she says. “I figured if I could get used to contributing at an early age, then I wouldn’t miss it as much later, when my earnings increase.”

Individual retirement accounts—or IRAs—are also attractive long-term savings options. With a traditional IRA, if eligible, you can deduct your annual contributions from your taxes (although the amount you can deduct is reduced with increasing Modified Adjusted Gross Income), but you will have to pay taxes on the money when you withdraw it in retirement. A Roth IRA has income-eligibility restrictions and allows for tax-free earnings and withdrawals in retirement, but you will not get the up-front tax deduction.

When deciding how much to save of your monthly income, it’s important not to set the bar too high. One standard guideline used by personal finance experts is to save 10–15% of your income each month. That way, your savings contributions will grow along with your income.

Still, individual circumstances differ, so you may want to reduce or increase your own starting contributions. If you’re having difficulty saving money, consider making incremental changes to your daily life, such as bringing lunch to work or taking public transit.

Many employers will match a portion of your savings, so it’s like passing up free money if you don’t participate.
Time can be a powerful ally when it comes to investing, mainly due to the power of compounded growth. What you put into your account has the potential to earn income, and the income in turn is reinvested, creating a potential multiplier effect as your contributions and reinvestments keep building on each other.

For example, a hypothetical investment of just $100 per month, every month, could grow to almost $100,000 in 30 years at an average 6% annual compounded rate of return.

Regular contributions allow you to take advantage of “dollar-cost averaging,” an automatic investment plan through which you buy securities in fixed dollar amounts over a period of time. When stock prices rise, you’ll buy fewer shares, and when they fall, you’ll buy more. The key is to invest consistently to tap into the potential for earnings over time, as shown at right.

“...it’s hard because when an investment loses value, you’re tempted to get out of it,” says Bridget, who follows her stock holdings daily and checks her portfolio balance three to four times a week. “But my dad taught me that a good stock is a good stock no matter what happens in the short run.”

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<tr>
<th>REGULAR INVESTMENT</th>
<th>SHARE PRICE</th>
<th>SHARES PURCHASED</th>
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Average cost per share: $3.55
Number of shares purchased: 59

Dollar-cost averaging does not ensure a profit or protect against losses in declining markets.

1“Student Debt and the Class of 2012,” The Institute for College Access & Success, December 2013.
4“Student Loan Debt Statistics,” American Student Assistance.

See page 2 for important information.

Past performance is no guarantee of future results.

The example provided is hypothetical, not representative of any specific investment product, assumes that all dividends and income are reinvested, and does not take taxes, fees or expenses into consideration. If taxes, fees and expenses were considered, returns would be substantially lower.

Investing involves risks, including loss of principal.

(0514-0745)

NEXT STEPS

Help your graduate explore saving strategies at schwab.com/OIstrategiesforsaving.
The New Mortgage
Mortgage reforms are being put in place to help protect borrowers.

In early January, federal financial reform legislation swept through the mortgage industry—introducing regulatory changes to the mortgage business. All lenders must now abide by the same heightened federal underwriting standards, and as a result, borrowers may experience changes to the loan application process.

“When it comes to lending, we strive to help our clients find the right solution that meets their needs,” says Paul Woolway, President of Charles Schwab Bank. “That’s why Schwab Bank is taking a three-pronged approach: We’re educating clients about the new law, taking steps to help streamline the process for our clients, and—through our home loan program provided by QuickenLoans—continuing to make available an array of mortgage products our clients have requested and used for years.”

WHY THE CHANGE?
The new rules were proposed by the Consumer Financial Protection Bureau in the aftermath of the 2008–2009 credit crisis, when thousands of Americans ended up with mortgages they couldn’t afford and homes with lower values than the mortgage balance. To help protect the mortgage industry from a similar crisis in the future, the original Dodd-Frank Act of 2010 has been updated to include new consumer protections.

Certain new rules are straightforward and beneficial to borrowers. For example, there’s now a 3% cap on origination fees (or “points”) charged for mortgages of $100,000 or more. Other rules define new terms, such as “ability to repay” and “qualified mortgages,” that affect the process you go through to obtain a mortgage.

Here’s how the new laws might impact your next home loan.

ABILITY TO REPAY
Under the new rules, lenders must verify your ability to repay throughout the duration of the loan.
Four questions with Paul Woolway

Paul Woolway, President of Charles Schwab Bank, spoke about the new mortgage rules and how Schwab Bank is prepared to help homebuyers as they search for the right mortgage loan.

On Investing: Will there be fewer choices of mortgages under the new rules?

Paul Woolway: While many of our competitors will not be offering the same products they had available before the new regulations, Schwab customers will still have the same array of adjustable and fixed-rate mortgages available to them. The biggest changes—especially for those who have been through the mortgage loan process before—will be an increase in time and paperwork. We can help expedite this process by providing quick online access to Schwab Bank and Schwab brokerage account information.

O1: What's Schwab Bank doing to help borrowers adhere to these new rules?

PW: We've been preparing in three ways. First, we continue to educate our Financial Consultants, so they are able to help borrowers understand the new rules. Second, Schwab Bank has dedicated loan specialists throughout the country to help borrowers find the right loan for them. Third, to make sure every Schwab client can access a specialist, we set up a Mortgage Concierge Team, a single point of contact that can help you work through the loan process.

O1: What does the relationship with Quicken Loans bring to the table?

PW: Timing means a lot when you're applying for a mortgage. Quicken Loans offers some of the fastest processing times in the industry because it has built an integrated model with proven results available only to Schwab clients. Because we have aligned our lending platform with theirs, much of the required documentation is accessible online, which is a unique benefit to Schwab clients. In addition, Quicken Loans has a team of loan specialists dedicated solely to Schwab clients. These specialists work with Schwab colleagues to close loans quickly and easily.

O1: Will the new rules impact that process?

PW: We have an established track record of providing great customer service. One reason we decided to team up with Quicken Loans is our shared dedication to providing our clients with a great experience. While the new rules might add some time to the overall process, we expect to continue to offer Schwab clients some of the fastest processing times in the mortgage industry.

To do this, they will compare your current income, assets, employment status and credit history with your total monthly debt obligations, including the mortgage.

These may sound like steps lenders were taking before the credit crisis, but now lenders are required to consistently document and verify this information.

Bottom line: Even if you’ve qualified for a loan in the past, lenders will have to establish your income history, assets and liabilities by collecting the appropriate documentation. If you’re thinking about applying for a home loan, get a head start on gathering W-2 forms, tax returns and other documents that show your assets and debts. If you’re self-employed, you’ll need to provide additional income documentation, including several years’ worth of personal and business tax returns. Schwab Bank can help by providing details on the information you’ll need.

QUALIFIED MORTGAGES

A key element of the credit crisis was consumers taking on more debt than they could afford. Now, lenders must consider the borrower’s income, debt obligations and credit history. The government now classifies certain home loans as “qualified mortgages” when your current combined monthly debt payments—mortgage, credit cards, auto loans, student loans and so forth—do not exceed 43% of your monthly gross income.

Bottom line: Schwab Bank’s lending program from Quicken Loans continues to provide a wide range of loan products to borrowers with debt-to-income ratios greater than 43%, but now we will have to consider additional factors in response to the new regulations. For borrowers who meet the requirements for qualified mortgages, lower interest rates may be available.
How will new mortgage rules affect the self-employed?

If you’re self-employed and looking for a mortgage, the new rules will likely require you to produce documentation of your income. This varies depending on how your business is structured:

- If you receive salary from self-employment, and depending on your ownership percentage of the business, you probably will need to show two years’ worth of complete personal and business tax returns, including all schedules and year-to-date profit and loss statements.

- If you have recurring capital losses or qualifying capital gains income, you likely will need three years' worth of complete personal tax returns and two years' worth of business tax returns with all schedules and year-to-date profit and loss statements.

CALL US

Charles Schwab Bank’s integrated lending program through Quicken Loans provides borrowers with a wide range of financing solutions—including fixed and adjustable-rate mortgages, FHA, VA and interest-only loans—at competitive rates.

In addition, we’re committed to providing you with:

- **In-depth information.** We supply you with the intelligence you need to make informed decisions.
- **Great customer service.** You can speak with Schwab Bank representatives in a branch, over the phone and online—whichever is most convenient.
- **Fast loan closing,** typically within 40 days or less.¹

To learn more about lending solutions available through Schwab Bank’s home lending program from Quicken Loans, please contact the Schwab Bank Mortgage Concierge Team at 877-490-6837, or visit schwab.com/OImortgage.

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¹Average monthly closing time for purchase and refinance loans between August 2013 and January 2014 was 40 days or fewer from the date the interest rate was locked. Nothing herein is or should be interpreted as an obligation to lend. Loans are subject to credit and property approval.

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TAX-SMART INVESTING

Prioritizing tax efficiency all year long.
With April 15 behind us and summer just around the corner, taxes are probably the last thing on your mind. But did you know that effective tax planning is a year-round process? Waiting until the end of the year—or worse, until early April—to optimize your portfolio's tax efficiency could cause you to miss opportunities.

“You may not want to hear the word ‘tax’ right now, but planning ahead can help you reduce your taxes and get the most out of your investments,” says Rande Spiegelman, Vice President of Financial Planning at the Schwab Center for Financial Research.

Rande says there are five steps you can take throughout the year to help maximize your income.

1 HARVEST LOSSES YEAR-ROUND, NOT JUST IN DECEMBER
Throughout the year, watch for opportunities to harvest your capital losses to ensure you’re getting the full tax benefit. Capital losses—securities sold for a loss—can offset capital gains on your tax returns, provided the loss occurs in a taxable account. In addition, if your capital losses exceed your capital gains in any year, as much as $3,000 can be used to reduce your taxable income.

“Look in your taxable accounts for investments with relatively large losses where you don’t expect a comeback,” Rande says. And remember to avoid the wash sale rule, which prohibits taxpayers from recognizing losses on securities when the same or a substantially similar security is purchased within 30 days before or after the sale date.

2 USE TAX-DEFERRED ACCOUNTS
When saving for retirement or a child’s education, you should take full advantage of every tax break the law allows:
- Depending on your situation, you might also be able to make tax-deductible contributions to an individual retirement account (IRA). Savings in a traditional IRA also grow tax-deferred.
- If you’re saving for college, contributing to a 529 plan or Education Savings Account (ESA) allows your money to grow tax free. And when you’re ready to use the money, qualified withdrawals aren’t taxed, either.

“You may want to make contributions to your IRA or ESA earlier rather than later this year to get the full tax advantages of these savings working for you as soon as possible,” Rande says.

3 INVEST EFFICIENTLY
As you plan your investment strategy for the year, consider the types of accounts you’re using—taxable or tax-advantaged—and whether they make sense from a tax perspective.

As a general rule, investments that lose less of their return to income taxes are good candidates for taxable accounts, while investments that lose more of their return to taxes should go in tax-deferred accounts.
The following table can help you decide which investments make the most sense for taxable and tax-deferred accounts:

<table>
<thead>
<tr>
<th>Income type</th>
<th>What is it?</th>
<th>How can I reduce my tax burden?</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORDINARY</td>
<td>Income from wages, self-employment, interest, dividends, etc.</td>
<td>Take standard tax deductions</td>
</tr>
<tr>
<td>CAPITAL</td>
<td>Income from the sale of property, including investments</td>
<td>Harvest capital losses</td>
</tr>
<tr>
<td>PASSIVE*</td>
<td>Income from investments in real estate, limited partnerships or business activities</td>
<td>Harvest losses from passive investments or business involvement</td>
</tr>
</tbody>
</table>

*Participation in business activities must be immaterial to qualify.

Reduction your tax burden

You may be able to offset some of your income through deductions and losses.

The following table can help you decide which investments make the most sense for taxable and tax-deferred accounts:

<table>
<thead>
<tr>
<th>TAXABLE ACCOUNTS</th>
<th>TAX-DEFERRED ACCOUNTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual stocks you plan to hold more than one year</td>
<td>Individual stocks you plan to hold one year or less</td>
</tr>
<tr>
<td>Tax-managed stock funds, index mutual funds and exchange-traded funds (ETFs), low-turnover stock funds</td>
<td>Actively managed funds that may generate significant short-term capital gains</td>
</tr>
<tr>
<td>Stocks or mutual funds that pay qualified dividends</td>
<td>Taxable bond funds, zero-coupon bonds, inflation-protected bonds or high-yield bond funds</td>
</tr>
<tr>
<td>Municipal bonds, I Bonds (savings bonds)</td>
<td>Real estate investment trusts (REITs)</td>
</tr>
</tbody>
</table>

4 COUNT COSTS

Rande says it’s important to determine the cost basis of your investments before you sell. Short-term gains on investments held one year or less are subject to ordinary income tax. Investments held for longer than a year are generally taxed at a lower long-term capital gains rate, which varies depending on total taxable income.

As you purchase investments over time, you will likely end up with individual securities and mutual funds that have different tax lots—shares purchased on different dates at different prices. If you decide to sell some of these shares, you may be able to reduce your taxes by choosing carefully which shares you sell. Typically, you’ll want to minimize taxes by selling the securities that will generate the smallest gain.

