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  - Asset class performance varies from year to year
  - A well-balanced portfolio includes both growth and value
  - A well-balanced portfolio includes all sectors (range of returns)
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  - Sector performance varies from year to year
  - Opportunities outside the U.S. should not be forgotten (flags)
  - A well-balanced portfolio includes international equities (5-year rolling returns)
- **Equities**
  - Equities have outperformed other asset classes (growth of a dollar)
  - Equities have been the best defense against taxes and inflation
  - Sector performance varies from year to year
- **Mutual funds**
  - Evaluate mutual funds annually
  - Average investor return falls short of fund return
- **International equities**
  - Asset class performance varies from year to year
  - Asset class performance varies from year to year (10 asset classes)
  - Opportunities outside the U.S. should not be forgotten (flags)
  - A well-balanced portfolio includes international equities
- **Fixed income**
  - Asset class performance varies from year to year
  - Asset class performance varies from year to year (10 asset classes)
  - Fixed income investments can lower portfolio volatility
  - Lower credit quality can correspond with higher default rates
  - Municipal bonds earn more on an after-tax basis
  - The standard fixed income benchmark is 80% gov't related securities
  - Fixed income sector performance varies from year to year
  - Bond risk and returns vary by sector and maturity
  - Chasing yield or chasing risk?
  - Yields and risk generally rise with time to maturity
  - Dividend-paying stocks more volatile than bonds
  - Interest rates can impact the prices of bonds
  - Negative returns uncommon in a diversified bond portfolio
  - Muni default rates generally much lower than corporates
- **Taxes**
  - Tax-deferred investing has its benefits
  - Municipal bonds earn more on an after-tax basis
  - Equities have been the best defense against taxes and inflation

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## Investing Principles

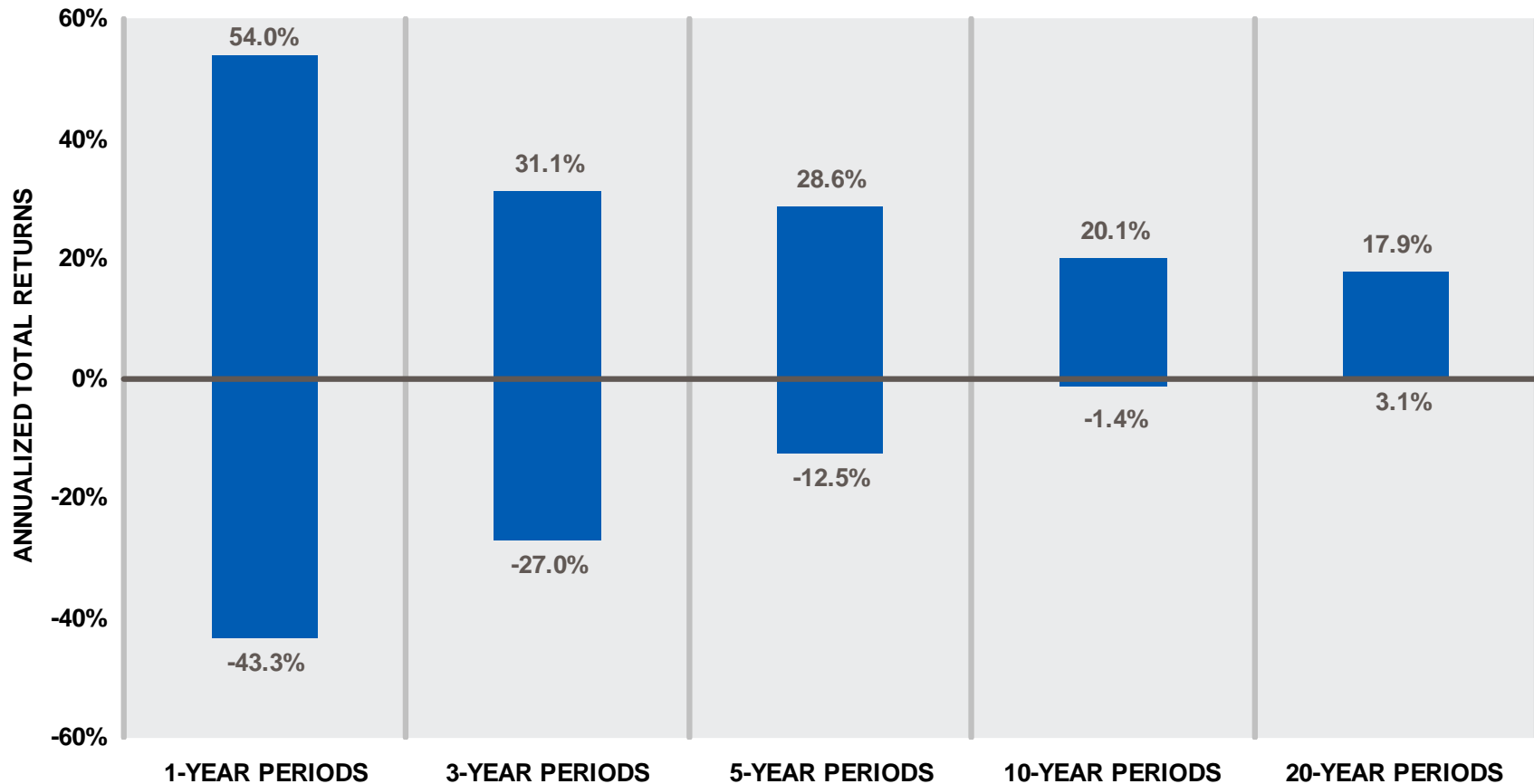
- **Create a plan**
  - Investors who plan experience better outcomes in retirement
  - Inflation can severely erode purchasing power over the long term
  - Executed plans associated with people who have greater wealth
- **Put it into action**
  - The power of increased savings
  - Fixed income investments can lower portfolio volatility
  - Over concentration can be a common, costly mistake
  - A diversified corporate bond portfolio includes at least 10 issuers
  - The benefit of diversification or lost decade?
  - A diversified portfolio can reduce volatility over time
  - The standard fixed income benchmark is 80% gov't related securities
  - Fixed income sector performance varies from year to year
  - Bond risk and returns vary by sector and maturity
  - Chasing yield or chasing risk?
  - Yields and risk generally rise with time to maturity
  - Dividend-paying stocks more volatile than bonds
  - Interest rates can impact the prices of bonds
  - Negative returns uncommon in a diversified bond portfolio
  - Muni default rates generally much lower than corporates
  - Higher returns come with increase short-term volatility
  - Asset allocation works-even in a Depression
  - Bear market recoveries are often front-loaded
  - Time in the market is more important than timing the market
  - The costs of waiting to invest
  - Average investor return falls short of fund return
- **Stay on track**
  - The danger of not rebalancing
  - Rebalancing annually can lower risk and enhance returns
  - Progress toward goal more important than short-term performance
  - Long-term top performance may include short-term underperformance
  - Asset class performance varies from year to year

## Economic Charts

- How long has it taken for the job market to fully recover?
- Growth of 3% or more accompanied by reduced unemployment rate
- Public debt has surged, though growth rate waning
- All major currencies show weakness relative to gold
- Emerging markets becoming a dominant part of world GDP
- U.S. is one of the more energy-intensive nations
- Emerging countries are more vulnerable to food price inflation
- Dollar impact of contango can be large
- Average returns occur infrequently
- Bear markets generally occur every 4 to 5 years

# Lengthening holding period may reduce downside risk

Diversified equity portfolio as represented by the S&P 500<sup>®</sup> Index (1926 - 2010)

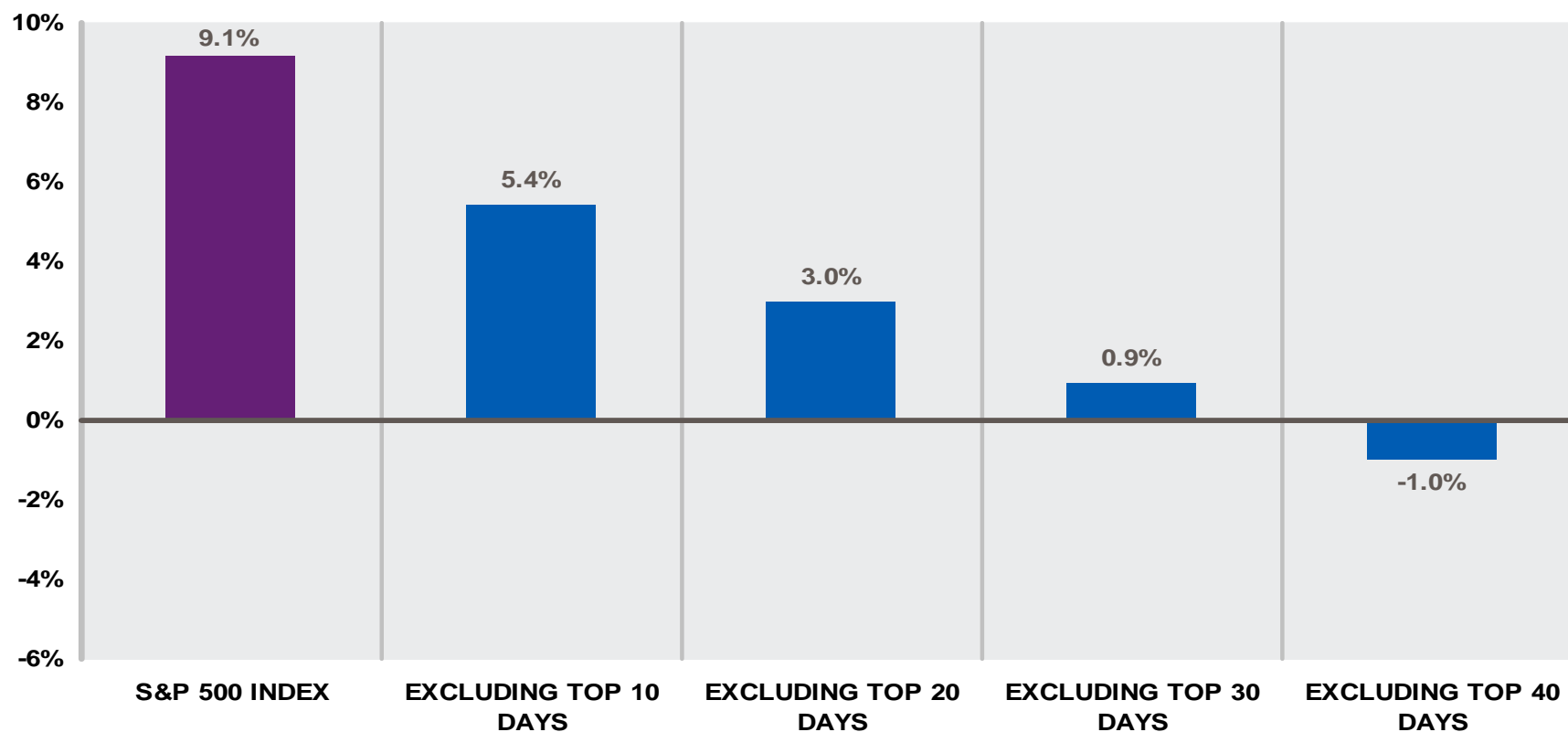


Source: Schwab Center for Financial Research with data provided by Standard and Poor's. Every 1-, 3-, 5-, 10-, and 20-year rolling calendar period for the S&P 500 Index was analyzed from 1926 through 2010. The highest and lowest annual total returns for the specified rolling time periods were chosen to depict the volatility of the market. Returns include reinvestment of dividends. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

*charles* SCHWAB

# Time in the market is more important than timing the market

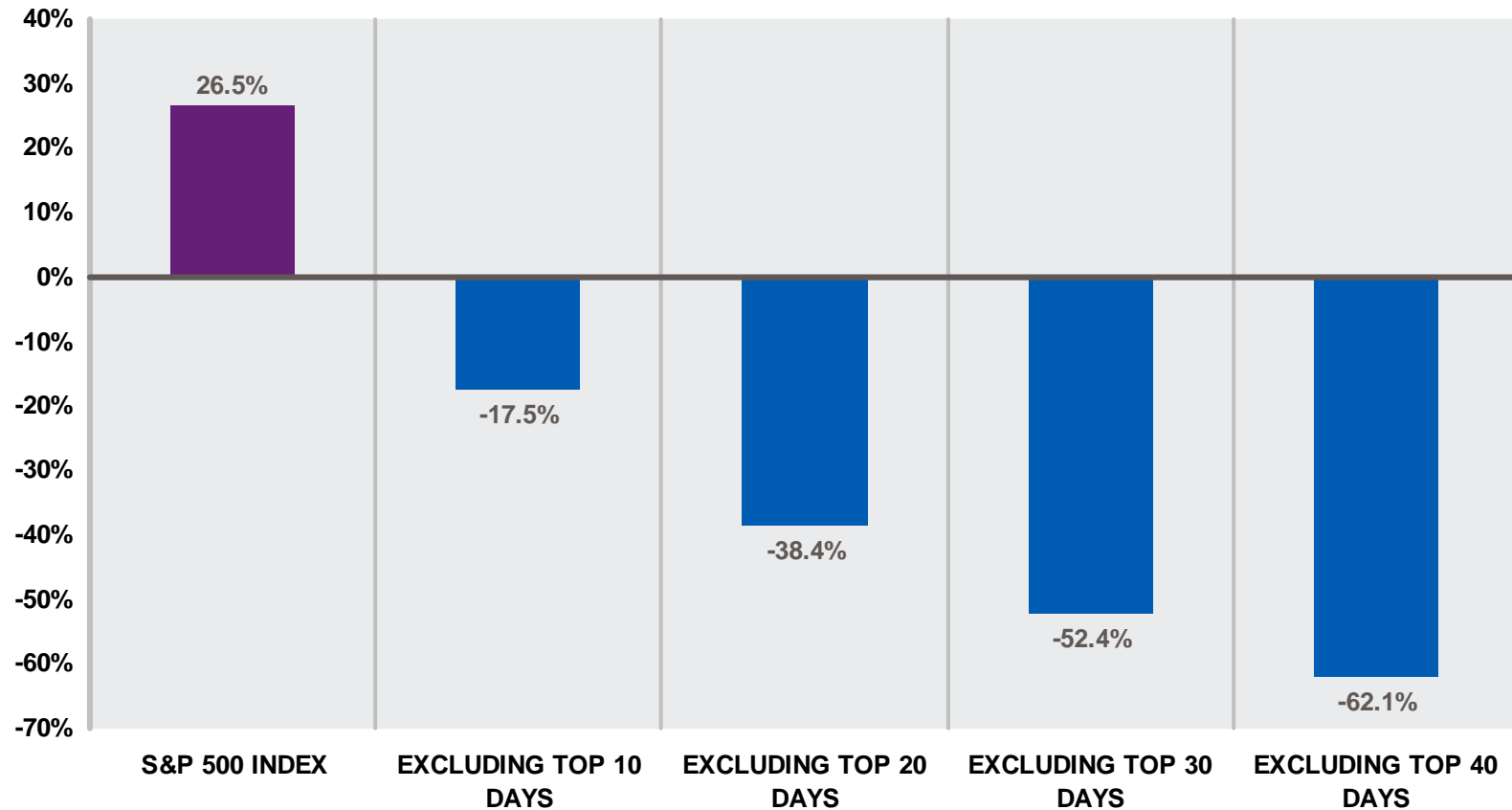
## Index annualized total return (1991 - 2010)



Source: Schwab Center for Financial Research with data provided by Standard and Poor's. Return data is annualized based on an average of 252 trading days within a calendar year. The year begins on the first trading day in January and ends on the last trading day of December, and daily total returns were used. Returns assume reinvestment of dividends. When out of the market, cash is not invested. Market returns are represented by the S&P 500 Index which represents an index of widely traded stocks. Top days are defined as the best performing days of the S&P 500 during the twenty-year period. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# Time in the market is more important than timing the market

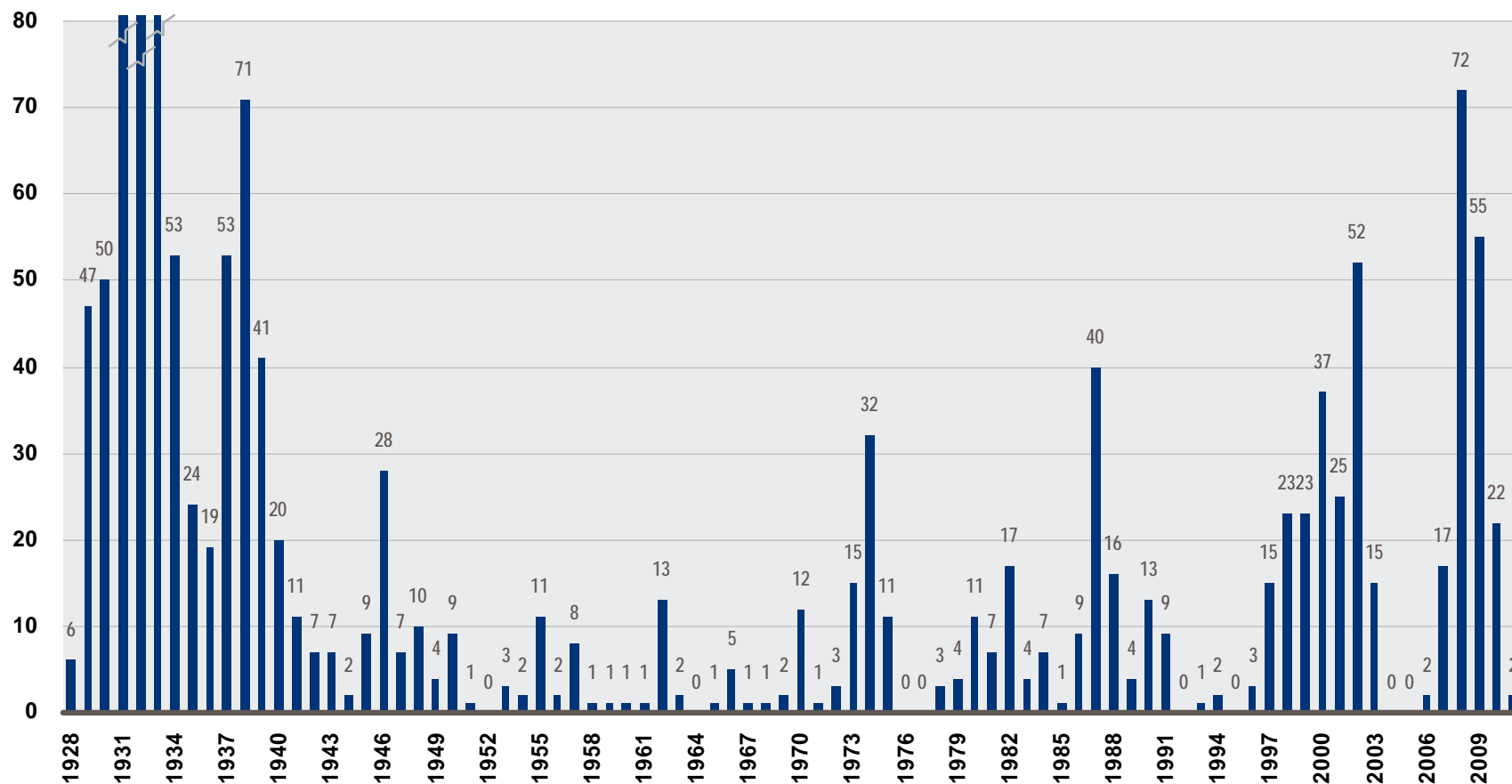
## Index annualized total return (2009)



Source: Schwab Center for Financial Research with data provided by Standard and Poor's. Return data is annualized based on 252 trading days within a calendar year. The year begins on the first trading day in January and ends on the last trading day of December, and daily total returns were used. Returns assume reinvestment of dividends. When out of the market, cash is not invested. Market returns are represented by the S&P 500 Index which represents an index of widely traded stocks. Top days are defined as the best performing days of the S&P 500 during 2009. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# Big changes can happen in short periods

## Days with S&P 500<sup>®</sup> Index volatility over 2% (1928 – 2011\*)

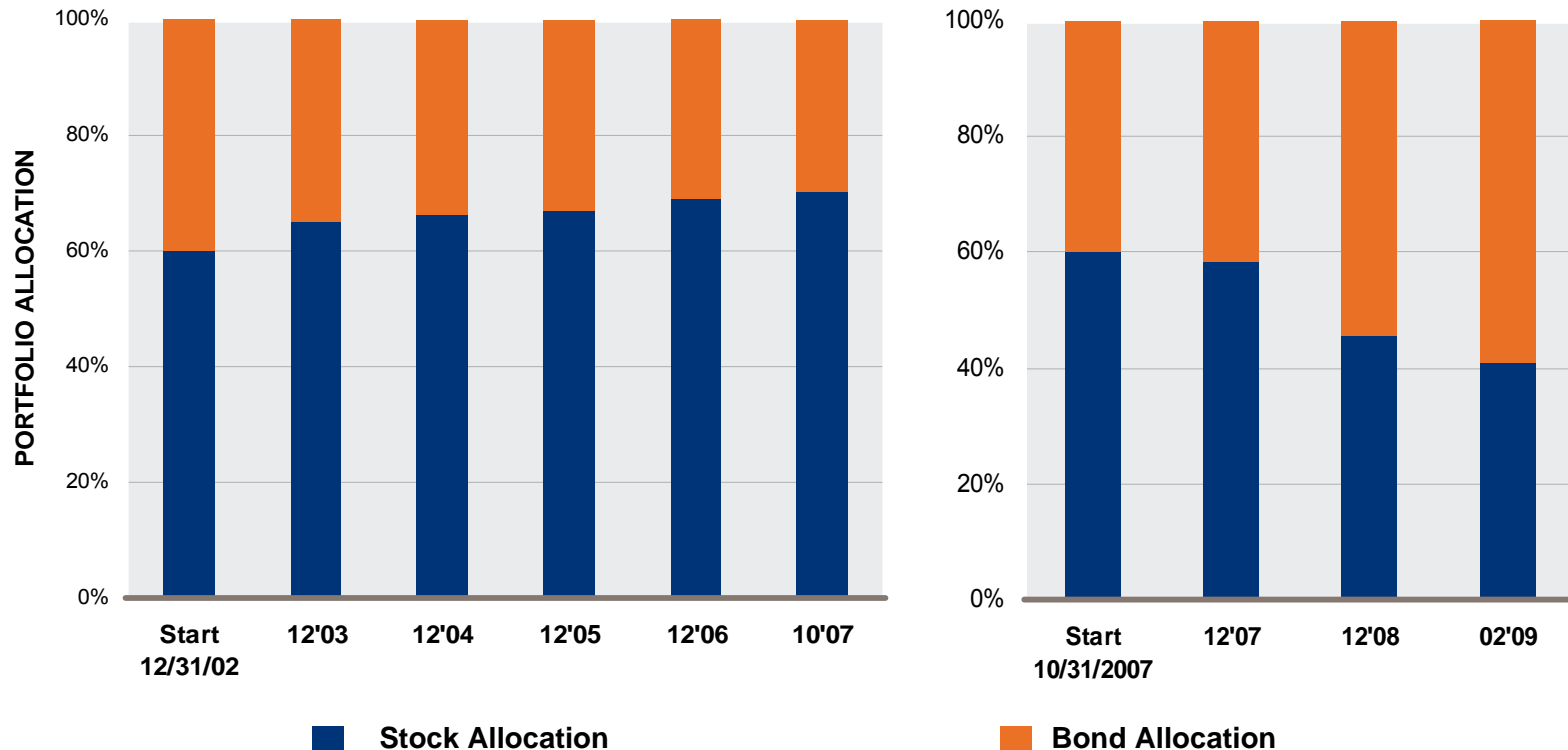


\*Through 6/30/2011

Source: Schwab Center for Financial Research with data provided by Standard and Poor's. The chart above depicts the total number of days within a given year in which the daily change of the S&P 500 Index exceeded 2%. The time periods are one year in length and do not overlap. The year begins on the first trading day of January and ends on the last trading day of December and daily close prices were used for the period 1928 through 2011 June. Indices are unmanaged, do not incur fees or expenses and cannot be invested in directly. **Past results are not indicative of future performance.**

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# Annual rebalancing adds needed discipline



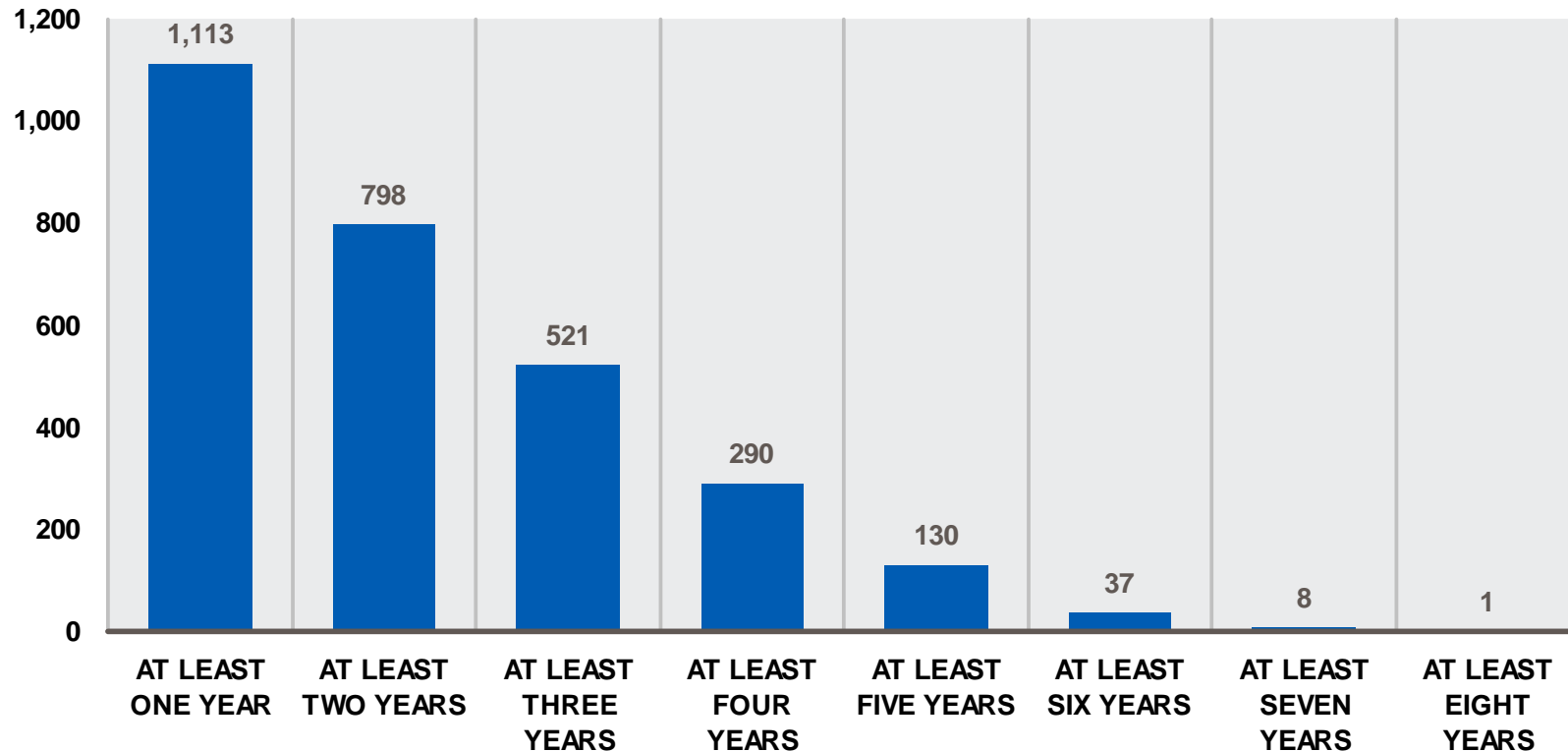
*Without annual rebalancing in 2003-2007, a moderate portfolio took on too much risk.*

*Without rebalancing during the credit crisis, a moderate portfolio lost recovery potential.*

Source: Schwab Center for Financial Research with data from Morningstar, Inc. The portfolio above is composed of 60% stocks and 40% bonds on 12/31/2002, and is not rebalanced through 10/31/2007. It is rebalanced to 60% stocks and 40% bonds on 10/31/07 and not rebalanced through 02/28/2009. Asset class allocations are derived from a weighted average of the total monthly returns of indices representing each asset class. The indices representing the asset classes are the S&P 500 Index (stocks) and the Barclays Capital U.S. Aggregate Bond Index (bonds). Returns assume reinvestment of dividends and interest. Indices are unmanaged, do not incur fees and expenses, and cannot be invested in directly.

