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SUMMER 2013

AT THE HELM

Strategies for generating income in retirement

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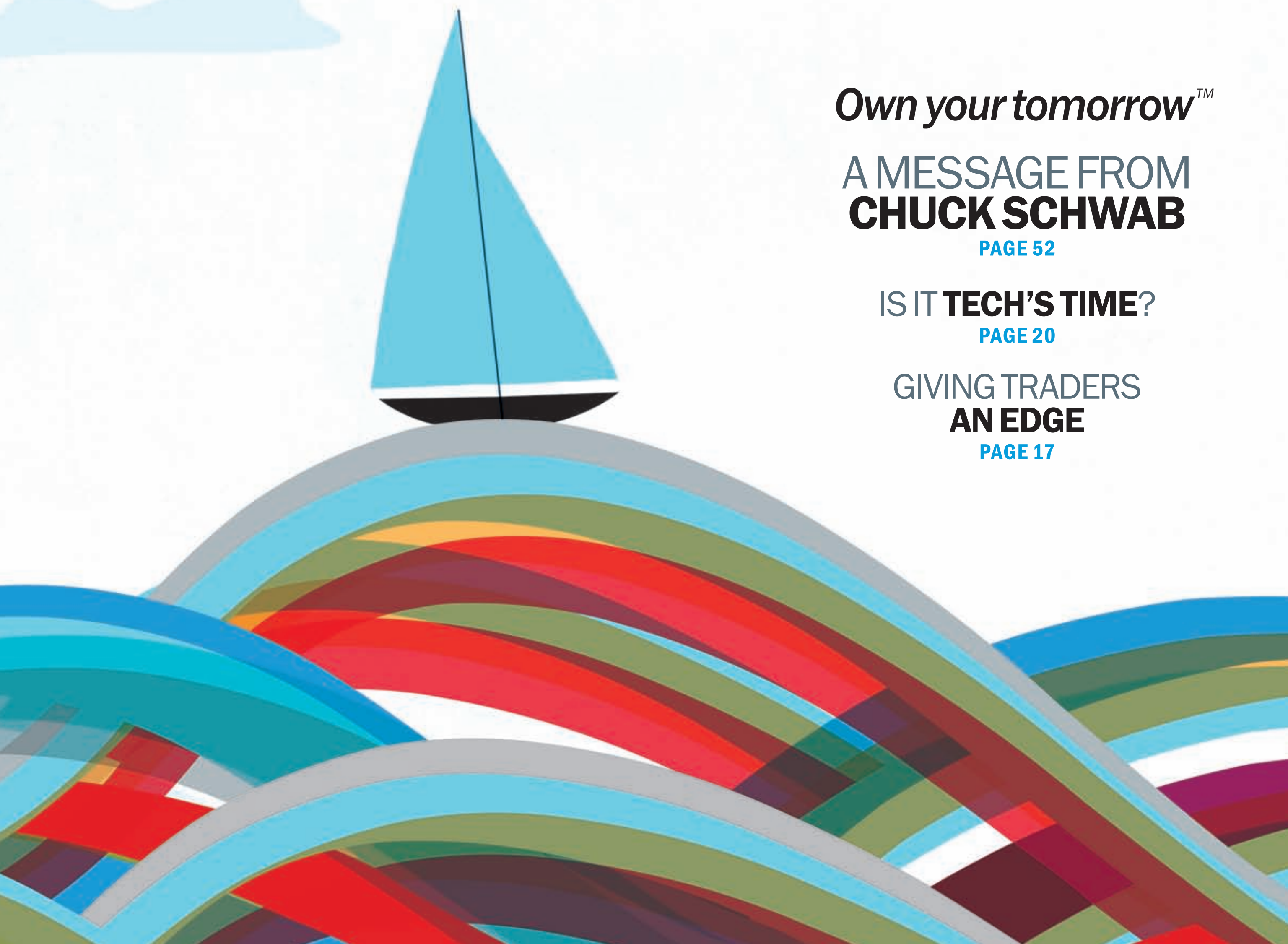

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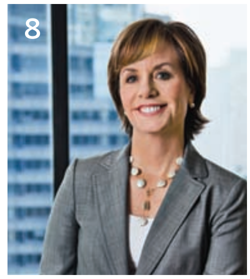

ON THE COVER

DEPARTMENTS

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Cover Illustration: Andrew Bannecker

Never Settle

New affiliates and products offer clients improved access to income-generating investment options.

"The intersection of value and performance is even more important for investors nearing retirement."

At Schwab, we believe investors should have access to the investing strategies they need and deserve without having to compromise on cost or outcomes. The intersection of value and performance is even more important for investors nearing retirement. We've heard that they want more choices in income-generating investments—options that seek to balance the need for growth with the need for a reliable income stream—all for a fair price. To help investors achieve this, we've expanded our focus on income generation in two ways.

Our acquisition of ThomasPartners, Inc., expands our offering of dividend-paying investment options. ThomasPartners' approach to constructing investment portfolios that generate dividend income streams makes sense for many of our Baby Boomer clients who are nearing and entering retirement. This addition to our existing money management lineup strives to offer both value and performance—because you shouldn't have to settle for one or the other.

Investors nearing retirement have also been looking for the dependability of a regular annuity payout without the high fees that characterize many variable annuities. We were confident we could provide just that, so we introduced the Schwab Retirement Income Variable Annuity™, a product designed to help you build for retirement with tax-deferred growth potential. And with the optional Guaranteed Lifetime Withdrawal Benefit rider,[1] you're guaranteed a minimum level of income that is able to rise with market gains, but that will not fall in the event of a downturn.

Our low-cost[2] investment products are designed to help you avoid settling where it matters most—on your future.

Sincerely,

Walt Bettinger
President & CEO

[1]Guaranteed Lifetime Withdrawal Benefit is an optional rider available for an additional cost. Restrictions and limitations apply. See the prospectus for details.
[2]The average base annuity fee is 1.34% according to a December 31, 2012, Morningstar survey of 1,925 variable annuities. This does not include fees associated with optional riders or the underlying investment options.

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The Guaranteed Lifetime Withdrawal Benefit (GLWB) is not a contract value and is not available for withdrawal like a cash value.

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Through Clients' Eyes

Real clients discuss their unique experiences in Schwab Stories, a new series of multimedia posts and blog entries.