The IRS uses a “first in, first out” accounting method: If you sell part of your holdings for a particular security, it will assume you sold your oldest holdings first, unless you give different instructions to your broker.

5 BE PREPARED

If you’re reading this, you’ve already taken the first step toward effective tax planning.

“It’s really a year-round process that requires you to stay organized and plan ahead,” Rande says.

Make sure you know the deadlines for your retirement plan contributions, estimated tax payments, year-end gifts and required minimum distributions (RMDs). Also, be sure to save your receipts and keep your records organized.

But most importantly: Don’t wait until the end of the year or next April to start thinking about taxes again.

NEXT STEPS

Visit schwab.com/O1tax to get more tax tips.

1Individual retirement account holders are required to begin withdrawing minimum amounts, known as required minimum distributions, from their accounts once they reach age 70½. Failing to do so could result in a penalty of up to 50% of the required minimum amount for the year.

See page 2 for important information.

Investing involves risks, including loss of principal. As with any investment, it’s possible to lose money by investing in a 529 plan. Additionally, by investing in a 529 plan outside of your state, you may lose tax benefits offered by your own state’s plan.

(0514-0507)
Take Control of Your Bond Yield

Our resources can help you buy bonds at the best price available to Schwab.

For many of us, buying a bond can feel a bit overwhelming. Bonds typically don't trade on a centralized market, like the New York Stock Exchange, and many investors are concerned about hidden markups and high transaction costs. In addition, the price for the same bond differs from firm to firm. Shopping around for the best price can save you money, as seen in the example at right.

The more you pay for a given bond, the lower the yield you'll earn on it, all else being equal. By lowering the cost on the bonds you buy, you can increase the bond's yield without taking any additional risks.

At Schwab, investors now have better access to pricing and guidance than ever before. Schwab allows you to compare prices and bond availability from multiple dealers.

Comparing bond prices could save you money

<table>
<thead>
<tr>
<th></th>
<th>Firm 1</th>
<th>Firm 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quoted price for Bond A*</td>
<td>103.63</td>
<td>101.26</td>
</tr>
<tr>
<td>Quantity</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Total cost</td>
<td>$155,445</td>
<td>$151,890</td>
</tr>
</tbody>
</table>

Buying Bond A from Firm 2 could save you: $3,555

This example is hypothetical and provided for illustrative purposes only. It is not intended to represent a specific investment product. The prices and total costs are inclusive of all fees.

*Bond prices are often quoted as a percentage of the face value. In this example, Bond A has a face value of $1,000. If Firm 1 quotes Bond A at 103.63, or 103.63% of the bond’s face value, the bond would cost $1,036.30.

Here are some features of Schwab’s approach to helping you buy bonds at the best price available to Schwab:

- Schwab’s BondSource® searches more than 200 dealers and gives you the best price available to Schwab.1
- Our $1 per bond transaction costs2 on most secondary market bonds traded online is among the lowest in the industry.3 There are no transaction costs for online trades of Treasury bills, notes, bonds and new issue certificates of deposit.4
- You have access to Schwab’s dedicated team of nearly 100 Fixed Income Specialists,5 who can provide further guidance specific to your fixed income investing needs. Our specialists are 100% focused on fixed income and are ready to share their knowledge with you.

CALL US

Before you buy bonds at another firm, call a Schwab Fixed Income Specialist at 866-893-6699 weekdays from 8:30 a.m.–6 p.m. Eastern time. You can also visit schwab.com/OIBonds for more information about our specialized bond guidance.

1As of December 2013.
2$10 minimum and $250 maximum for the $1 bond fee.
3$25 fee for broker-assisted trades.
4Ibid.
5As of January 2014.

See page 2 for important information.

(0514-0881)
Schwab ETF OneSource™

Clients have access to the most commission-free ETFs.¹

When it comes to buying exchange-traded funds (ETFs), trade commissions can be a deciding factor for investors. That's why we introduced Schwab ETF OneSource, a platform that gives investors and advisors access to a large number of commission-free ETFs when traded online in a Schwab account.²

Clients now have more low-cost choices to build and diversify their portfolios than ever before. Today, you can invest in 119 ETFs from Schwab and third-party providers, spanning a wide range of asset classes.

Key benefits of Schwab ETF OneSource include:

1 **Commission-free trading:**
   All Schwab ETF OneSource funds have a $0 online trade commission.

2 **Access to ETFs from leading providers:**
   - Charles Schwab Investment Management, Inc.
   - State Street SPDR®
   - Guggenheim Investments
   - PowerShares®
   - ETF Securities
   - United States Commodity Funds®

3 **No short-term redemption fees:** You won’t be charged an early redemption fee if you sell an ETF within a certain number of days of buying it.

¹As of February 2014.
²Conditions apply: Trades in ETFs available through Schwab ETF OneSource (including Schwab ETFs™) are available without commissions when placed online in a Schwab account. Service charges apply for trade orders placed through a broker ($25) or by automated phone ($5). An exchange processing fee applies to sell transactions. Certain types of Schwab ETF OneSource transactions are not eligible for the commission waiver, such as short sells and buys to cover (not including Schwab ETFs). Schwab reserves the right to change the ETFs we make available without commissions. All ETFs are subject to management fees and expenses. Please see pricing guide for additional information.

See page 2 for important information.

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 800-435-4000. Please read the prospectus carefully before investing.

Investment returns will fluctuate and are subject to market volatility, so that an investor’s shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. Shares are bought and sold at market price, which may be higher or lower than the net asset value.

(0514-0978)
A Look at ThomasPartners®

A dividend-focused equity strategy to help you generate steady income in volatile markets.

Some investors looking for a regular, growing stream of income may shy away from dividend investing because it is often associated with caution and a willingness to sacrifice capital gains. But the investment managers at ThomasPartners don’t believe you have to give up growth in exchange for regular dividend income.

The ThomasPartners Dividend Growth Strategy primarily invests in companies that pay dividends, with the objective of growing these dividends in the future, even in down markets. This investment approach has three goals:

- **Monthly income**: ThomasPartners invests in companies that pay dividends and strives to provide monthly income regardless of what the market is doing. You can take this payout as monthly dividend income now or reinvest it for future growth.

- **Annual income growth**: The cost of living increases every year, so ThomasPartners aims to offset inflation with a dividend payout designed to grow every year.

- **Competitive total returns**: Dividend-paying stocks have performed better than non-payers, and dividend-growers have performed the best, as shown in the chart above.

Source: ThomasPartners research with data from the CRSP® 1962 U.S. Stock Database. ©2014 Center for Research in Security Prices (CRSP), University of Chicago's Booth School of Business. Includes all publicly traded U.S. companies with market capitalization of at least $1 billion (in today’s dollars), adjusted historically for inflation. Beginning in 1974, membership in each dividend classification is set as of December 31 for each year and then held constant for the next 12-month period. Dividend growers and initiators include stocks that initiated or increased their dividend during the previous 12 months. No-change stocks are those that maintained their existing per-share cash dividend over the previous 12 months. Dividend cutters and eliminators are companies that lowered or eliminated their dividend at some point in the previous 12 months. Dividend non-payers are companies that did not pay a dividend at any time in the previous 12 months. The average return is the compound annualized equally-weighted average return for the 1974–2013 timeframe.

Past performance is no guarantee of future results.
BLESSED WITH LONG LIFE.
HIT BY LOW YIELDS.
TIME TO MAKE A CHANGE.

Today, the chance of outliving your money has never been more real. A globally diversified investment strategy with a 25-year history of protecting and growing assets can change the odds in your favor.

"SO WHAT DO I DO WITH MY MONEY?"

BlackRock Global Allocation Fund (MDLOX) has doubled your money over any 10-year period.*

See for yourself at gachart.com/growth

Past performance is no guarantee of future results. For current month-end and standardized returns visit www.blackrock.com/go. Before investing, carefully consider the fund’s investment objectives, risks, charges, and expenses. Call 1-800-435-4000 or visit www.schwab.com for a prospectus containing this and other information. Read it carefully. Source: Morningstar as of 12/31/13. There are 179 10-year rolling periods (using monthly returns) from inception (2/28/89) to 12/31/13, and the lowest cumulative return was 104% for Investor A shares (not including sales charge). Prepared by BlackRock Investments, LLC. ©2014 BlackRock, Inc. All rights reserved. BLACKROCK, INVESTING FOR A NEW WORLD and SO WHAT DO I DO WITH MY MONEY are registered trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. USR-3246. Charles Schwab & Co., Inc., member SIPC, receives remuneration from fund companies and/or their affiliates in the Mutual Fund OneSource® service for recordkeeping, shareholder services and other administrative services. Charles Schwab & Co., Inc. Member SIPC (0214-0406).

ValueLinefunds

Strategies That Have Stood the Test of Time

A Flexible Solution for Changing Market Conditions.

Consider the
Value Line Asset Allocation Fund (VLAAX)

Included on the
Q2 2014 Mutual Fund OneSource Select List®

The Value Line Funds Include:

<table>
<thead>
<tr>
<th>Value Line Equity Funds</th>
<th>Value Line Hybrid Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premier Growth Fund (VALSX)</td>
<td>Asset Allocation Fund (VLAAX)</td>
</tr>
<tr>
<td>Value Line Fund (VLFX)</td>
<td>Income and Growth Fund (VALIX)</td>
</tr>
<tr>
<td>Larger Companies Fund (VALLX)</td>
<td>Small Cap Opportunities Fund (VLEOX)</td>
</tr>
</tbody>
</table>

Past performance is no guarantee of future results. Investors should carefully consider the investment objectives, risks, charges and expense of a fund. This and other important information about a fund is contained in the fund’s prospectus. For more complete information about these Value Line Funds and a copy of a prospectus, contact Schwab at 800-435-4000 or go to www.schwab.com/mutualfunds, or contact your financial advisor. Read the prospectus carefully before you invest or send money.

There are risks associated with investing in small and mid-cap stocks, which tend to be more volatile and less liquid than stocks of large companies, including the risk of price fluctuations. Charles Schwab & Co., Inc., Member SIPC, receives remuneration from fund companies and/or their affiliates in the Mutual Fund OneSource® service for recordkeeping, shareholder services and other administrative services. The amount of fees Schwab or its affiliates receive from funds participating in the Mutual Fund OneSource service is not considered in the Select List selection, nor does any fund pay Schwab to be included in the Select List (0514-2311).
Mutual Fund OneSource Select List® and Income Mutual Fund Select List®

Analysis and Commentary on Actively Managed Mutual Funds by Charles Schwab Investment Advisory, Inc.

With thousands of mutual funds available, finding the right funds for your portfolio can seem more time-consuming and difficult than ever. The Mutual Fund OneSource Select List, consisting only of OneSource funds available without a load or transaction fee, is a smart solution that can help you make confident investment decisions.

How Funds Are Selected
To build the Schwab Mutual Fund OneSource Select List and the Schwab Income Mutual Fund Select List, Charles Schwab Investment Advisory, Inc. (CSIA) starts by analyzing the funds tracked by Morningstar using quantitative and qualitative selection criteria described below. Then, based on its analysis, CSIA builds the Mutual Fund OneSource Select List and Income Select List by selecting the most favorably evaluated OneSource funds, including Schwab Funds and Laudus Funds (“Schwab Affiliate Funds”), within each Morningstar category.

Most of the funds on the List are actively managed OneSource funds. In addition, CSIA also includes up to one Schwab Affiliate Fund that is a market-cap weighted index fund for each of the large-cap, small-cap, international and taxable bond asset classes, and one Schwab Affiliate Fund that is a fundamentally weighted index fund for each of the large cap, small cap, developed large cap international, developed small cap international and emerging market asset classes. Visit the OneSource Select List on schwab.com to view the Select List online and to learn more about how index funds are selected.

Eligibility Requirements
Each OneSource Select List and Income Select List fund must:

- Be no-load and open to new investors at Schwab in all 50 states.
- Have a minimum three-year performance track record (except funds that are listed below the “Leading Schwab Affiliate Funds” sections of the lists, which are eligible if they have a minimum 12 months performance track record under their current management and/or current investment objectives and strategy).
- Have at least $40 million in assets (except for small-cap value, high yield, multisector bond, world bond, emerging market equity and bond, diversified Pacific Asia, Pacific Asia ex-Japan, Europe, Japan, Latin America, convertibles, retirement income, target date and specialty funds, which require at least $20 million in assets). To meet this requirement, assets in multiple share classes of the same fund may be aggregated.

Additionally, each Income Select List fund must:

- Demonstrate a track record of making income distributions in each of the prior five calendar years (or during every full calendar year since inception in the case of funds with less than a five-year track record, including Schwab Affiliate Funds which may have a 12-month track record).
- For fixed income funds, make income distributions on at least quarterly basis; and—with the exception of the high-yield, multisector and emerging markets bond categories—not allocate in excess of 30% to issues rated below investment grade.
- For equity funds, offer a current yield in excess of their category average; and for equity funds with “dividend” or “income” in their name, make income distributions at least quarterly.
- With the exception of specialty sector (REITs) and fixed income funds, not allocate in excess of 33% to any single sector.