# Evaluate mutual funds annually

## Number of equity funds in the top performance quartile (2001 - 2010)



Source: Schwab Center for Financial Research with data provided by Morningstar. The chart examines a universe of 1332 distinct portfolios of diversified U.S. domestic equity funds with a complete 10-year history from January 2001 through December 2010. Each fund's annual performance was ranked within a given year and placed in quartiles within its respective Morningstar style category. The annual ranking was derived by comparing the fund's performance to the performance of all distinct, non-passive portfolios currently placed in the category. The number of times an individual fund's annual performance ranked in a year's top quartile was then counted. **Past performance is no indication of future results.**

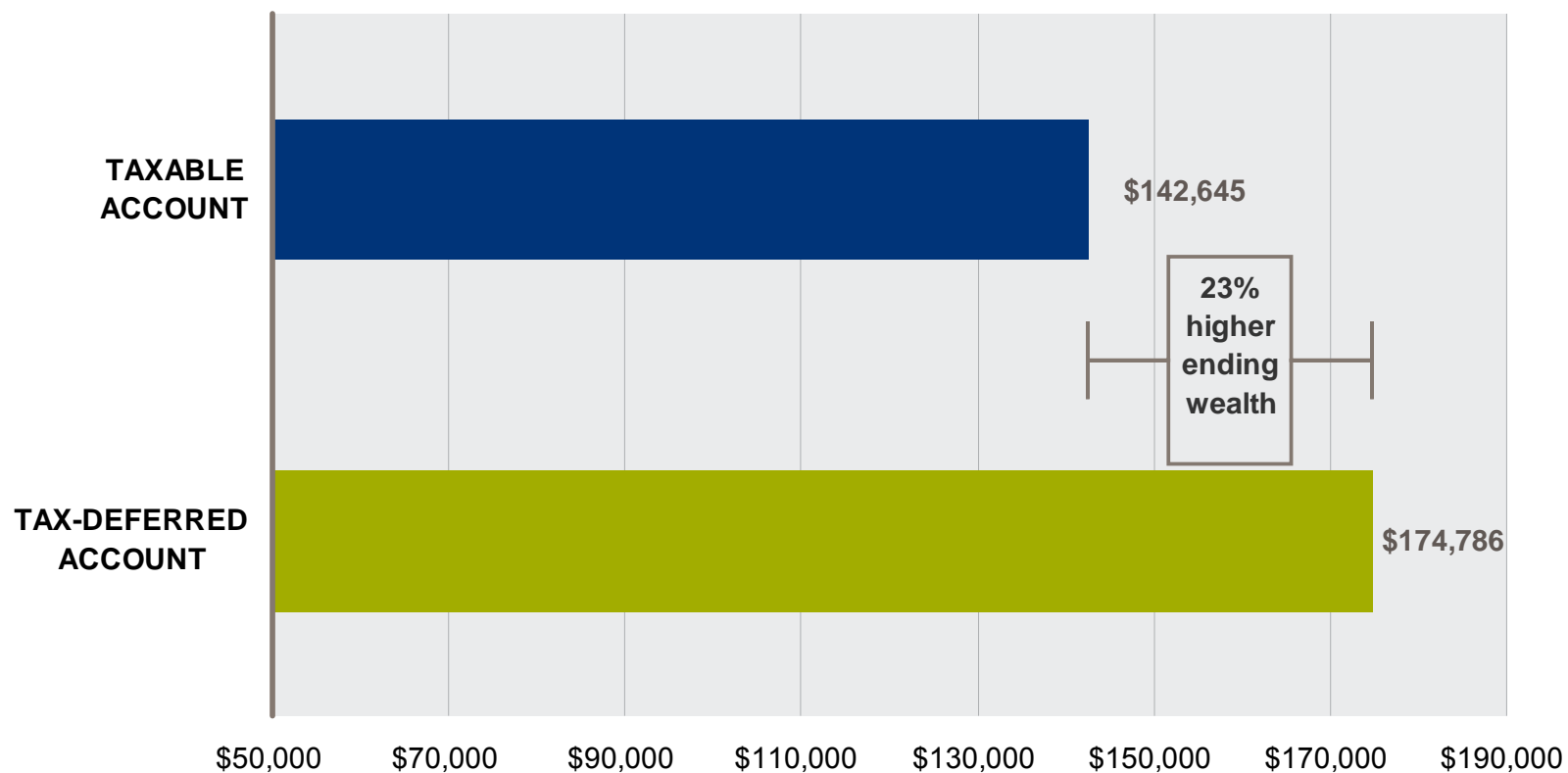
*Investors should carefully consider information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 800-435-4000. Please read the prospectus carefully before investing. Principal value and investment return will fluctuate with changes in market conditions so an investor's returns, when redeemed, may be worth more or less than their original cost.*

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# Tax-deferred investing has its benefits

Hypothetical growth of \$50,000 investment over a 20-year period



Source: Schwab Center for Financial Research. In this graph, both investors start with an initial investable amount of \$50,000, and both had an 8% annual return composed of 2% qualified income dividends and 6% long-term capital gains, both taxed at 15% when realized throughout the 20-year investment period. The taxable account invests the \$50,000 after being taxed at 25%, realizes capital gains every 5 years and dividends annually, with net proceeds reinvested. The tax-deferred account pays taxes on the entire investment upon withdrawal at a 25% ordinary income tax rate.

# Asset class performance varies from year to year

Annual returns ranked in order of best to worst performance

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Small value 14.0%	Bonds 10.3%	Small growth 48.5%	Small value 22.2%	International 13.5%	International 26.3%	Large growth 11.8%	Bonds 5.2%	Large growth 37.2%	Small growth 29.1%	Small growth 8.6%
Bonds 8.4%	T-bills 1.7%	Small cap 47.3%	International 20.2%	Large value 7.1%	Small value 23.5%	International 11.2%	T-bills 1.8%	Small growth 34.5%	Small cap 26.9%	Large growth 6.8%
T-bills 4.1%	Small value -11.4%	Small value 46.0%	Small cap 18.3%	Large growth 5.3%	Large value 22.2%	Small growth 7.1%	Small value -28.9%	International 31.8%	Small value 24.5%	Small cap 6.2%
Small cap 2.5%	Large value -15.5%	International 38.6%	Large value 16.5%	Large cap 4.9%	Small cap 18.4%	Bonds 7.0%	Small cap -33.8%	Small cap 27.2%	Large growth 16.7%	Large cap 6%
Large value -5.6%	International -15.9%	Large value 30.0%	Small growth 14.3%	Small value 4.7%	Large cap 15.8%	Large cap 5.5%	Large value -36.8%	Large cap 26.5%	Large value 15.5%	Large value 5.9%
Small growth -9.2%	Small cap -20.5%	Large growth 29.7%	Large cap 10.9%	Small cap 4.6%	Small growth 13.3%	T-bills 4.7%	Large cap -37%	Small value 20.6%	Large cap 15.1%	International 5%
Large cap -11.9%	Large cap -22.1%	Large cap 28.7%	Large growth 6.3%	Small growth 4.2%	Large growth 9.1%	Large value -0.2%	Large growth -38.4%	Large value 19.7%	International 7.8%	Small value 3.8%
Large growth -20.4%	Large growth -27.9%	Bonds 4.1%	Bonds 4.3%	T-bills 3.0%	T-bills 4.8%	Small cap -1.6%	Small growth -38.5%	Bonds 5.9%	Bonds 6.5%	Bonds 2.7%
International -21.4%	Small growth -30.3%	T-bills 1.1%	T-bills 1.2%	Bonds 2.4%	Bonds 4.3%	Small value -9.8%	International -43.4%	T-bills 0.2%	T-Bills 0.1%	T-Bills 0.1%

\*Through 6/30/11

Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. Asset class performance is represented by total annual returns of the following indices: S&P 500® Index (large cap), Russell 1000® Growth Index (large-cap growth), Russell 1000® Value Index (large-cap value), Russell 2000® Index (small cap), Russell 2000® Growth Index (small-cap growth), Russell 2000® Value Index (small-cap value), MSCI EAFE Net of Taxes (international stocks), Barclays Capital U.S. Aggregate Bond Index (bonds), and Citigroup U.S. Domestic 3-Month Treasury bills (T-bills). Returns assume reinvestment of dividends, interest, and capital gains. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

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# Asset class performance varies from year to year

Annual returns ranked in order of best to worst performance

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Commodities 32.1%	Emerg. Mkts 55.8%	REITs 31.5%	Emerg. Mkts 34%	REITs 35.9%	Emerg. Mkts 39.4%	Core Bonds 5.2%	Emerg. Mkts 78.5%	REITs 28.5%	REITs 12.1%
TIPS 16.6%	US Sm Cap 47.3%	Emerg. Mkts 25.6%	Commodities 25.6%	Emerg. Mkts 32.2%	Commodities 32.7%	T-Bills 1.8%	High Yld Bds 58.2%	US Sm Cap 26.9%	TIPS 10%
Core Bonds 10.3%	Int'l Dev 38.6%	Int'l Dev 20.2%	Int'l Dev 13.5%	Int'l Dev 26.3%	TIPS 11.6%	TIPS -2.4%	Int'l Dev 31.8%	Emerg. Mkts 18.9%	High Yld Bds 6.2%
REITs 3.6%	REITs 36.7%	US Sm Cap 18.3%	REITs 12.1%	US Sm Cap 18.4%	Int'l Dev 11.2%	High Yld Bds -26.2%	REITs 28.6%	High Yld Bds 15.1%	Commodities 5.2%
T-Bills 1.7%	High Yld Bds 29%	Commodities 17.3%	US Lg Cap 4.9%	US Lg Cap 15.8%	Core Bonds 7%	US Sm Cap -33.8%	US Sm Cap 27.2%	US Lg Cap 15.1%	Core Bonds 4.4%
High Yld Bds -1.4%	US Lg Cap 28.7%	High Yld Bds 11.1%	US Sm Cap 4.6%	High Yld Bds 11.8%	US Lg Cap 5.5%	US Lg Cap -37%	US Lg Cap 26.5%	Commodities 9%	US Lg Cap 3.9%
Emerg. Mkts -6.2%"	Commodities 20.7%	US Lg Cap 10.9%	T-Bills 3%	T-Bills 4.8%	T-Bills 4.7%	REITs -38%	Commodities 13.5%	Int'l Dev 7.8%	Int'l Dev 3.3%
Int'l Dev -15.9%	TIPS 8.4%	TIPS 8.5%	TIPS 2.8%	Core Bonds 4.3%	High Yld Bds 1.9%	Int'l Dev -43.4%	TIPS 11.4%	Core Bonds 6.5%	US Sm Cap 2.4%
US Sm Cap -20.5%	Core Bonds 4.1%	Core Bonds 4.3%	High Yld Bds 2.7%	TIPS 0.4%	US Sm Cap -1.6%	Commodities -46.5%	Core Bonds 5.9%	TIPS 6.3%	Emerg. Mkts 0.4%
US Lg Cap -22.1%	T-Bills 1.1%	T-Bills 1.2%	Core Bonds 2.4%	Commodities -15.1%	REITs -16.8%	Emerg. Mkts -53.3%	T-Bills 0.2%	T-Bills 0.1%	T-Bills 0.1%

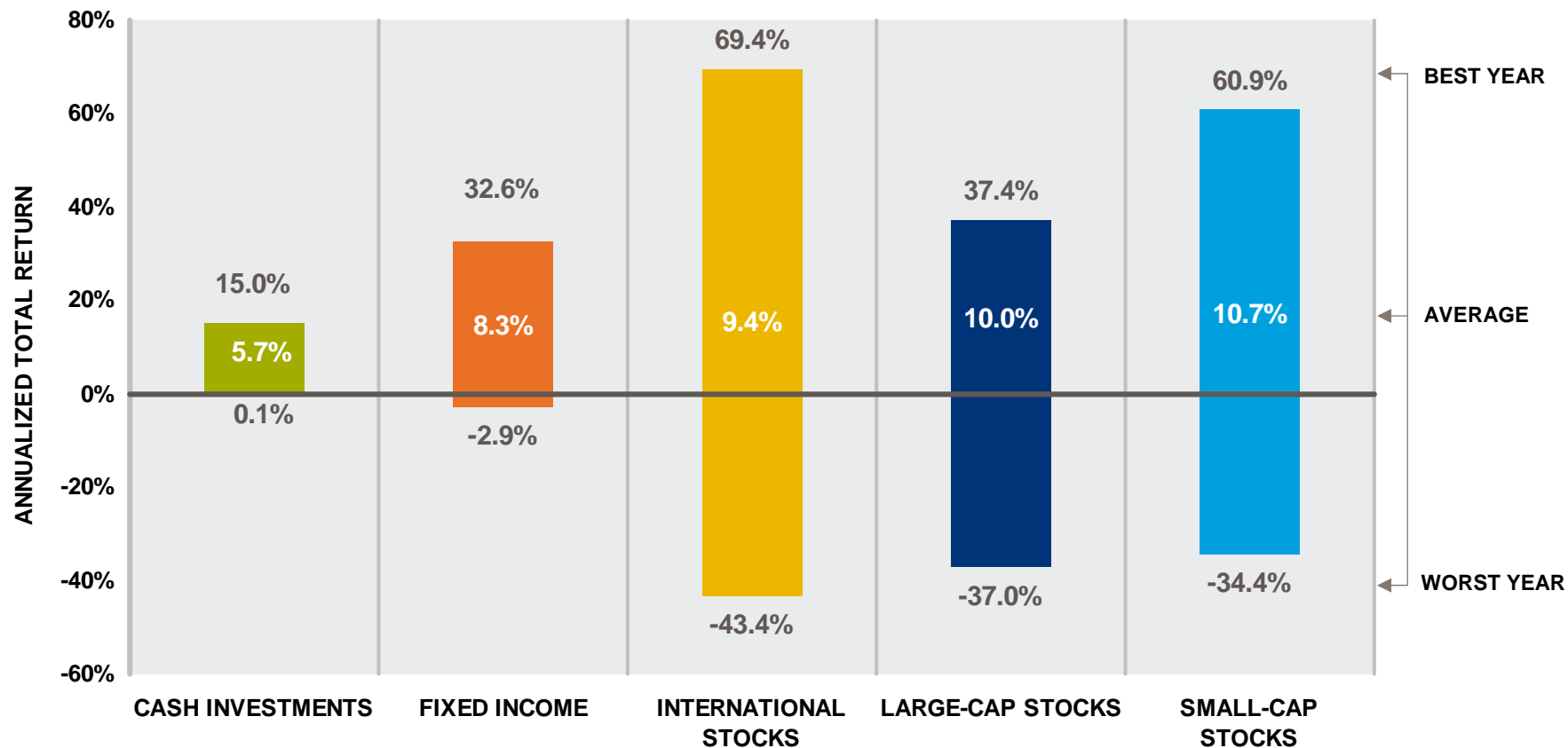
\*Through 7/31/11

Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. Asset class performance is represented by annual total returns for the following indexes: S&P 500® Index (U.S. Large-Cap), Russell 2000® Index (U.S. Small-Cap), MSCI EAFE® Net of Taxes (Int'l Developed), MSCI Emerging Markets Index<sup>SM</sup> (Emerging Markets), MSCI US REIT Index (REITs), S&P GSCI® (Commodities), Barclays Capital U.S. Treasury Inflation-Linked Bond Index (TIPS), Barclays Capital U.S. Aggregate Bond Index (Core Bonds), Barclays Capital U.S. High Yield Bond Index (High Yield Bonds), Citigroup U.S. 3-Month T-Bill Index (T-Bills). Returns assume reinvestment of dividends, interest, and capital gains. Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Past performance is no indication of future results.

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# Higher returns come with increased short-term volatility

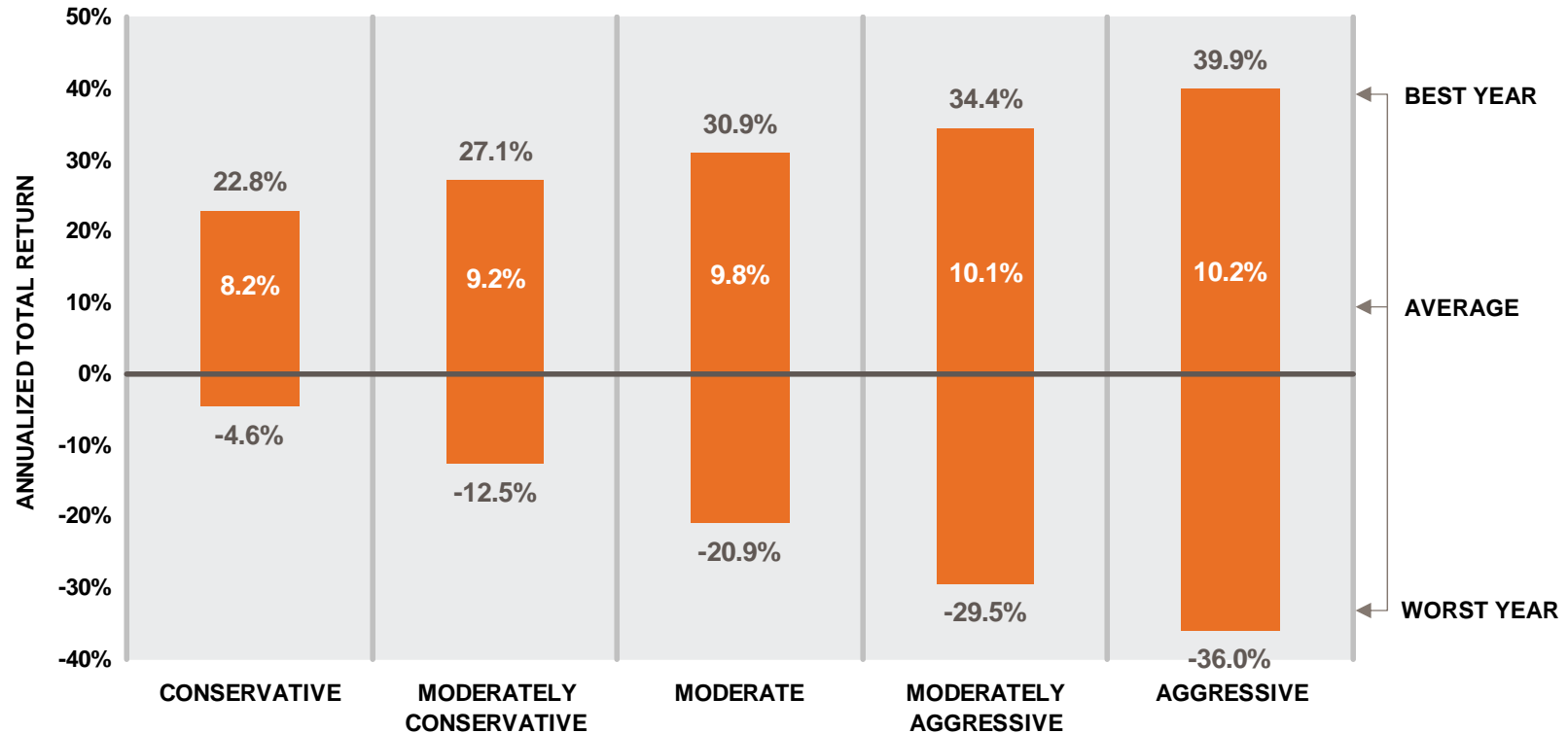
## Indices underlying model asset allocation plans (1970 - 2010)



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The return figures represented are the average, minimum, and maximum annual total returns of indices used to represent an asset class in Schwab's hypothetical asset allocation plans. Returns include reinvestment of dividends and interest. The indices representing each asset class are S&P 500® Index (large-cap stocks), Russell 2000 Index (small-cap stocks), MSCI EAFE Net of Taxes (international stocks), Barclays Capital U.S. Aggregate Index (fixed income), and Citigroup U.S. 3-month Treasury bills (cash investments). CRSP 6-8 was used for small-cap stocks prior to 1979, Ibbotson Intermediate-Term Government Bond Index was used for fixed income prior to 1976, and Ibbotson U.S. 30-day Treasury Bill Index was used for cash investments prior to 1978. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# Higher returns come with increased short-term volatility

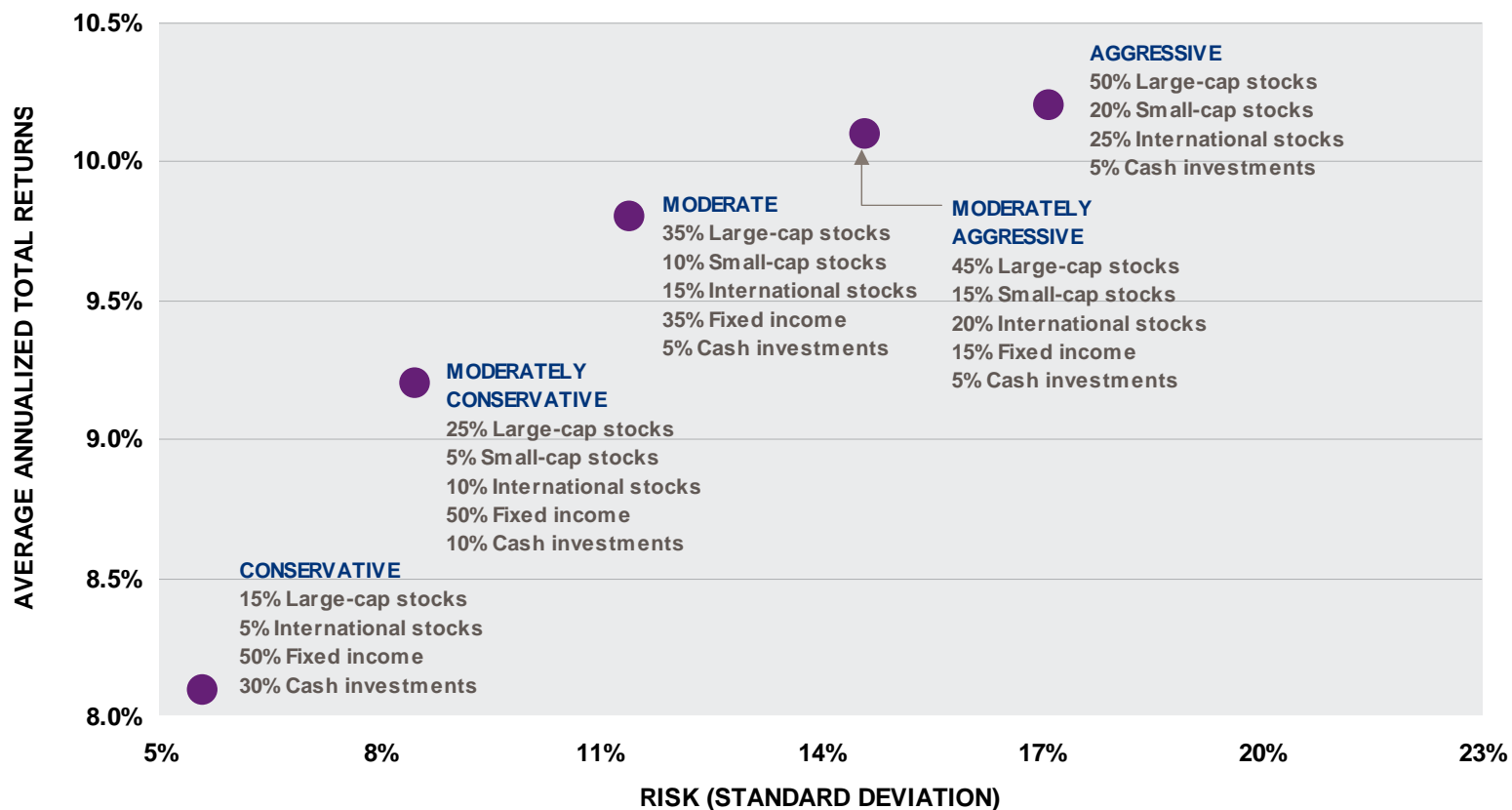
## Model asset allocation plans (1970 - 2010)



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The return figures represented are the compound average, minimum, and maximum annual total returns of hypothetical asset allocation plans. The asset allocation plans are weighted averages of the performance of the indices used to represent each asset class in the plans and are rebalanced annually. Returns include reinvestment of dividends and interest. The indices representing each asset class are S&P 500® Index (large-cap stocks), Russell 2000 Index (small-cap stocks), MSCI EAFE Net of Taxes (international stocks), Barclays Capital U.S. Aggregate Index (bonds), and Citigroup U.S. 3-month Treasury bills (cash investments). The Conservative allocation is composed of 15% large-cap stocks, 5% international stocks, 50% bonds, and 30% cash investments. The Moderately Conservative allocation is 25% large-cap stocks, 5% small-cap stocks, 10% international stocks, 50% bonds, and 10% cash investments. The Moderate allocation is 35% large-cap stocks, 10% small-cap stocks, 15% international stocks, 35% bonds, and 5% cash investments. The Moderately Aggressive allocation is 45% large-cap stocks, 15% small-cap stocks, 20% international stocks, 15% bonds, and 5% cash investments. The Aggressive allocation is 50% large-cap stocks, 20% small-cap stocks, 25% international stocks, and 5% cash investments. CRSP 6-8 was used for small-cap stocks prior to 1979, Ibbotson Intermediate-Term Government Bond Index was used for bonds prior to 1976, and Ibbotson U.S. 30-day Treasury Bill Index was used for cash investments prior to 1978. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

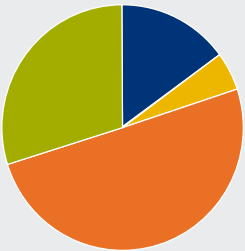
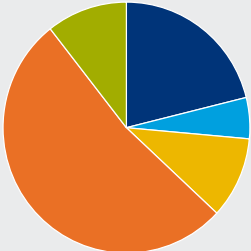
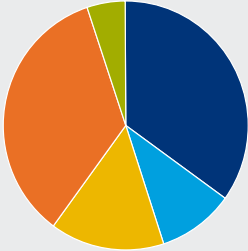
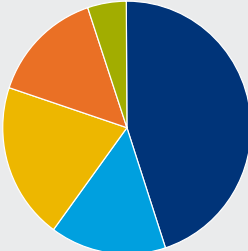
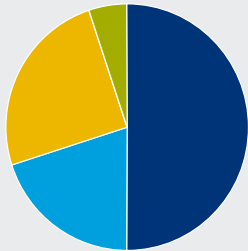
# Higher returns come with higher risk

Asset allocation helps match your risk tolerance to your expected return (1970 - 2010)



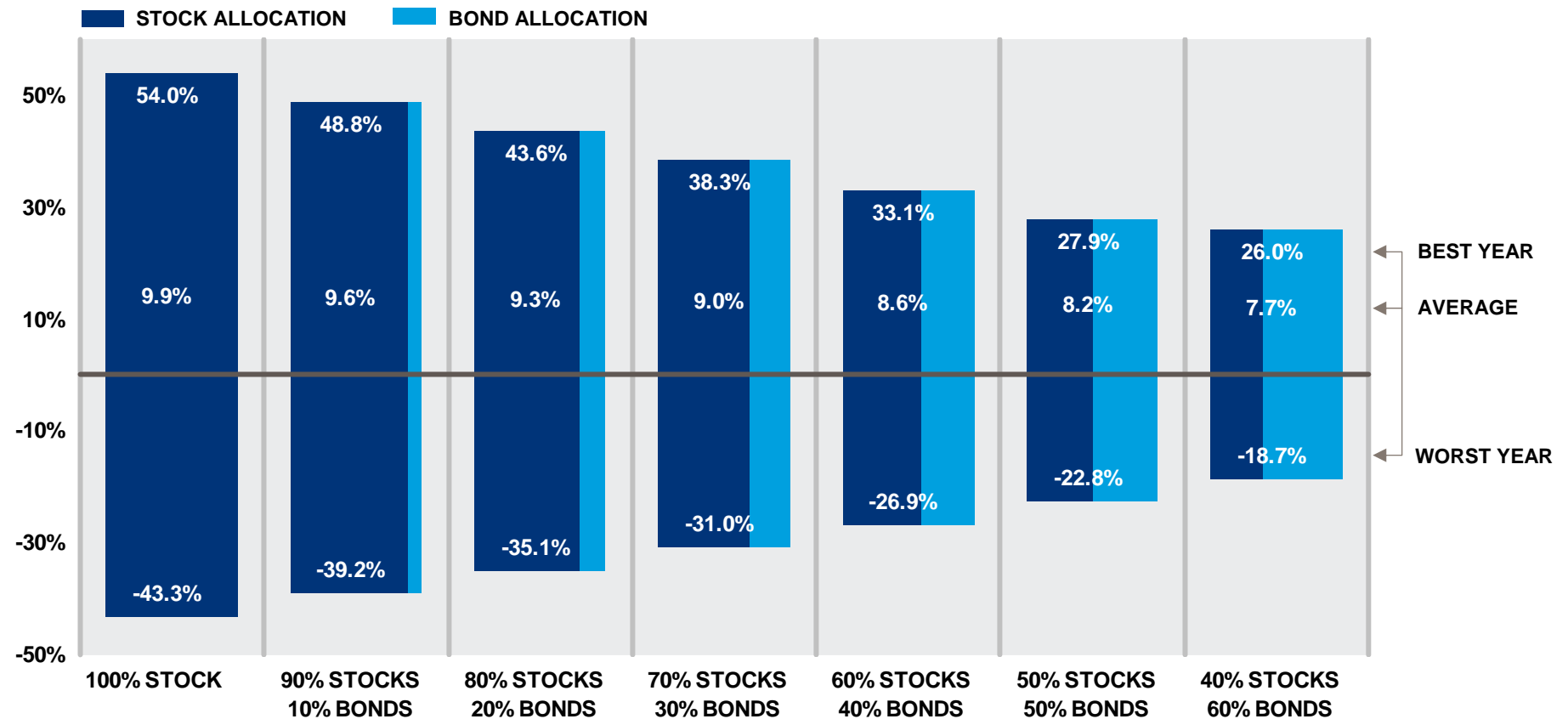
Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The asset allocation plans are weighted averages of the performance of indices used to represent each asset class in the plans, and are rebalanced annually. The indices representing each asset class are S&P 500® Index (large-cap stocks), Russell 2000 Index (small-cap stocks), MSCI EAFE Net of Taxes (international stocks), Barclays Capital U.S. Aggregate Index (fixed income), and Citigroup U.S. 3-month Treasury bills (cash investments). CRSP 6-8 was used for small-cap stocks prior to 1979, Ibbotson Intermediate-Term Government Bond Index was used for fixed income prior to 1976, and Ibbotson U.S. 30-day Treasury Bill Index was used for cash investments prior to 1978. Returns assume reinvestment of dividends and interest. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# Implement an asset allocation plan suited to your investment profile and financial goals

CONSERVATIVE ALLOCATION	MODERATELY CONSERVATIVE	MODERATE ALLOCATION	MODERATELY AGGRESSIVE	AGGRESSIVE ALLOCATION
<p>For investors who seek current income and stability, and are less concerned about growth.</p> 	<p>For investors who seek current income and stability, with modest potential for increase in the value of their investments.</p> 	<p>For long-term investors who don't need current income and want some growth potential. Likely to entail some fluctuations in value, but presents less volatility than the overall equity market.</p> 	<p>For long-term investors who want good growth potential and don't need current income. Entails a fair amount of volatility, but not as much as a portfolio invested exclusively in equities.</p> 	<p>For long-term investors who want high growth potential and don't need current income. May entail substantial year-to-year volatility in value in exchange for potentially high long-term returns.</p> 
<ul style="list-style-type: none"> <li>■ 15% Large-Cap Equity</li> <li>■ 0% Small-Cap Equity</li> <li>■ 5% International Equity</li> <li>■ 50% Fixed Income</li> <li>■ 30% Cash Investments</li> </ul>	<ul style="list-style-type: none"> <li>■ 25% Large-Cap Equity</li> <li>■ 5% Small-Cap Equity</li> <li>■ 10% International Equity</li> <li>■ 50% Fixed Income</li> <li>■ 10% Cash Investments</li> </ul>	<ul style="list-style-type: none"> <li>■ 35% Large-Cap Equity</li> <li>■ 10% Small-Cap Equity</li> <li>■ 15% International Equity</li> <li>■ 35% Fixed Income</li> <li>■ 5% Cash Investments</li> </ul>	<ul style="list-style-type: none"> <li>■ 45% Large-Cap Equity</li> <li>■ 15% Small-Cap Equity</li> <li>■ 20% International Equity</li> <li>■ 15% Fixed Income</li> <li>■ 5% Cash Investments</li> </ul>	<ul style="list-style-type: none"> <li>■ 50% Large-Cap Equity</li> <li>■ 20% Small-Cap Equity</li> <li>■ 25% International Equity</li> <li>■ 0% Fixed Income</li> <li>■ 5% Cash Investments</li> </ul>