CAITLIN CHILDS
Client since: 2006
Goal: Save for retirement
How Schwab helped: Caitlin has a Roth IRA and uses Schwab's online tools to guide her investing decisions, including determining her risk tolerance and asset allocation.

CHICK HODGE
Client since: 1979
Goal: Give back
How Schwab helped: Chick's Schwab Charitable account has allowed him to streamline his charitable giving so he can spend more time giving back to his community, including promoting a tennis program for disadvantaged youths.

EILEEN BIRGE
Client since: 1983
Goal: Retire early
How Schwab helped: Schwab's support, tools and resources helped self-directed investor Eileen retire at 61. Now, she has more time for family, travel, the arts and community service.

NEXT STEPS

To read more about Caitlin's, Chick's and Eileen's experiences with Schwab, and to see how other clients are using Schwab's wide range of resources, visit **aboutschwab.com**.

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Riding the Current

Will strong dividends help utility stocks power up?

For utility stocks, the past two years have played out like a power surge followed by a blackout. Utilities trounced every other sector in the S&P 500® Index in 2011 with a 17% return, only to generate a meager 2% return in 2012, lagging behind other industries.[1]

Which way will the switch flip in 2013? The sector faces some difficult long-term challenges, such as flattening US electricity demand, stagnant power prices and higher capital-spending requirements tied to new sector-specific emissions standards.

Near-term prospects might be brighter, though. At the end of 2012, utility stocks offered an average 4.1% dividend yield, more than double US Treasury yields.[2] Strong payouts may be able to lift the utility sector this year, but investors should be prepared to shift their allocations if mounting financial pressures put dividends at risk. ■

LEARN MORE
Visit **schwab.com/OIsectors** to see our current outlook for each of the 10 sectors.

[1]Travis Miller, "Our Outlook for Utilities Stocks," Morningstar, December 28, 2012.
[2]Ibid.

Past performance is no guarantee of future results.

Investments in individual sectors are typically not diversified and may involve a greater degree of risk than investments with greater diversification.

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The 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.

Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly.

©Brian Stauffer (top and right)

Are You Still Paying Bank Fees?

Comparing accounts may help you save.

Some aspects of banking continue to get more expensive for consumers. According to Bankrate's annual Checking Survey, the fees charged to US checking account holders were almost universally higher in 2012 than in 2011—some by 25% or more.[1]

In some cases, free checking is becoming a perk of the past—just 39% of banks offered it in 2012, down from 45% in 2011. And the average ATM fee rose 4% last year, which was twice the rate of inflation.[2]

Before you accept higher fees, consider shopping around for a checking account that doesn't require a minimum balance and that waives or reimburses ATM fees. While these charges are often small—ATM fees average between $1 and $2.50, depending on the bank and whether you're a client[3]—they add up over time. ■

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

[1]Claes Bell, "Checking fees rise to record highs in 2012," Bankrate.com, September 24, 2012.
[2]Ibid.
[3]Blake Ellis, "Bank fees are on the rise," CNNMoney.com, August 13, 2012.

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Mixed Signals

What's driving corporate profits?

Roughly 75% of companies in the S&P 500® Index that reported fourth-quarter 2012 earnings surpassed analysts' expectations,[1] which may have helped push stocks close to 2007 highs.

Despite strong earnings, however, companies have been decidedly cautious about committing fresh capital. Executives responding to a December 2012 survey by *CFO* magazine and Duke University said their companies planned to increase investment spending by 2.6% this year. That's down more than five percentage points from December 2011 projections.[2]

At times like these, investors should pay close attention to what's driving profits, says Greg Forsythe, Senior Vice President of Schwab Equity Ratings® at the Schwab Center for Financial Research.

"Better-than-expected earnings aren't always a signal of a worthy investment," Greg says. "Companies may be boosting profits by hoarding cash, laying off employees or other moves that could slow growth going forward."

When researching individual stocks, investors should consider the company's earnings fundamentals, says Greg. "When we rate individual stocks, we look for positive indicators, such as growing cash flow from operations, increasing cash returns on investments, low capital intensity and improving operating efficiency." ■

NEXT STEPS
Log in to **schwab.com/OIstocks** and search a ticker symbol to view its Schwab Equity Rating.

[1]Lu Wang and Sarah Pringle, "US Stocks Rise as Dow Climbs to 5-Year High on Earnings," Bloomberg, January 29, 2013.
[2]Scott Thurm, "Companies Fret Over Uncertain Outlook," *The Wall Street Journal*, February 10, 2013.

Schwab Equity Ratings use a scale of A, B, C, D and F, and are assigned to approximately 3,200 US-traded stocks headquartered in the United States and certain foreign nations where companies typically locate or incorporate for operational or tax reasons. Schwab's research outlook is that A-rated stocks, on average, will strongly outperform, and F-rated stocks, on average, will strongly underperform the equities market during the next 12 months. Schwab Equity Ratings are not personal recommendations for any particular investor. Before buying, investors should consider whether the investment is suitable for themselves and their portfolio. Schwab Equity Ratings should only constitute one component in your own research to evaluate stocks and investment opportunities. From time to time, Schwab may update the Schwab Equity Ratings methodology.

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Expanding the Pie

Diversifying through multi-asset funds.

Multi-asset funds—which invest in a combination of stocks, bonds and other security types—were a popular pick for investors in 2012, posting their 12th consecutive month of positive net inflows in November.[1]

In addition to domestic stocks and bonds, these funds can include real estate investment trusts (REITs), emerging-market equities and debt, master limited partnerships, high-yield bonds and preferred stocks. Multi-asset funds can also offer exposure to commodities and currencies.

These types of portfolios can be an effective way for investors to diversify and gain exposure to asset classes they might not normally access individually, helping mitigate the risks of non-diversification. However, be sure you understand how these funds allocate their holdings before you invest. Examine the underlying investments to make sure a multi-asset fund meets your risk profile, is truly diversified and makes sense with the rest of your portfolio. ■

[1]*Fund Flows Insight Report*, Lipper Research Series, November 30, 2012.

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Performance may be affected by risks associated with non-diversification, including investments in specific countries or sectors. Additional risks may also include, but are not limited to, investments in foreign securities, including currencies, especially emerging markets; REITs; fixed income, especially high-yield bonds; commodities; and small-capitalization securities. Each individual investor should consider these risks carefully before investing in a particular security or strategy.