Selection Criteria
Actively Managed OneSource Funds, including Schwab Affiliate Funds, are evaluated by CSIA based on a quantitative analysis of risk, performance, expenses, active share (when meaningful), assets under management and asset flows. CSIA also may apply additional qualitative factors to its analysis to enhance its overall evaluation of a fund, including, for example, changes in a fund’s investment strategy or management structure, portfolio manager tenure, whether a fund’s investment style and portfolio holdings are representative of its investment category and portfolio composition and turnover rates, consistency of a fund’s performance and CSIA’s evaluation of the fund over time, and other risk and diversification considerations.

In addition, for the Income Select List, those funds with the best capital preservation attributes and investment strategies that focus on selecting income-generating securities will receive preference when selecting from similarly rated funds with comparable yield characteristics.

“Leading Schwab Affiliate Funds” sections of the Select List and Income Select List feature eligible actively managed Schwab Affiliate Funds that generally fall into the top 35 percent of all CSIA-evaluated funds (including OneSource and non-OneSource funds) in their respective Morningstar categories. If two or more Schwab Affiliate Funds that fit this criteria also have similar investment styles, CSIA may determine that only the most favorably evaluated fund(s) be included in the list. Because Schwab Affiliate Funds included in the “Leading Schwab Affiliate Funds” section of the OneSource Select List and Income Select List are selected independently from other actively managed funds on the list, they may have a less favorable evaluation overall than the funds listed in the “Leading Third-Party Funds” section of the list.

The Index Funds section of the Select List features only Schwab Affiliate Funds. It includes up to one market capitalization weighted index fund for each of the large-cap, small-cap, international and taxable bond asset classes and one fundamentally weighted index fund for each of the large cap, small cap, developed large cap international, developed small cap international and emerging market asset classes. A market capitalization weighted index fund is a fund that attempts to match the performance of an established list of securities, where the securities with the highest market capitalization (total market value of outstanding stock) get the most weight. A fundamentally weighted index fund is a fund that attempts to match the performance of an established list of securities, where the securities with the highest fundamental value (measured based on criteria such as sales, cash flow, dividends and stock buybacks) get the most weight. A Schwab Affiliate Fund that is market capitalization weighted and a Schwab Affiliate Fund that is fundamentally weighted are included unless no funds meet Schwab’s quantitative and qualitative evaluation criteria.

The Schwab affiliate index fund that receives the most favorable evaluation by CSIA in each asset class is included on the Select List. If two index funds receive equal evaluations, CSIA will generally include the fund that has the lower expense ratio.

“Leading Third-Party Funds” sections of the OneSource Select List and Income Select List feature eligible actively managed third-party OneSource funds that generally fall within the top 35 percent of all CSIA-evaluated funds within a given Morningstar category and that receive the most favorable evaluations in their respective categories.

(continued on page 36)
For the OneSource Select List, CSIA generally includes the five most-favorably
evaluated funds in each of the large-cap, small-cap, intermediate-term bond,
municipal national intermediate and foreign large blend asset categories and the two
most favorably evaluated funds in all other asset categories. If two or more of
the most favorably evaluated funds within an asset category have similar investment
styles, CSIA may substitute a less-favorably evaluated fund for one or more of	hose funds to provide a more diverse selection of fund investment strategies.

For the Income Select List, CSIA generally includes no more than the two most
favorably evaluated funds in each asset category, except for the intermediate-
term bond category, which may feature up to five funds.

Upside and downside capture ratios: a measure of how much a fund>
moves in comparison to the broad market when the market goes up or down.

**Upside capture ratio:** For the months in which the market return was positive,
what was the ratio of the fund’s returns to the market’s returns? Upside capture
of 110% means that in up markets, the fund went up 10% more than the market
did. For investors who are concerned with growth in rising markets, looking for a
fund with a high upside capture ratio (above 100%) can be useful.

**Downside capture ratio:** For the months in which the market return was negative,
what was the ratio of the fund’s returns to the market’s returns? Downside
capture of 110% means that in down markets, the fund went down 10% more
than the market did. For investors who are concerned with minimizing losses,
looking for a fund with a low downside capture ratio (below 100%) can be helpful.

Generally speaking, it’s good for a fund to have an upside capture ratio at least
as high as its downside capture ratio, and preferably higher. A fund delivering
110% of the market’s positive returns but only 105% of the negative returns
means that the fund has delivered more of the market’s upside than downside
(which is desirable).

The “holy grail” for many investors is a fund with a low downside capture ratio
that has an upside capture ratio of 100% or more.

The absolute level of upside capture and downside capture can be important as
well, providing an overall indication of the fund’s risk relative to the market.
If both ratios are around 120%, it means that the fund has been more volatile than
the market (even if upside is higher than downside). If both ratios are around
80%, it means that the fund has been less volatile than the market.

As with most metrics, these ratios are backward looking (in this case, over the
past three years). Just because a fund has delivered a certain percentage of the
market’s returns in past up markets and down markets doesn’t mean that it is
guaranteed to do the same in future up or down markets.

In a three-year period with very few up months or very few down months, the
upside or downside capture ratio can be hard to measure.

These ratios provide no information about the fund’s overall returns and are
simply a measure of performance relative to the market in up periods and in
down periods.

**Additional Important Information**

More than 3,500 funds participate in the Mutual Fund OneSource® service.
Only these funds, including Schwab Affiliate Funds, are eligible for the Select
Lists. Schwab receives remuneration from fund companies, and/or their
affiliates, in the Mutual Fund OneSource service, including Schwab Affiliate
Funds, for record keeping, shareholder services and other administrative
services. Schwab and its affiliates also receive fees from Schwab Affiliate
Funds for investment advisory and fund administration services. The aggregate
fees Schwab or its affiliates receive from Schwab Affiliate Funds (see fund
prospectuses for more details) are greater than the remuneration Schwab
receives from other fund companies participating in Schwab’s Mutual Fund
OneSource service. The amount of fees Schwab or its affiliates receive from
funds participating in the Mutual Fund OneSource service is not considered in
the Select Lists selection, nor does any fund pay Schwab to be included in the
Select Lists. Eligible funds are selected based solely on the quantitative and
qualitative criteria described on pages 35 and 36.

Schwab Affiliate Funds include Schwab Funds and Laudus Funds. Schwab Funds
and Laudus Funds are advised by Charles Schwab Investment Management, Inc.
Schwab Funds and the Laudus MarketMasters Funds are distributed by Charles
Schwab & Co., Inc. and Laudus Funds (except Laudus MarketMasters Funds) are
distributed by ALPS Distributors, Inc.

**Investing in Mutual Funds at Schwab**

Investors should consider carefully information contained in the
prospectus, including investment objectives, risks, charges and
expenses. You can obtain a prospectus by calling Schwab at
800-435-4000. Please read the prospectus carefully before investing.

Investment value will fluctuate and shares, when redeemed, may be
worth more or less than original cost.

Trades in no-load mutual funds participating in the Mutual Fund OneSource
service (including Schwab Funds), as well as certain other funds, are available
without loads or transaction fees when placed through schwab.com or one of
our automated phone channels. However, for each of these trades placed
through a broker, a $25 service charge applies. Additionally, Schwab will charge
a short-term redemption fee (STR) if you sell shares of OneSource funds held for
90 days or less. Schwab reserves the right to exempt some funds from the STR fee,
including certain Schwab Funds, which may charge a separate redemption fee,
and funds that accommodate short-term trading. Certain funds may charge a
redemption fee separate, and in addition to, the OneSource STR. All other
funds available at Schwab are subject to a transaction fee when bought and sold
and may be subject to fees assessed by the fund itself. Schwab reserves the
right to change the funds it makes available without transaction fees and
reimburse fees on any funds.

**Information on the Mutual Fund OneSource Select List®**

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performance, top ten holdings, portfolio breakdowns, expense ratios, and, for
Schwab bond funds, credit ratings, average maturity, and 30-day SEC yield.
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List and produces market commentary and other investment advice for Schwab
clients and financial consultants. (0114-0381)
LARGE-CAP U.S. STOCK FUNDS

Perspectives and First Quarter 2014 Summary
Domestic stocks remained near record highs after grinding through a flare-up in geopolitical concerns, weather-skewed economic data, and a transition within the Federal Reserve. We believe the secular bull market is intact and equities will end the year higher, while economic data will improve, interest rates will drift higher, and the Fed will remain cautious and methodical in trying to return to normal monetary policy. However, a decent-sized pullback would not be a surprise, and would be welcomed by us to help set up the next solid move higher. We reiterate that equity investors keep the long-term picture in mind, and not get caught up in day-to-day or even month-to-month gyrations.

- Domestic equity experienced modestly positive returns across all categories, supported by ongoing cyclical productivity increases, accommodative Federal Reserve policies, strong corporate profit margins, and a resurgence in manufacturing.
- As compared to small- and mid-cap stocks, large-cap U.S. stocks didn’t show any significant positive or negative trend based on market cap, although value notably outperformed growth. The large-cap value category had the best relative performance, returning modest gains of 2.20%, while large blend and large growth were relatively lower with returns of 1.70% and 0.48%, respectively.

All perspectives are as of April 11, 2014
For the latest up-to-date perspectives, please visit schwab.com

<table>
<thead>
<tr>
<th>Fund Name (Fund Inception Date)</th>
<th>Morningstar Category</th>
<th>Quote Symbol</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
<th>Since Inception</th>
<th>Upside Market Capture</th>
<th>Downside Market Capture</th>
<th>Gross Expense Ratio</th>
<th>Net Expense Ratio</th>
<th>Total Assets (in $M)</th>
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<tbody>
<tr>
<td>Lauder U.S.-Large-Cap Growth Fund (10/14/91)</td>
<td>Large Growth</td>
<td>LGILX</td>
<td>24.83</td>
<td>19.44</td>
<td>22.49</td>
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<td>103.85</td>
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<td>0.77</td>
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<td>SWDSX</td>
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<td>14.65</td>
<td>19.19</td>
<td>7.95</td>
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<td>0.89</td>
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<td>Large Value</td>
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<td>14.42</td>
<td>25.63</td>
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<td>Glenmede Large Cap Core Port (02/27/04)</td>
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<td>GTLOX</td>
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<td>17.00</td>
<td>23.50</td>
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<td>9.00</td>
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<td>112.07</td>
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<td>Janus Contrarian T (02/29/00)</td>
<td>Large Blend</td>
<td>JSVAX</td>
<td>30.14</td>
<td>14.34</td>
<td>22.91</td>
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<td>TIAA-CREF Social Choice Eq Retail (03/01/06)</td>
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<td>13.81</td>
<td>21.32</td>
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<td>TIAA-CREF Growth &amp; Income Retail (03/31/06)</td>
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<td>TIAA-CREF Large-Cap Growth Retail (03/31/06)</td>
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<td>TIXT</td>
<td>24.90</td>
<td>14.68</td>
<td>20.46</td>
<td>—</td>
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<td>American Century Income &amp; Growth Inv (12/17/90)</td>
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<td>10.36</td>
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<td>Commerce Value (03/03/97)</td>
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<td>16.15</td>
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<td>INTECH U.S. Value T (07/06/09)</td>
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<td>JRSTX</td>
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<td>15.29</td>
<td>—</td>
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<td>102.20</td>
<td>0.95</td>
<td>0.95</td>
<td>14</td>
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<tr>
<td>JP Morgan Equity Income A (02/18/92)</td>
<td>Large Value</td>
<td>OEXX</td>
<td>14.82</td>
<td>13.43</td>
<td>19.79</td>
<td>7.82</td>
<td>8.61</td>
<td>93.20</td>
<td>79.28</td>
<td>1.09</td>
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<td>Principal Equity Income A (05/31/39)</td>
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<td>86.25</td>
<td>0.93</td>
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</table>

Performance Benchmarks

- Schwab 1000 Index® (Dividends Reinvested)
- S&P 500 Index® (Dividends Reinvested)

Asset Class and Performance Benchmark Definitions
Large-cap U.S. stock funds invest primarily in stocks that fall in the top 70% of the U.S. market capitalization range as defined by Morningstar, Inc. Growth funds invest in companies that may be experiencing rapid growth in earnings, sales or return on equity. Value funds invest in companies that may have share prices below estimated fair market value, undervalued assets, an opportunity to “turnaround” or lower price-to-earnings or price-to-book ratios. Blend funds invest in a combination of value and growth stocks.

The S&P 500® index includes common stocks of 500 widely held companies. S&P 500 is a registered trademark of The McGraw-Hill Co., Inc.

If an expense waiver was in place during the period, the net expense ratio was used to calculate fund performance. A net expense ratio lower than the gross expense ratio may reflect a cap on or contractual waiver of fund expenses. Please read the fund prospectus for details on limits or expiration dates for any such waivers.