# Fixed income investments can lower portfolio volatility

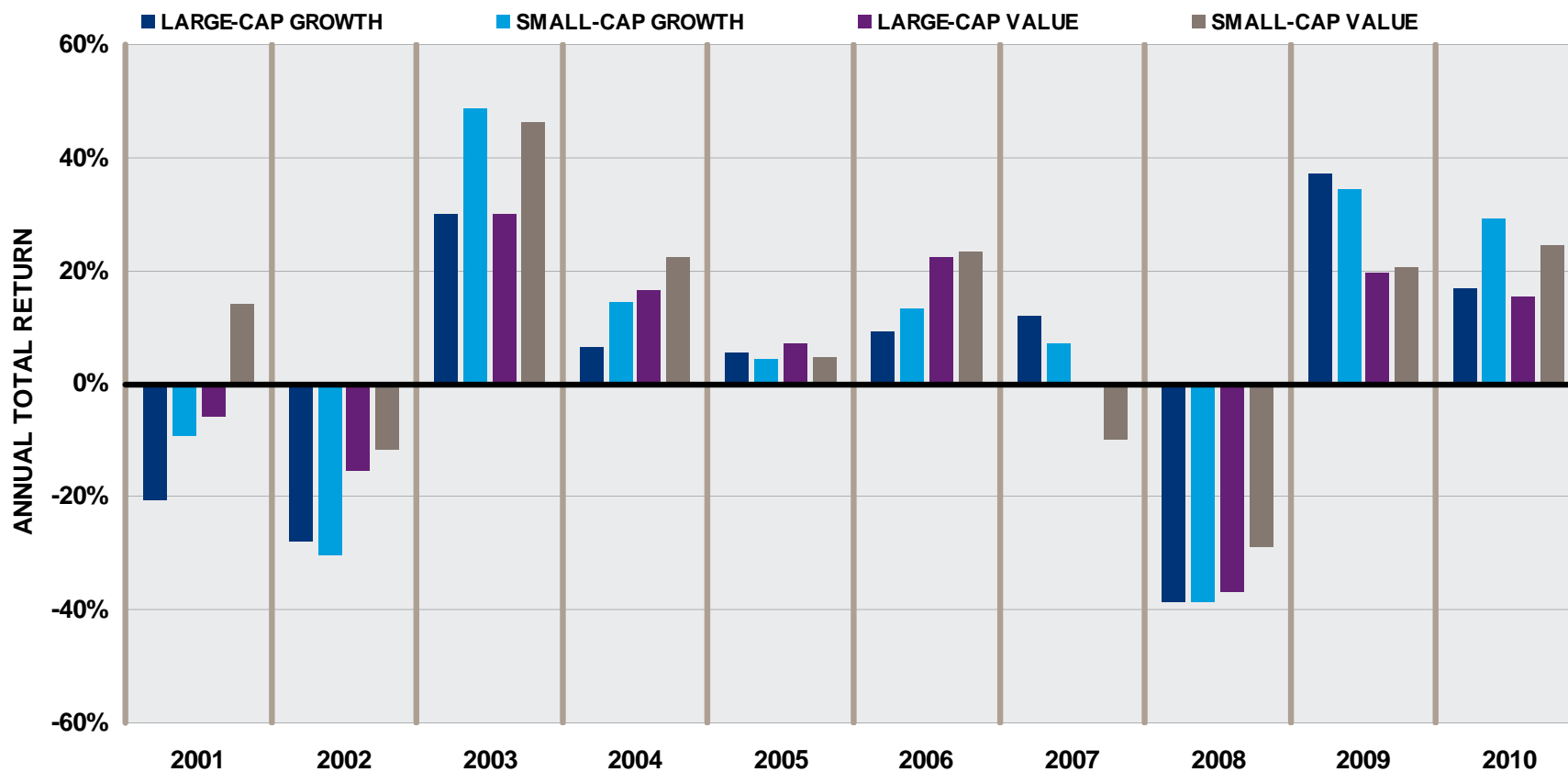
## Range of annual returns (1926 - 2010)



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. Stocks are represented by total annual returns of the S&P 500® Index, and bonds are represented by total annual returns of the Ibbotson U.S. Intermediate Government Bond Index. The return figures are the average, the maximum, and the minimum annual total return for the portfolios represented in the chart, and are rebalanced annually. Returns include reinvestment of dividends, interest, and capital gains. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**



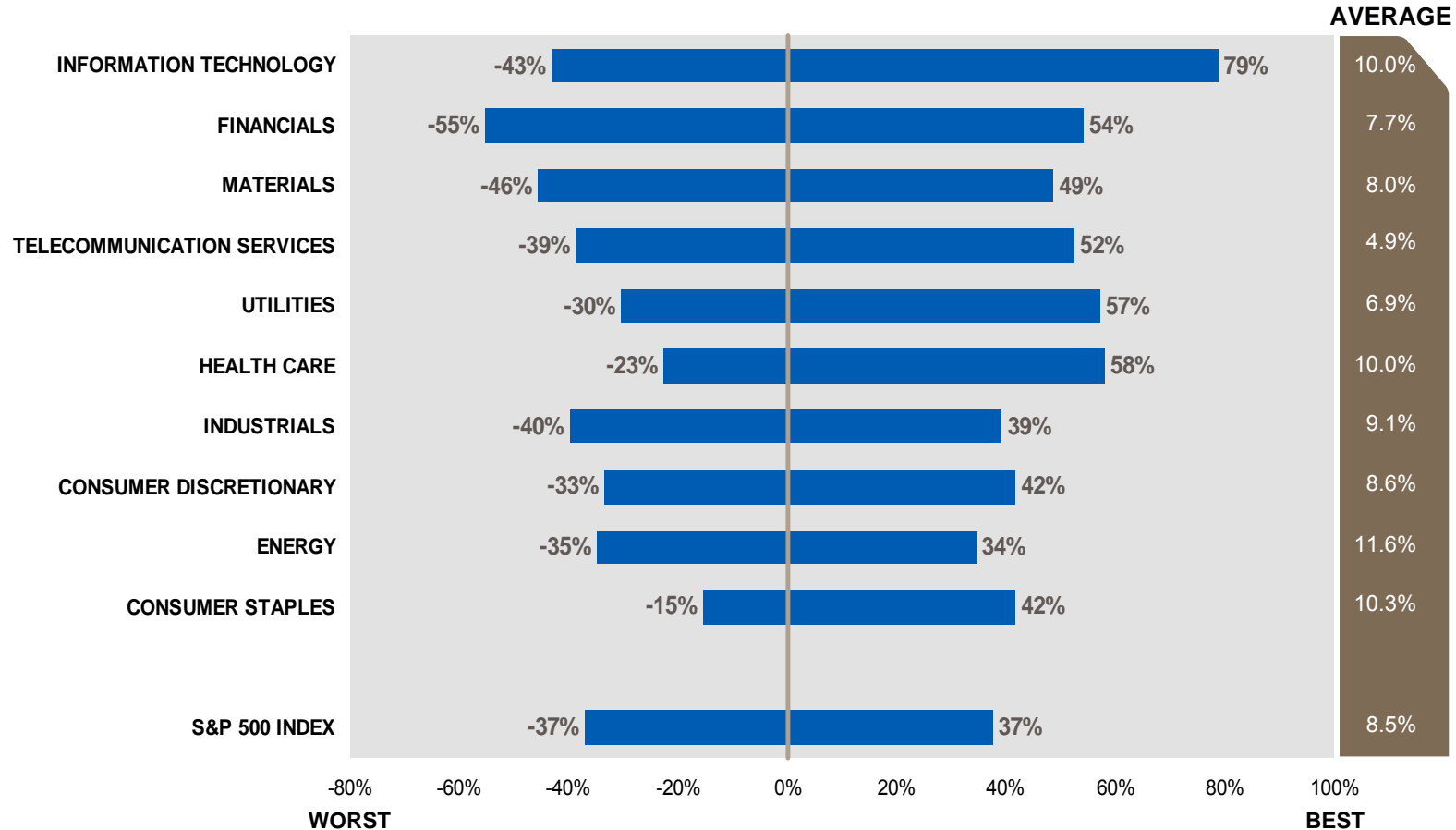
# A well-balanced portfolio includes both growth and value styles



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. Indices representing each asset class are Russell 1000® Growth Index (large-cap growth), Russell 1000® Value Index (large-cap value), Russell 2000® Growth Index (small-cap growth), and Russell 2000® Value Index (small-cap value). Returns assume reinvestment of dividends. Small-cap stocks are subject to greater volatility than other asset classes. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# A well balanced portfolio includes broad sector representation

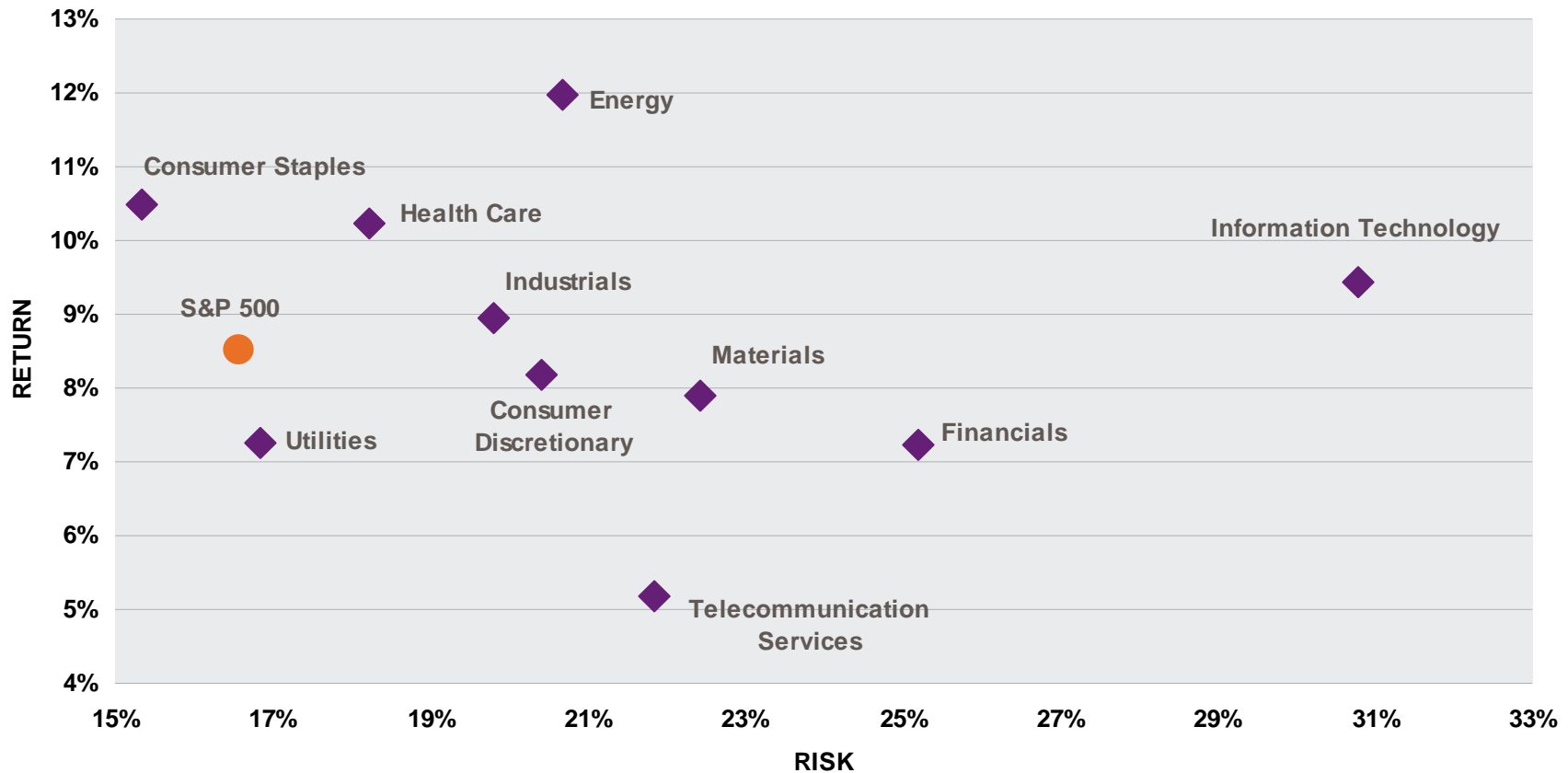
Range of annual total returns (1990 - 2010)



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The chart compares the volatility of the market, which is represented by the S&P 500® Index, to the volatility of market sectors, which are represented by ten GICS sector indices. The highest and lowest annual total return was chosen to depict the volatility for each sector and the market, along with the average annual return for this period. Returns assume reinvestment of dividends and interest. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# A well-balanced portfolio is diversified across sectors































## Sector risk and return profiles (October 1989 - December 2010)



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The chart above compares the risk and return features of the market, as represented by the S&P 500 Index, to the risk and return of market sectors, which are represented by GICS sector indices. Risk is represented by the annualized standard deviation of monthly returns, and return is represented by the average annualized total return for the given time frame, October 1989 through December 2010. Returns assume reinvestment of dividends and interest. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Past performance is no indication of future results.

# Opportunities outside the U.S. should not be forgotten

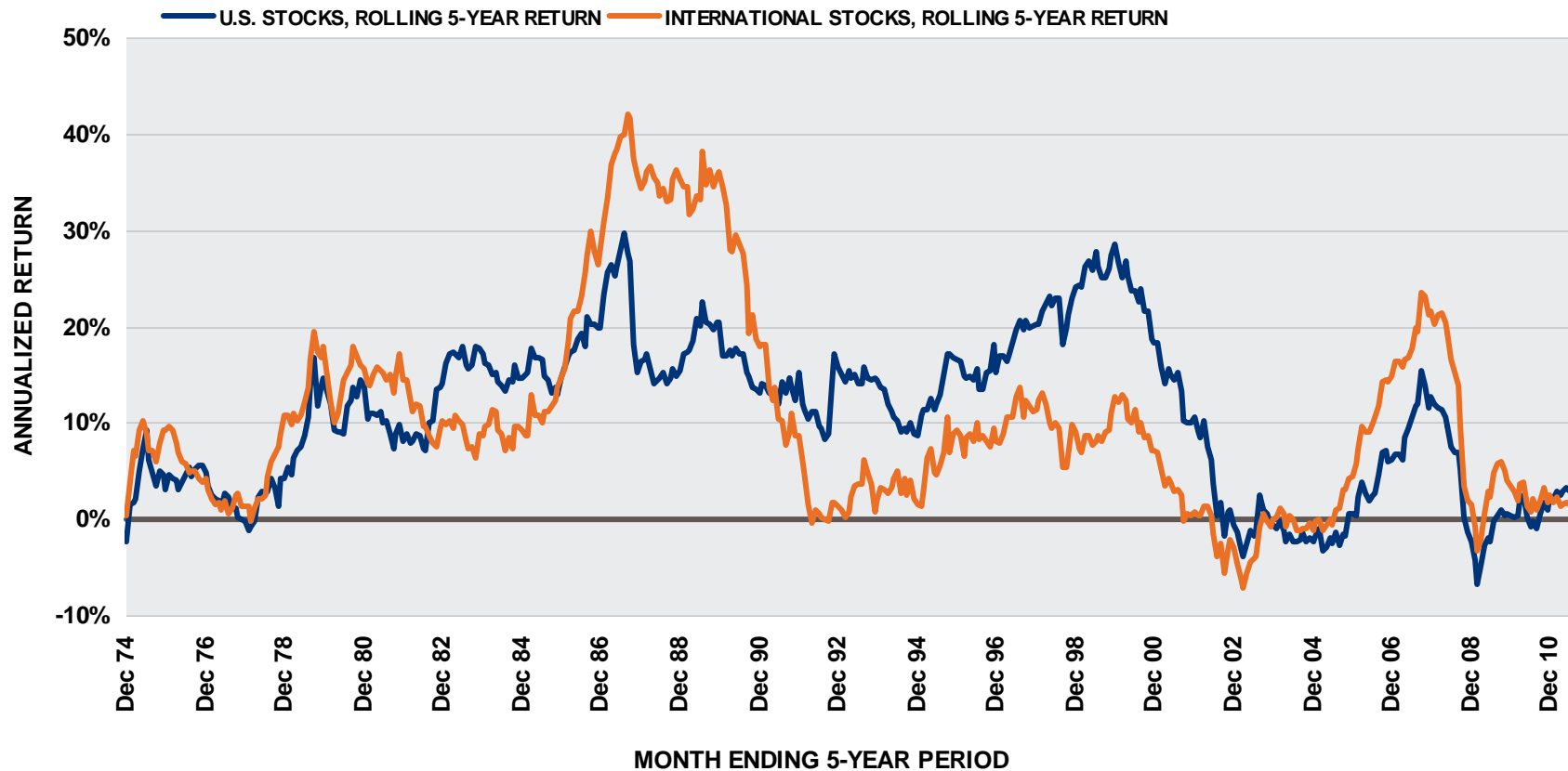
## When was the U.S. the best performing market?

Year	Best Performing Developed Market	Annual Performance	Worst Performing Developed Market	Annual Performance	U.S. Performance
1996	Spain 	40%	Japan 	-15%	23%
1997	Switzerland 	44%	Singapore 	-30%	33%
1998	Finland 	121%	Norway 	-30%	29%
1999	Finland 	153%	Belgium 	-14%	21%
2000	Switzerland 	6%	Greece 	-42%	-9%
2001	New Zealand 	8%	Finland 	-38%	-12%
2002	New Zealand 	24%	Germany 	-33%	-22%
2003	Greece 	70%	Finland 	19%	29%
2004	Austria 	72%	Finland 	6%	11%
2005	Canada 	29%	Ireland 	-2%	5%
2006	Spain 	49%	Japan 	6%	16%
2007	Finland 	49%	Ireland 	-20%	5%
2008	Japan 	-29%	Ireland 	-72%	-37%
2009	Norway 	85%	Japan 	6%	26%
2010	Sweden 	34%	Greece 	-45%	15%

Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. Based on developed markets as designated by MSCI® as of 12/31/2010. Each market, except the U.S., is represented by annual total returns of the MSCI country index and is net of taxes. The S&P 500® Index represents the U.S. market's annual total returns. Returns assume reinvestment of dividends and interest. All returns are in U.S. dollars. International investing may involve greater risk than U.S. investments due to currency fluctuations, unforeseen political and economic events, and legal and regulatory structures in foreign countries. Such circumstances can potentially result in a loss of principal. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# A well-balanced portfolio includes international equities

## Rolling 5-year returns (1970 – 2011\*)

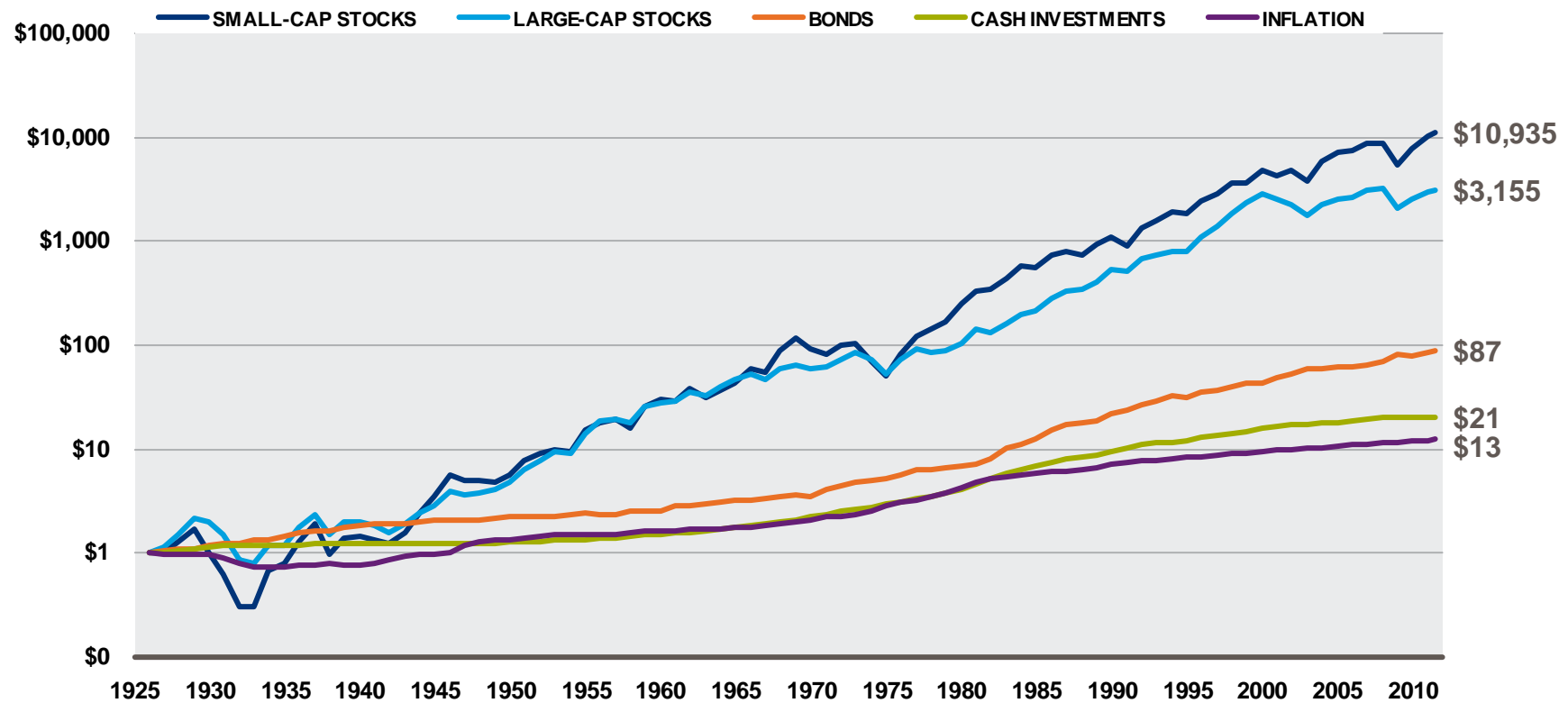


\*Through 6/30/11

Source: Schwab Center for Financial Research with data from Morningstar, Inc. The graph shows the rolling 5-year annualized total returns of the S&P 500® Index, representing U.S. stocks, and MSCI EAFE Index net of taxes, representing international stocks, from January 1970 through June 2011. The first rolling 5-year period is January 1970 through December 1974. Returns assume reinvestment of dividends. International investing may involve greater risk than U.S. Investments due to currency fluctuations, unforeseen political and economic events, and legal and regulatory structures in foreign countries. Such circumstances can potentially result in a loss of principal. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# Equities have outperformed other asset classes

(1926 – 2011\*)

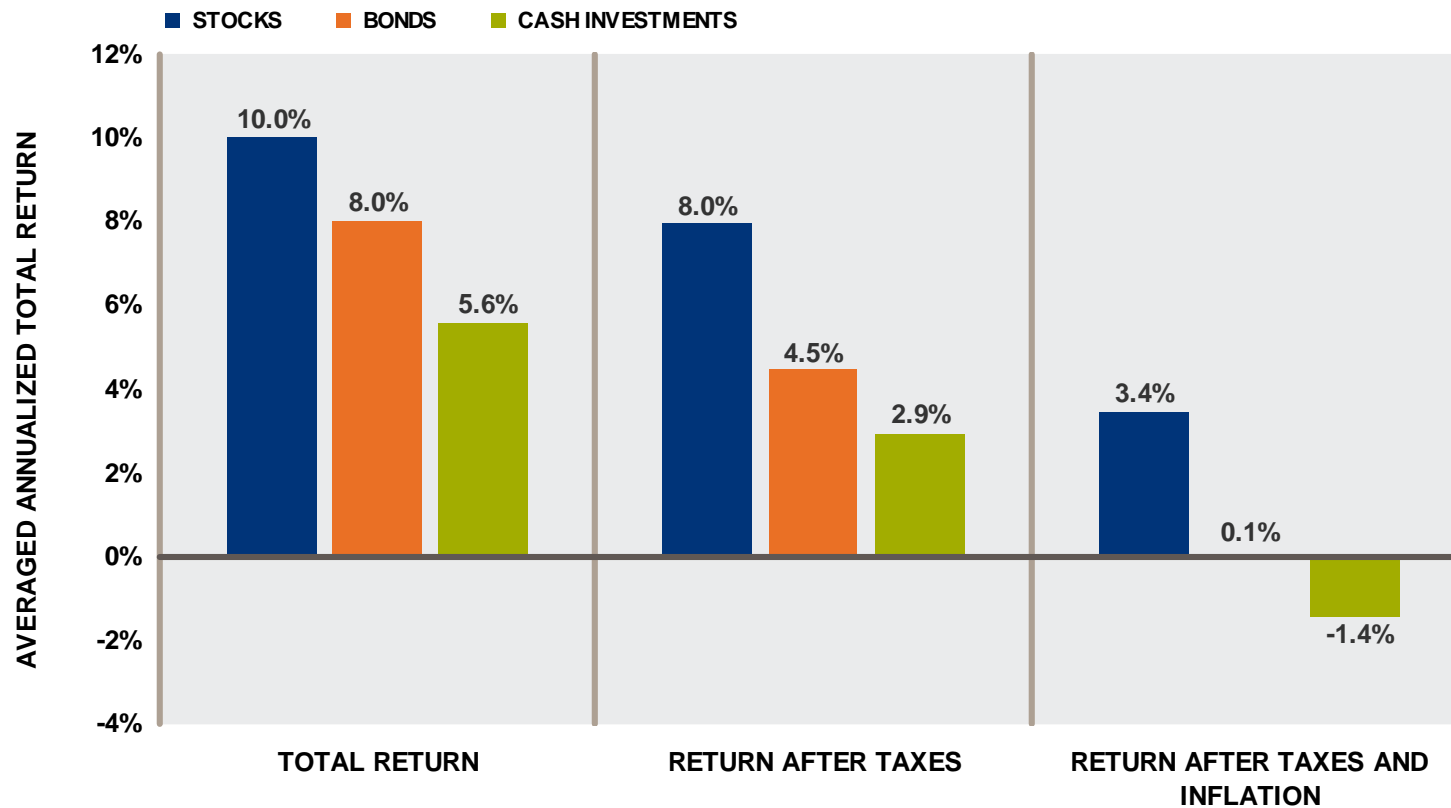


\*Through 6/30/11

The chart illustrates the growth in value of \$1.00 invested in various financial instruments on 12/31/1925. Results assume reinvestment of dividends, capital gains, and coupons; and no taxes or transaction costs. Generally small-cap stocks are in the bottom 50% of publicly traded companies based on market capitalization. These stocks are subject to greater volatility. Source: Stocks, Bonds, Bills & Inflation® 2010 Yearbook, © 2011 Morningstar, Inc. Based on the copyrighted works of Ibbotson and Sinquefeld. All rights reserved. Used with permission. The indices representing each asset class are S&P 500® Index (large-cap stocks); CRSP 6-8 Index (small-cap stocks); Ibbotson Intermediate U.S. Government Bond Index (bonds); and Ibbotson U.S. 30-day Treasury bills (cash investments). Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

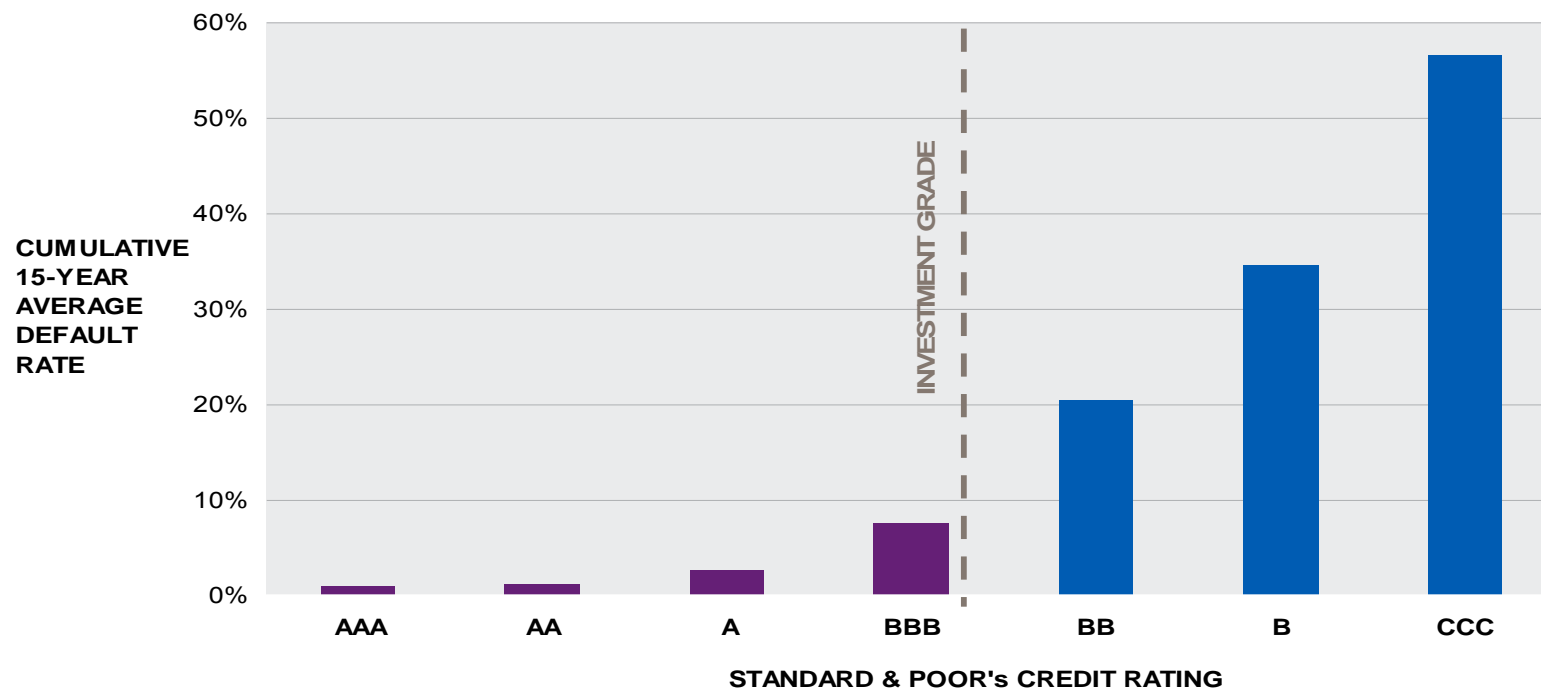
# Equities have been the best defense against taxes and inflation