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

DO THE RESEARCH
To research multi-asset funds, log in to **schwab.com/OIresearch**, click "Mutual Funds" and type "multi-asset fund" into the search box.

Interest Rate Outlook

How the unemployment rate will affect the Fed's actions.

In December 2012, the Federal Reserve declared that it would keep interest rates "exceptionally low" as long as the US unemployment rate remains above 6.5%.[1]

Q: What was the intent behind the Fed's announcement?
A: The central bank is working to make its deliberations on interest rates more transparent to the public. The announcement also allows investors to prepare for interest rate changes as the unemployment rate approaches the 6.5% threshold.

Q: When does the Fed expect the labor market to reach that target?
A: The Fed's latest economic projections don't show the jobless rate reaching 6.5% until at least 2015, although the latest trend in the actual data suggests it could be earlier.[2]

Q: Will benchmark interest rates remain the same until then?
A: The Fed cautioned that it might move interest rates sooner if the medium-term outlook for inflation tops 2.5%.[3]

Q: How can I track the jobless and inflation rates?
A: The Labor Department reports the jobless rate on the first Friday of each month. The Fed's preferred inflation measure, the core personal consumption expenditures price index, is included in the Commerce Department's monthly report on personal income and outlays. ■

LEARN MORE
Visit **schwab.com/OImarketinsight** to learn more about this and other timely issues affecting your investments.

[1]Binyamin Appelbaum, "Fed Ties Rates to Joblessness, With Target of 6.5%," *The New York Times*, December 12, 2012.
[2]Federal Reserve, "Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents," December 12, 2012.
[3]Press release, Board of Governors of the Federal Reserve System, December 12, 2012.

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THE FED & YOUR FINANCES

The Federal Reserve uses monetary policy tools to keep the economy growing fast enough to create jobs while also keeping inflation at bay. Here's a quick look at how it manages that balance, and how your finances are affected.

1 THE FED'S TARGETS

- Low medium-term inflation
- High employment

INFLATION

TARGET **2.5%**

AS OF 2/13 **1.3%**

The Fed's favorite inflation gauge—the core personal consumption expenditures index—is comfortably below its target.

UNEMPLOYMENT

AS OF 3/13 **7.6%**

TARGET **6.5%**

The nation's jobless rate has remained above the Fed's target rate since October 2008.

2 SOME OF ITS TOOLS

- Fed funds rate
- Buying & selling bonds

FEDERAL FUNDS RATE

This is the rate banks charge each other to hold assets overnight and is a key determinant of the prime rate. Changes to the fed funds rate can either encourage or discourage borrowing because the prime rate directly impacts interest rates offered on personal and business loans.

BOND PURCHASES AND SALES

The Fed may buy and sell federal agency securities, such as US Treasury bonds, to influence interest rates. To push rates lower, it may also purchase assets from commercial banks and private institutions—a practice known as "quantitative easing."

3 THE EFFECT OF INTEREST RATES ON ...

Lowers return on savings accounts, certificates of deposit or other interest-bearing accounts.	LOWER	**SAVINGS**	HIGHER	Encourages saving by paying more interest in savings vehicles.
Generally is negative for stocks because it leads to slower growth in the economy.	HIGHER	**STOCKS**	LOWER	Encourages lending and faster economic growth. Is generally positive for stocks.
May encourage investors to buy longer-term bonds, pushing prices higher and yields lower.	LOWER	**BONDS**	HIGHER	May encourage investors to sell longer-term bonds, depressing prices and boosting yields.
Makes borrowing more expensive. Banks may have difficulty accessing money, thereby limiting new loans.	HIGHER	**DEBT**	LOWER	Decreases the costs of borrowing money. Makes it cheaper for banks to access money, making them more likely to lend money.
Lessens the value of each dollar already in circulation as more money flows into the economy.	LOWER	**THE DOLLAR**	HIGHER	Reduces the flow of money into the economy, increasing the value of each dollar already in the system.

Sources: Ben Bernanke, "The Crisis and the Policy Response" (speech), FederalReserve.gov, January 13, 2009. Eric Feigenbaum, "Impacts of Monetary Policy," Smallbusiness.Chron.com. "Monetary Policy," FAQs, RichmondFed.org. "Open Market Operation," NewYorkFed.org, August 2007. "Unconventional Monetary Policy: Loose Thinking," Economist.com, October 15, 2009.

Health Care Costs in Retirement

Are you saving enough?

By Carrie Schwab-Pomerantz

©Ed Caldwell

Dear Carrie,

I'm hoping to retire in five years, when I turn 65. How much should I be saving for health care expenses that won't be covered by Medicare?

—A Reader

Dear Reader,

There are many unknown factors when it comes to predicting individual health care costs, but the one thing we can pretty much count on is health care inflation. According to Standard & Poor's, costs for health care went up by more than 5% in 2012, while the Consumer Price Index—a common measure of inflation—rose less than 2%.

In December 2010, the Employee Benefit Research Institute (EBRI) estimated that a couple with median drug expenses would need to save \$271,000 in order to have a 90% chance of covering their projected health care costs in retirement. That may sound like a big number, but when you consider that it translates to an annual cost of \$13,550 for 20 years, it's more realistic. Here's how to plan.

Start With Medicare Costs

Some people are surprised to find that Medicare isn't entirely free. Most people won't pay a premium for Medicare Part A—which covers hospital care, home health services and care at a skilled nursing facility—but hospital stays have a \$1,184 deductible, plus a copayment for stays over 60 days. For 2013, monthly Part B premiums (for doctor's visits, lab tests and supplies) range from \$104.90 to \$335.70, depending on your income and tax filing status. For some doctor's visits, there is a \$147 deductible plus copayments.

You will also pay for a Part D prescription drug policy. The base monthly premium depends on your plan and your income, but averaged about \$40 a month in 2012. Depending on your plan, you may have to cover deductibles and copayments.

Then, there's the "doughnut hole"—the gap in coverage once drug costs reach a certain dollar amount (\$2,970 in 2013), after which you pay a higher percentage for prescriptions until you hit the annual out-of-pocket maximum, which is currently \$4,750. Fortunately, under the Affordable Care Act, the size of the doughnut hole will decrease yearly until it ultimately closes in 2020.