Performance quoted is past performance and is no guarantee of future results. Current performance may be lower or higher. Visit schwab.com for month’s end performance information. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.
Mid- and Small-Cap U.S. Stock Funds

Perspectives and First Quarter 2014 Summary

Although we do not recommend making market cap bets, the U.S. mid- and small-cap space should benefit from our belief that economic data and earnings will improve, along with the Fed’s economic mindfulness in its journey to normal policy. However, the threat of a decent-sized pullback exists, which could impact the group near term, but it would be healthy from a sentiment perspective. Finally, the market has taken countless hits over the course of many years, from wars, to recessions, to financial and political scandals, to bubbles, and on and on…but it keeps rewarding those who have a longer-term perspective and who don’t panic when the inevitable pullbacks come.

The mid- and small-cap fund categories also experienced modest returns for the quarter, with the largest gains found in mid-cap value at 3.05%, followed by mid-cap blend at 2.54%, and small-cap value which returned 1.70%. Small-cap growth at 0.32% had the lowest returns relative to the small- and mid-cap universe, followed by mid-cap growth with a return of 1.19%, and small-cap blend at 1.45%.

All perspectives are as of April 1, 2014
For the latest up-to-date perspectives, please visit schwab.com

FOR THE QUARTER ENDED MARCH 31, 2014

<table>
<thead>
<tr>
<th>FUND NAME (FUND INCEPTION DATE)</th>
<th>MORNINGSTAR CATEGORY</th>
<th>QUOTE SYMBOL</th>
<th>TOTAL ASSETS ($M)</th>
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</thead>
<tbody>
<tr>
<td><strong>LEADING SCHWAB AFFILIATE FUNDS</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Schwab Small-Cap Equity Fund (07/01/03)</td>
<td>Small Blend</td>
<td>SWSCX</td>
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<tr>
<td>Schwab Small-Cap Index Fund (05/29/97)</td>
<td>Small Blend</td>
<td>SWSSX</td>
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</table>

**LEADING INDIVIDUAL FUNDS**

- First Eagle Fund of America A (11/19/98) | Mid-Cap Blend | FEFFAX | 1,226 |
- Scout Mid Cap (10/31/06) | Mid-Cap Blend | UMEMX | 2,462 |
- Janus Enterprise T (09/01/92) | Mid-Cap Growth | JAENX | 1,207 |
- Morgan Stanley Inst Mid Cap Growth A (01/31/97) | Mid-Cap Growth | MACGx | 2,177 |
- TIAA-CREF Mid-Cap Value Retail (10/01/02) | Mid-Cap Value | TCVMX | 2,727 |
- Gabelli Small Cap Growth AAA (10/22/91) | Small Blend | GABSX | 2,396 |
- Glendeed Small Cap Equity Adv (03/01/91) | Small Blend | GTCSX | 938 |
- Northern Small Cap Core (09/30/93) | Small Blend | NSRGR | 190 |
- Nuveen NWG Small-Cap Value A (12/09/04) | Small Blend | NCSAX | 26 |
- Touchstone Small Cap Value Opp A (07/31/03) | Small Blend | TSAXG | 26 |
- Managers Micro-Cap Service (06/30/94) | Small Growth | MMCFX | 188 |
- Nationwide Geneva Small Cap Growth A (06/12/09) | Small Growth | NWWZX | 40 |
- Neuberger Berman Small Cap Growth A (05/27/09) | Small Growth | NSAXN | 7 |
- PNC Small Cap A (04/02/04) | Small Growth | PPCAX | 190 |
- BMO Small-Cap Value Y (02/28/11) | Small Value | MRSYX | 190 |
- Northern Small Cap Value (03/31/94) | Small Value | NSGDX | 2,647 |
- Skyline Special Equities (04/23/87) | Small Value | SKSEX | 1,168 |
- Wells Fargo Advantage Spec SmCap Val A (05/07/93) | Small Value | ESPAX | 429 |

**PERFORMANCE BENCHMARK**

Russell 2000 Index (Dividends Reinvested) | 1,11 |

**Asset Class and Performance Benchmark Definitions**

Mid-cap U.S. stock funds invest primarily in stocks that fall in the next 20% of the U.S. market capitalization range following large-cap stocks. Small-cap U.S. stock funds generally invest in stocks falling in the bottom 10% of the range. Definitions based on Morningstar, Inc.

Growth funds invest in companies that may be experiencing rapid growth in earnings, sales or return on equity. Value funds invest in companies that may have share prices below estimated fair market value, undervalued assets, an opportunity to “turnaround” or lower price-to-earnings or price-to-book ratios. Blend funds invest in a combination of value and growth stocks. The Russell 2000® Index consists of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 98% of the total market value of publicly available domestic equities.

Small-cap funds are subject to greater volatility than those in other asset categories.

If an expense waiver was in place during the period, the net expense ratio was used to calculate fund performance. A net expense ratio lower than the gross expense ratio may reflect a cap on or contractual waiver of fund expenses. Please read the fund prospectus for details on limits or expiration dates for any such waivers.

Performance quoted is past performance and is no guarantee of future results. Current performance may be lower or higher. Visit schwab.com for month’s end performance information. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.
Perspectives and First Quarter 2014 Summary

We remain positive on European stocks, due to prospects for economic and profit margin improvement, while geopolitical and deflationary risks remain. Moreover, we believe forthcoming stimulus amid pervasive pessimism could provide a base for Chinese stocks to recover and outperform the emerging market universe. Elsewhere, Indian stocks may have moved “too far, too fast” and we believe investors may want to wait to see bad loans peaking, food prices remaining subdued and reforms being implemented at the local level before making new investments. Finally, we remain cautious toward Japan with its all-important consumer having to deal with recent tax hikes.

- India had the strongest category returns at 9.58% due in part to strong performance in their technology and finance sectors.
- The China Region had the worst international category performance at -4.28% as investor concern around debt defaults and slower economic growth weighed on returns.
- Foreign fund investors had modest gains across almost all categories, with Foreign Small/Mid Value and Foreign Small/Mid Blend tying for the best performance with returns of 2.92%. This was followed by Foreign Small/Mid Growth with 1.67%, while Foreign Large Value, Foreign Large Blend and Foreign Large Growth had lower relative returns of 0.87%, 0.11% and -0.42%, respectively.
- All perspectives are as of April 11, 2014. For the latest up-to-date perspectives, please visit schwab.com
### SECTOR FUNDS

#### FOR THE QUARTER ENDED MARCH 31, 2014

<table>
<thead>
<tr>
<th>FUND NAME (FUND INCEPTION DATE)</th>
<th>MORNINGSTAR CATEGORY</th>
<th>QUOTE SYMBOL</th>
<th>AVERAGE ANNUALIZED TOTAL RETURN</th>
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<tr>
<td></td>
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<td>1 YEAR</td>
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<tr>
<td>LEADING SCHWAB AFFILIATE FUNDS*</td>
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<tr>
<td>HEALTH FUNDS (CATEGORY AVERAGE)1</td>
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<tr>
<td>Schwa Health Care Fund (07/03/00)</td>
<td>Health</td>
<td>SWHFX</td>
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<td>LEADING 3RD PARTY FUNDS</td>
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<td>EQUITY ENERGY FUNDS (CATEGORY AVERAGE)1</td>
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<tr>
<td>Guinness Atkinson Global Energy (06/30/04)</td>
<td>Equity Energy</td>
<td>GAGEX</td>
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<td>Oppenheimer SteelPath MLP Select 40 A (03/30/10)</td>
<td>Equity Energy</td>
<td>MLPFX</td>
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<td>FINANCIAL FUNDS (CATEGORY AVERAGE)</td>
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<td>Burnham Financial Services A (06/07/99)</td>
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<td>BURKX</td>
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<td>Diamond Hill Financial Long-Short A (08/01/97)</td>
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* New to the Select List this quarter  
† Reflects load-adjusted returns

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### Perspectives and First Quarter 2014 Summary

There hasn’t been a consistent sector trend so far in 2014, but we believe there is pent-up demand among both consumers and businesses that is set to be unleashed. The lack of business investment since the financial crisis, coupled with high cash balances, growing confidence, diminishing fiscal headwinds, and multi-decade highs for some fixed asset replacement cycles, support our belief that industrials and technology stocks are likely to outperform moving forward. Moreover, we are cautiously optimistic about the consumer discretionary sector as our belief of pent-up demand during the recent severe weather leads a list of several other positive factors such as our expectation that lower energy prices are coming. Finally, we think the utilities and telecommunications sectors will likely succumb to renewed underperformance after getting boost from the recent downturn in interest rates, as we believe interest rates will rise in the near future.

- The Specialty categories had a broad range of positive returns across most categories. Notably, the Equity Precious Metals (12.08%) and Real Estate (9.06%) categories experienced significantly positive returns. Communications (-1.13%) and Consumer Cyclical (-1.11%) were the only categories to experience negative returns.

All perspectives are as of April 11, 2014

For the latest up-to-date perspectives, please visit schwab.com
TAXABLE BOND FUNDS

**Perspectives and First Quarter 2014 Summary**

Long-term Treasury yields ended the quarter lower than where they began, as the Federal Reserve has continued to slow the pace of its bond-buying program. After ending 2013 at 3.03%, its highest level since mid-2011, the 10-year Treasury yield ended the first quarter at 2.72%. We think most fixed income investors should focus on a core portfolio of high-quality mutual funds, and that those reaching for yield in the lower-rated segments of the market, like sub-investment grade bonds, should consider moving up in quality.

- **Taxable Fixed Income** had positive performance across all sectors. The Long Term Bond category was the top performer with a positive return of 3.65%. High Yield Bond returned 2.61% followed by returns of 2.35% and 2.34% for the Multisector Bond, and World Bond categories.
- **The Government Bond categories** had positive performance, with longer duration providing stronger returns. Long Government was the best performer at 7.51%, followed by Intermediate Government (1.47%), and Short Government (0.31%). The Inflation–Protected Bond category had returns of 1.59%.

All perspectives are as of April 11, 2014

For the latest up-to-date perspectives, please visit schwab.com

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### FOR THE QUARTER ENDED MARCH 31, 2014

#### LEADING SCHWAB AFFILIATE FUNDS

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<thead>
<tr>
<th>Category</th>
<th>Morningstar Rating</th>
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#### LEADING BRD PARTY FUNDS

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#### MARKET-WEIGHTED INDEX FUNDS

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#### Performance Benchmarks

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</table>

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For more recent performance information. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.

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For the latest up-to-date perspectives, please visit schwab.com
### Perspectives and First Quarter 2014 Summary

Tax-free bonds had their best quarterly performance since Q3 2011 largely due to falling Treasury rates and low supply. Investors’ concerns about the credit conditions of the tax-free bond market appear to have ebbed as they poured $3.5 billion back into tax-free funds during the first quarter. This followed ten-straight months where investors withdrew money from tax-free funds. We continue to have a favorable view of the tax-free market.

We suggest intermediate-term funds for investors willing to balance some price volatility with the potential for higher returns. For investors with a shorter time horizon or lower risk tolerance, we suggest using shorter term funds.

- Most Tax Free categories had strong performance as investor concerns around the health of municipal regions were moderated by continuing signs of domestic economic strength.
- The High Yield Muni provided the highest relative performance at 5.15%, followed by Muni California Long (4.49%) and Muni New Jersey (4.24%).
- Shorter duration categories were noteworthy for poor performance, including Muni National Short (0.58%) and Muni Single State Short (1.39%).

All perspectives are as of April 11, 2014

For the latest up-to-date perspectives, please visit schwab.com

### Performance Benchmarks

For the quarter ended March 31, 2014

<table>
<thead>
<tr>
<th>Category</th>
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<th>Muni National Short</th>
<th>Municipal Bond</th>
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#### Asset Class and Performance Benchmark Definitions

- **Tax-exempt bond funds** primarily invest in municipal bonds generally issued by state and local governments to fund general expenditures and public projects. Investment income may be subject to certain state and local income taxes and a portion of income may be subject to the alternative minimum tax (AMT).
- **Capital gains** are not exempt from federal income tax.
- **Index** includes reinvestment of interest.
- **Expense ratios** are actual expense as stated in the fund’s prospectus. Net Expense Ratio—net amount after any expenses are waived and/or partially absorbed by fund management.
- **Ratings** are available at a lower minimum but with higher operating expenses than Select Shares®
- **Performance quoted is past performance and is no guarantee of future results. Current performance may be lower or higher. Visit schwab.com for month’s end performance information. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.**

### Notes: All Data Shown is as of March 31, 2014

- Definitions: Gross Expense Ratio—actual expense as stated in the fund’s prospectus. Net Expense Ratio—net amount after any expenses are waived and/or partially absorbed by fund management.
- Fund has an initial minimum investment greater than $2,500.
- Three-month (3-mos.) total return is not annualized.
- Investor Shares™ are available at a lower minimum but with higher operating expenses than Select Shares®
- Schwab Affiliate Funds include Schwab Funds and Laudus Funds. Schwab Funds and Laudus Funds are advised by Charles Schwab Investment Management, Inc. Schwab Funds and the Laudus MarketMasters Funds are distributed by Charles Schwab & Co., Inc. Laudus Funds, except the Laudus MarketMasters Funds, are distributed by ALPS Distributors, Inc.
- This fund is available without a load through Schwab. The performance figures shown reflect the performance with the load. Please see the Fund Summary on schwab.com for performance without load.