(1970 - 2010)



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. Indices representing each asset class are the S&P 500® Index (stocks), Ibbotson Intermediate U.S. Government Bond Index (bonds), and Ibbotson U.S. 30-day Treasury bills (cash investments). Historical marginal tax rates and inflation rates were used to adjust "Return After Taxes" and "Return After Taxes and Inflation." Chart results assume a 41-year holding period, dividend payments were taxed annually at the highest marginal tax rates, and capital gains were calculated at the end of the period at the long-term capital gains rate (15% as of 2010). Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# Lower bond credit quality can correspond with higher default rates

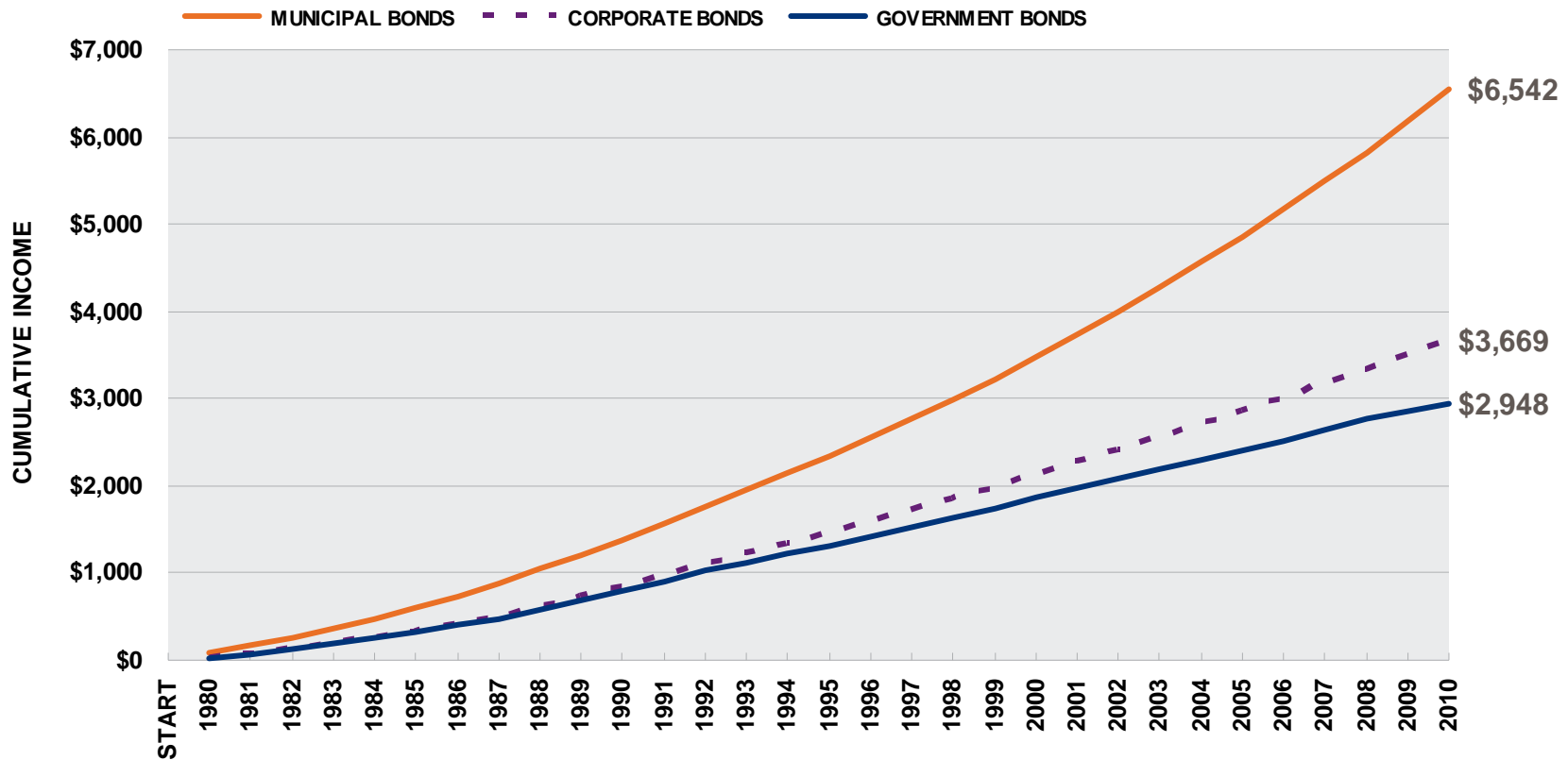


Source: Schwab Center for Financial Research with data from Standard & Poor's 2010 Global Corporate Default Study. The study analyzed the rating and default history of 14,654 U.S. and non-U.S. companies first rated by Standard & Poor's between December 31, 1981 and December 31, 2010. The 15-year cumulative average default rate is calculated by weight-averaging the marginal default rates in all static pools. **Past performance is no indication of future results.**



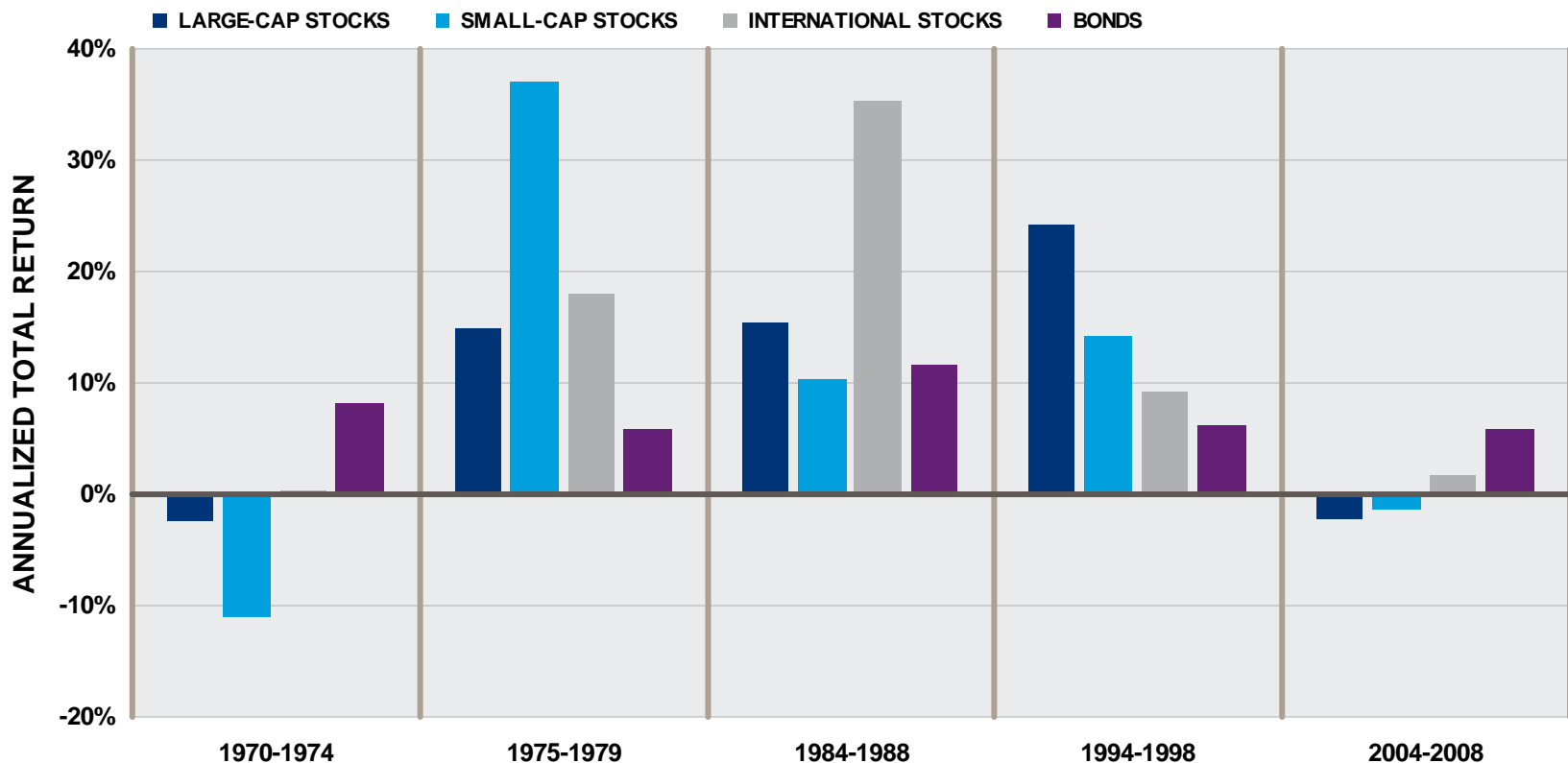
# Municipal bonds earn more income on an after-tax basis

For people in high tax brackets



Source: Schwab Center for Financial Research with data from Morningstar, Inc. Chart shows the cumulative income earned from a \$1000 investment on 12/31/1979 in municipal bonds, corporate bonds, and government bonds. Indices representing each investment are the Barclays Capital Municipal Bond Index (municipal bonds), Barclays Capital Credit Index (corporate bonds), and Barclays Capital Government Index (government bonds). Historical income tax rates using the highest marginal tax bracket were used to adjust total return to after-tax return, 1980 through 2010. Dividend payments were taxed annually at historical maximum income tax rates. The highest historical tax rates were chosen to illustrate the impact of tax-advantaged municipal bonds on people in high tax brackets. The tax treatment of capital gains was not factored into this analysis. Income may be subject to Alternative Minimum Taxes (AMT). Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# Asset classes do not always move in tandem



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The five-year time periods noted are not consecutive. These five-year periods were selected to show the greatest outperformance of each asset class over the next highest performing asset class. Indices representing each asset class are S&P 500® Index (large-cap stocks), CRSP 6-8 Index (small-cap stocks), MSCI EAFE Index Net of Taxes (international stocks), and Ibbotson Intermediate U.S. Government Bond Index (bonds). Returns assume reinvestment of dividends and interest. Small-cap stocks are subject to greater volatility than other asset classes. International investing may involve greater risk than U.S. investments due to currency fluctuations, unforeseen political and economic events, and legal and regulatory structures in foreign countries. Such circumstances can potentially result in a loss of principal. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# Sector performance varies from year to year

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Highest Return	Cons. Staples -4.3%	Info. Tech. 47.2%	Energy 31.5%	Energy 31.4%	Telecom. 36.8%	Energy 34.4%	Cons. Staples -15.4%	Info. Tech. 61.7%	Cons. Discr. 27.7%	Health Care 13.9%
	Materials -5.5%	Materials 38.2%	Utilities 24.3%	Utilities 16.8%	Energy 24.2%	Materials 22.5%	Health Care -22.8%	Materials 48.6%	Industrials 26.7%	Energy 11.4%
	Energy -11.1%	Cons. Discr. 37.4%	Telecom. 19.9%	Financials 6.5%	Utilities 21.0%	Utilities 19.4%	Utilities -29%	Cons. Discr. 41.3%	Materials 22.2%	Utilities 9.1%
	Financials -14.6%	Industrials 32.2%	Industrials 18%	Health Care 6.5%	Financials 19.2%	Info. Tech. 16.3%	Telecom. -30.5%	S&P 500 26.5%	Energy 20.5%	Cons. Discr. 8.3%
	Health Care -18.8%	Financials 31%	Cons. Discr. 13.2%	S&P 500 4.9%	Cons. Discr. 18.6%	Cons. Staples 14.2%	Cons. Discr. -33.5%	Industrials 20.9%	Telecom. 19%	Industrials 8%
	S&P 500 -22.1%	S&P 500 28.7%	Materials 13.2%	Materials 4.4%	Materials 18.6%	Industrials 12.0%	Energy -34.9%	Health Care 19.7%	S&P 500 15.1%	Cons. Staples 7.9%
	Cons. Discr. -23.8%	Utilities 26.3%	Financials 10.9%	Cons. Staples 3.6%	S&P 500 15.8%	Telecom. 11.9%	S&P 500 -37%	Financials 17.2%	Cons. Staples 14.1%	Telecom. 7.1%
	Industrials -26.3%	Energy 25.6%	S&P 500 10.9%	Industrials 2.3%	Cons. Staples 14.4%	Health Care 7.2%	Industrials -39.9%	Cons. Staples 14.9%	Financials 12.1%	S&P 500 6%
	Utilities -30%	Health Care 15.1%	Cons. Staples 8.2%	Info. Tech. 1.0%	Industrials 13.3%	S&P 500 5.5%	Info. Tech. -43.1%	Energy 13.8%	Info. Tech. 10.2%	Materials 3.6%
	Telecom. -34.1%	Cons. Staples 11.6%	Info. Tech. 2.6%	Telecom. -5.6%	Info. Tech. 8.4%	Cons. Discr. -13.2%	Materials -45.7%	Utilities 11.9%	Utilities 5.5%	Info. Tech. 2.1%
Lowest Return	Info. Tech. -37.4%	Telecom. 7.1%	Health Care 1.7%	Cons. Discr. -6.4%	Health Care 7.5%	Financials -18.6%	Financials -55.3%	Telecom. 8.9%	Health Care 2.9%	Financials -3.1%

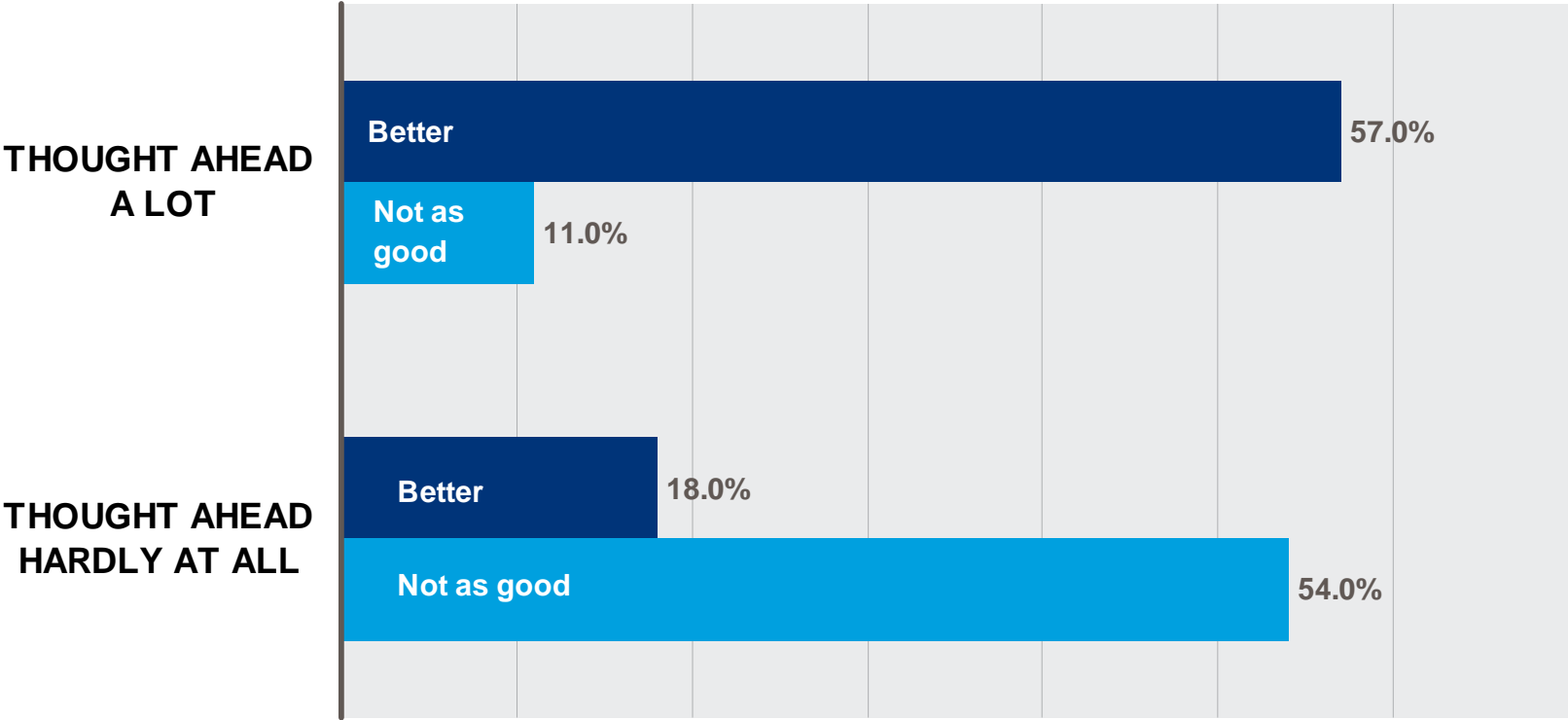
\*Through 6/30/11

Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. Sector performance is represented by total annual returns of the following ten GICS sector indices: Consumer Discretionary Sector, Consumer Staples Sector, Energy Sector, Financials Sector, Health Care Sector, Industrials Sector, Information Technology Sector, Materials Sector, Telecommunication Services Sector, and Utilities Sector. Returns of the broad market are represented by the S&P 500 Index. Returns assume reinvestment of dividends and interest. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

*charles* SCHWAB

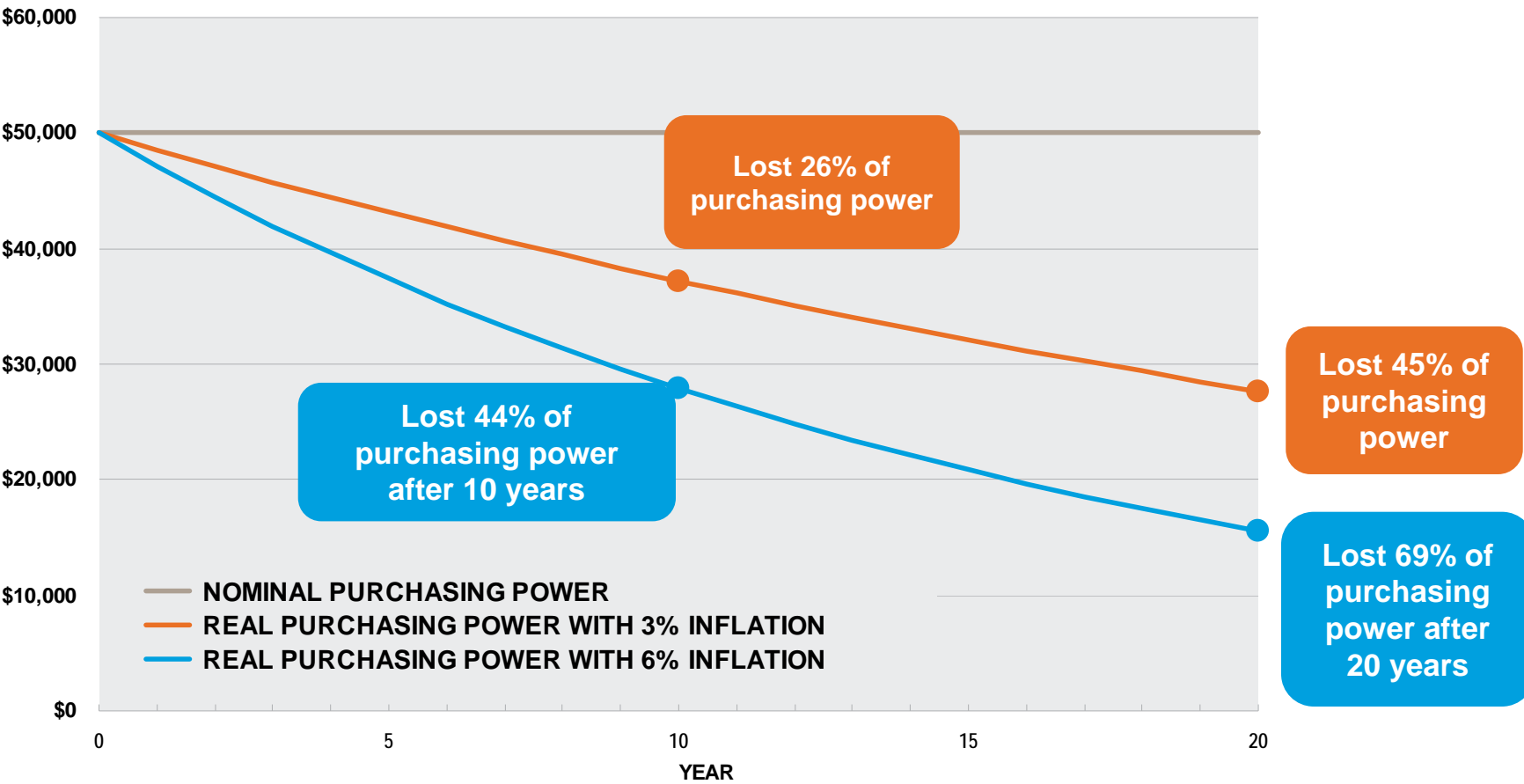
# Investors who plan experience better outcomes in retirement

“How is your retirement compared to the years just prior to retirement?”



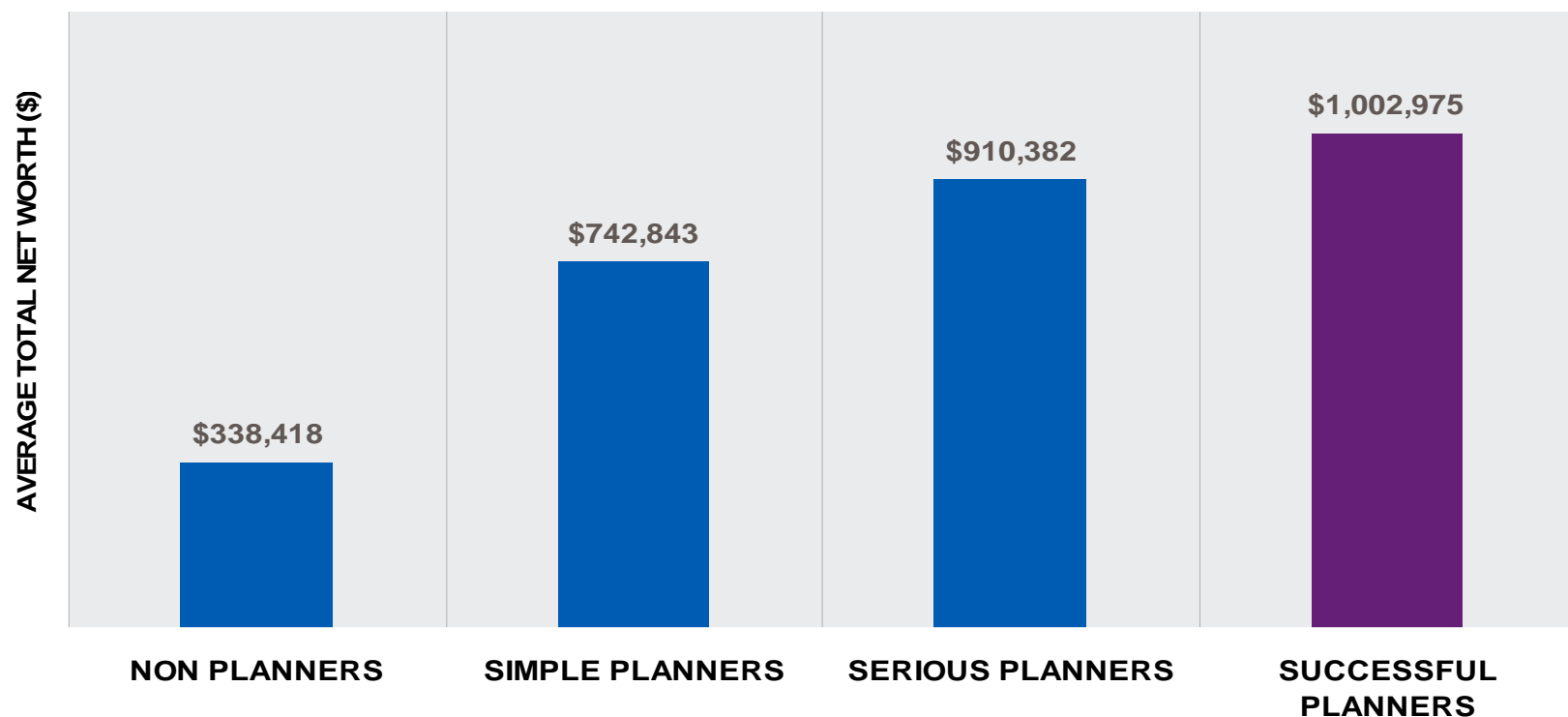
Source: Lusardi, Annamaria, “Saving for Retirement: The Importance of Planning,” *Research Dialogue*, TIAA-CREF Institute, December 2000, page 8. This chart reports the fraction of respondents according to how they rate their retirement experience and how much they have thought about retirement. These respondents have already partially or fully retired at the time of the survey. Those who had no thought about retirement prior to retiring are considered non-planners. The original data came from the 1992 Health & Retirement Study. The survey showed that households not planning for retirement ended up having much lower savings than households that have thought ahead a lot about retirement.

# Inflation can severely erode purchasing power over the long term



Source: Schwab Center for Financial Research. The example assumes hypothetical inflation of 3% and 6% to explore how inflation may impact the purchasing power of a fixed \$50,000 per year pension or annuity. Inflation is represented by the change in the Consumer Price Index for All Urban Consumers (CPI-U). Historically, 3% is the average inflation from 1926-2010. 6.3% is the average inflation from 1970-1989. Past performance is no indication of future results.

# Executed plans associated with people who have greater wealth

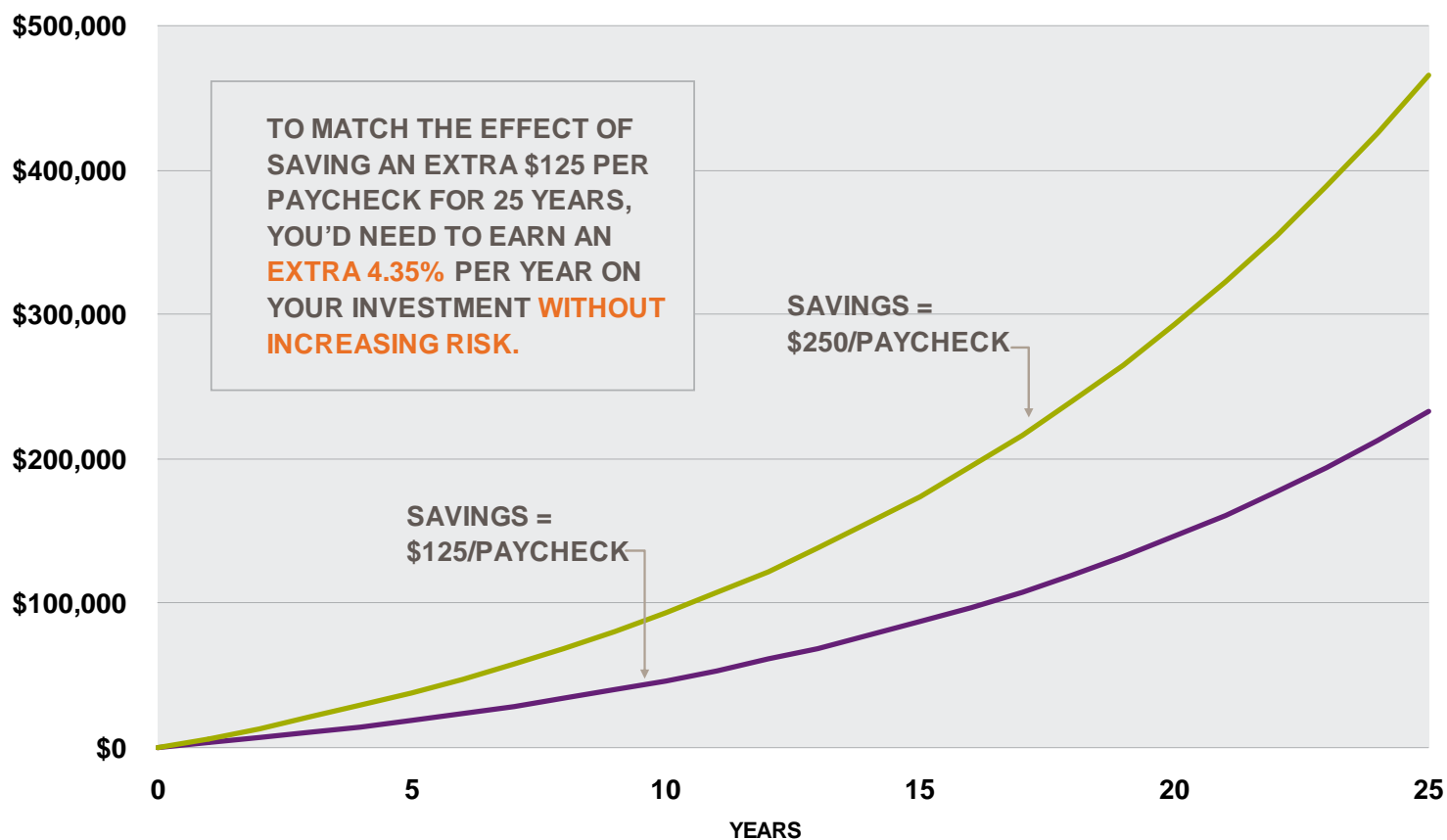


Source: Lusardi, Annamaria and Mitchell, Olivia S., "Financial Literacy and Planning: Implications for Retirement Wellbeing", October 2006, page 26.

"Simple" planners tried to calculate how much they need to save for retirement; "Serious" planners created a savings plan; "Successful" planners stuck to their plan. The total number of observations is 1,269. The original data came from a special retirement planning module for the 2004 Health and Retirement Study targeting Americans over the age of 50.

# The power of increased savings

## Two hypothetical investors



Source: Schwab Center for Financial Research. Savings example assumes that the total savings from the paycheck was invested into the Schwab Aggressive Model portfolio whose anticipated annual rate of return over 25 years is estimated at 7.9%. The Aggressive Model Portfolio (allocated 50% large-cap stocks, 20% small-cap stocks, 25% international stocks, and 5% cash investments) may not be suitable for all clients. This chart represents a hypothetical investment and is for illustrative purposes only. The actual annual rate of return will fluctuate with market conditions.