Factor in Supplemental Insurance

Because Medicare doesn't cover everything, the next potential cost to consider is supplemental insurance. You must be enrolled in both Medicare Parts A and B to qualify for either of the following:

- **Medigap Policy.** Sold by private insurance companies, Medigap pays for the cost of copayments and deductibles, but it generally doesn't cover prescription drugs, dental expenses or vision expenses. While Medigap plans and coverage are regulated by federal and state laws, plan costs vary depending on where you live and the type of policy you choose. Prices can range from less than $50 to more than $300 a month.

- **Medicare Advantage Plan.** Called Part C, this is an alternative way to receive Medicare benefits, and can be structured as an HMO or PPO. Medicare Advantage Plans are offered by private insurance companies and must include all benefits provided under Medicare Parts A and B. Like Medigap policies, these plans vary in terms of cost, services, deductibles and copayments. While generally less expensive than Medigap plans, they can run higher than $50 a month, so it's wise to research what's available in your area.

Remember, premiums for supplemental insurance can vary and are *in addition* to monthly premiums for Medicare itself.

Add What Medicare Doesn't Cover

Many services—such as dentistry, hearing aids and long-term care—likely won't be covered by either Medicare or your supplemental insurance.

If you don't have long-term care insurance (LTCI), it merits some thought. Most people don't realize that Medicare only pays for medically necessary skilled nursing and home care, such as changing dressings, not "activities of daily living" like bathing and eating.

Premiums for LTCI go up as you get older or as your health declines, so purchasing a plan when you're between the ages of 50 and 65 is generally more cost-effective, provided you're in good health. LTCI is not inexpensive, but it can help protect your retirement assets down the road.

Make Health Care a Part of Your Retirement Budget

Looking at these costs in light of your own health, your family's history of longevity and your current retirement savings will give you an idea of how much more you need to save. One effective way to plan for medical expenses is to contribute the yearly maximum to a Health Savings Account (HSA), if you have one, and get a tax benefit at the same time.

With health care expenses going up, my advice is to consider health care as a significant item in your retirement budget and save as much as you can. Then, hopefully, you can relax and enjoy a long and healthy life. ■

Carrie Schwab-Pomerantz, CFP®, is President of Charles Schwab Foundation and Senior Vice President of Schwab Community Services at Charles Schwab & Co., Inc.

DON'T MISS THE MEDICARE ENROLLMENT WINDOW

As you approach age 65, make sure you're enrolled in Medicare. If you're already collecting Social Security, you'll be automatically enrolled in Parts A and B (and your monthly premium will be withheld from your benefit check). But if you're not, you have a seven-month window (three months before and after the month you turn 65) to sign up and avoid a late enrollment penalty.

LEARN MORE

Find answers to more retirement questions at **schwab.com/OIretirementplanning**.

CORRECTION

Thanks to readers for pointing out an error in "Financial Milestones for Baby Boomers" in our Spring 2013 issue, in which we stated that age 62 is the earliest you can begin collecting Social Security. However, if you are disabled or entitled to survivor benefits, you can begin collecting Social Security before age 62.

BONDS

Diversifying With Municipal Revenue Bonds

Consider these investments to complement your general obligation bonds.

By Rob Williams

With financial stresses impacting many state and local governments' general obligation (GO) bonds, it's easy to overlook a huge swath of the municipal market—muni revenue bonds, which make up close to 60% of the $3.7 trillion muni market.[1] Unlike GO bonds, which are backed by a specific tax source or by a full faith and credit from state and local government general revenues, muni revenue bonds are paid from specific revenue sources.

Given today's slowly expanding economy, investors looking to diversify their muni portfolios may want to complement their GO holdings with revenue bonds—particularly those backed by essential services, which are systems users can't do without.

The credit characteristics and qualities of revenue bonds vary more than those of GO bonds, so it's important to understand the details of the enterprise and revenue available to back a bond. The revenue type or sector also plays a big role in the credit quality, with essential services at the higher end of the credit quality spectrum and housing at the lower end.

"WE THINK **MUNI BONDS BACKED BY REVENUES** FROM ESSENTIAL SERVICES **ARE A GOOD PLACE TO START** BECAUSE THEIR CREDIT RATINGS TREND TOWARD THE UPPER END OF CREDIT QUALITY."

Why Essential Services?

We think muni bonds backed by revenues from essential services are a good place to start because their credit ratings trend toward the upper end of credit quality. Examples of essential services are water and sewer systems, the bonds for which are backed by revenues from water and sewer utility charges. Demand for essential services tends to be consistent regardless of economic conditions or tax collections, which may make the bond issuers less likely to default than those of non-essential service bonds, all else being equal.

The Credit Quality Spectrum

Other areas of the revenue bond market often involve more credit risk than bonds backed by essential services. A step below essential service revenue bonds, you'll generally find the following:

- **Special-tax revenue bonds,** which are secured by special taxes like dedicated sales tax. Sales taxes are driven by consumer activity, which can be highly dependent on the economic climate and spending. However, many special-tax revenue bonds have legal covenants that require available revenues to provide a certain level of coverage over debt service, providing some cushion if revenues fall.
- **Higher-education revenue bonds** are backed by the revenues of higher-education facilities. Credit quality for these bonds depends on student demand and other resources available to the higher-education enterprise.
- **Transportation revenue bonds** are backed by revenues from airports or transit systems. These bonds vary in quality based on system maturity, management quality and business strength. Mass transportation systems, for example, may have stronger credit characteristics, a more predictable customer base and more flexibility to manage financial challenges than other less-developed or less-essential systems.

Further along the credit quality spectrum lie more-speculative revenue sources, including:

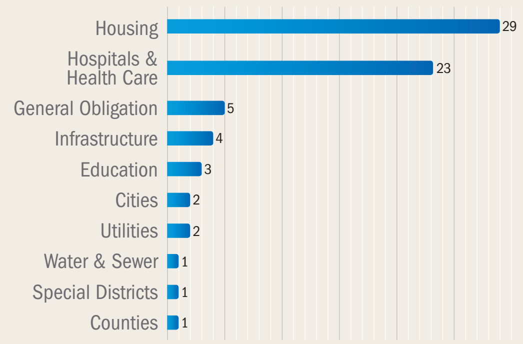
- **Hospital revenue bonds** backed by revenues of not-for-profit hospitals. On average, these may have less-stable credit characteristics,

TAKE ACTION

For help choosing bonds, call a Schwab Fixed Income Specialist at **877-563-7818** or visit our Bonds and Fixed Income Center at **schwab.com/OIbonds**.