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**RESEARCH**

**TAX-FREE BOND FUNDS**

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Asset Class Definitions
Balanced funds invest in a mix of stocks, bonds and cash within one fund and are classified into two categories. Conservative Allocation funds may invest 20% to 50% of assets in equities and 50% investments in a particular year. These funds provide both asset allocation and rebalancing for investors following an investment strategy that grows more conservative as the target date approaches.

Contractual waiver of fund expenses. Please read the fund prospectus for details on limits or expiration dates for any such waivers.

If an expense waiver was in place during the period, the net expense ratio was used to calculate fund performance. A net expense ratio lower than the gross expense ratio may reflect a cap on or

Performance quoted is past performance and is no guarantee of future results. Current performance may be lower or higher. Visit schwab.com for month's end performance information. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.

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RESEARCH

INCOME MUTUAL FUND SELECT LIST®

Schwab’s Income Mutual Fund Select List was developed and is managed by the Charles Schwab Investment Advisory, Inc. (CSIA) experts and includes mutual funds that have met their rigorous criteria, including both quantitative and qualitative factors. All are no-load and no-transaction fee and are selected based on their ability to generate income in their respective asset classes. The list is designed to help you achieve income and growth. For more information on how funds are selected, see pages 35 and 36.

LEADING SCHWAB AFFILIATE FUNDS:

Schwab International Core Equity Fund (05/30/08)
Laurel Monidian International Equity Fund — Select (06/17/08)
Schwab DMFA Fund (03/03/03)
Schwab Intermediate-Term Bond Fund (10/31/07)
Schwab Dividend Equity Fund (09/02/03)
Schwab Tax-Free Bond Fund (09/11/92)
Schwab Monthly Income Fund — Enhanced Payout (03/28/08)
Schwab Monthly Income Fund — Max Payout (03/28/08)
Laurel Mondian International Fixed Income Fund (11/02/07)

INCOME SELECT LIST

The Income Select List shows the 12-month dividend return for each equity fund in the form of a percentage of its share price (also known as “payout ratio”).

Annual Dividend Return: This measure looks back at the actual payouts of an equity fund over the past 12 months. It provides an accurate picture of the fund’s recent short-term distributions without

Definitions

Payout Ratio: The percentage of a fund’s share price that is paid out as dividend by the fund.

Annual Dividend Return: The percentage of a fund’s share price that is paid out as dividend by the fund over the past 12 months.

FUND NAME (FUND INCEPTION DATE)

MORNINGSTAR CATEGORY

AVERAGE ANNUALIZED TOTAL RETURN 1 YEAR 3 YEARS 5 YEARS 10 YEARS SINCE INCEPTION

UPSIDE MARKET CAPTURE

DOWNSIDE MARKET CAPTURE

LEADING 3RD PARTY FUNDS

DOMESTIC

Parnassus Equity Income — Inv (08/01/92)
TIAA-CREF Social Choice Eq Retail (03/31/06)
Jensen Quality Growth Fund (08/31/92)
BPI Morgan Equity Income A (02/16/92)
Principal Equity Income A (03/31/99)
TIAA-CREF Mid-Cap Value Retail (10/11/02)
Royce Total Return Svc (01/03/02)

INFORMATION

Harding Loeven Emerging Markets Advisor (11/09/98)
TIAA-CREF International Eq Retail (03/31/06)
Brandeis International Equity I (12/27/96)
Perkins Global Value T (06/29/01)

SECTOR

Janus Global Real Estate T (07/06/09)
Cohen & Steers Realty Shares (07/02/91)

TAXABLE BOND

BMO TCH Corporate Income Y (12/22/08)
Lord Abbott Income A (12/31/81)
TCW Emerging Markets Income N (03/01/04)
RidgeWorth Seix High Yield I (12/28/90)
TIAA-CREF High-Yield Retail (31/03/98)
American Century Short Term Bond Inv (03/10/97)
American Century Ginnie Mae Inv (09/23/85)
Baird Core Plus Bond Inv (09/29/00)
DoubleLine Total Return Bond N (04/06/10)
Metropolitan West Total Return Bond M (03/31/97)
RidgeWorth Total Return Bond I (12/30/97)

USA Income (03/04/71)
PMICO Income D (03/30/07)
Lord Abbett Short Duration Income A (11/04/93)
Metropolitan West Low Duration Bond M (03/31/87)
RidgeWorth US Gov Sec Ultra-Short Bd I (04/11/02)

TAX-FREE BOND

American Century Intern Term Tx-Fr Bd Inv (03/02/87)
USA Tax Exempt Intermediate-Term (03/19/82)
Northern Tax-Exempt (03/31/94)
Federated Short-Intermediate Dur Mun Inv (09/04/81)

RETIREMENT INCOME

American Century One Choice In Ret Inv (08/31/04)

* New to the Select List this quarter
* $50,000 Initial minimum investment

30-day SEC Yield: Based on a fund’s most recently reported portfolio holdings, this measure shows the income an investor would earn if invested in that fund for the subsequent 12 months. Although a fund’s holdings are likely to change over that time, the SEC yield provides a yardstick for comparing the income potential across funds within the same category. Annual Dividend Return: This measure looks back at the actual payouts of an equity fund over the past 12 months. It provides an accurate picture of the fund’s recent short-term distributions without any forward anticipation. The Income Select List shows the 12-month dividend return for each equity fund in the form of a percentage of its share price (also known as “payout ratio”).
A smart approach to help you generate income from your investments

Schwab developed the Income Mutual Fund Select List to help investors in or approaching retirement build or modify an investment portfolio that addresses their growth and income needs. Here are some things to consider as you develop or fine-tune your portfolio:

- **Asset Allocation:** As always, your portfolio’s asset allocation should be driven by your investment goals, time horizon and risk tolerance. As your goals shift from accumulation to income, you can use the funds on this list to help address your income and growth needs from both bond and equity funds.

- **Diversification:** Investors in or nearing retirement often believe that they should be exclusively in bonds and other fixed income assets. While for some investors this might be an appropriate strategy, you may want to consider keeping some percentage of your portfolio in equities for the capital appreciation potential they provide.

- **Risk vs. Return:** Evaluate yields within the context of risk: different categories or asset classes will reflect differing risk/reward trade-offs. Consider a mix of bond funds: government, municipal and corporate. Also, a fund’s exposure to below-investment grade bonds is important to keep in mind. One of the selection criteria for fixed-income funds on the Income Select List is relatively low exposure to these types of securities, except for the high yield, multisector and emerging bond categories. (To see a fixed-income fund’s credit rating, click on the fund name, then the Portfolio tab.)

- **Maturity:** Bond funds with longer maturities can leave investors exposed to greater inflation and credit risk, so consider a balance of maturities, from the high yield to ultra-short to long.

- **Distribution Frequency:** Different funds provide payouts on different schedules. Check the frequency of distributions to determine when you’ll receive income, if any, from the fund.

- **Taxes:** Remember tax implications. Income on investments in nonretirement accounts is generally taxable; in tax-protected retirement accounts, such as IRAs and 401(k)s, it’s less of a concern. Where appropriate, consider tax-free bond funds. Schwab provides a range of easy-to-use tools, resources and guidance at schwab.com for investors in or nearing retirement.

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### Schwab Income Mutual Fund Select List Q2 2014

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<th>Code</th>
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<th>Net Exp Ratio</th>
<th>Maturity (yrs)</th>
<th>Total Assets ($M)</th>
<th>Payment Date</th>
<th>Frequency</th>
<th>Dividend Return</th>
<th>Dividend Payment</th>
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<td>2.04</td>
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ETF Select List™
A List of Prescreened Low-Cost Exchange-Traded Funds

The ETF Select List provides you with a list of prescreened, low-cost ETFs representing one ETF from approximately 65 asset categories. This makes it easier for you to find the right ETFs to fit your investment needs and goals. The List was developed by the experts at Charles Schwab Investment Advisory, Inc., and is updated quarterly.

How ETFs are Selected
To build the Schwab ETF Select List, Schwab analyzes all eligible ETFs using the quantitative and qualitative selection criteria described below. This includes both Schwab ETFs™ and ETFs from third-party providers. Schwab accepts no payments for inclusion of any ETF on this List, and all ETFs are evaluated using the same criteria.

Because the ETFs featured typically seek to track their index as closely as possible (not outperform, as actively-managed mutual funds seek to do), the List highlights just one ETF per category. Each ETF that makes the List has earned its spot based upon a combination of quantitative and qualitative variables such as cost of ownership, risk, fund structure and fit within a given category rather than outperforming its peers.

Selection Criteria
From among these eligible funds, one is selected for each ETF Select List category on the basis of its low cost of ownership, assuming a $5,000 purchase into the ETF is made online on schwab.com, held for one year, then sold?

Estimated total cost of ownership as an annual percentage of invested assets including:
- net operating expenses
- bid-ask spreads
- trade commissions (buy and sell)

Commissions can add significantly to the cost of ownership, particularly smaller positions with shorter holding periods. Schwab does not charge a commission for online trades of ETFs in Schwab ETF OneSource™, giving them a cost advantage in the selection process. Investing different amounts, trading more or less frequently, trading through brokers with commission structures different from Schwab’s, or trading at Schwab through a trading channel like a live representative or automated phone, or through a Schwab fee-based service that waives commissions, would affect cost of ownership estimates and could favor an ETF other than the one selected by Schwab for the List.

Other criteria are also considered, such as risk, fund structure and other qualitative factors. For example, a fund may be excluded if its investment style or portfolio holdings are not representative of its asset category; its bid-ask spread reflects a history of occasional large spikes; or its structure makes it more susceptible to adverse tax consequences.

To show a broader sampling of ETF providers on the List, no single ETF provider, including Schwab, may represent more than one-third of the ETFs on the ETF Select List. If any ETF provider, including Schwab, has more than one-third of the most favorably evaluated funds on the List, one or more of the second-most favorably evaluated ETFs will be substituted as necessary to limit that ETF provider’s representation. ETFs are evaluated and selected quarterly for the List using quarter-end data.

Eligibility Requirements
To be eligible for the ETF Select List, an ETF must meet certain minimum requirements to ensure a basic standard of liquidity, viability and structural stability among eligible ETFs. Eligibility criteria include:
- assets under management
- bid-ask spread
- number of competitive market makers
- length of track record

Estimated total cost of ownership as an annual percentage of invested assets including:
- net operating expenses
- bid-ask spreads
- trade commissions (buy and sell)

Commissions can add significantly to the cost of ownership, particularly smaller positions with shorter holding periods. Schwab does not charge a commission for online trades of ETFs in Schwab ETF OneSource™, giving them a cost advantage in the selection process. Investing different amounts, trading more or less frequently, trading through brokers with commission structures different from Schwab’s, or trading at Schwab through a trading channel like a live representative or automated phone, or through a Schwab fee-based service that waives commissions, would affect cost of ownership estimates and could favor an ETF other than the one selected by Schwab for the List.

Other criteria are also considered, such as risk, fund structure and other qualitative factors. For example, a fund may be excluded if its investment style or portfolio holdings are not representative of its asset category; its bid-ask spread reflects a history of occasional large spikes; or its structure makes it more susceptible to adverse tax consequences.

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Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can obtain a prospectus by calling 800-435-4000. Please read the prospectus carefully before investing.