# Over concentration can be a common, costly mistake

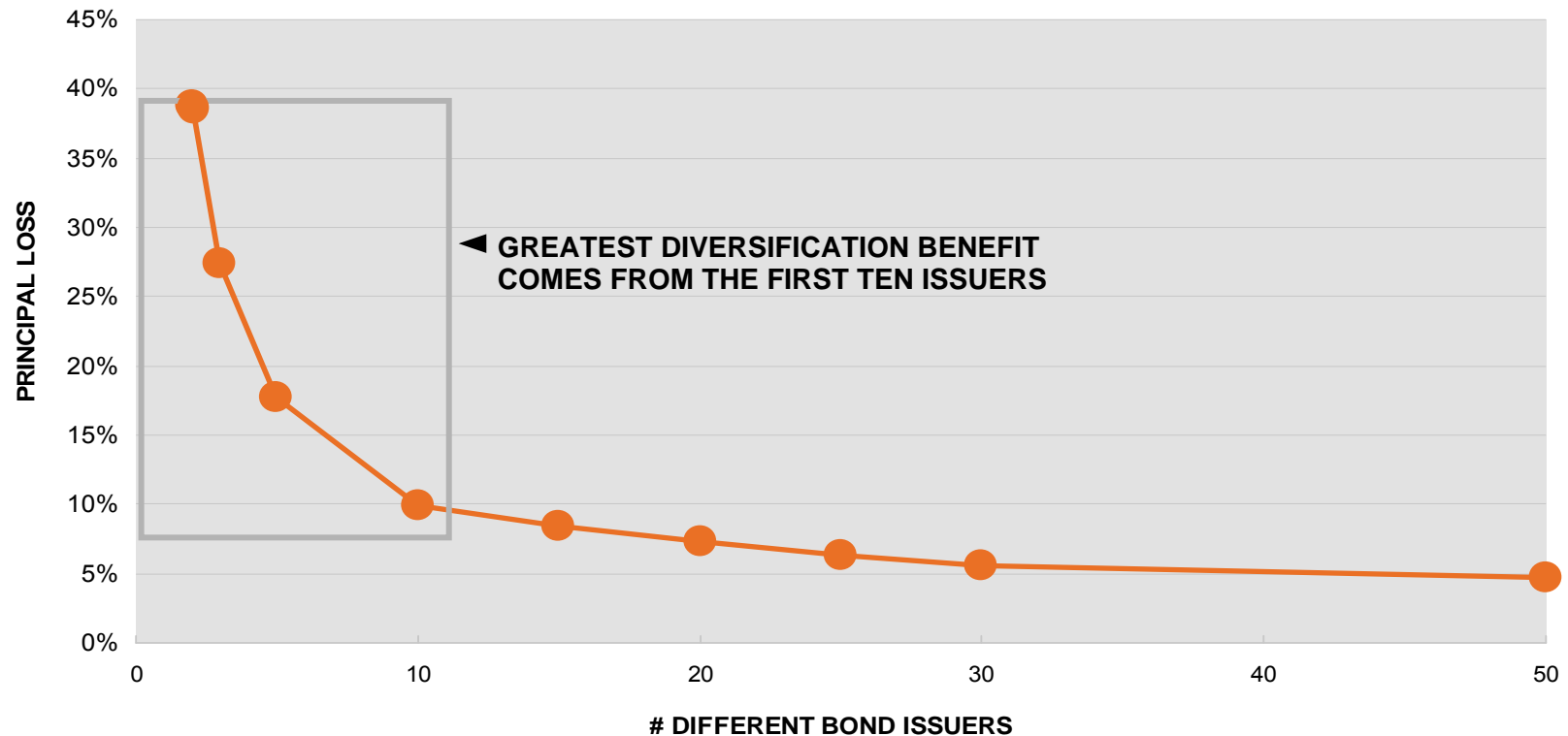
Chapter 11 Examples	Root Cause of Chapter 11 Filing
Enron WorldCom	Fraud
UAL Northwest Airlines	Business Model
Polaroid	Technological Obsolescence
Owens Corning W. R. Grace	Litigation
Washington Mutual IndyMac Bank	Credit Management
Lehman Brothers Bear Stearns	Over-leveraged
Delphi General Motors	Cost Structure

Source: Schwab Center for Financial Research. These companies named are for informational purposes only and not to be construed as a recommendation.



# A diversified corporate bond portfolio includes at least 10 issuers

## Worst case default risk



Source: Schwab Center for Financial Research. The chart is a plot of principal loss in a worst-case scenario with a default-probability correlation of 0.20. The worst-case scenario is defined as the loss occurring with a one in 1000 chance (.1%). Simulation was used to study the trade-off between portfolio size and risk where defaults are correlated, conforming to market reality. Simulations involving 1 million periods generated the distribution of losses from portfolios of ten differently sized groups (2, 3, 5, 10, 15, 20, 25, 30, 50, 100). Each bond portfolio is based on a rolling ladder structure of hypothetical investment-grade bonds with a maximum maturity of ten years. Incremental default probabilities for years one through ten assigned to each bond based on its current time-to-maturity came from the paper by J. Fons, "Using Default Rates to Model the Term Structure of Credit Risk", published in the Financial Analyst Journal in 1994. (Updating these data through 2002 has little effect on the weighted average historical default rates.) The recovery rate at default is assumed to have a mean of 30% and standard deviation of 15%.

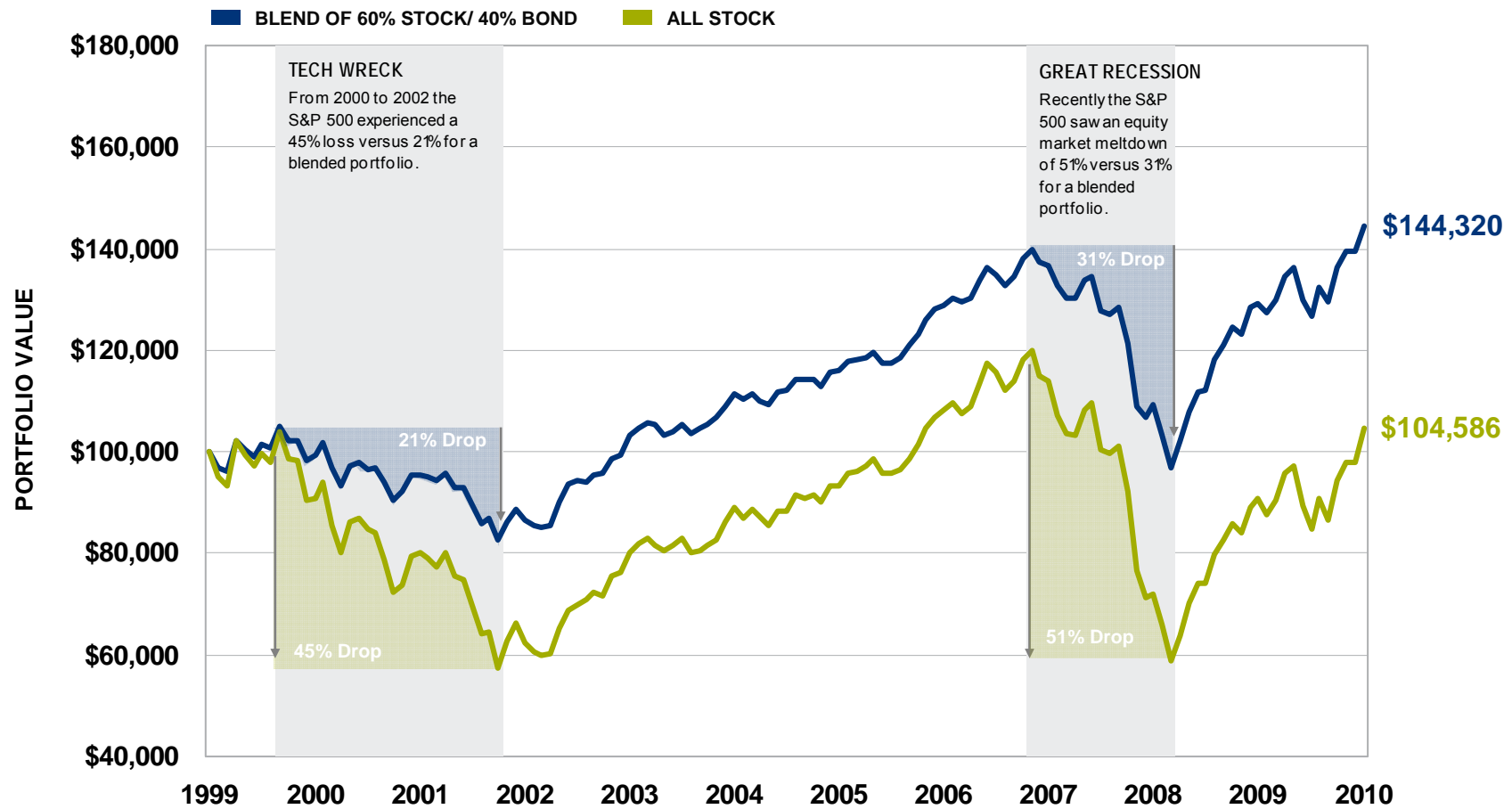
# The benefit of diversification or lost decade?

12/31/99-12/31/09

Portfolio/ Index	Ann. Return
Large-Cap. US Equity (S&P 500)	<b>-1.0%</b>
Aggressive	<b>+0.9%</b>
Moderately Aggressive	<b>+2.0%</b>
Moderate	<b>+3.3%</b>
Moderately Conservative	<b>+4.2%</b>
Conservative	<b>+4.4%</b>

Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The portfolio return figures for the ten years ending 2009 are the average compound annual returns of the hypothetical asset allocation plans. The asset allocation plans are weighted averages of the performance of the indices used to represent each asset class in the plans, include reinvestment of dividends, and are rebalanced annually. The indices representing each asset class in the historical asset allocation plans are S&P 500 Index (large-cap stocks); Russell 2000 Index (small-cap stocks); MSCI EAFE Net of Taxes (international stocks); Barclays Capital US Aggregate Bond Index (fixed income); and Citigroup 3-Month US Treasury Bills (cash investments). The Conservative allocation is composed of 15% large-cap stocks, 5% international stocks, 50% bonds, and 30% cash investments. The Moderately Conservative allocation is 25% large-cap stocks, 5% small-cap stocks, 10% international stocks, 50% bonds, and 10% cash investments. The Moderate allocation is 35% large-cap stocks, 10% small-cap stocks, 15% international stocks, 35% bonds, and 5% cash investments. The Moderately Aggressive allocation is 45% large-cap stocks, 15% small-cap stocks, 20% international stocks, 15% bonds, and 5% cash investments. The Aggressive allocation is 50% large-cap stocks, 20% small-cap stocks, 25% international stocks, and 5% cash investments. Indices are unmanaged, do not incur fees or expenses and cannot be invested in directly. **Past results are not indicative of future performance.**

# A diversified portfolio can reduce volatility over time

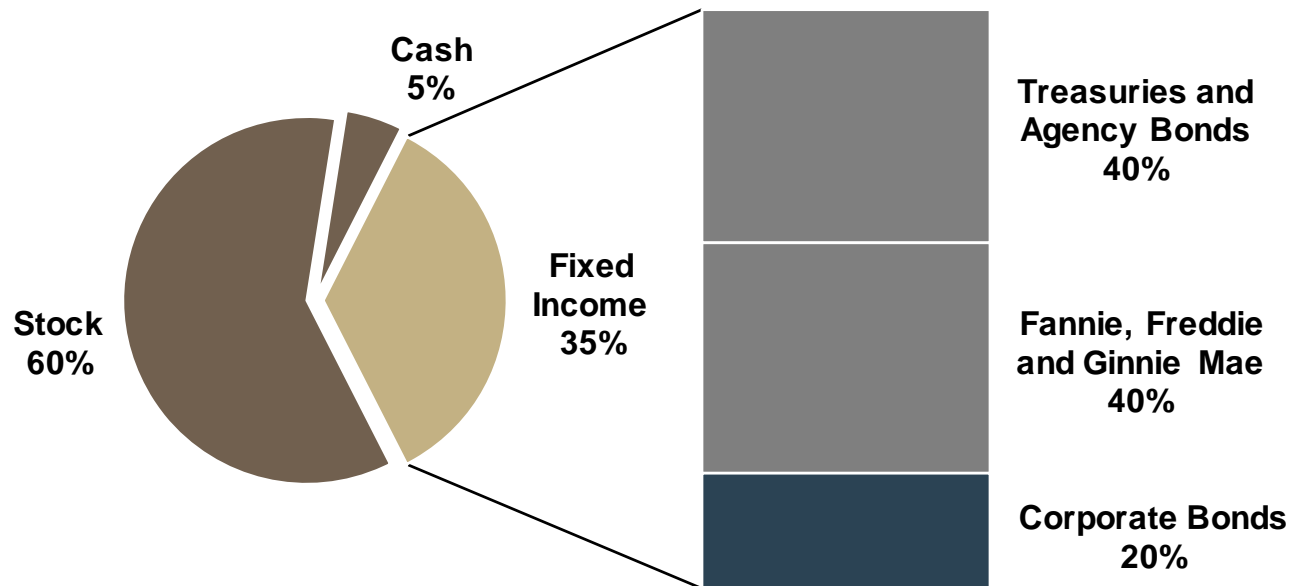


Source: Schwab Center for Financial Research, with data provided by Morningstar, Inc. Stocks are represented by total annual returns of the S&P 500 Index, and bonds are represented by total annual returns of the Barclays Capital U.S. Aggregate Bond Index. The 60/40 portfolio is a hypothetical portfolio consisting of 60% S&P 500 Index stocks and 40% Barclays Capital U.S. Aggregate Bond Index bonds. The portfolio is rebalanced annually. Returns include reinvestment of dividends, interest, and capital gains. Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Diversification does not eliminate the risk of investment losses. **Past performance is no indication of future results.**

*charles* SCHWAB

# The standard fixed income benchmark is 80% government related securities

## Components of U.S. Aggregate bond index



Source: Schwab Center for Financial Research with data provided by Barclays Capital. The Barclays Capital U.S. Aggregate Bond Index does not include municipal bonds, treasury inflation-protected securities (TIPS), or high-yield bonds. The percentages shown above are approximates. Commercial mortgage-backed securities and asset-backed securities are rolled into "corporate bonds".

# Fixed income sector performance varies from year to year

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Highest Return	Int'l Bonds 22.4%	High Yield 29.0%	Int'l Bonds 12.6%	S&P 500 4.9%	S&P 500 15.8%	U.S. TIPS 11.6%	Treasuries 13.7%	High Yield 58.2%	High Yield 15.1%	S&P 500 6%
	U.S. TIPS 16.6%	S&P 500 28.7%	High Yield 11.1%	U.S. TIPS 2.8%	High Yield 11.8%	Int'l Bonds 11.0%	MBS 8.3%	S&P 500 26.5%	S&P 500 15.1%	U.S. TIPS 5.8%
	Treasuries 11.8%	Int'l Bonds 19.4%	S&P 500 10.9%	Treasuries 2.8%	Int'l Bonds 8.2%	Treasuries 9.0%	Core Bonds 5.2%	Corporate 18.7%	Corporate 9.0%	Int'l Bonds 5.5%
	Core Bonds 10.3%	U.S. TIPS 8.4%	U.S. TIPS 8.5%	High Yield 2.7%	MBS 5.2%	Core Bonds 7.0%	Int'l Bonds 4.4%	U.S. TIPS 11.4%	Core Bonds 6.5%	High Yield 5%
	Corporate 10.1%	Corporate 8.2%	Corporate 5.4%	MBS 2.6%	Core Bonds 4.3%	MBS 6.9%	U.S. TIPS -2.4%	Int'l Bonds 7.5%	U.S. TIPS 6.3%	Corporate 3.2%
	MBS 8.7%	Core Bonds 4.1%	MBS 4.7%	Core Bonds 2.4%	Corporate 4.3%	S&P 500 5.5%	Corporate -4.9%	Core Bonds 5.9%	Treasuries 5.9%	MBS 2.9%
	High Yield -1.4%	MBS 3.1%	Core Bonds 4.3%	Corporate 1.7%	Treasuries 3.1%	Corporate 4.6%	High Yield -26.2%	MBS 5.9%	MBS 5.4%	Core Bonds 2.7%
Lowest Return	S&P 500 -22.1%	Treasuries 2.2%	Treasuries 3.5%	Int'l Bonds -8.6%	U.S. TIPS 0.4%	High Yield 1.9%	S&P 500 -37.0%	Treasuries -3.6%	Int'l Bonds 4.9%	Treasuries 2.2%

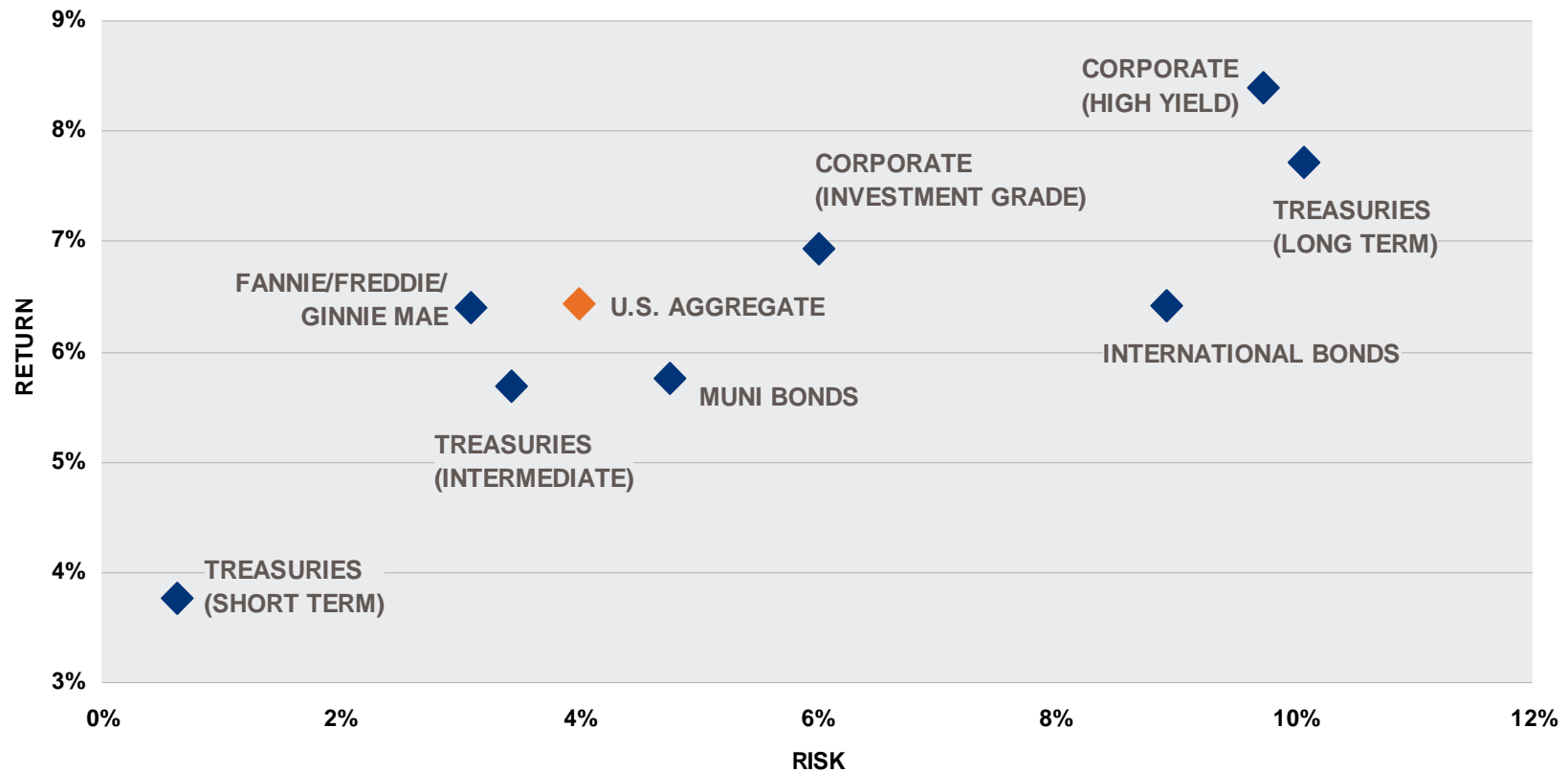
\*Through 6/30/11

Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. Asset class and sector performance is represented by total annual returns of the following indices: S&P 500® Index, Barclays Capital U.S. Aggregate Index (Core Bonds), Barclays Capital Global Aggregate ex U.S. Index (Int'l Bonds), Barclays Capital U.S. Treasury Index (Treasuries), Barclays Capital U.S. Treasury Inflation-Protected Securities Index (U.S. TIPS), Barclays Capital U.S. Mortgage-Backed Securities (MBS), Barclays Capital Corporate Investment Grade Bond Index (Corporate), and Barclays Capital U.S. High Yield Index (High Yield). Returns assume reinvestment of interest and capital gains. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

*charles* SCHWAB

# Bond risk and returns vary by sector and maturity

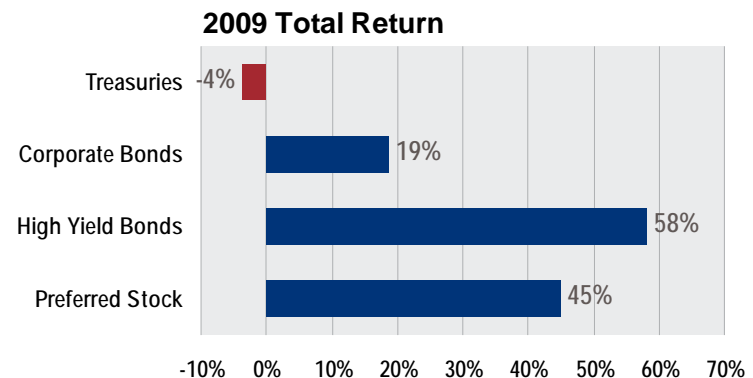
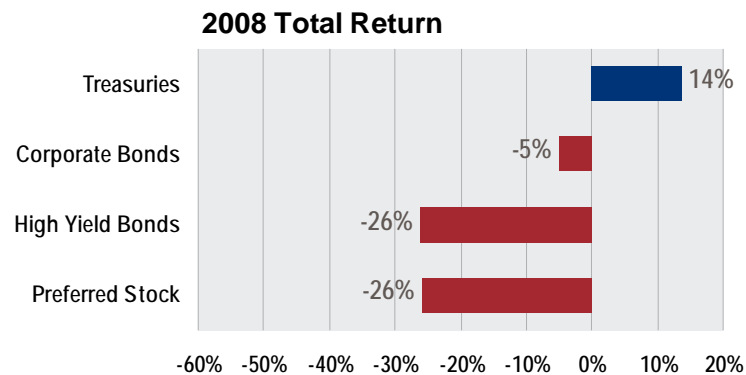
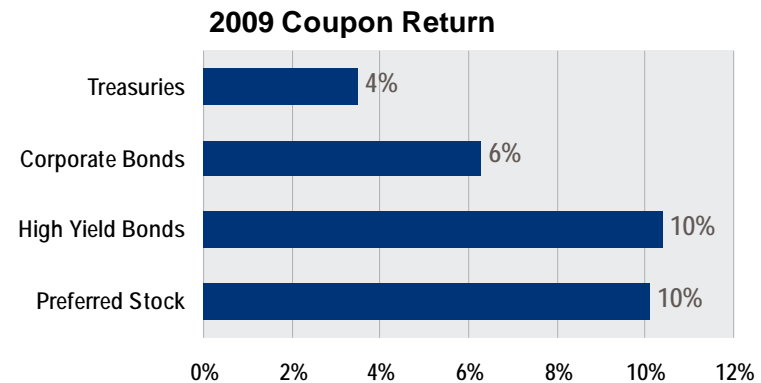
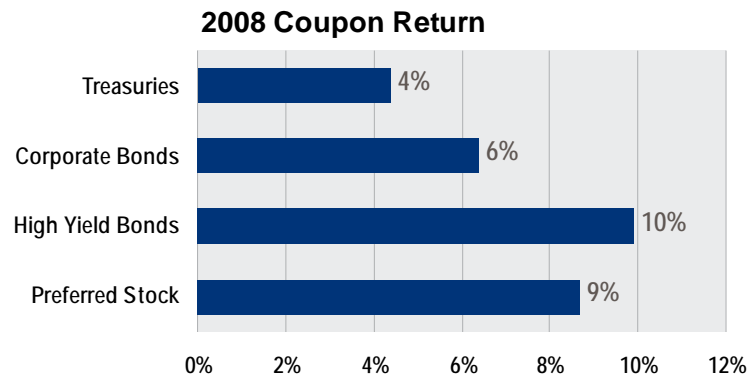
Fixed income sector risk and return profiles (January 1992 through December 2010)



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The chart above compares the risk and return features of bond market sectors, which are represented by Barclays Capital sector indices. Risk is represented by the annualized standard deviation of monthly returns, and return is represented by the average annualized total return for the period January 1992 through December 2010. Returns assume reinvestment of bond principal and interest and are not adjusted for taxes. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

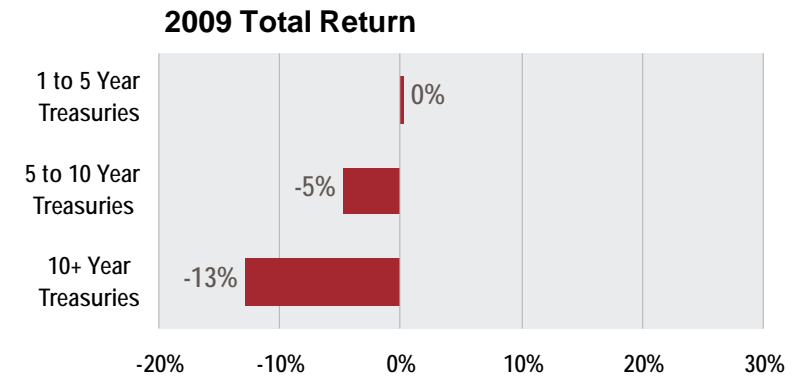
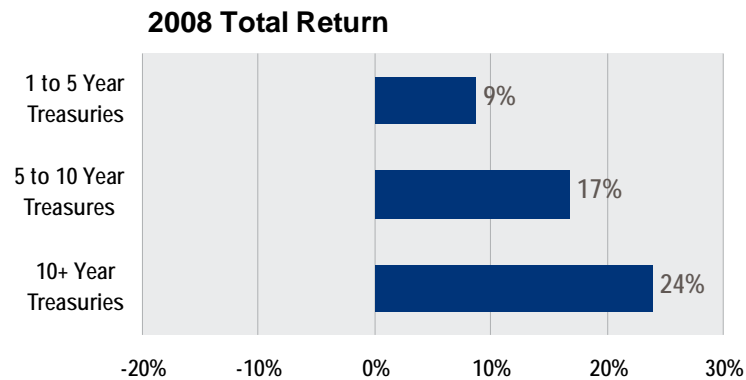
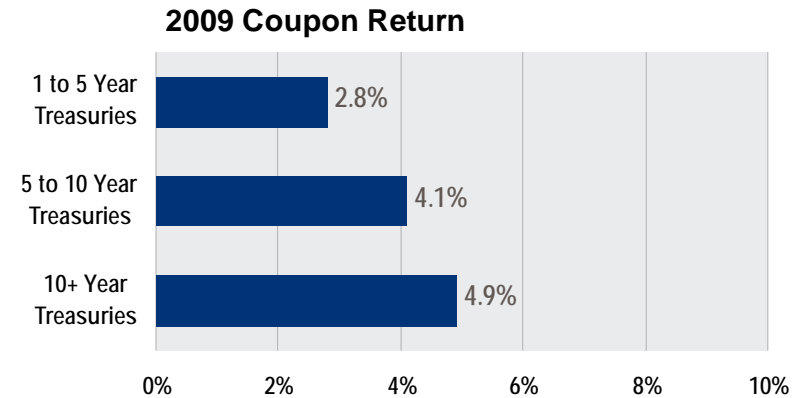
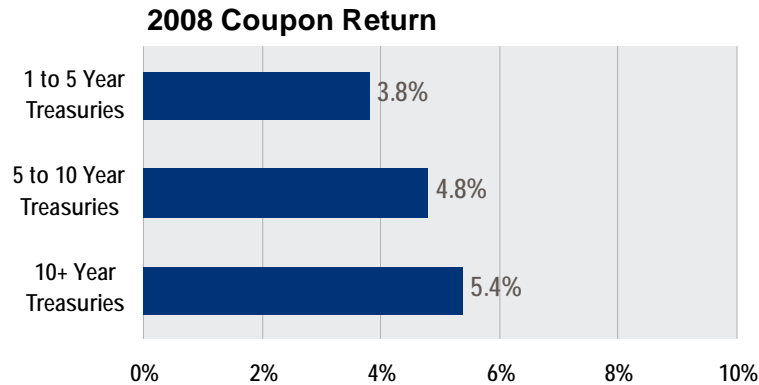
# Chasing yield or chasing risk?

Key point: Yield is the price of risk, with risk defined as potential volatility in price.