ESSENTIAL SERVICE BOND ISSUERS RARELY DEFAULT

Defaults by sector, Moody's-Rated Issuers (1970–2011)



Source: Moody's Investor Services, "US Municipal Bond Defaults and Recoveries, 1970–2011," March 7, 2012. Default counts include Moody's-rated issuers only. Defaults historically have been higher for issuers with no bond ratings.

depending on the size and financial strength of the hospital or system. Smaller health-care issuers, such as nursing homes, may have non-investment-grade (speculative) credit characteristics.

- **Electric revenue bonds,** which are secured by power plants and electrical generation facilities, may be exposed to increased business risks, depending on the competition and service area.

As you can see in the chart above, the majority of muni defaults have historically been in sectors with more-volatile credit characteristics. Therefore, we believe these more-speculative areas should be explored only by investors with higher risk tolerances who are willing and able to dig deeper into credit quality.

We suggest that muni bond investors consider a mix of high-quality GO bonds and highly rated essential-service revenue bonds in laddered portfolios invested to maturities of up to 12 years. When choosing a revenue bond, focus first on more highly rated bonds, examining the business characteristics and revenue drivers of the bonds you own. Consider additional credit risk in more-speculative sectors or in longer maturities only if it makes sense based on your income needs, risk tolerance and knowledge of those sectors. ■

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

IMPROVED ACCESS TO THE NEW ISSUE MARKET

Interested in muni bonds backed by essential services? Accessing municipal securities through the new issue market is important for investors because everyone pays the same price. In some cases, the new issue market also gives investors access to bonds that otherwise might not be available in the secondary markets. For greater access to deals from smaller issuers, as well as issuers outside of major metro areas, Schwab now provides access to new issue municipal bonds from Piper Jaffray.

We also offer clients the ability to be notified of new municipal deals as they are announced through our New Bond Issues alerts. To sign up for new issue alerts, log into **schwab.com/OIalerts** and click "Bond Alerts."

[1]Barclays, as of October 1, 2012. The muni market is represented by the Barclays Municipal Bond Index.

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Barclays Municipal Bond Index consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market.

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INTERNATIONAL

Mexico: A Case Study for International Investing

Factors to consider when researching foreign investments.

By Michelle Gibley

A young, educated workforce in Singapore. Rising household income in Brazil. Export growth in Mexico.

These are just some of the factors driving global growth, and if you're only investing domestically, you could be missing out on growth opportunities. In fact, investing solely in the United States amounts to excluding three-fourths of the global economy[1] and more than half of the world's stock market value.[2]

Plus, a range of factors—younger populations, abundance of natural resources, export strength, differences in household income—provide some international markets with growth opportunities that may not be available in the United States.

Using Mexico as a case study, let's take a look at some of the key factors to consider when researching international investments.

Export Prospects

Mexico's stock market surged 20% in 2012,[3] and its geographical proximity to the United States may have had something to do with that.

Manufacturers in Mexico are gaining market share, benefitting from "near-shoring," the global trend of placing plants closer to end-consumer markets like the United States.

"APPROACH INTERNATIONAL INVESTING AS A WAY TO DIVERSIFY AWAY FROM US-ONLY HOLDINGS AND TAP INTO POTENTIAL GROWTH OPPORTUNITIES."

Mexico has also benefitted from a changing cost equation. Rising labor costs, as well as increases in transportation and real estate costs, are undermining China's competitive advantage. In 2000, Mexican factory workers earned more than four times as much as Chinese workers, according to the Boston Consulting Group (BCG).[4] By 2010, Mexican workers earned only 1.5 times as much as Chinese workers, largely a result of China's double-digit wage increases in recent years. BCG estimates that by 2015, the total cost—including benefits, taxes and indirect costs—of hiring Chinese workers may be 25% higher than that of hiring Mexican workers.

Roughly 80% of Mexico's exports went to the United States in 2011,[5] and exports constitute more than 30% of Mexican gross domestic product (GDP), meaning the United States generates a quarter of Mexico's economic activity. If growth in the United States continues, Mexico will likely benefit from it.

Ability for Consumers to Spend

Mexico's increased market share brings with it the need for workers with advanced skills, such as those required to produce telecom and aerospace equipment. Due to Mexico's strength in manufacturing, the number of private sector jobs has grown 4.6% annually for the past two years, and real wages have increased 0.4% during the same time.[6]

Meanwhile, inflation has stabilized despite rising food costs during 2012, and consumer confidence is strong. Consumers' access to credit has improved, with consumer lending growing at a fast clip during the past two years, driven in part by banks reducing interest rates and collateral requirements.

Consumer-related sectors account for more than 50% of Mexico's stock market, so these factors all combine to foster a potentially bright outlook for Mexico's economy.[7]

Monetary and Fiscal Policy

It's useful to compare Mexico to the rest of Latin America. After initial cuts in 2009, Mexico's central bank has been one of the few from emerging markets able to avoid raising rates in response to inflation risks, which has bolstered the peso. Additionally, Mexico's new government has promised reforms to open up markets to competition, revive growth and reduce government interference.

Brazil's monetary policy, on the other hand, has been quite volatile. Its central bank raised rates by 3.75 percentage points between January 2010 and August 2011, and then cut rates by 5.25 percentage points. The rate hikes were in response to inflation and currency upside risks, but contributed to inflation volatility, as well as consumer and investor uncertainty. Brazil's new government has also increased its interference in certain companies in the energy and materials sectors, reducing their profitability.

Unique Risks

Overall, investing internationally carries risks, including political instability and limited access to timely and accurate information. In addition, each country also comes with its own unique risks that you should be aware of before making an investment decision.

For example, with 80% of its exports destined for the United States, Mexico's economy may slow if the US economy lags. Another risk factor is that one stock constitutes about 20% of Mexico's main stock index, so the performance of that stock could have a large influence on the overall market. Mexico's stock market rose 20% in local currency in 2012, and 29% when factoring in a gain in the peso for US dollar investors. As a result, the stock market appears somewhat expensively valued. However, we like Mexico's long-term story and investors may want to take advantage of market volatility to buy on dips.