1 Charles Schwab Investment Advisory, Inc., a registered investment advisor, is an affiliate of Charles Schwab & Co., Inc.
2 The $5,000 investment size is representative of historical Schwab independent retail client trading activity. The one-year holding period is an estimate based on industry averages and Schwab’s general view regarding the benefits of annual portfolio rebalancing.
3 Conditions Apply: Trades in ETFs available through Schwab ETF OneSource™ (including Schwab ETFs™) are available without commissions when placed online in a Schwab account. Service charges apply for trade orders placed through a broker ($25) or by automated phone ($5). An exchange processing fee applies to sell transactions. Certain types of Schwab ETF OneSource transactions are not eligible for the commission waiver, such as short sells and buys to cover (not including Schwab ETFs). Schwab reserves the right to change the ETFs we make available without commissions. All ETFs are subject to management fees and expenses. Please see pricing guide for additional information.
4 The Select List excludes leveraged ETFs, inverse ETFs, ETNs, actively-managed ETFs, muni bond ETFs with underlying holdings subject to AMT, and unmanaged baskets of securities.
**EXCHANGE-TRADED FUNDS**

FOR THE QUARTER ENDED MARCH 31, 2014

<table>
<thead>
<tr>
<th>ETF Select List Category</th>
<th>Quote Symbol</th>
<th>Fund Name</th>
<th>Index</th>
<th>Gross Expenses</th>
<th>Online Commission</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity ETFs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Core</td>
<td>SCX</td>
<td>Schwab U.S. Large-Cap ETF</td>
<td>Dow Jones U.S. Total Stock Market Large Cap</td>
<td>0.04%</td>
<td>$0†</td>
<td>Index covers over 700 largest U.S. firms which comprise about 80% of the US market (by capitalization).</td>
</tr>
<tr>
<td>Large Growth</td>
<td>SCHG</td>
<td>Schwab U.S. Large-Cap Growth ETF</td>
<td>Dow Jones U.S. Total Stock Market Large Cap Growth</td>
<td>0.07%</td>
<td>$0†</td>
<td>ETF has diversified exposure to large growth names such as Apple, Microsoft, and Johnson &amp; Johnson.</td>
</tr>
<tr>
<td>Large Value</td>
<td>SCHV</td>
<td>Schwab U.S. Large-Cap Value ETF</td>
<td>Dow Jones U.S. Total Stock Market Large Cap Value</td>
<td>0.07%</td>
<td>$0†</td>
<td>ETF has diversified exposure to large value names such as ExxonMobil, GE, and Wells Fargo.</td>
</tr>
<tr>
<td>Mid Core</td>
<td>SCHM</td>
<td>Schwab U.S. Mid-Cap ETF</td>
<td>Dow Jones U.S. Mid-Cap Total Stock Market Index</td>
<td>0.07%</td>
<td>$0†</td>
<td>Over 500 holdings providing US equity exposure to the mid-cap portion of the broader U.S. stock market. U.S. growth stocks with market caps between $850M and $3.8B selected based on sales growth, earnings growth, &amp; momentum.</td>
</tr>
<tr>
<td>Mid Growth</td>
<td>MDYG</td>
<td>SPDR S&amp;P 400 Mid Cap Growth ETF</td>
<td>S&amp;P 400 Mid Cap Growth</td>
<td>0.25%</td>
<td>$0†</td>
<td>Holds over 200 mid-cap value stocks; top holdings include Macy’s and Delphi Automotive.</td>
</tr>
<tr>
<td>Mid Value</td>
<td>VDE</td>
<td>Vanguard Mid-Cap Value</td>
<td>CRSP US Mid Cap Value Index</td>
<td>0.10%</td>
<td>$8.95</td>
<td></td>
</tr>
<tr>
<td>Small Core</td>
<td>SCHA</td>
<td>Schwab U.S. Small-Cap ETF</td>
<td>Dow Jones U.S. Total Stock Market Small Cap</td>
<td>0.08%</td>
<td>$0†</td>
<td>Focuses on over 1,700 small-cap companies; index excludes the smallest micro-cap stocks.</td>
</tr>
<tr>
<td>Small Growth</td>
<td>SLYG</td>
<td>SPDR S&amp;P 600 Small Cap Growth ETF</td>
<td>S&amp;P 600 Small Cap Growth</td>
<td>0.28%</td>
<td>$0†</td>
<td>Holds small-cap stocks with growth characteristics and market caps ranging from $25MM to $1.2B.</td>
</tr>
<tr>
<td>Small Value</td>
<td>VBR</td>
<td>Vanguard Small-Cap Value</td>
<td>CRSP US Small Cap Value Index</td>
<td>0.10%</td>
<td>$8.95</td>
<td>Holds approximately 800 small-cap value stocks; Financial stocks represent over 25% of the portfolio.</td>
</tr>
<tr>
<td>Total Stock Market</td>
<td>SCHB</td>
<td>Schwab U.S. Broad Market ETF</td>
<td>Dow Jones U.S. Broad Market Total Stock Index</td>
<td>0.04%</td>
<td>$0†</td>
<td>Holds over 1,500 large to small-cap firms; covers virtually the entire US stock market (by capitalization).</td>
</tr>
<tr>
<td>Dividend-focused</td>
<td>SCHD</td>
<td>Schwab U.S. Dividend Equity ETF</td>
<td>Dow Jones U.S. Dividend 100 Index</td>
<td>0.07%</td>
<td>$0†</td>
<td>Holds U.S. companies that consistently pay dividends and have strong relative fundamental strength based on financial ratios.</td>
</tr>
<tr>
<td>International Equity ETFs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developed Core</td>
<td>SCHF</td>
<td>Schwab International Equity ETF</td>
<td>FTSE Developed ex U.S. Index</td>
<td>0.09%</td>
<td>$0†</td>
<td>Canada included in this index which highlights large and mid-cap stocks from 20 developed international markets.</td>
</tr>
<tr>
<td>Developed Growth</td>
<td>EFG</td>
<td>iShares MSCI EAFE Growth Index</td>
<td>MSCI EAFE Growth</td>
<td>0.40%</td>
<td>$8.95</td>
<td>Developed stock markets excl. U.S. and Canada. Top index weights are U.K., Japan and Switzerland.</td>
</tr>
<tr>
<td>Developed Value</td>
<td>EFV</td>
<td>iShares MSCI EAFE Value Index</td>
<td>MSCI EAFE Value</td>
<td>0.40%</td>
<td>$8.95</td>
<td>Developed stock markets excl. U.S. and Canada. Index heavy in Japan, U.K., and financial services.</td>
</tr>
<tr>
<td>Developed Small</td>
<td>SCHC</td>
<td>Schwab International Small-Cap Equity</td>
<td>FTSE Developed Small Cap ex-US Liquid Index</td>
<td>0.19%</td>
<td>$0†</td>
<td>The fund offers diversified exposure to international small-cap companies in over 20 developed international markets and mid-cap stocks from over 20 emerging markets.</td>
</tr>
<tr>
<td>Emerging Market Stock</td>
<td>SCHE</td>
<td>Schwab Emerging Markets Equity ETF</td>
<td>FTSE Emerging Index</td>
<td>0.15%</td>
<td>$0†</td>
<td>Tracks a cap-weighted index of developed and emerging market countries excluding the U.S.</td>
</tr>
<tr>
<td>All World ex-US Stock</td>
<td>CWI</td>
<td>SPDR MSCI ACWI (ex-U.S.)</td>
<td>MSCI All Country World Index ex USA Index</td>
<td>0.34%</td>
<td>$0†</td>
<td>Tracks a cap-weighted index of developed and emerging market countries excluding the U.S.</td>
</tr>
<tr>
<td>Global Stock</td>
<td>VT</td>
<td>Vanguard Total World Stock Index ETF</td>
<td>FTSE Global All Cap</td>
<td>0.19%</td>
<td>$8.95</td>
<td>Holds over 5000 stocks spanning the investable global stock markets, including emerging markets.</td>
</tr>
<tr>
<td>Europe Stock</td>
<td>FEU</td>
<td>SPDR STOXX Europe 50</td>
<td>STOXX Europe 50 Index</td>
<td>0.23%</td>
<td>$0†</td>
<td>Holds the largest companies in Europe, including Nestle, HSBC, and Royal Dutch Shell.</td>
</tr>
<tr>
<td>Pacific Asia Stock</td>
<td>VPL</td>
<td>Vanguard FTSE Pacific ETF</td>
<td>FTSE Developed Asia Pacific Index</td>
<td>0.12%</td>
<td>$8.95</td>
<td>Features about 800 stocks, approximately 55% from Japan; also includes Australia, Hong Kong and Singapore.</td>
</tr>
<tr>
<td>Pacific Asia ex-Japan Stock</td>
<td>EPP</td>
<td>iShares MSCI Pacific ex-Japan</td>
<td>MSCI Pacific ex-Japan Index</td>
<td>0.50%</td>
<td>$8.95</td>
<td>Includes publicly traded stocks from Australia, Hong Kong, and Singapore.</td>
</tr>
<tr>
<td>Japan Stock</td>
<td>JPP</td>
<td>SPDR Russell/Nomura PRIME Japan</td>
<td>Russell/Nomura Prime Index</td>
<td>0.50%</td>
<td>$0†</td>
<td>The index consists of the 1,000 largest Japanese stocks by market-cap, including Toyota, Mitsubishi and Honda.</td>
</tr>
<tr>
<td>China Stock</td>
<td>MCH</td>
<td>iShares MSCI China</td>
<td>MSCI China Index</td>
<td>0.61%</td>
<td>$8.95</td>
<td>Tracks a cap-weighted index of Chinese equities primarily listed in Hong Kong.</td>
</tr>
</tbody>
</table>

**Note to the ETF Select List this quarter**

“Gross expenses” reflect a fund’s total annual operating expenses as stated in the fund’s prospectus and do not reflect any expense reimbursements or waivers that may exist. Some ETFs appearing on this list may be subject to expense reimbursements and waivers, and less such reimbursements and waivers may have lower total annual operating expenses (i.e., “net expenses”) than indicated herein. Please read the fund prospectus carefully to determine the existence of any expense reimbursements or waivers and details on their limits and termination dates.

Charles Schwab & Co., Inc. receives remuneration from third-party ETF companies participating in Schwab ETF OneSource™ for record keeping, shareholder services and other administrative services, including program development and maintenance. Investment returns will fluctuate and are subject to market volatility, so that an investor’s shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. Shares are bought and sold at market price, which may be higher or lower than the net asset value ("NAV").

No mention of particular funds or fund families here should be construed as a recommendation or considered an offer to sell or a solicitation of an offer to buy any securities. This information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. The securities listed may not be suitable for everyone. Each investor needs to review a securities transaction for his or her own particular situation. Schwab or its employees may sometimes hold positions in the securities listed here. Data contained here is obtained from what are considered reliable sources; however, its accuracy, completeness or reliability cannot be guaranteed.

International investments involve additional risks, which include differences in financial accounting standards, currency fluctuations, political instability, foreign taxes and regulations, and the potential for illiquid markets. Investing in emerging markets may accentuate these risks.

Small-cap funds are subject to greater volatility than those in other asset categories.

High-yield funds invest in lower-rated securities. This subject these funds to greater credit risk, default risk and liquidity risk.

Commodity-related products, including futures, carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions, regardless of the length of time shares are held. Investments in commodity-related products may subject the fund to significantly greater volatility than investments in traditional securities and involve substantial risks, including risk of loss of a significant portion of their principal value.

Some specialized exchange-traded funds can be subject to additional market risks. Investment returns will fluctuate and are subject to market volatility, so that an investor’s shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF.
### EXCHANGE-TRADED FUNDS