Source: Schwab Center for Financial Research with data from Barclays Capital and Morningstar, Inc. The indices representing the market segments are: the Barclays Capital U.S. Treasury Bond Index (Treasuries), the Barclays Capital U.S. Corporate Bond Index (corporate bonds), the Barclays Capital U.S. Corporate High-Yield Bond Index (high yield bonds), and the S&P U.S. Preferred Stock Index (preferred stock). Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# Yields and risk generally rise with time to maturity

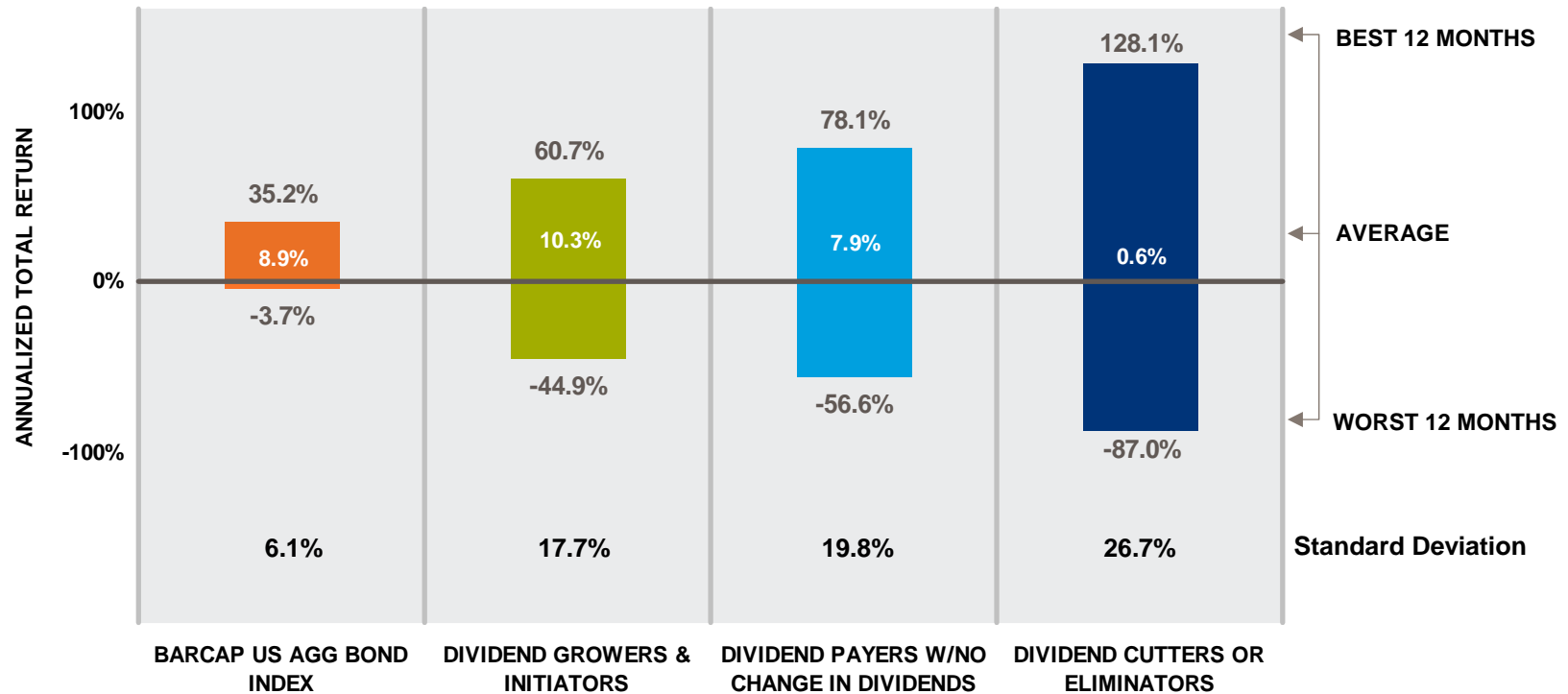


Source: Schwab Center for Financial Research with data from Barclays Capital. The performance shown is for subindices of the Barclays Capital U.S. Treasury Index based on maturity (e.g. Barclays Capital U.S. 1-5 year Treasury Bond Index and the Barclays Capital U.S. 5-10 year Treasury Bond Index). The 10+ year Treasuries are represented by the Barclays Capital U.S. Long Treasury Bond Index. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**



# Dividend-paying stocks more volatile than bonds

January 1981 to December 2010



Source: Schwab Center for Financial Research with data from Ned Davis Research and Morningstar, Inc. Shown are the best and worst 12-month total returns of Barclays Capital U.S. Aggregate Bond Index and three S&P 500 component indices categorized by dividend policy. First rolling period is from January 1981 to December 1981. Each dividend policy is determined on 12-month rolling basis. Ned Davis classifies the instrument as a dividend-paying stock if it pays a cash dividend in the previous 12 months. Each dividend-paying stock is further classified into one of the three categories based on changes to their dividend policy over the previous 12 months. Dividend Growers and Initiators include stocks that increased their dividend anytime in the last 12 months. Once an increase occurs, it remains classified as a grower for 12 months or until another change in dividend policy. No-Change stocks are those that maintained their existing dividend rate for the last 12 months. Dividend Cutters and Eliminators are companies that have lowered or eliminated their dividend anytime in the last 12 months. Once a decrease occurs, it remains classified as a cutter for 12 months or until another change in dividend policy. Index values are equal-weighted geometric indices based on monthly total returns, with the constituents of each index reconstituted monthly. The average return is the compound annualized average return for the 1981-2010 period. Standard deviation is the annualized standard deviation of monthly returns for the same period. Indices are unmanaged and cannot be invested directly. **Past Performance is no indication of future performance.** Further distribution prohibited without prior permission. Copyright 2011 (c) Ned Davis Research, Inc. All rights reserved.

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# Interest rates can impact the prices of bonds

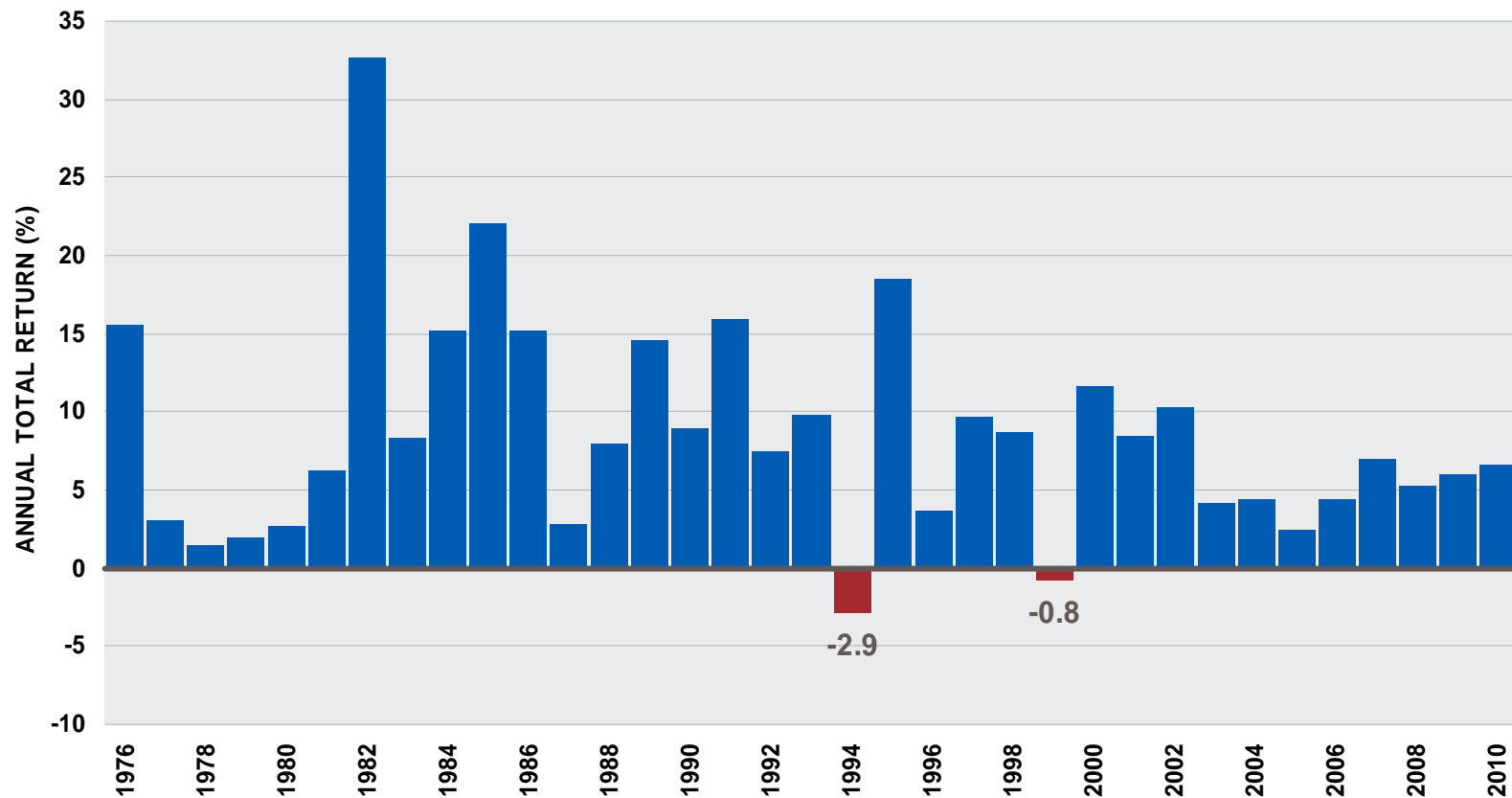
## Change in Treasury price based on 1% rise in rates



Source: Schwab Center for Financial Research and Federal Reserve, using yields as of July 19, 2011. This chart assumes a "parallel" upward shift in yields from current rates by 1%, meaning that rates would rise 1% uniformly for Treasury bonds at each maturity. There is no single interest rate, and a rise in the short-term Fed Funds rate does not always result in a corresponding rise in longer-term Treasury rates. Duration is the weighted average term to maturity of the cash flows from a bond. Bond duration measures a bond's price sensitivity to interest rate movements.

# Negative returns uncommon in a diversified bond portfolio

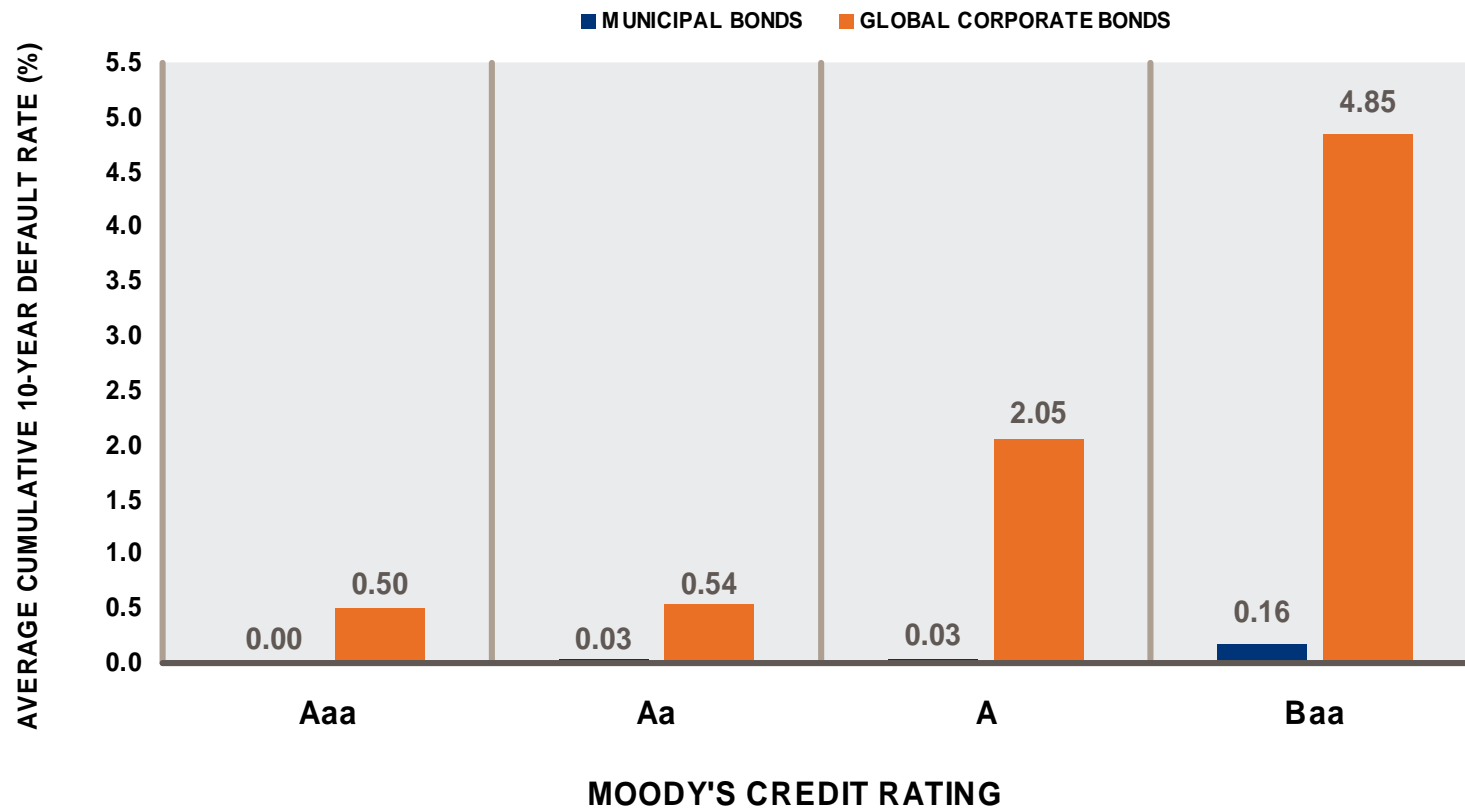
## Annual total return for a diversified portfolio of U.S. taxable bonds



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. Shown in the chart are annual total returns including price change and income for the Barclays Capital US Aggregate Bond Index. Returns include reinvestment of interest. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# Muni default rates generally much lower than corporates

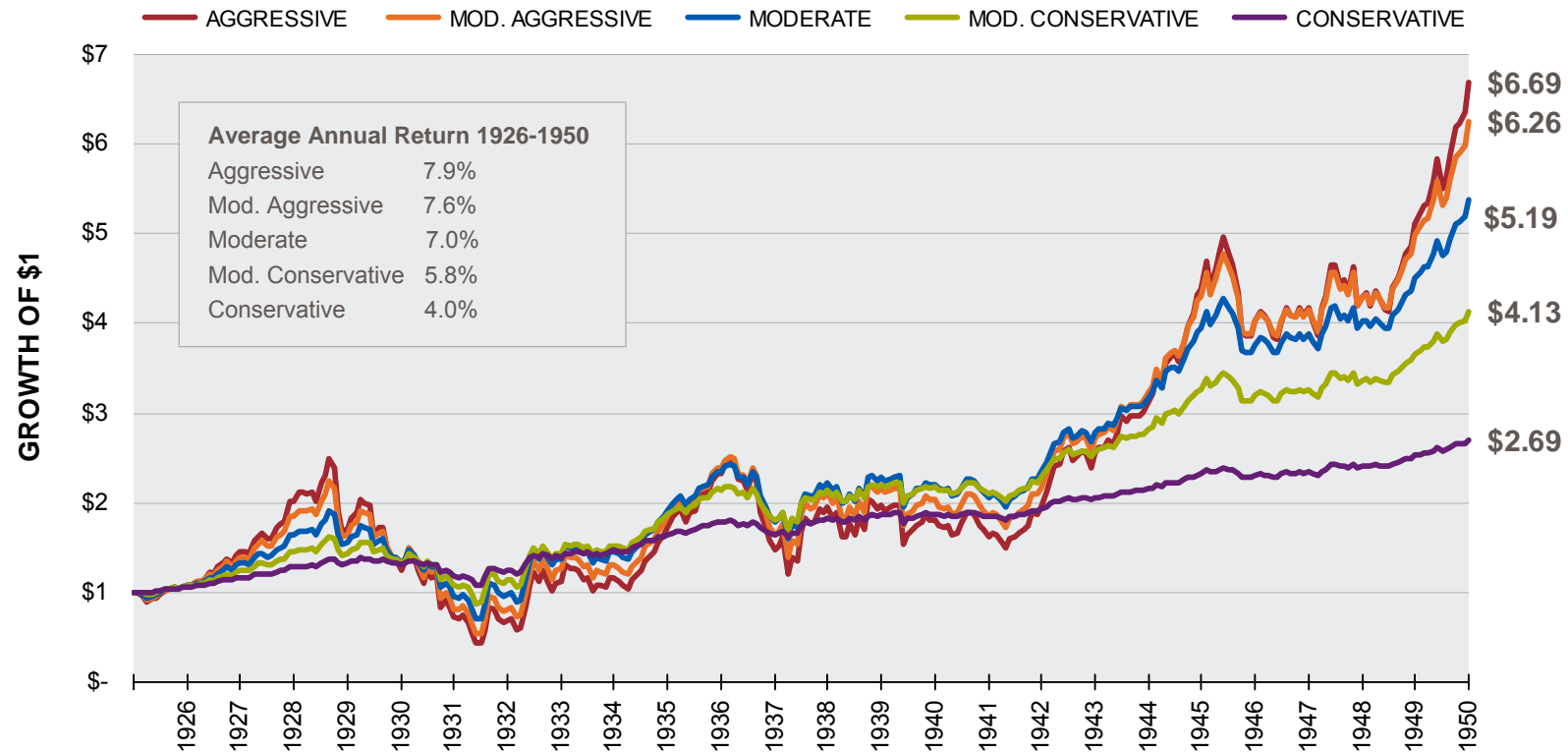
## Default rates for bonds



Source: Moody's "U.S. Municipal Bond Defaults and Recoveries, 1970-2009", February 2010. Moody's cumulative default rates calculated from marginal default rates, which represent the probability that an issuer that has survived through a particular date will default over the next time interval (1 year in this case). **Past performance is no indication of future results.**

# Asset allocation works – even in a Depression

## Model asset allocation plans (1926-1950)



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The asset allocation plans are weighted averages of the performance of the indices used to represent each asset class in the plans and are rebalanced monthly. Returns include reinvestment of dividends and interest. The indices representing each asset class are S&P 500® Index (large-cap stocks), CRSP 6-8 Index (small-cap stocks), Ibbotson Intermediate-Term Government Bond Index (bonds), and Ibbotson U.S. 30-day Treasury Bill Index (cash investments). The Conservative allocation is composed of 15% large-cap stocks, 5% international stocks, 50% bonds, and 30% cash investments. The Moderately Conservative allocation is 25% large-cap stocks, 5% small-cap stocks, 10% international stocks, 50% bonds, and 10% cash investments. The Moderate allocation is 35% large-cap stocks, 10% small-cap stocks, 15% international stocks, 35% bonds, and 5% cash investments. The Moderately Aggressive allocation is 45% large-cap stocks, 15% small-cap stocks, 20% international stocks, 15% bonds, and 5% cash investments. The Aggressive allocation is 50% large-cap stocks, 20% small-cap stocks, 25% international stocks, and 5% cash investments. International stock allocation is treated as allocation to large-cap stocks due to the unavailability of a high quality international stock index for this period. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Past performance is no indication of future results.

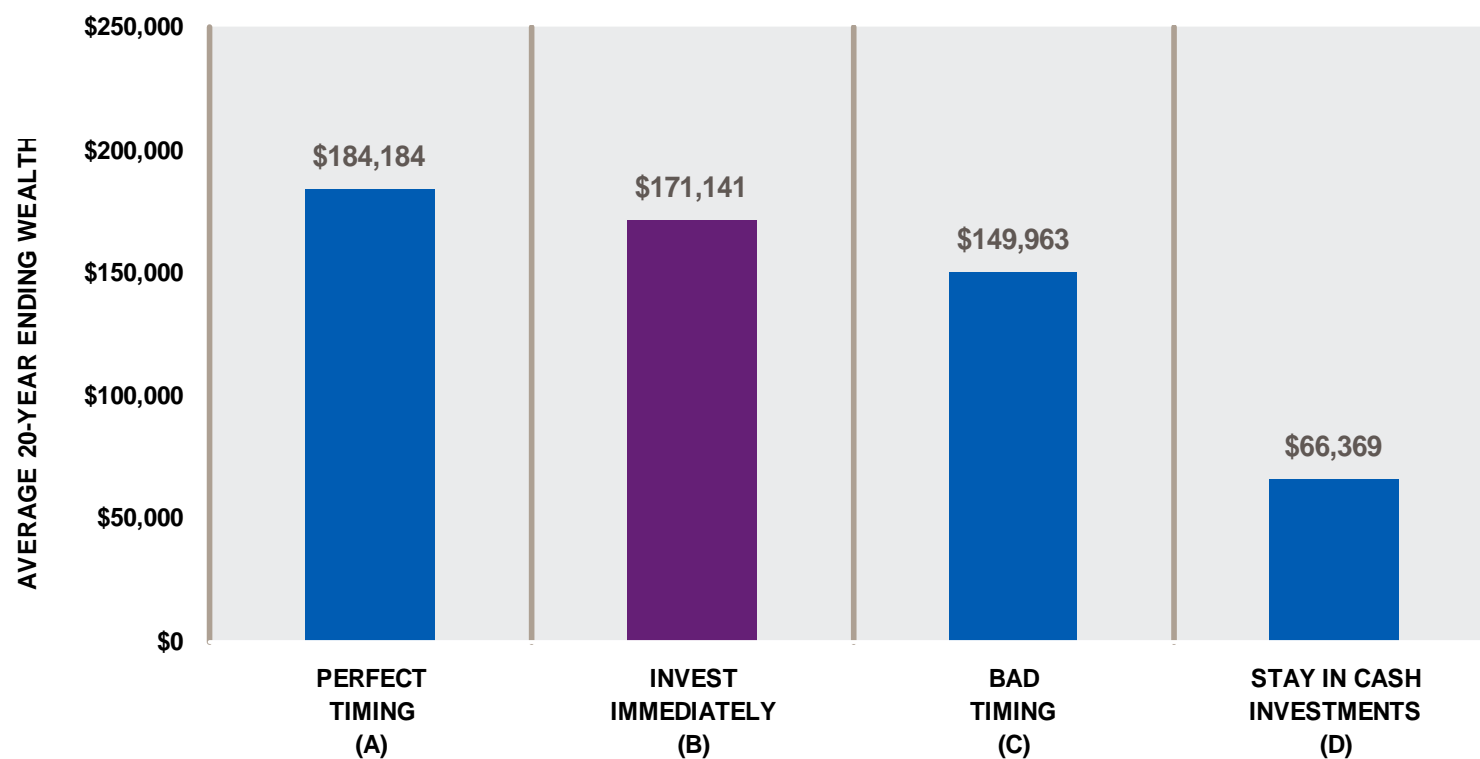
# Bear market recoveries are often front-loaded

	Cumulative Return Following Bear Market		
	12-month period	24-month period	36-month period
If fully invested	<b>46%</b>	<b>65%</b>	<b>76%</b>
1 month of T-bills after bottom	<b>32%</b>	<b>50%</b>	<b>61%</b>
3 months of T-bills after bottom	<b>19%</b>	<b>36%</b>	<b>44%</b>
6 months of T-bills after bottom	<b>11%</b>	<b>28%</b>	<b>36%</b>

Source: Schwab Center for Financial Research with data from Morningstar, Inc. The market is represented by total monthly returns of the S&P 500 Index, January 1926 – June 2011. T-bills are represented by the total returns of the Ibbotson U.S. 30-day Treasury Bill Index. The 16 bear markets analyzed are defined as periods with cumulative declines greater than 10% and duration of at least 6 months, and include the recent bear market for the 12-month and 24-month evaluation periods. **Past performance is no indication of future results.**

# The costs of waiting to invest

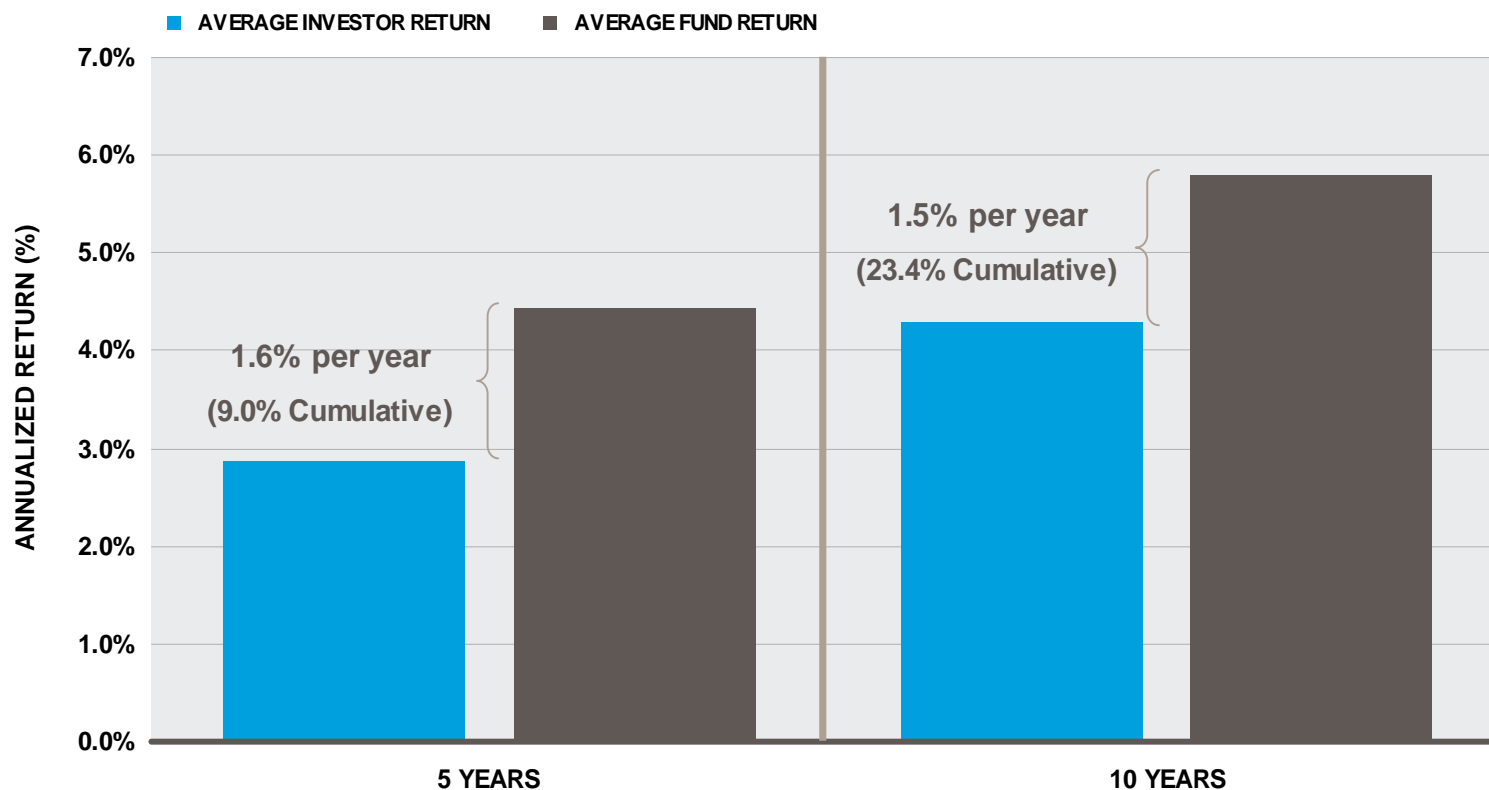
Ending wealth for four types of investors over all 20-year periods (1926 - 2010)



Source: Schwab Center for Financial Research. This chart shows the outcomes for four hypothetical investors who invested \$2,000 a year for 20 years. Investor A invested each year at the market trough. Investor B invested immediately on the first day of each year. Investor C invested each year at the market peak. Investor D never implemented the plan and stayed in T-bills. Investors A & C invested their yearly \$2,000 investments in T-bills while waiting to invest in stocks. Stocks are represented by the S&P 500 Index with all dividends invested. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Average results remained relatively unchanged when the study is extended to 12-month periods that begin with a month other than January. In the case of the 12-month period that goes from February to January, Investor B invested immediately on the first day of February each 12-month period for 20 years. **Past performance is no indication of future results.**

# Average investor equity return falls short of fund return

Periods ending December 31, 2010

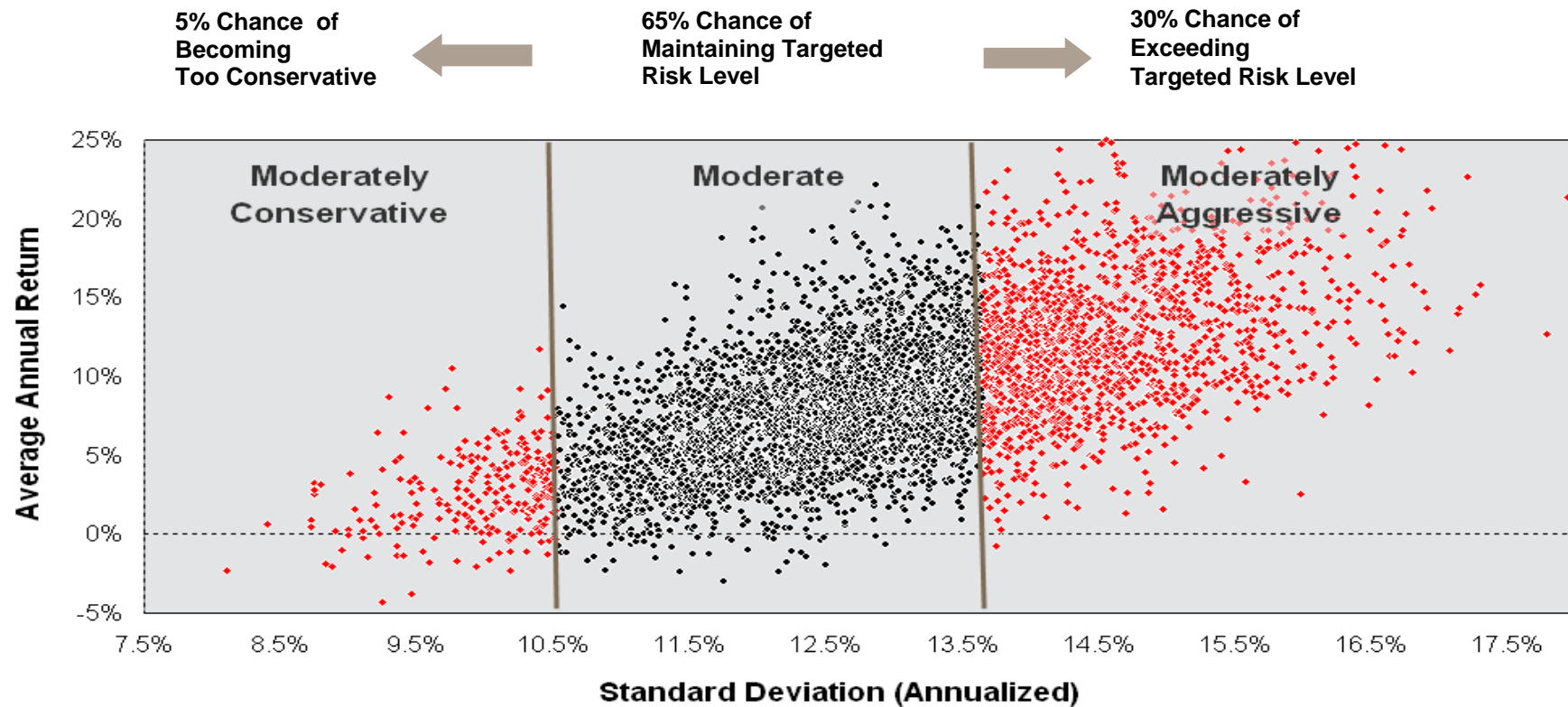


Source: Schwab Center for Financial Research with data from Morningstar, Inc. Fund return is the weighted average time-weighted return of all active funds in the Morningstar domestic equity, specialty, and international stock categories. Each fund is represented by its oldest share class. Investor return for each fund is calculated by Morningstar and reflects the average return on all dollars invested based on estimated monthly net fund flows. The aggregate investor return and fund return are averages weighted by the size of each fund. Only funds with both the fund return and the investor return are included in the analysis. **Past performance is no indication of future results.**



# The danger of not rebalancing

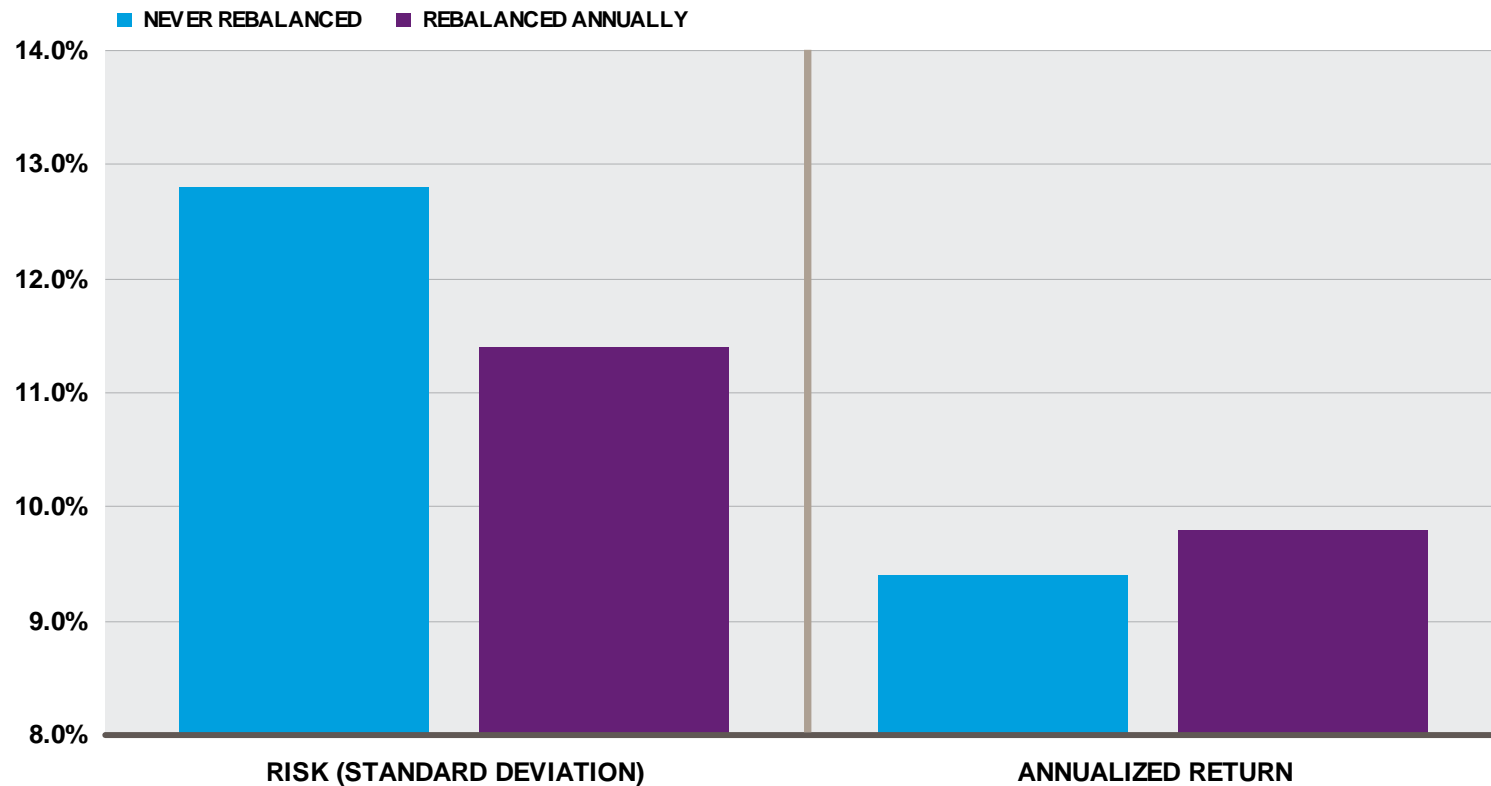
Not rebalancing lets the market dictate the portfolio risk level



Source: Schwab Center for Financial Research. The chart shows the projected outcomes from 5,000 Monte-Carlo simulation iterations that simulate the ten-year performance of a portfolio that began with a Moderate allocation (35% large-cap stocks, 10% small-cap stocks, 15% international stocks, 35% bonds and 5% cash investments), and is never rebalanced with dividends reinvested. Each dot on the chart represents the average return and risk level resulting from one simulation iteration. The color shaded regions show the approximate risk (standard deviation of returns) expected for three portfolio risk tolerance levels. The simulation assumptions are consistent with Schwab's expected long-term returns, standard deviations and asset correlations of the underlying asset classes. No transaction costs were assumed. This represents a hypothetical investment and is for illustrative purposes only; the actual rate of return will fluctuate with market conditions.