Overall, investors should approach international investing as a way to diversify away from US-only holdings and tap into potential growth opportunities. We believe investors should have some international exposure, though how much exposure will depend on your risk tolerance. Allocating between 5% (for conservative investors) and 25% (for more aggressive investors) of your total portfolio to international stocks is a good rule of thumb. ■

Michelle Gibley is Director of International Research at the Schwab Center for Financial Research.

MANUFACTURING IN MEXICO CONTINUES TO GROW

Source: FactSet and National Institute of Statistics and Geography, as of November 30, 2012.

[1]International Monetary Fund, December 2011.
[2]S&P Global Broad Market Index, May 2012.
[3]Mexico IPC Index, Bloomberg, as of December 31, 2012.
[4]Boston Consulting Group, "Made in America, Again," August 2011.
[5]Mexico's National Institute of Statistics and Geography (INEGI).
[6]"Mexico Economic Outlook, Third Quarter 2012," BBVA Research, August 2, 2012.
[7]Bloomberg, January 15, 2013.

Past performance is no guarantee of future results.

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Examples provided are for illustrative purposes only and are not intended to be reflective of results you can expect to achieve.

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.

The Mexican IPC index is a capitalization-weighted index of the leading stocks traded on the Mexican Stock Exchange.

Indexes are unmanaged, do not incur management fees, costs or expenses, and cannot be invested in directly.

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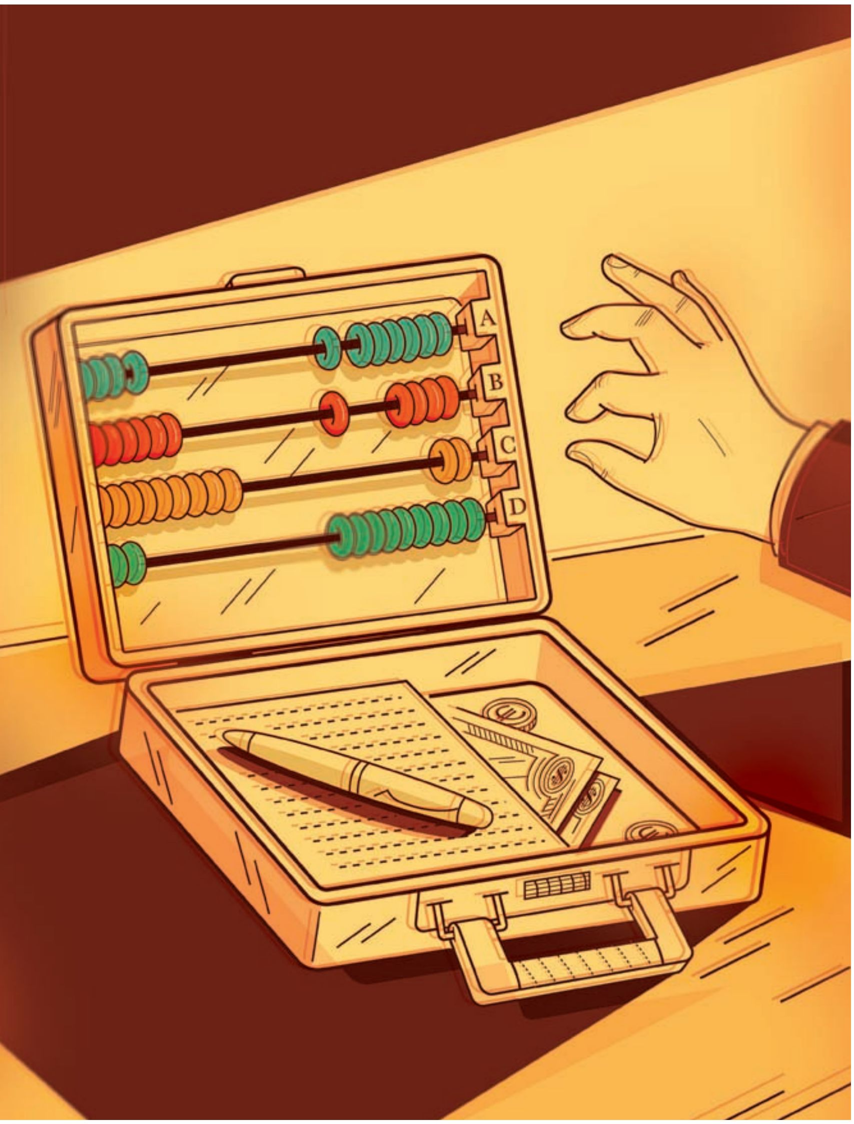
ETFs

ETFs: How Much Do They Really Cost?

Three things to consider when calculating the cost of an ETF.

By Michael Iachini



Exchange-traded funds (ETFs) carry a well-deserved reputation for being a low-cost investment tool. Not all ETFs are created equal when it comes to costs, though, and calculating the total cost of an ETF involves looking at several factors. If you're interested in building an ETF portfolio with low costs, you'll need to think about more than just expense ratios—commissions and bid-ask spreads are important, as well.

Let's take these costs one at a time.

1 Expense Ratio

Every mutual fund and ETF has an expense ratio, sometimes referred to as an operating expense ratio (OER). This is a number expressed as a percentage, such as 0.25%. The expense ratio is the amount of money the manager of the fund takes each year to cover the fund's operations as a percentage of the fund's assets. This covers the manager's salary, research costs, data and so on.

When people talk about ETFs having low costs, they usually mean the expense ratio, which does tend to be very low for most ETFs. Since ETFs track indexes, they don't usually need to pay for expensive research to help decide which securities to buy; most of the time, they simply buy everything (or almost everything) in the index.

Expense ratios have been coming down in the ETF industry,[1] and you should be able to find good US stock ETFs with expense ratios of less than 0.20% (some as low as 0.04%). US bond ETFs can be found for similar costs. International and emerging-market ETFs may cost a bit more (though the lowest-OER ETFs of these types are around

0.15%), and commodities ETFs are closer to 1%. When examining expense ratios, compare similar ETFs, such as those that track the same index—all else being equal, a lower expense ratio is better.