**FOR THE QUARTER ENDED MARCH 31, 2014**

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<tr>
<th>ETF SELECT LIST CATEGORY</th>
<th>QUOTE SYMBOL</th>
<th>FUND NAME</th>
<th>INDEX</th>
<th>GROSS EXPENSES</th>
<th>ONLINE COMMISSION</th>
<th>DESCRIPTION</th>
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</thead>
<tbody>
<tr>
<td><strong>BOND ETFs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short Term Broad Market</td>
<td>BSV</td>
<td>Vanguard Short-Term Bond ETF</td>
<td>Barclays U.S. 1–5 Year Government/Credit Float Adjusted Index</td>
<td>0.10%</td>
<td>$8.95</td>
<td>Invests in U.S. government and investment grade corporate bonds with durations from one to five years</td>
</tr>
<tr>
<td>Short Term Corporate</td>
<td>VCSH</td>
<td>Vanguard Short-Term Corp Bond Index ETF</td>
<td>Barclays U.S. 1–5 Year Corporate Bond Index</td>
<td>0.12%</td>
<td>$8.95</td>
<td>Holds over 1000 short-term, investment grade U.S. corporate bonds</td>
</tr>
<tr>
<td>Short Term Muni</td>
<td>SHM</td>
<td>SPDR Nuveen Barclays Short Term Municipal Bond</td>
<td>Barclays Managed Money Municipal Short Term Bond Index</td>
<td>0.20%</td>
<td>$0†</td>
<td>Holds short-term tax exempt bonds (includes: state and local general obligation, revenue, insured and pre-refunded bonds</td>
</tr>
<tr>
<td>Short Term Treasury</td>
<td>SCHO</td>
<td>Schwab Short-Term U.S. Treasury ETF</td>
<td>Barclays U.S. 1–3 Year Treasury Bond Index</td>
<td>0.08%</td>
<td>$0†</td>
<td>ETF features 50 Treasuries which mature in 1–3 years</td>
</tr>
<tr>
<td>Intermediate Broad Market</td>
<td>SCHZ</td>
<td>Schwab U.S. Aggregate Bond ETF</td>
<td>Barclays U.S. Aggregate Bond Index</td>
<td>0.05%</td>
<td>$0†</td>
<td>ETF features 50 Treasuries which mature in 1–3 years</td>
</tr>
<tr>
<td>Intermediate Corporate</td>
<td>VCTI</td>
<td>Vanguard Intermediate-Term Corp Bond Index ETF</td>
<td>Barclays U.S. 5–10 Year Corporate Bond Index</td>
<td>0.12%</td>
<td>$8.95</td>
<td>Provides diversified exposure to the intermediate-term investment-grade U.S. corporate bond market</td>
</tr>
<tr>
<td>Intermediate Muni</td>
<td>TFI</td>
<td>SPDR Nuveen Barclays Municipal Bond</td>
<td>Barclays Municipal Managed Money Index</td>
<td>0.30%</td>
<td>$0†</td>
<td>Tracks the US long term tax-exempt bond market and includes general obligation, revenue, pre-refunded and insured issues</td>
</tr>
<tr>
<td>Intermediate Treasury</td>
<td>SCHR</td>
<td>Schwab Intermediate-Term U.S. Treasury ETF</td>
<td>Barclays U.S. 3–10 Year Treasury Bond Index</td>
<td>0.10%</td>
<td>$0†</td>
<td>ETF features 50 Treasuries which mature in 3–10 years</td>
</tr>
<tr>
<td>Long Term Broad Market</td>
<td>BLV</td>
<td>Vanguard Long-Term Bond Index ETF</td>
<td>Barclays U.S. Long Government/Credit Float Adjusted Index</td>
<td>0.10%</td>
<td>$8.95</td>
<td>Provides diversified exposure to the long-term, investment-grade segment of the U.S. bond market</td>
</tr>
<tr>
<td>Long Term Corporate</td>
<td>VCLT</td>
<td>Vanguard Long-Term Corp Bond Index ETF</td>
<td>Barclays U.S. 10+ Year Corporate Bond Index</td>
<td>0.12%</td>
<td>$8.95</td>
<td>Invests in high-quality (investment-grade) corporate bonds; maintains a dollar-weighted average maturity of 10–25 years</td>
</tr>
<tr>
<td>Long Term Treasury</td>
<td>TLO</td>
<td>SPDR Barclays Long Term Treasury Index</td>
<td>Barclays Long U.S. Treasury Index</td>
<td>0.13%</td>
<td>$0†</td>
<td>Tracks U.S. Treasuries with an average maturity of over 24 years</td>
</tr>
<tr>
<td>High Yield</td>
<td>PHB</td>
<td>PowerShares Fundamental High Yield Corp Bond</td>
<td>RFF® Bonds U.S. High Yield 1–10 Index</td>
<td>0.50%</td>
<td>$0†</td>
<td>Tracks an index of high-yield, U.S. bonds that are selected based on the Research Affiliates Fundamental Index® methodology</td>
</tr>
<tr>
<td>TIPS</td>
<td>SCHP</td>
<td>Schwab U.S. TIPS ETF</td>
<td>Barclays U.S. Treasury Inflation Protected Securities — Series L</td>
<td>0.07%</td>
<td>$0†</td>
<td>TIPS Holdings Treasury securities which are designed to adjust for and help protect against inflation</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>PCY</td>
<td>PowerShares Emerging Markets Sovereign Debt</td>
<td>DB Emerging Market USD Liquid Balanced</td>
<td>0.50%</td>
<td>$0†</td>
<td>ETF tracks emerging market debts issued by 22 emerging market countries</td>
</tr>
<tr>
<td>International BXW</td>
<td>BXW</td>
<td>PowerShares International Treasury Bond Index ETF</td>
<td>Barclays Global Treasury ex-U.S. Capped Index</td>
<td>0.50%</td>
<td>$0†</td>
<td>ETF tracks emerging market debts issued by 22 emerging market countries</td>
</tr>
<tr>
<td>Preferred Stock</td>
<td>PGX</td>
<td>PowerShares Preferred Portfolio</td>
<td>Both Merrill Lynch Core Plus Fixed Rate Preferred Securities</td>
<td>0.50%</td>
<td>$0†</td>
<td>Dividends on preferreds may appeal to income seekers; Top 5 holdings are financial firms</td>
</tr>
</tbody>
</table>

**SECTOR ETFs**

| Consumer Discretionary | VCR         | Vanguard Consumer Discretionary ETF | MSCI U.S. Investable Market Consumer Discretionary ETF 25/50 | 0.14% | $8.95 | Tracks an index of U.S. consumer staples where each holding is rebalanced quarterly to equal weight |
| Consumer Staples       | RHS         | Guggenheim S&P Equal Weight Consumer Staples | S&P 500 Equal Weight Index | 0.40% | $0† | Tracks an index of U.S. energy stocks where the market value of each holding is rebalanced quarterly to equal weight |
| Energy                 | RYE         | First Trust NASDAQ Clean Edge Energy | NASDAQ® Clean Edge® Energy Index | 0.40% | $0† | Tracks an index of U.S. energy stocks where the market value of each holding is rebalanced quarterly to equal weight |
| Clean Energy           | OCLN        | Guggenheim S&P Equal Weight Financial | S&P 500 Equal Weight Index Financials | 0.40% | $0† | Tracks an index of U.S. healthcare stocks where the market value of each holding is rebalanced quarterly to equal weight |
| Financial              | RYF         | Guggenheim S&P Equal Weight Materials | S&P 500 Equal Weight Index Health Care | 0.40% | $0† | Tracks an index of U.S. healthcare stocks where the market value of each holding is rebalanced quarterly to equal weight |
| Health Care            | RYH         | Guggenheim S&P Equal Weight Financial | S&P 500 Equal Weight Index Health Care | 0.40% | $0† | Tracks an index of U.S. healthcare stocks where the market value of each holding is rebalanced quarterly to equal weight |
| Industrials            | RGI         | Guggenheim S&P Equal Weight Financial | S&P 500 Equal Weight Index Industrial | 0.40% | $0† | Tracks an index of U.S. healthcare stocks where the market value of each holding is rebalanced quarterly to equal weight |
| Materials              | RTM         | Guggenheim S&P Equal Weight Financial | S&P 500 Equal Weight Index Information Technology | 0.40% | $0† | Tracks an index of U.S. technology stocks where the market value of each holding is rebalanced quarterly to equal weight |
| Technology             | RYI         | Guggenheim S&P Equal Weight Financial | S&P 500 Equal Weight Index Telecommunications | 0.40% | $0† | Tracks an index of U.S. technology stocks where the market value of each holding is rebalanced quarterly to equal weight |
| Telecommunications     | VOX         | Vanguard Telecom Services ETF | MSCI U.S. Investable Market Telecom Services 25/50 | 0.14% | $8.95 | Multicapitalization equity in the telecommunication services sector |
| Utilities              | VPU         | Vanguard Utilities ETF | MSCI U.S. Investable Market Utilities 25/50 | 0.14% | $8.95 | Holds electric, gas and water utility companies as well as independent producers and distributors of power |

† Conditions Apply: Trades in ETFs available through Schwab ETF OneSource™ (including Schwab ETFs™) are available without commissions when placed online in a Schwab account. Service charges apply for trades ordered placed through a broker ($25) or by automated phone ($5). An exchange processing fee applies to sell transactions. Certain types of Schwab ETF OneSource transactions are not eligible for the commission waiver, such as short sells and buys to cover (not including Schwab ETFs). Schwab reserves the right to change the ETFs we make available without commissions. All ETFs are subject to management fees and expenses. Please see pricing guide for additional information.

Many fixed-income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. The lower-rated securities in which some bond funds invest are subject to greater credit risk, default risk and liquidity risk. Government bond fund shares are not guaranteed. Their price and investment return will fluctuate with market conditions and interest rates. Shares, when redeemed, may be worth more or less than their original cost. Risks of REITs are similar to those associated with direct ownership of real estate, such as changes in real-estate values and property taxes, interest rates, cash flow of underlying real-estate assets, supply and demand, and the management skill and creditworthiness of the issuer. Since a sector fund is typically not diversified and focuses its investments on companies involved in a specific sector, the fund may involve a greater degree of risk than an investor in other mutual funds with greater diversification.
## EXCHANGE-TRADED FUNDS

FOR THE QUARTER ENDED MARCH 31, 2014

<table>
<thead>
<tr>
<th>ETF SELECT LIST CATEGORY</th>
<th>QUOTE SYMBOL</th>
<th>FUND NAME</th>
<th>INDEX</th>
<th>GROSS EXPENSES</th>
<th>ONLINE COMMISSION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>REAL ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodities Broad</td>
<td>USCI</td>
<td>United States Commodity Index</td>
<td>SummerHaven Dynamic Commodity Index</td>
<td>1.03%</td>
<td>$0†</td>
<td>14 futures contracts on precious metals, industrial metals, energy and agricultural products. Investors will receive K-1s during rallies but lose less than the market during declines.</td>
</tr>
<tr>
<td>Agriculture</td>
<td>DBA</td>
<td>PowerShares DB Agriculture</td>
<td>BBG Diversified Agriculture Index Excess Return</td>
<td>0.85%</td>
<td>$8.95</td>
<td>Uses futures contracts to access a cornucopia of coffee, sugar, livestock, grain, cocoa. Investors will get K-1s at tax time.</td>
</tr>
<tr>
<td>Gold</td>
<td>SGOL</td>
<td>ETFS Physical Swiss Gold Shares</td>
<td>London PM Fix Price of Gold</td>
<td>0.39%</td>
<td>$0†</td>
<td>Each share backed by gold bullion held in a Swiss vault; provides direct exposure to gold price movements.</td>
</tr>
<tr>
<td>Broad Precious Metals</td>
<td>GLTR</td>
<td>ETFS Physical PM Basket Shares</td>
<td>London PM Fix Price of Gold, Silver, Platinum and Palladium</td>
<td>0.60%</td>
<td>$0†</td>
<td>ETPs are structured as a grantor trust; holds gold, silver, platinum and palladium.</td>
</tr>
<tr>
<td>Industrial Metals</td>
<td>DBB</td>
<td>PowerShares DB Base Metals</td>
<td>BBG Optimum Yield Industrial Metals Index Excess Return</td>
<td>0.75%</td>
<td>$8.95</td>
<td>Tracks a proprietary index including aluminum, copper and zinc using futures contracts. Investors will get K-1s at tax time.</td>
</tr>
<tr>
<td>Oil</td>
<td>DBO</td>
<td>PowerShares DB Oil</td>
<td>BBG Optimum Yield Crude Oil Index Excess Return</td>
<td>0.75%</td>
<td>$8.95</td>
<td>Diversified exposure to large U.S. stocks; Holdings are weighted based on fundamental measures of company performance.</td>
</tr>
<tr>
<td>Broad Energy Commodities</td>
<td>D6E</td>
<td>PowerShares DB Energy</td>
<td>BBG Optimum Yield Energy Index Excess Return</td>
<td>0.75%</td>
<td>$8.95</td>
<td>Stocks are selected based on company fundamentals: retained operating cash flow, adjusted sales and dividends plus buybacks.</td>
</tr>
<tr>
<td>Real Estate</td>
<td>SCHH</td>
<td>Schwab US REIT ETF</td>
<td>Dow Jones U.S. Select REIT Index</td>
<td>0.07%</td>
<td>$0†</td>
<td>Exposes to large REITs; holds gold, silver, platinum and palladium.</td>
</tr>
<tr>
<td>SPECIALITY ETFs</td>
<td></td>
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</tr>
<tr>
<td>Multi-Asset Income</td>
<td>CVY</td>
<td>Guggenheim Multi-Asset Income</td>
<td>Zacks Multi-Asset Income Index</td>
<td>0.89%</td>
<td>$0†</td>
<td>Holdings may include U.S. stocks, ADRs, REITs, MLPs; closed-end funds and/or Canadian royalty trusts; Top sector is energy</td>
</tr>
</tbody>
</table>

### ALTERNATIVE WEIGHTED ETFs

<table>
<thead>
<tr>
<th>CATEGORIES</th>
<th>QUOTE SYMBOL</th>
<th>FUND NAME</th>
<th>INDEX</th>
<th>GROSS EXPENSES</th>
<th>ONLINE COMMISSION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUAL WEIGHTED ETFs</td>
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</tr>
<tr>
<td>U.S. Large Weighted Equal</td>
<td>RSP</td>
<td>Guggenheim S&amp;P 500 Equal Weight</td>
<td>S&amp;P 500 Equal Weight</td>
<td>0.40%</td>
<td>$0†</td>
<td>Comprised of market cap-weighted indexes, this ETF has lower exposure to the largest companies; Index is rebalanced quarterly.</td>
</tr>
<tr>
<td>FUNDAMENTAL WEIGHTED ETFs</td>
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</tr>
<tr>
<td>U.S. Large Weighted Fundamental</td>
<td>FNDX</td>
<td>Schwab Fundamental</td>
<td>Russell Fundamental U.S. Large Company Index</td>
<td>0.32%</td>
<td>$0†</td>
<td>Diversified exposure to large U.S. stocks; Holdings are weighted based on fundamental measures of company performance.</td>
</tr>
<tr>
<td>U.S. Small Weighted Fundamental</td>
<td>FNDN</td>
<td>Schwab Fundamental</td>
<td>Russell Fundamental U.S. Small Company Index</td>
<td>0.32%</td>
<td>$0†</td>
<td>Stocks are selected based on company fundamentals: retained operating cash flow, adjusted sales and dividends plus buybacks.</td>
</tr>
<tr>
<td>International Weighted Fundamental</td>
<td>FNF D</td>
<td>Schwab Fundamental International Large Company</td>
<td>Russell Fundamental Developed ex-U.S. Large Company Index</td>
<td>0.32%</td>
<td>$0†</td>
<td>Exposure to large, int’l companies selected and weighted based on fundamental measures of company performance.</td>
</tr>
<tr>
<td>LOW VOLATILITY WEIGHTED ETFs</td>
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</tr>
<tr>
<td>U.S. Large Weighted Low Volatility</td>
<td>SPLV</td>
<td>PowerShares S&amp;P 500 Low Volatility</td>
<td>S&amp;P 500® Low Volatility Index</td>
<td>0.25%</td>
<td>$0†</td>
<td>Holdings 100 stocks from the S&amp;P 500® Index with the lowest realized volatility over the past 12 months.</td>
</tr>
<tr>
<td>International Weighted Low Volatility</td>
<td>EFA V</td>
<td>iShares MSCI EAFE Min Volatility</td>
<td>MSCI EAFE Minimum Volatility</td>
<td>0.34%</td>
<td>$8.95</td>
<td>Includes stocks from Europe, Australasia, the Middle and Far East; stocks with the lowest volatility have the highest weights.</td>
</tr>
</tbody>
</table>

### TRADITIONAL INDEXES

These ETFs track indexes that are mostly weighted by market capitalization; that is, they give the most weight to companies whose outstanding stock is worth the most money. The advantages of ETFs that track market capitalization or traditional weighted indexes are that they require very little rebalancing (which keeps costs low) and that they reflect the way the market itself is weighted. In some cases a different weighting scheme may be traditional, such as commodity indexes that are weighted by the liquidity of various commodities.