# Rebalancing annually can lower risk & enhance returns

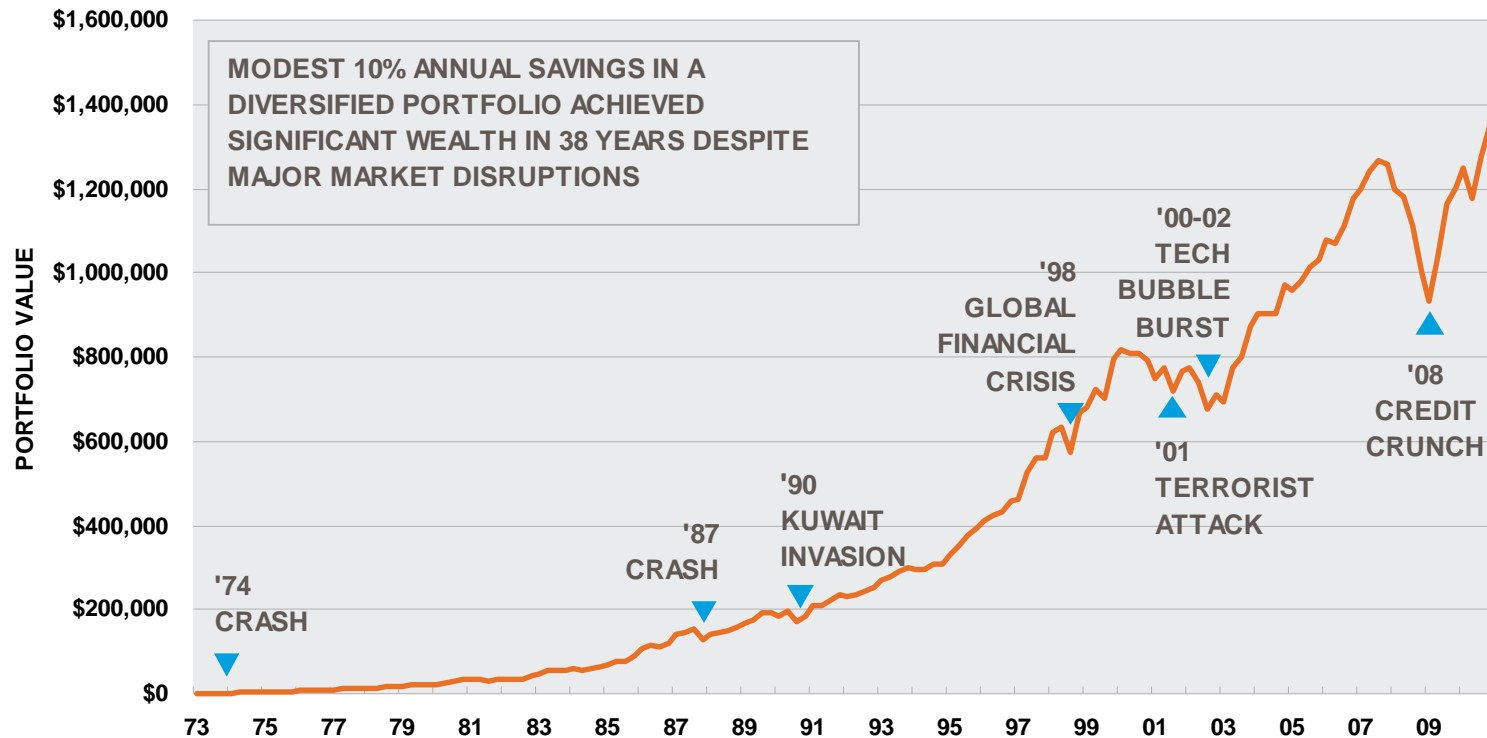
## Moderate asset allocation (1970 - 2010)



Source: Schwab Center for Financial Research with data from Morningstar, Inc. The Moderate allocation is 35% large-cap stocks, 10% small-cap stocks, 15% international stocks, 35% bonds, and 5% cash investments. The indices representing each asset class are S&P 500® Index (large-cap stocks), Russell 2000 Index (small-cap stocks), MSCI EAFE Net of Taxes (international stocks), Barclays Capital U.S. Aggregate Index (bonds), and Citigroup U.S. 3-month Treasury bills (cash investments). CRSP 6-8 was used for small-cap stocks prior to 1979, Ibbotson Intermediate-Term Government Bond Index was used for bonds prior to 1976, and Ibbotson U.S. 30-day Treasury Bill Index was used for cash investments prior to 1978. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# Progress toward goal more important than short-term performance

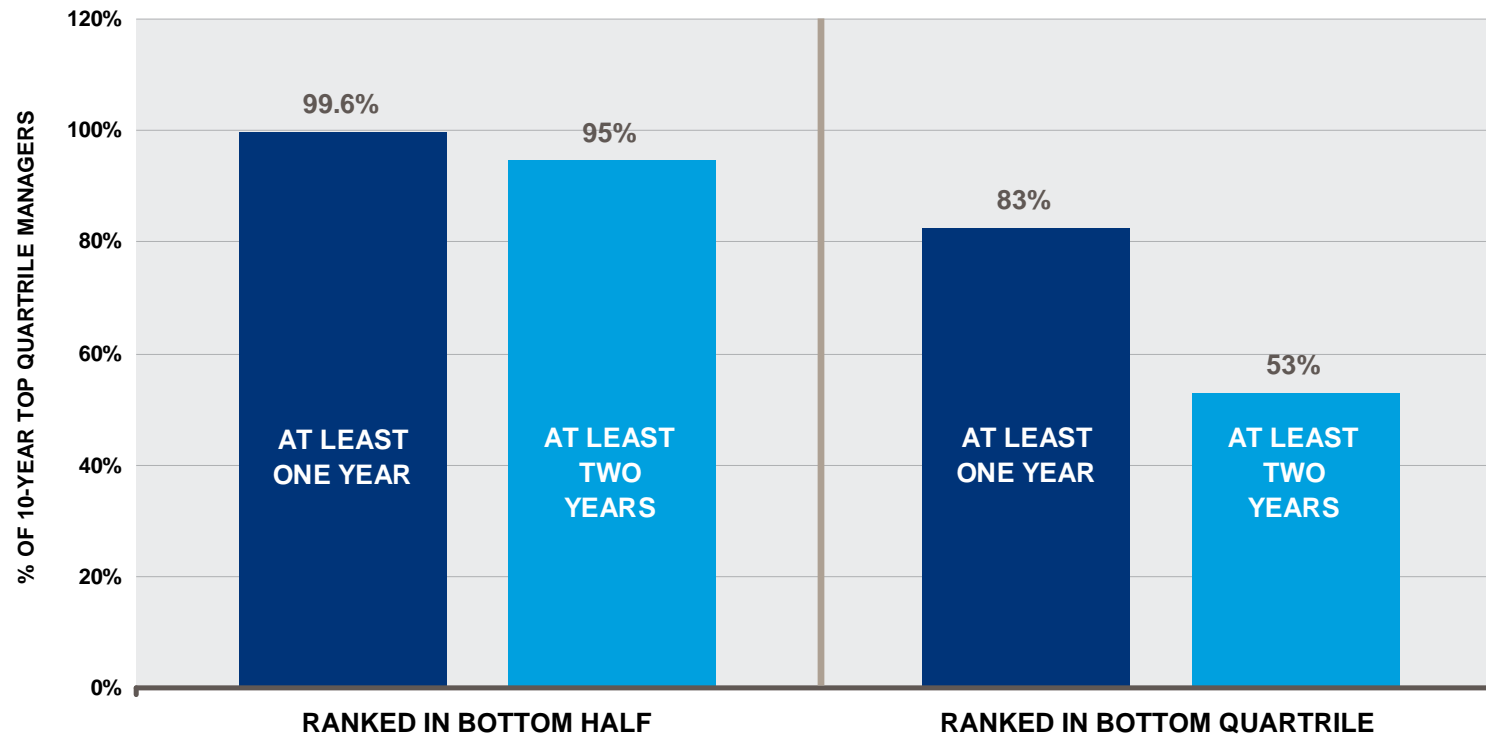
## Hypothetical saver followed asset allocation glide path (1973-2010)



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The chart illustrates the growth in value of saving 10% of annual salary invested according to a glide path. The saver began with the Schwab Aggressive Model Plan until age 39, when the allocation shifts to the Moderately Aggressive Model. As the saver approaches retirement (age 52), the allocation shifts down to the Moderate Model. The saver is a 25-year old in 1973, whose 1973 salary of \$18,580 is assumed to grow at 3% annual inflation and an additional 10% due to promotion every 5 years to reach \$100,000 in 2008. The asset allocation plan is weighted averages of the performance of the indices used to represent each asset class in the plans and are rebalanced annually. Returns include reinvestment of dividends and interest. The indices representing each asset class are S&P 500® Index (large-cap stocks), Russell 2000 Index (small-cap stocks), MSCI EAFE Net of Taxes (international stocks), Barclays Capital U.S. Aggregate Index (bonds), and Citigroup U.S. 3-month Treasury bills (cash investments). The Aggressive allocation is 50% large-cap stocks, 20% small-cap stocks, 25% international stocks, and 5% cash investments. The Moderately Aggressive allocation is 45% large-cap stocks, 15% small-cap stocks, 20% international stocks, 15% bonds, and 5% cash investments. The Moderate allocation is 35% large-cap stocks, 10% small-cap stocks, 15% international stocks, 35% bonds, and 5% cash investments. CRSP 6-8 was used for small-cap stocks prior to 1979, Ibbotson Intermediate-Term Government Bond Index was used for bonds prior to 1976, and Ibbotson U.S. 30-day Treasury Bill Index was used for cash investments prior to 1978. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# Long-term top performance may include short-term underperformance

## Ten-year top quartile managers often have a bad year



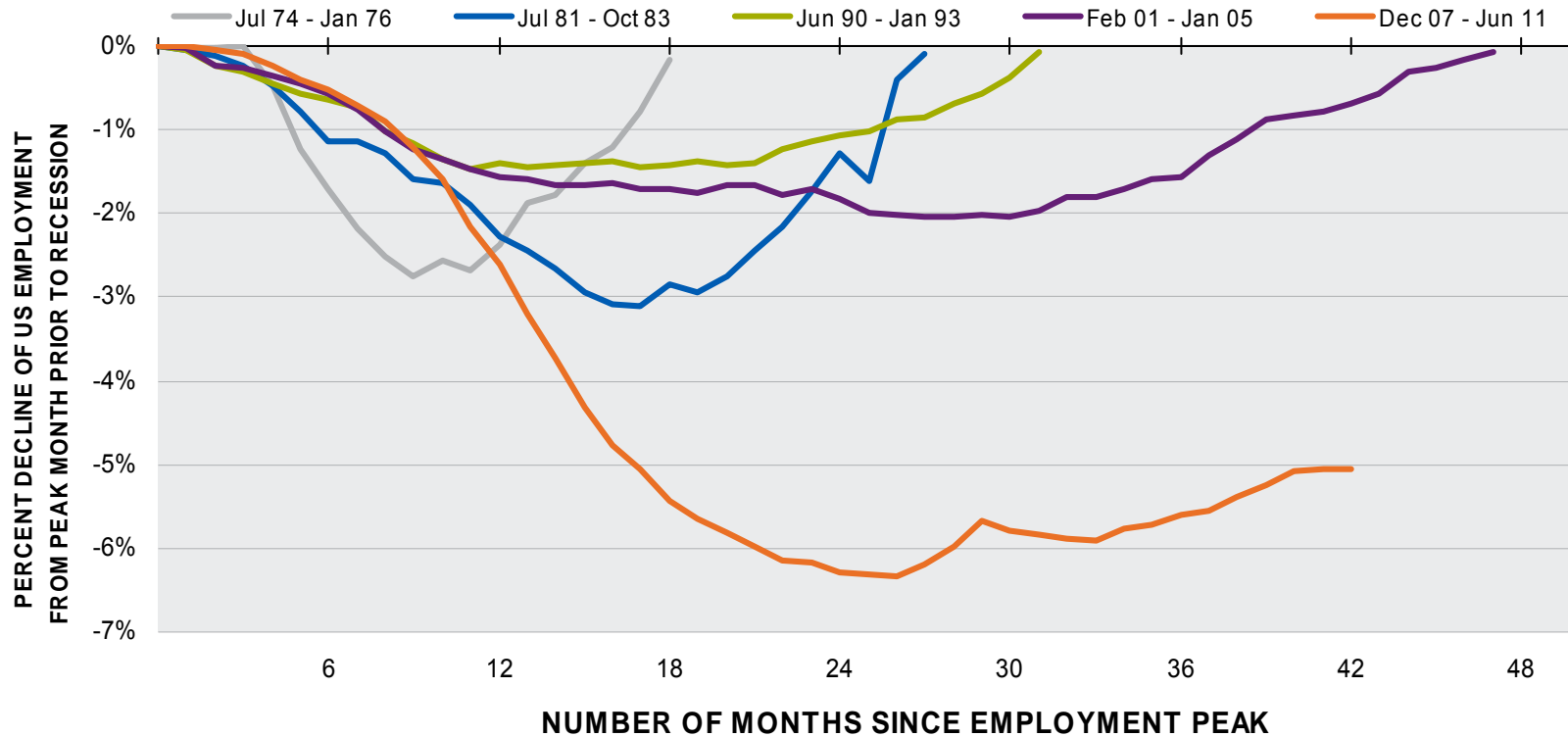
Source: Schwab Center for Financial Research with data provided by Morningstar. The chart examines a universe of 1,332 distinct portfolios of diversified U.S. domestic equity funds with a complete 10-year history from January 2001 through December 2010. Each fund's annual performance was ranked within a given year and placed in quartiles within its respective Morningstar style category. The annual ranking was derived by comparing the fund's performance to the performance of all distinct, non-passive portfolios currently placed in the category. The number of times an individual fund's annual performance ranked in a year's bottom half or bottom quartile was then counted for funds with top quartile ten-year performance within its style group. **Past performance is no indication of future results.** Principal value and investment return will fluctuate with changes in market conditions so an investor's returns, when redeemed, may be worth more or less than their original cost.

*Investors should carefully consider 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.*

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# How long has it taken for the job market to fully recover?

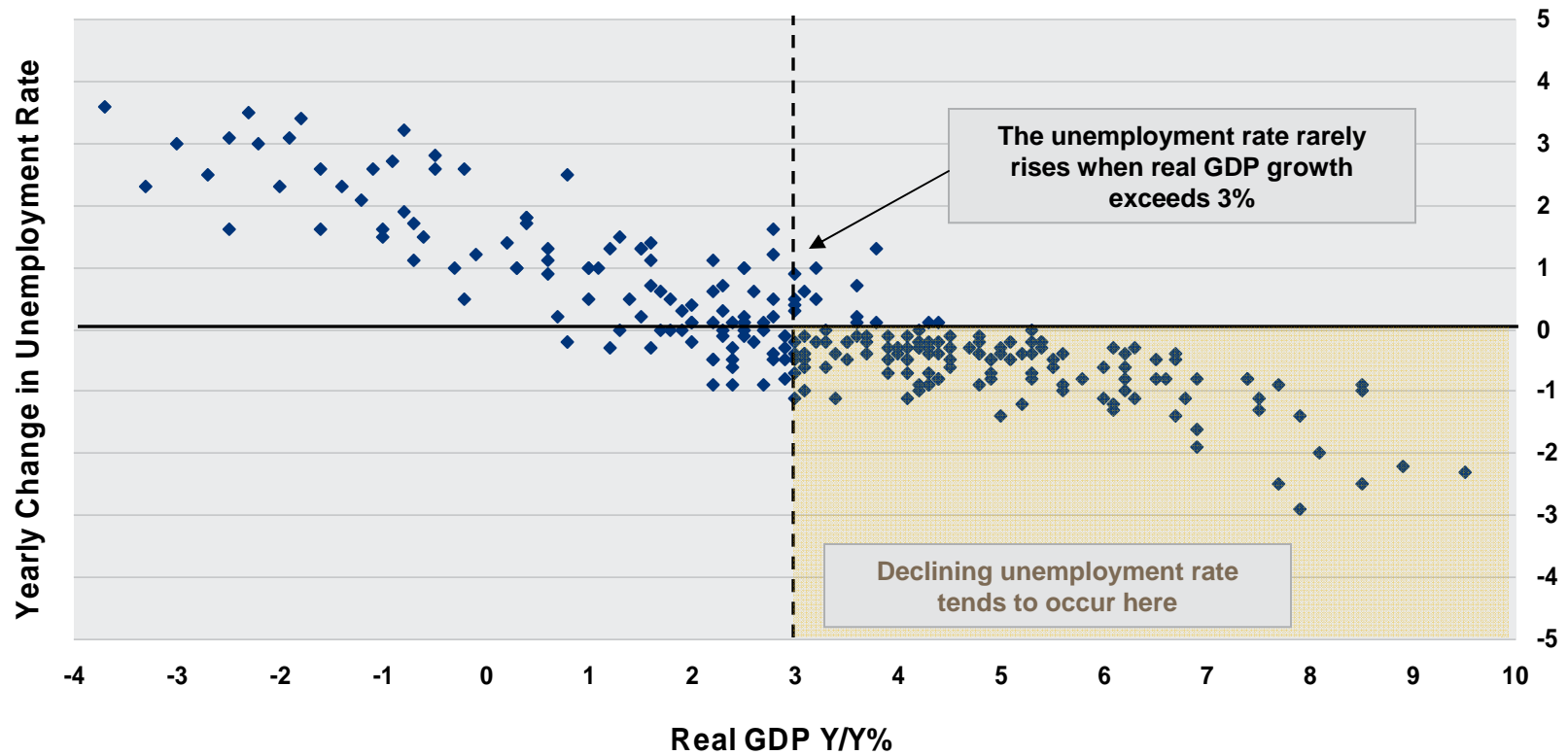
## A Historical Look at the Labor Market During Recessions



Source: Schwab Center for Financial Research with data provided by the Bureau of Labor Statistics. Total nonfarm employment, seasonally adjusted numbers are used to track the percentage change in the employment numbers from the peak month prior to the start of the recession.

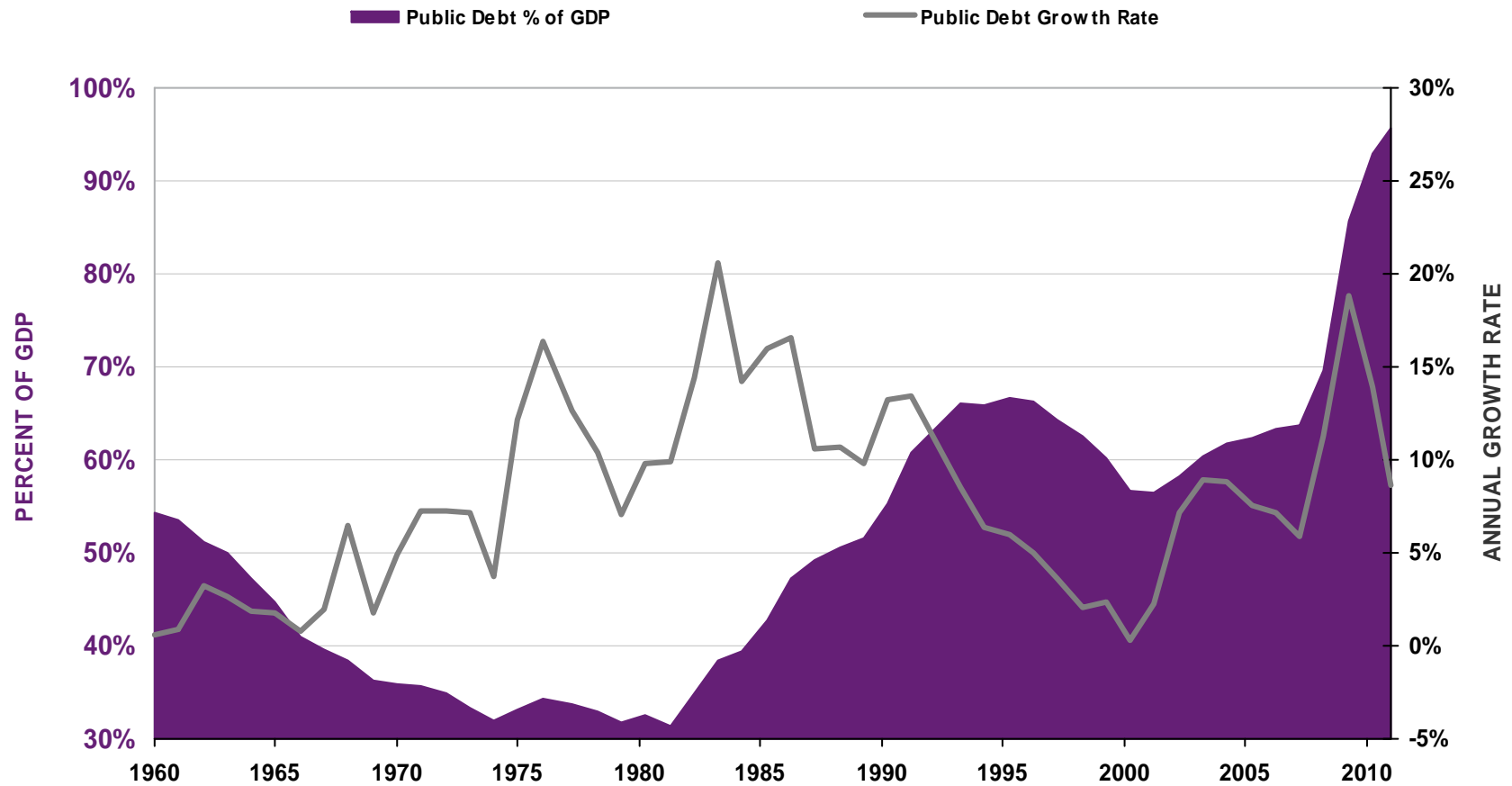
# Growth of 3% or more accompanied by reduced unemployment rate

## Real GDP growth vs. change in unemployment rate (1949 – 2011 Q2)



Source: Schwab Center for Financial Research with quarterly data from the Bureau of Economic Analysis and the Bureau of Labor Statistics. The graph shows the relationship between the year-over-year change in the seasonally adjusted unemployment rate and the year-over-year change in the real gross domestic product.