2 Trading Commission

Because ETFs trade like stocks, your broker will, by default, charge a trading commission each time you buy or sell shares. Commissions don't tend to vary by ETF, so you may be able to keep your commission costs down if you:

- Avoid trading too frequently (buy and hold).
- Make your entire ETF trade at once instead of breaking it up into smaller trades.
- Work with a broker whose commissions are low.

However, recent years have seen an innovation in this area: commission-free ETF trading. Many firms offer commission-free online trading for certain ETFs, and if you can find good ETFs to fill out your portfolio among your broker's list of zero-commission ETFs, saving that per-trade expense can be one of the biggest cost-cutting steps you can take. And the more frequently you trade, the more important this becomes.

3 Bid-Ask Spread

Whenever you buy or sell shares of an ETF, you're essentially trading with another shareholder on an exchange. This is different from mutual fund investing, where you buy and sell directly from the fund company.

The person on the other end of an ETF trade is often a market maker, whose job is to continuously buy and sell securities throughout the day. The market maker aims to buy ETF shares at a slightly lower price (the "bid" price) and sell them at a slightly higher price (the "ask" or "offer" price), making a small profit on each trade. The difference between the lower bid price and the higher ask price is known as the "bid-ask spread."

To the typical investor, the bid-ask spread is basically a cost of trading. You can think of the "true market value" of the ETF as being at the midpoint between the bid price and the ask price. So, if the ETF is trading at $32.15 to $32.19 (a four-cent spread), you'll have to pay $32.19 to buy shares, but if you're selling shares you'll only get $32.15. Thus, you pay two cents above the "true"

"WHEN COMPARING ETFs FOR YOUR PORTFOLIO, **THE RIGHT CHOICE** MIGHT NOT ALWAYS BE THE ETF WITH THE LOWEST EXPENSE RATIO."

market value (the midpoint, or $32.17) when you buy shares, and receive two cents below the "true" market value when you sell shares, paying a "cost" of the entire bid-ask spread on a round-trip (buy and sell) trade.

We generally consider spreads greater than 0.25% to be expensive by ETF standards. However, the importance of the spread depends on how often you plan to trade—the longer you hold the ETF, the less important the spread tends to be.

Total Cost of Ownership

When comparing ETFs for your portfolio, the right choice might not always be the ETF with the lowest expense ratio. If you plan to hold the ETF for a year or longer, then the expense ratio is paramount. If you plan to trade more often, then the commission and bid-ask spread become more important.

To figure out your annual cost of owning an ETF as a percentage of your investment amount, add up these three pieces:

- The expense ratio.
- The bid-ask spread as a percentage of the ETF's price (the ETF trading at $32.15 to $32.19 has a percentage spread of four cents divided by $32.17, or 0.12%), divided by the number of years you intend to hold the ETF.
- The commission charged on the purchase plus the commission charged on the sale, divided by your investment amount, divided by the number of years you intend to hold the ETF.

Example

ETF A has an expense ratio of 0.12%, a bid-ask spread of 0.21% and a $9 trading commission at your broker. ETF B has an expense ratio of 0.35%, a bid-ask spread of 0.06% and trades commission-free at your broker.

For an investor putting $10,000 into an ETF to hold for three years, the per-year cost of owning the two ETFs is as follows:

	ETF A	ETF B
Expense ratio per year	0.12%	0.35%
Spread cost per year	0.07%	0.02%
Commission cost per year	0.06%	0.00%
Total cost per year	**0.25%**	**0.37%**

With the longer holding period, ETF A is the cheaper option despite the wider spread and the commission cost.

For an investor putting $10,000 into an ETF to hold for three months, the per-year cost of owning the two ETFs looks like this:

	ETF A	ETF B
Expense ratio per year	0.12%	0.35%
Spread cost per year	0.84%	0.24%
Commission cost per year	0.72%	0.00%
Total cost per year	**1.68%**	**0.59%**

These examples are hypothetical and provided for illustrative purposes only. They are not intended to represent a specific investment or investment product.

The more frequently you trade, the more important the spread and commission become. This active trader would save money by choosing ETF B. ■

Michael Iachini, CFA, CFP®, is Managing Director of ETF Research at Charles Schwab Investment Advisory, Inc.

[1]Tom Lydon, "A Deeper Look at the ETF Fee War," ETFtrends.com, January 17, 2013.

Giving Traders an Edge

Schwab's StreetSmart Edge® trading platform thinks like a trader.

"What was I thinking?" is typically an expression uttered after someone makes a big mistake. For active traders, though, these words may be used when trying to recall something good—namely, the conditions that contributed to a profitable trading decision.

Richard Morse, 67, finds himself asking that question a lot these days. A recent convert to Schwab's StreetSmart Edge trading platform, Richard believes he has had a good degree of success. Each day, he uses the stock screener tool on StreetSmart Edge to search for growth stocks that fit certain criteria, such as those that are trading more than 200,000 shares per day and have a price-to-earnings ratio of at least 12. He populates his watch list with the results, winnows it down with additional queries, and then monitors intraday trading charts to hunt for buying opportunities.

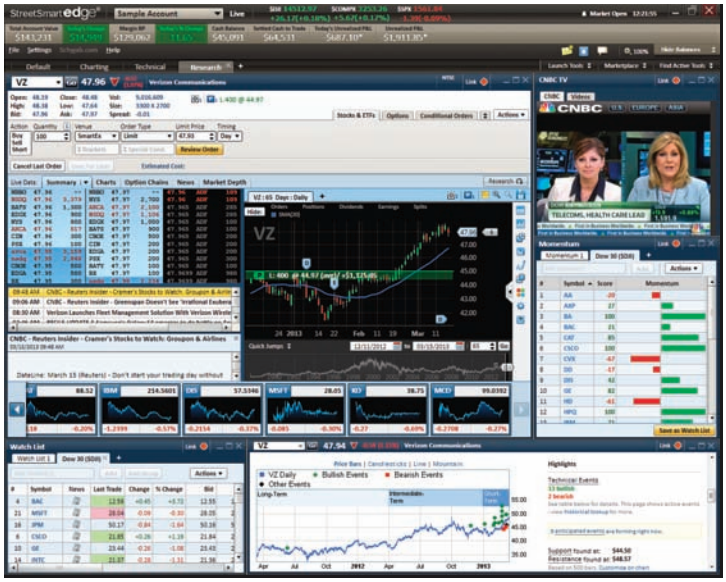
Richard says part of the credit for his success goes to the new integrated fundamental research tool, which wasn't available in StreetSmart Pro®, the predecessor to StreetSmart Edge. After placing each trade, Richard takes a "screen grab" of what's on his trading screen so he can later piece together all the variables that went into his trading decision.