### ALTERNATIVE WEIGHTED ETFs

There are three Alternative Weighted ETF categories on the ETF Select List. Each category has a specific approach to building an index so you can consider which ETFs are best for your situation.

- **EQUAL-WEIGHTED INDEXES**: Most indexes are weighted by market capitalization, where companies with the highest stock market value get the most weight. Equal-weighted indexes give an equal amount of weight to each stock in the index. If an ETF tracks an equal-weighted index with 100 stocks, it would generally put about 1% of the fund’s assets into each of the stocks.

- **FUNDAMENTAL-WEIGHTED INDEXES**: Rather than relying on stock market values for weights, a fundamental index uses criteria such as companies’ profits, dividends, book value, cash flow or number of employees to assign weight to the stocks in the index. The theory is to put more weight into stocks that have a larger economic footprint rather than just a large market value.

- **LOW VOLATILITY-WEIGHTED INDEXES**: In these funds, the lower the volatility of a stock, the more weight it receives in the index. The goal is to arrive at a group of stocks whose overall volatility is lower than the market as a whole, which means that the index may gain less than the market during rallies but lose less than the market during declines.
Investing Abroad by Investing at Home

Some U.S. stocks can provide international exposure.

BY JOHN M. EADE

Japan’s economy appears to be picking up steam. Europe, back from the brink of a currency collapse, may be poised to grow again. And China seems to have steadied its expansion at an enviable 7%+ rate.

Although investment opportunities in these growing markets may appear attractive, international investments can be complicated and risky. Regulatory rules are different overseas, and foreign companies generally are not as transparent with investors as U.S. companies are. In addition, political or geopolitical events—currency crises, even international tensions—can quickly alter a promising investment outlook.

One way for U.S. investors to take advantage of global growth, while minimizing some risk, is by investing in domestic companies that conduct business abroad. Many large-cap U.S.-based companies have employees, customers and manufacturing plants outside domestic borders.

We estimate that S&P 500® Index companies generate as much as half of sales and earnings from overseas operations.

Life insurance companies are a prime example of how one might benefit from a global product line. In a mature market like the United States, the life insurance business grows about 3% per year, in line with population growth and inflation. But in Japan, growth approaches 10%, and in some other international markets, especially where citizens are increasingly entering the middle class, growth rates for life insurers are around 15–20%. As a consequence, some global life insurers might grow faster over time than those focused solely on the United States.

Information technology (IT) is another sector that participates in global growth and appears attractive. We estimate that overseas operations account for more than 50% of revenue and earnings for this sector. In recent earnings reports, more than 80% of IT companies beat analyst expectations, the highest percentage of any sector. We believe this performance correlates closely with improving economic conditions in the United States’ three major trading partners: China, Canada and Mexico.

In January, the International Monetary Fund boosted its forecast for global growth in 2014. As a result, investors might want to consider having at least some of their portfolios include domestic companies in sectors that are most likely to participate in this expected global recovery. However, also remember that companies with global exposure may have higher risk, and contraction in global economies can negatively affect these stocks.
THE ARGUS MODEL PORTFOLIOS

Equity Income

Growth & Income

Mid-Cap Growth

International Paper Co.  = IP  = Basic Materials
Brinker International Inc.  = EAT  = Consumer Discretionary
Ford Motor Co.  = F  = Consumer Discretionary
Staples Inc.  = SPLS  = Consumer Discretionary
Time Warner Inc.  = TWX  = Consumer Discretionary
Archer Daniels Midland Co.  = ADM  = Consumer Staples
Clorox Co.  = CLX  = Consumer Staples
Chevron Corp.  = CVX  = Energy
Marathon Oil Corp.  = MRO  = Energy
Transocean Ltd.  = RIG  = Energy
Boston Properties Inc.  = BXP  = Financial
Chubb Corp.  = CB  = Financial
HCP Inc.  = HCP  = Financial
JPMorgan Chase & Co.  = JPM  = Financial
Eli Lilly & Co.  = LLY  = Healthcare
Johnson & Johnson  = JNJ  = Healthcare
Pfizer Inc.  = PFE  = Healthcare
Caterpillar Inc.  = CAT  = Industrials
General Electric Co.  = GE  = Industrials
Applied Materials Inc.  = AMAT  = Technology
Automatic Data Processing Inc.  = ADP  = Technology
Cisco Systems Inc.  = CSCO  = Technology
Symantec Corp.  = SYMC  = Technology
AT&T Inc.  = T  = Telecommunications
Verizon Communications Inc.  = VZ  = Telecommunications
Duke Energy Corp.  = DUK  = Utility
Great Plains Energy Inc.  = GXP  = Utility
PG&E Corp.  = PCG  = Utility
Spectra Energy Corp.  = SE  = Utility

Dow Chemical Co.  = DOW  = Basic Materials
Weyerhaeuser Co.  = WY  = Basic Materials
Coach Inc.  = COH  = Consumer Discretionary
Las Vegas Sands Corp.  = LVS  = Consumer Discretionary
Mattel Inc.  = MAT  = Consumer Discretionary
Walt Disney Co.  = DIS  = Consumer Discretionary
CVS Caremark Corp.  = CVS  = Consumer Staples
Procter & Gamble Co.  = PG  = Consumer Staples
Stryker Corp.  = SYK  = Consumer Staples
HollyFrontier Corp.  = HFC  = Energy
Occidental Petroleum Corp.  = OXY  = Energy
Schlumberger Ltd.  = SLB  = Energy
American Express Co.  = AXP  = Financial
Bank of New York Mellon Corp.  = BK  = Financial
Federated Investors Inc.  = FFT  = Financial
Prudential Financial Inc.  = PRI  = Financial
Ameren Inc.  = AEM  = Healthcare
Medtronic Inc.  = MDT  = Healthcare
Pfizer Inc.  = PFE  = Healthcare
Deere & Co.  = DE  = Industrials
General Electric Co.  = GE  = Industrials
United Parcel Service Inc.  = UPS  = Industrials
Apple Inc.  = AAPL  = Technology
Comcast Corp.  = CMCSA  = Technology
International Business Machines Corp.  = IBM  = Technology
Oracle Corp.  = ORCL  = Technology
Consolidated Edison Inc.  = ED  = Utility
Oneok Inc.  = OKE  = Utility

Ashland Inc.  =ASH = Basic Materials
Dick’s Sporting Goods Inc.  = DK  = Consumer Discretionary
Dunkin’ Brands Group Inc.  = DNKN  = Consumer Discretionary
Lions Gate Entertainment Corp.  = LGF  = Consumer Discretionary
Pep Boys-Manny Moe & Jack  = PBY  = Consumer Discretionary
Pier 1 Imports Inc.  = PIR  = Consumer Discretionary
Coca-Cola Enterprises Inc.  = CCE  = Consumer Staples
Green Mountain Coffee Roasters  = GMCR  = Consumer Staples
Apache Corp.  = APA  = Energy
Devon Energy Corp.  = DVN  = Energy
Noble Corporation PLC  = NE  = Energy
Brandywine Realty Trust  = BDN  = Financial
Hartford Fire Group Inc.  = HIG  = Financial
Allergan Inc.  = AGN  = Healthcare
Cerner Corp.  = CERN  = Healthcare
Perrigo Company PLC  = PGO  = Healthcare
Zimmer Holdings Inc.  = ZMH  = Healthcare
Accom Technology Corp.  = ACM  = Industrials
Eaton Corp Pub Ltd Co.  = ETN  = Industrials
Parker-Hannifin Corp.  = PH  = Industrials
Stanley Black & Decker Inc.  = SWK  = Industrials
Activision Blizzard Inc.  = ATVI  = Technology
Altera Corp.  = ALTR  = Technology
Blackhawk Network Holdings Inc.  = HAWK  = Technology
Broadcom Corp.  = BCM  = Technology
CA Inc.  = CA  = Technology
eBay Inc.  = EBAY  = Technology
HIS Inc.  = HIS  = Technology
Juniper Networks Inc.  = JNPR  = Technology
Vishay Intertechnology Inc.  = VSH  = Technology
Xerox Corp.  = XRX  = Technology
Aqua America Inc.  = WTR  = Utility
MDU Resources Group Inc.  = MDU  = Utility


See page 2 for important information.

Past performance is no guarantee of future results.

International investments involve additional risks, which include differences in financial accounting standards, currency fluctuations, geopolitical risk, foreign taxes and regulations and the potential for illiquid markets. Investing in emerging markets may accentuate these risks.

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(0514-0866)
Dealing With Unknowns

Information is power when facing uncertainty.

I’m sure every investor would love to have a crystal ball so they could pose a question about the future: Whether it’s about earnings reports, economic data releases, Federal Reserve policy decisions or whatever else we know is coming, it would instantly tell them what to expect.

But what about those complete unknowns—like the so-called Flash Crash of May 2010, when trading software sparked a 600-point plunge in the Dow in a matter of minutes? Nobody saw it coming, so even if you had a crystal ball, you wouldn’t have known to ask whether it might happen.

I’m often asked what investors can do to anticipate these unknowns and insulate their portfolios against risk. The answer is pretty straightforward: Stay as informed as you can and always remain diversified.

Our role at Schwab is to work with you to help you see the whole picture. It’s not just delivering market-moving news and analysis. It’s about helping you find patterns and understand how each piece of information fits together. The unknown does not always need to be the unexpected.

Uncertainty has always been, and will always be, a given in financial markets. Over the years, I’ve found the best way to counter uncertainty is the certainty of knowing that I can be more informed and have people I can turn to for advice. And that’s why we are here—even if we don’t have a crystal ball, we can still help you prepare for the unknown.

Charles R. Schwab
Founder & Chairman

“Stay as informed as you can and always remain diversified.”

See page 2 for important information.
Investing involves risk, including loss of principal.
(0514-0975)
AN UNTRADITIONAL APPROACH TO PORTFOLIO MANAGEMENT.

Windhaven® strategies from Schwab.

There is a way to help plan for the unexpected—both the opportunities and the potential pitfalls: Windhaven strategies.

- **Broad diversification.** Windhaven selects from over 40 asset classes from U.S., international, and emerging markets.
- **Dynamic asset allocation.** Allocations are dynamically adjusted based on changing economic conditions.
- **Proactive risk management.** Windhaven seeks to capture growth in rising markets while attempting to reduce exposure to market declines.

For more information about Windhaven’s investment philosophy and 12-year track record, talk to your Schwab Financial Consultant, call us at 1-877-561-5438, or visit schwab.com/Windhaven.

Please refer to Windhaven’s ADV Part 2 for more information.

Windhaven’s risk-management process includes an effort to monitor and manage risk, but should not be confused with (and does not imply) low risk or the ability to control risk.

Diversification strategies do not ensure a profit and do not protect against losses in declining markets.

Windhaven strategies are available through Schwab’s Managed Account Connection® program (“Connection”). Please read Schwab’s disclosure brochure for important information and disclosures relating to Connection and Schwab Managed Account Services™. Portfolio management is provided by Windhaven Investment Management, Inc. (“Windhaven”), a registered investment advisor. Windhaven and Charles Schwab & Co., Inc. are separate but affiliated companies and subsidiaries of The Charles Schwab Corporation.

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The Schwab Accountability Guarantee™ for participating investment advisory services*

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Chuck Schwab
Chairman and Founder

To learn more about portfolio management services, talk to your Financial Consultant or visit schwab.com/accountability.

Brokerage Products: Not FDIC-Insured • No Bank Guarantee • May Lose Value

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