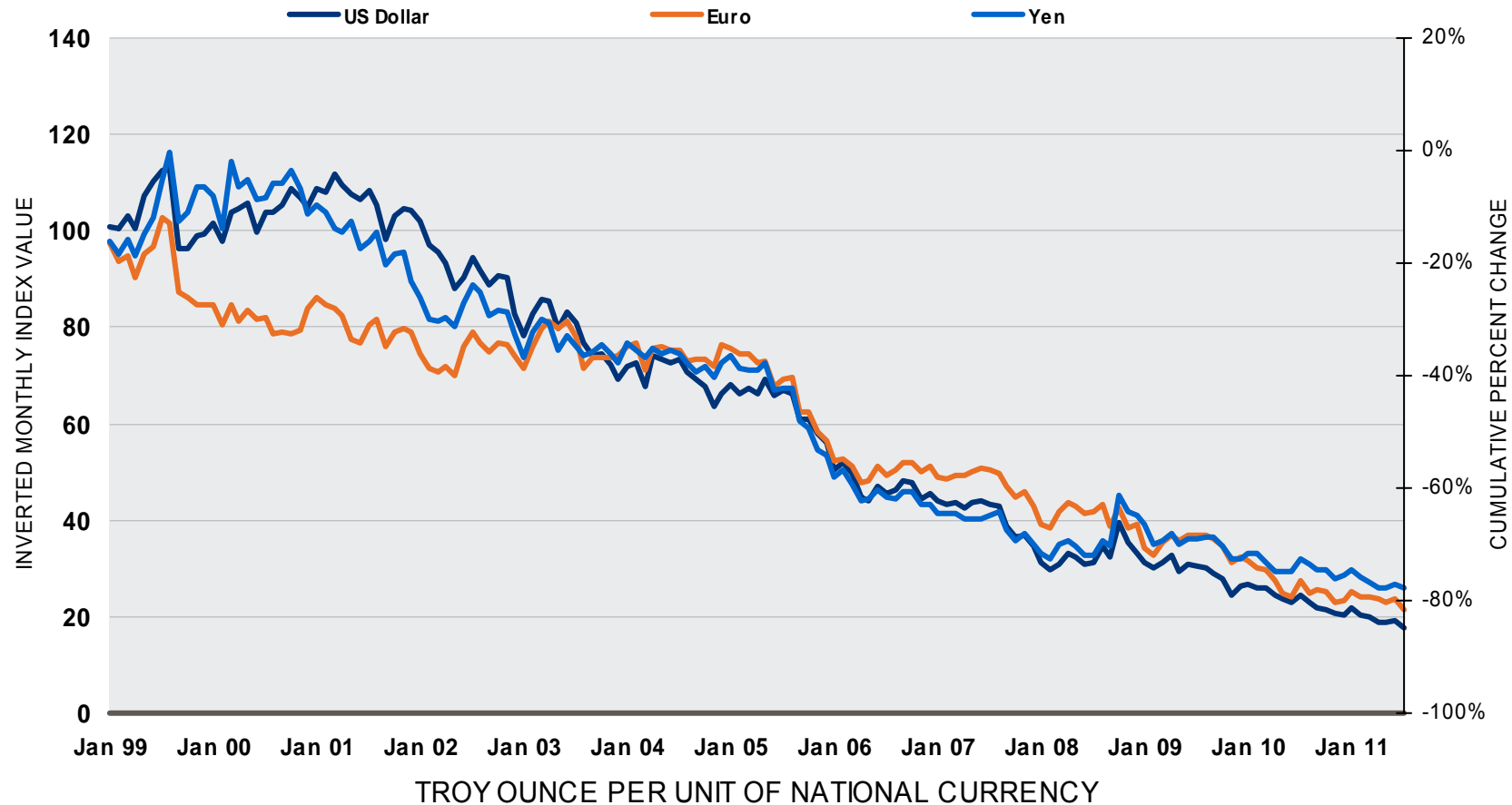
# Public debt has surged, though growth rate waning



Source: Schwab Center for Financial Research, with data provided by U.S. Treasury and the Bureau of Economic Analysis. Annual public debt is as of the end of the fiscal year from 1960 to 2010. Fiscal year ends on June 30 until 1976, when it changes to September 30 beginning 1977. The latest data point is as of June 30, 2011

# All major currencies show weakness relative to gold

Monthly index values (January 1999 – July 2011)

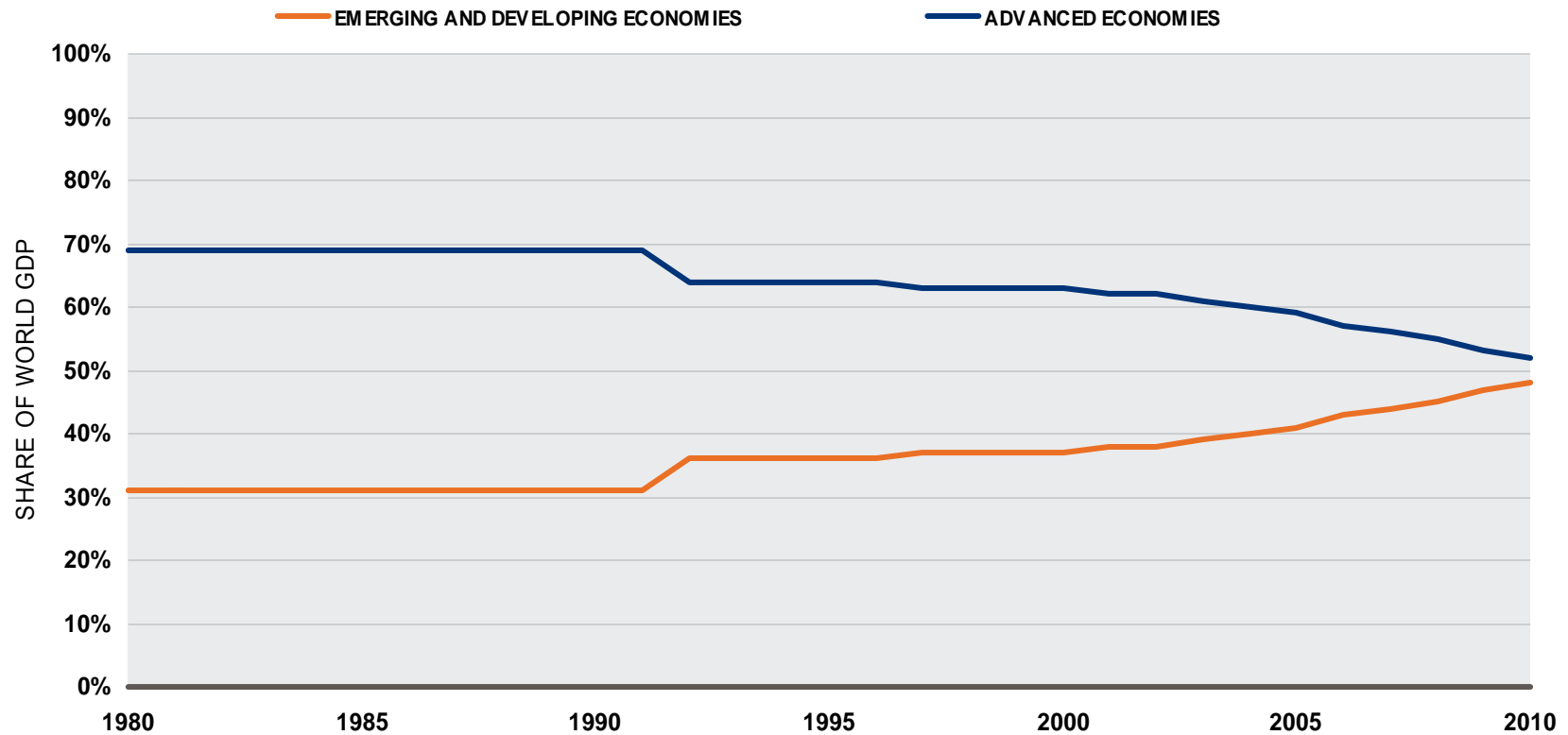


Source: Schwab Center for Financial Research with data from the World Gold Council. Month-end prices of gold in key currencies are indexed to 100 as of 12/31/1998 and then inverted to show the amount of gold per unit of three major currencies - the US dollar, the Japanese Yen and the Euro. The right axis shows the percent change in the relative currency value from December 31, 1998. Past performance is not indicative of future results.



# Emerging markets becoming a dominant part of world GDP

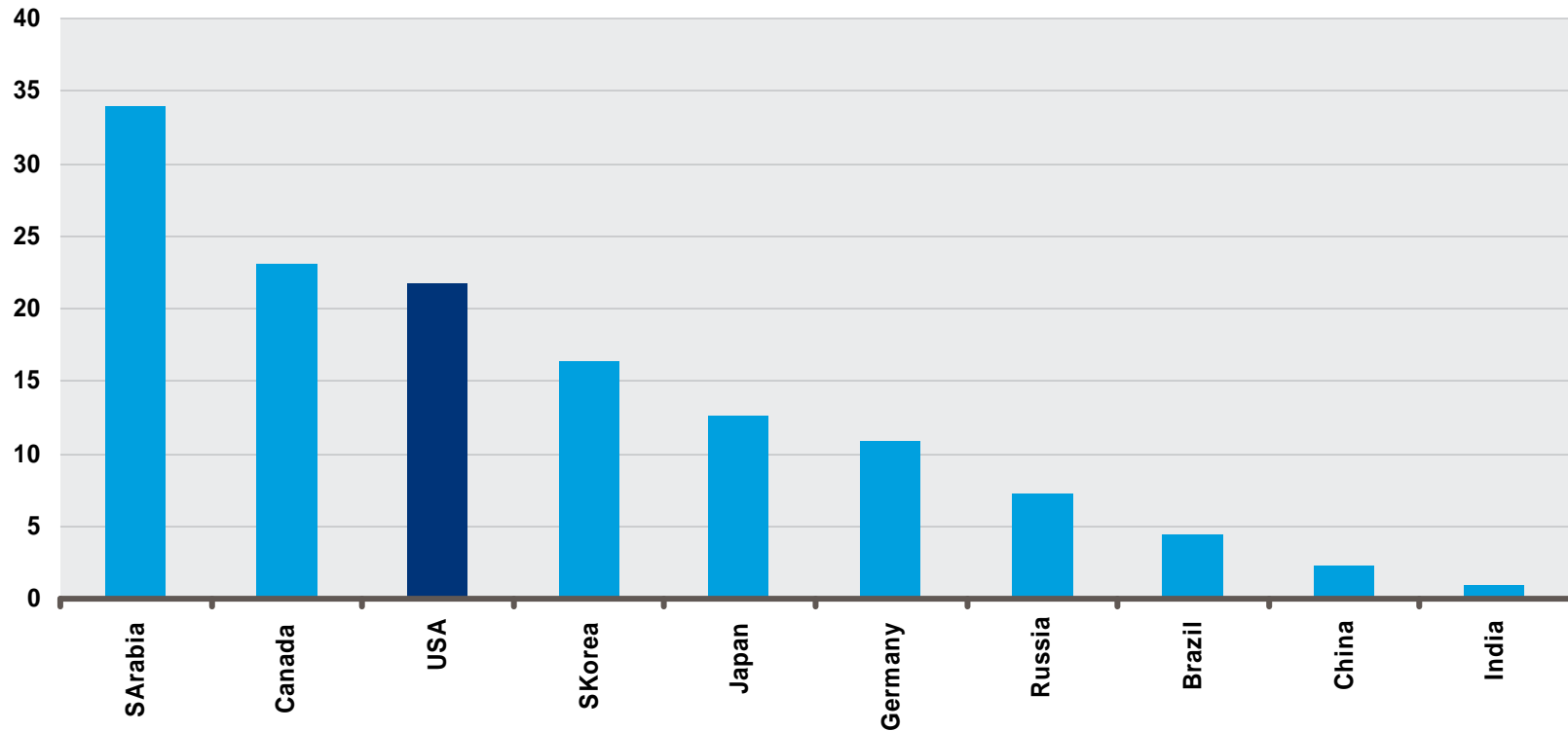
Share of world GDP – purchasing power parity weighted (1980 - 2010)



Source: International Monetary Fund's World Economic Outlook Database. The graph shows the share of total GDP for emerging and advanced countries based on purchasing-power-parity adjusted GDP.

# U.S. is one of the more energy-intensive nations

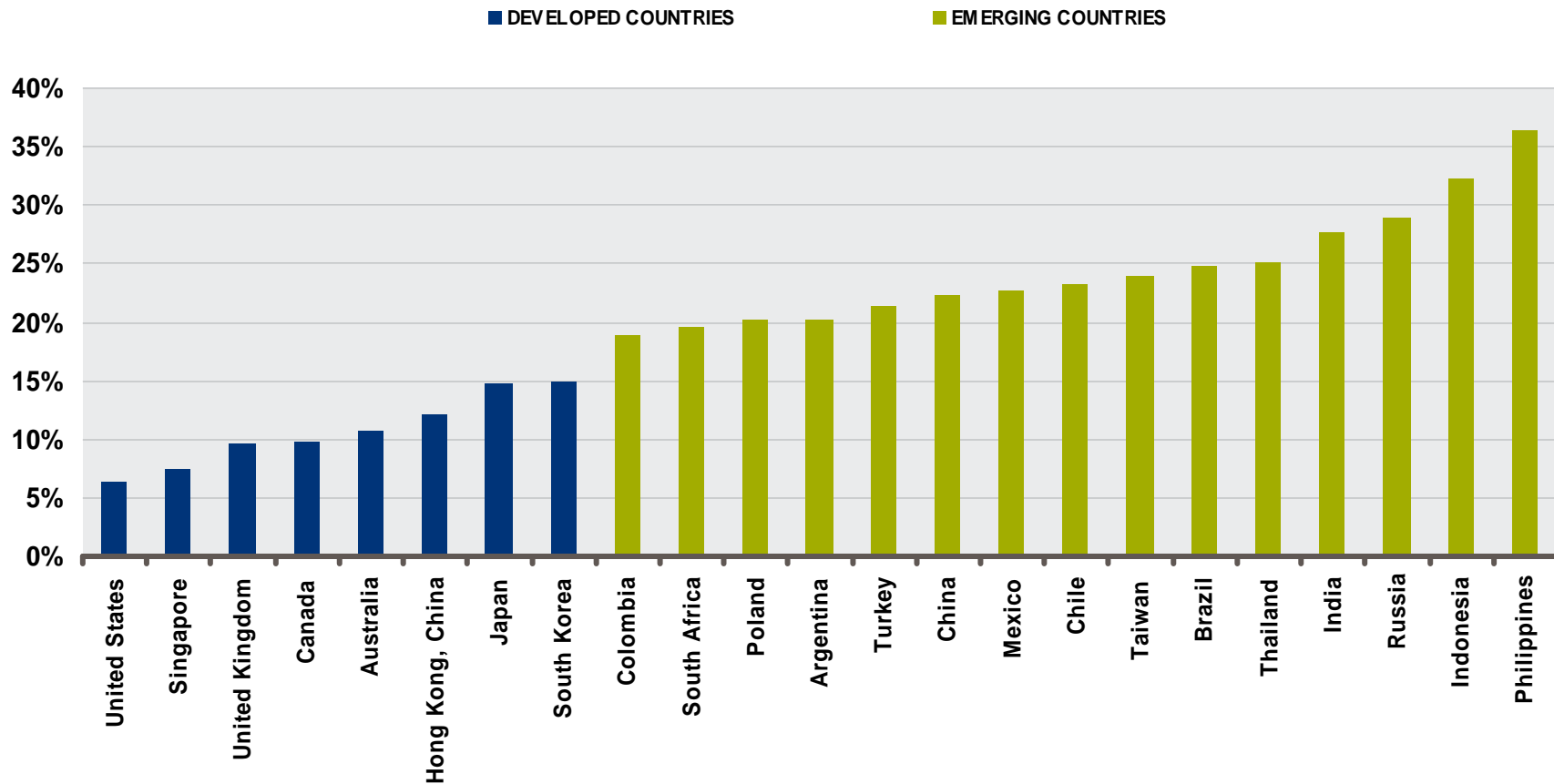
Average number of barrels of oil consumed in a year, by individual



Source: CIA World Factbook. Total oil consumed in barrels per year from 2009 and total population from 2011. The graph shows the average number of barrels of oil consumed in a year on a per capita basis.

# Emerging countries are more vulnerable to food price inflation

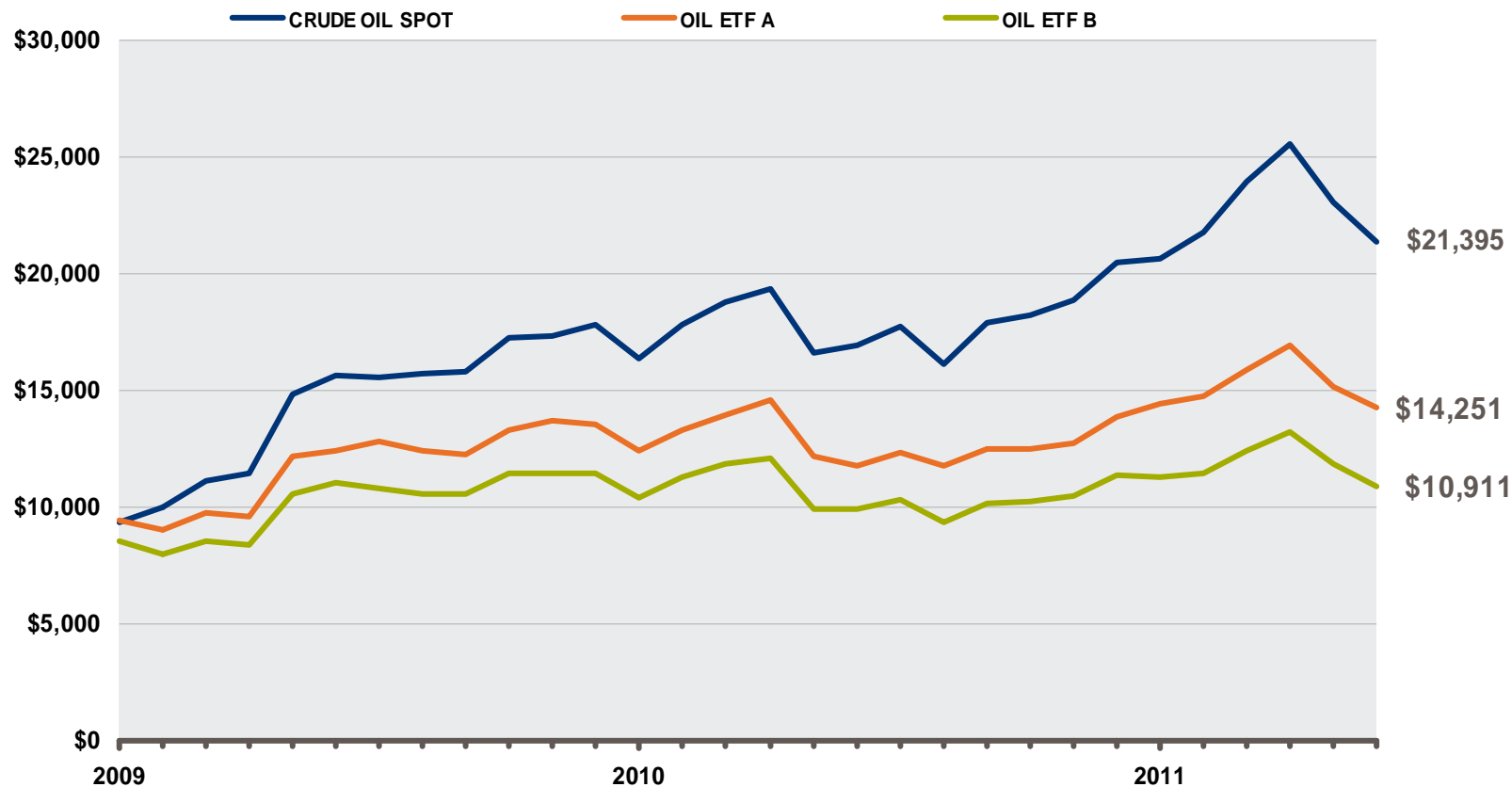
## Share of household final consumption expenditures (2010)



Source: U.S. Department of Agriculture Economic Research Service (ERS) food expenditure series. Food expenditures exclude alcoholic beverages, tobacco, pet food, ice, and prepared feed.

# Dollar impact of contango can be large

Hypothetical \$10,000 investments (January 2009 – June 2011)



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The chart illustrates the growth of \$10,000 for two different oil ETFs that track the price of oil futures contracts as well as \$10,000 invested in the spot price of oil itself on 12/31/2008. Results assume reinvestment of dividends, capital gains, and coupons; and no taxes or transaction costs. The green line represents, an oil ETF (ETF B) that holds one-month oil futures contracts and rolls its entire portfolio over to new futures contracts every month. The orange line represents an oil ETF (ETF A) that holds futures contracts but that holds either longer-term or shorter-term contracts depending on the size of contango or backwardation in oil prices. Contango is a market condition where the prices get progressively higher in the future delivery months, often due to the costs of storing and insuring the underlying commodity, opposite of backwardation. Past performance is no indication of future results.

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# Average returns occur infrequently

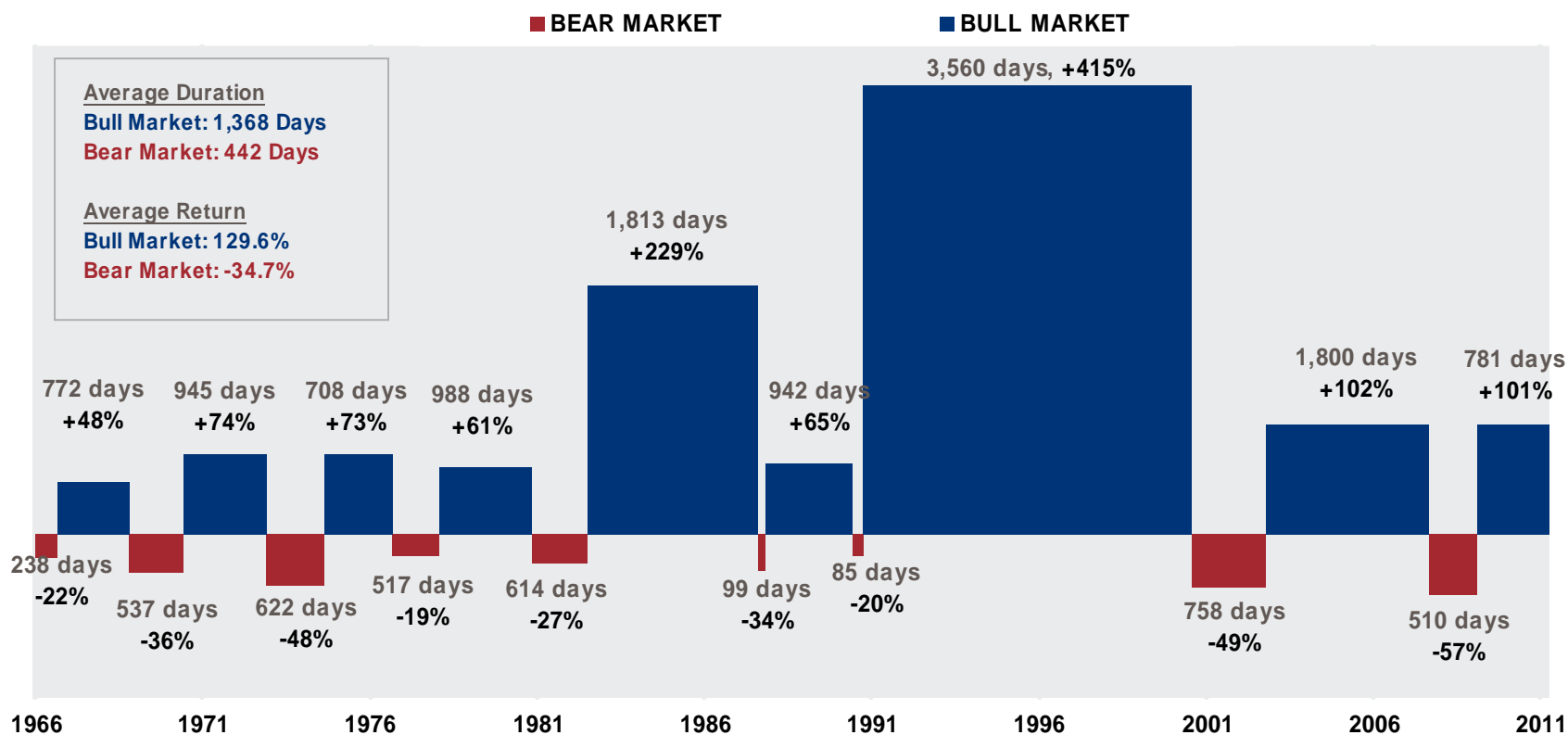
Annual S&P 500<sup>®</sup> Index returns came close to its average annual rate of return of 9.9% only 5 times in 85 years.

Less than -25%		-25% to -12%		-12% to -8%		-8% to 0		0 to 8%		8% to 12%		12% to 25%		More than 25%	
1931	-43.34	1930	-24.90	1929	-8.42	1934	-1.44	1947	5.71	1926	11.62	1942	20.34	1927	37.49
1937	-35.03	1973	-14.69	1932	-8.19	1939	-0.41	1948	5.50	1959	11.96	1944	19.75	1928	43.61
1974	-26.47	2002	-22.10	1940	-9.78	1953	-0.99	1956	6.56	1968	11.06	1949	18.79	1933	53.99
2008	-38.49			1941	-11.59	1977	-7.16	1960	0.47	1993	9.99	1951	24.02	1935	47.67
				1946	-8.07	1981	-4.92	1970	4.01	2004	10.88	1952	18.37	1936	33.92
				1957	-10.78	1990	-3.10	1978	6.57			1963	22.80	1938	31.12
				1962	-8.73			1984	6.27			1964	16.48	1943	25.90
				1966	-10.06			1987	5.25			1965	12.45	1945	36.44
				1969	-8.50			1992	7.62			1967	23.98	1950	31.71
				2000	-9.10			1994	1.31			1971	14.30	1954	52.62
				2001	-11.89			2005	4.91			1972	18.99	1955	31.56
								2007	5.49			1976	23.93	1958	43.36
												1979	18.61	1961	26.89
												1982	21.55	1975	37.23
												1983	22.56	1980	32.50
												1986	18.67	1985	31.73
												1988	16.61	1989	31.69
												1996	22.96	1991	30.47
												1999	21.04	1995	37.58
												2006	15.80	1997	33.36
												2010	15.06	1998	28.58
														2003	28.68
														2009	26.46

Source: Ibbotson Associates and Standard & Poor's. Ibbotson data beginning 12/31/26 through 12/31/70. Standard and Poor's data beginning 1/1/71 through 12/31/10. Returns from 2000 to 2010 are in red. Returns close to the 85-year average are in blue. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Performance is calculated assuming reinvestment of all dividends and capital gains. Past performance does not guarantee future results.

# Bear markets generally occur every 4 to 5 years

## S&P 500® Peak-to-Trough or Trough-to-Peak Price Returns (Feb 1966 – April 2011)



Source: Schwab Center for Financial Research with data provided by Bloomberg. The market is represented by daily price returns of the S&P 500® Index. Bear markets are defined as periods with cumulative declines greater than 10% and duration of at least 6 months. Periods with declines of 20% or more over at least 2 months are also considered as bear markets. Periods between bear markets are designated as bull markets. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no indication of future results.**

# Index Definitions & Disclosures

**Barclays Capital Global Aggregate Index** provides a broad-based measure of the global investment-grade fixed-rate debt markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. **The Global Aggregate Bond Index ex US** excludes the U.S. Aggregate component.

**Barclays Capital Credit Bond Index** includes all publicly issued, fixed rate, nonconvertible investment grade dollar-denominated, SEC-registered corporate debt. Included among Yankees is debt issued or guaranteed by foreign sovereign governments, municipalities, governmental agencies, or international agencies.

**Barclays Capital Municipal Bond Index** is a total return performance benchmark for the long-term, investment-grade tax-exempt bond market. The Index is classified into four main sectors: General Obligation, Revenue, Insured, and Pre-refunded Bonds.

**Barclays Capital U.S. Aggregate Bond Index** is a market-value-weighted index of taxable investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage backed securities, with maturities of one year or more.

**Barclays Capital U.S. Corporate High-Yield Bond Index** covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

**Barclays Capital U.S. Corporate Bond Index** covers the USD-denominated investment grade, fixed-rate, taxable, corporate bond market. Securities are included if rated investment-grade (Baa3/BBB-/BBB-) or higher using the middle rating of Moody's, S&P, and Fitch. This index is part of the U.S. Aggregate.

**Barclays Capital U.S. Government Bond Index** is composed of the Barclays Capital Treasury Bond Index (all public obligations of the U.S. Treasury, excluding flower bonds and foreign-targeted issues), and the Barclays Capital Agency Index (all publicly issued debt of U.S. Government agencies and quasi-federal corporations, and corporate debt guaranteed by the U.S. Government). Mortgage-backed securities are not included in the Agency Index.

**Barclays Capital U.S. Mortgage-Backed Securities (MBS) Index** is a market value-weighted index that measures the performance of investment grade fixed-rate mortgage-backed pass-through securities of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Freddie Mac (FHLMC). It includes securities that have 30-, 20-, 15-year and balloon securities with remaining maturity of at least one year and more than \$250 million outstanding face value.

**Barclays Capital U.S. Treasury Bond Index** includes public obligations of the U.S. Treasury excluding Treasury Bills and U.S. Treasury TIPS. The index rolls up to the U.S. Aggregate. Securities have \$250 million minimum par amount outstanding and at least one year until final maturity. Subindices based on maturity such as the U.S. 1-5 Year Treasury and the U.S. 5-10 year Treasury Bond Indices are inclusive of lower bounds. U.S. Intermediate Treasury includes bonds with maturities of 1 to 9.9999 years. U.S. Long Treasury includes maturities 10 years and greater.

**Barclays Capital U.S. Treasury Inflation-Protected Securities (TIPS) Index** is a market value-weighted index that tracks inflation-protected securities issued by the U.S. Treasury. To prevent the erosion of purchasing power, TIPS are indexed to the non-seasonally adjusted Consumer Price Index for All Urban Consumers, or the CPI-U (CPI).

**Citigroup U.S. 3-month Treasury Bill Index** is an index that measures monthly total return equivalents of yield averages that are not marked to market. The Three-Month Treasury Bill Index consists of the last three three-month Treasury bill issues.

**CRSP 6-8 Index** is a small-cap index created and maintained by the Center for Research in Security Prices (CRSP) at the University of Chicago's Graduate School of Business. CRSP capitalization-based indices include common stocks listed on the NYSE, AMEX, and the NASDAQ National Market. The CRSP 6-8 Index refers to the 6th through the 8th deciles and represents a small cap index that excludes micro-caps.

**Global Industry Classification Standard (GICS®)** was developed by Standard and Poor's in collaboration with Morgan Stanley Capital International (MSCI). It consists of 10 economic sectors aggregated from 24 industry groups, 68 industries and 154 sub-industries covering over 38,500 companies globally. The 10 sectors are Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Telecommunication Services, and Utilities.

**Ibbotson U.S. Intermediate-Term Government Bond Index** is constructed from monthly returns of non-callable bonds with maturities of not less than five years, held for the calendar year.

**MSCI EAFE® Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. The MSCI EAFE Index consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

Russell indices are market-capitalization weighted and subsets of the **Russell 3000® Index**, which contains the largest 3,000 companies incorporated in the United States and represents approximately 98% of the investable U.S. equity market. The **Russell 2000® Index** is composed of the 2000 smallest companies in the Russell 3000 Index. The **Russell 2000® Growth Index** contains those Russell 2000 securities with a greater-than-average growth orientation. The **Russell 2000® Value Index** contains those Russell 2000 securities with a less-than-average growth orientation. The **Russell 1000® Growth Index** contains those Russell 1000 securities with a greater-than-average growth orientation. The **Russell 1000® Value Index** contains those Russell 1000 securities with a less-than-average growth orientation.

**S&P 500® Index** is a market-capitalization weighted index that consists of 500 widely traded stocks chosen for market size, liquidity, and industry group representation.

**S&P U.S. Preferred Stock Index** is comprised of preferred stocks issued by U.S. entities that meet a set of defined criteria, such as market capitalization of more than US\$ 100 million. Preferred stocks are a class of capital stock that pays dividends at a specified rate and has a preference over common stock in the payment of dividends and the liquidation of assets. These include floating and fixed rate preferreds, cumulative and non-cumulative preferreds, preferred stocks with a callable or conversion feature, and trust preferreds.

Diversification does not eliminate the risk of investment losses.

Data contained herein from third party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed.

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# Index Definitions & Disclosures for Asset class performance varies from year to year

**Barclays Capital U.S. Aggregate Bond Index** is a market-value-weighted index of taxable investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage backed securities, with maturities of one year or more.

**Barclays Capital U.S. Corporate High-Yield Bond Index** covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

**Barclays Capital U.S. Treasury Inflation-Protected Securities (TIPS) Index** is a market value-weighted index that tracks inflation-protected securities issued by the U.S. Treasury. To prevent the erosion of purchasing power, TIPS are indexed to the non-seasonally adjusted Consumer Price Index for All Urban Consumers, or the CPI-U (CPI).

**Citigroup U.S. 3-month Treasury Bill Index** is an index that measures monthly total return equivalents of yield averages that are not marked to market. The Three-Month Treasury Bill Index consists of the last three three-month Treasury bill issues.

**MSCI EAFE® Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. The MSCI EAFE Index consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

**MSCI Emerging Markets Index<sup>SM</sup>** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

**MSCI US REIT Index** is a free float-adjusted market capitalization weighted index that is comprised of equity REITs that are included in the MSCI US Investable Market 2500 Index, with the exception of specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. The index represents approximately 85% of the US REIT universe.

Russell indices are market-capitalization weighted and subsets of the **Russell 3000® Index**, which contains the largest 3,000 companies incorporated in the United States and represents approximately 98% of the investable U.S. equity market. The **Russell 2000® Index** is composed of the 2000 smallest companies in the Russell 3000 Index.

**S&P 500® Index** is a market-capitalization weighted index that consists of 500 widely traded stocks chosen for market size, liquidity, and industry group representation.

**S&P GSCI®** (Goldman Sachs Commodity Index) is a world production-weighted index comprised of the principal physical commodities that are the subject of active, liquid futures markets.

Diversification does not eliminate the risk of investment losses.

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