"I HAVE FOUND ALL THE TOOLS TO BE **REALLY INTUITIVE.** WITHOUT THIS LEVEL OF SUPPORT, I DON'T THINK I'D BE ABLE TO DO WHAT I'M DOING TODAY."

—RICHARD MORSE

"I keep a file of those pictures for every time I buy a stock or an option," says Richard, a married father of four who lives in Pleasanton, Calif. "It's important for my future success to know what market conditions looked like at that exact point in time."

Thanks to other enhancements available only through StreetSmart Edge, Richard is able to capture a whole lot more with his pictures. Traders can now view and edit orders and positions directly from the chart tool. Fundamental research data can be found right next to order-entry data in the Symbol Hub without ever leaving the platform. Then there are the enhanced ETF screener feature, third-party solutions such as the Recognia® chart pattern recognition tools, and even a live stream of CNBC—all on one screen.



Customizable layouts and tools display data the way traders want it. *For illustrative purposes only.*

IN SEARCH OF SURGICAL PRECISION

Active traders can be creatures of habit, and making sense of new technology is often the last thing they want added to their daily routine.

Bill Fox, 56, a veteran StreetSmart Pro user, was hesitant to make the switch to StreetSmart Edge. He even tried it out for a while before going back to StreetSmart Pro temporarily. A former hospital administrator who helped airlift hundreds of people off the roof of a New Orleans hospital during Hurricane Katrina, Bill sees the value of consistency both in the workplace and as a trader.

"Every time a surgeon goes into an operating room, he wants to know where everything is," says Bill. "It's the same with trading. You want to be able to focus on the important task at hand."

After sitting down with a dedicated Schwab Active Trader Market Manager, though, Bill realized he could tailor the StreetSmart Edge trading platform to his specific needs. Bill uses the tabs feature to set up four customized screens, each accessible through one mouse click. No matter what tab he's reviewing, Bill keeps at least one trading window open at all times so he can buy or sell a security at a moment's notice.

"I've gotten to a point now where I can trade more easily on StreetSmart Edge than StreetSmart Pro, and I have been much more successful as a result," Bill says.

"I'VE GOTTEN TO A POINT NOW WHERE I CAN TRADE MORE EASILY ON STREETSMART EDGE THAN STREETSMART PRO, AND I HAVE BEEN **MUCH MORE SUCCESSFUL AS A RESULT."**

—BILL FOX

EDGE VS. PRO

When StreetSmart Edge launched in March 2011, the platform included many features found on StreetSmart Pro, and each new release has added more. Today, the best of StreetSmart Pro is included in StreetSmart Edge—along with many new features. For example, StreetSmart Edge's Symbol Hub organizes the most commonly used trading features into a single window so you can go from finding an opportunity to taking action more quickly and easily.

EDGE IN THE CLOUD

The cloud-based version of StreetSmart Edge gives you access to Schwab's flagship trading application without having to install the software on your computer. Instead, the application runs on Schwab's servers, allowing you to interact and trade seamlessly online. Bill Fox was up and running on the cloud version minutes after a spilled coffee shorted out his laptop. Richard Morse uses it to trade just about anywhere, whether he's in an airport or sitting on the North Carolina beach watching the sunrise. "I couldn't believe the speed of the cloud version," he says.

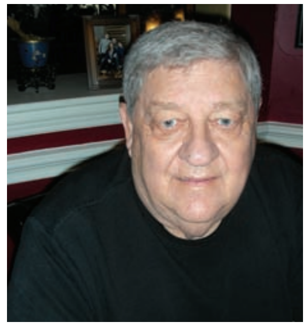
NO TWO SCREENS ARE ALIKE

Ed Spalding's screen looks nothing like Bill's. A 74-year-old retiree and technical trader living in the Dallas suburb of Frisco, Ed likes to burrow into charts, typically analyzing three different time periods: one to three months, one year, and several years or longer.

Through more flexible linking of tools, Ed can pull up all three charts for any equity on his watch list. Importantly, everything on his screen is immediately collapsible when he's ready to make a trade.

"StreetSmart Edge really does think like a trader," Ed says. "I could put 12 different things up on my screen at any time, but that's clutter and I don't need it. Edge gives me a palette and I can paint any picture I want. I'm at Schwab because they give me the tools to help me succeed."

One of the StreetSmart Edge tools Ed has found most useful is the notes function, which allows him to open a note on any chart and jot down his thoughts after a trade or to flag a future trading opportunity. Ed shares those thoughts with his investment club members, who meet two or three times a week at the local community center to shoot pool and discuss trading ideas. Ed often finds himself coaching the other members. "A lot of them recently left the big brokerage houses, and I'm trying to help them get up to speed," he says.



"I'M AT SCHWAB BECAUSE **THEY GIVE ME THE TOOLS** TO HELP ME SUCCEED."

—ED SPALDING

FOLDING IN THIRD-PARTY RESEARCH

StreetSmart Edge users also gain access to a number of third-party research tools. Traders can use Market Edge's Second Opinion® Weekly, the leading buy/sell stock timing service. They can also take advantage of Recognia's automated technical analysis—chart-based examination of price and volume—to get help validating investment decisions, managing risk and finding trade ideas.

Richard links his watch list to Recognia's tools to identify support and resistance levels over various time periods. "I have found all the tools to be really intuitive," he says. "Without this level of support, I don't think I'd be able to do what I'm doing today." ■

NEXT STEPS
Ready to make the switch? Find out more about StreetSmart Edge at **schwab.com/OISSE**.

Schwab StreetSmart Edge is available to Schwab Active Trading clients. Access to NASDAQ TotalView® is provided for free to nonprofessional clients who have made 120 or more equity and/or options trades in the last 12 months, have made 30 or more equity and/or options trades in either the current or previous quarters, or maintain $1 million or more in household balances at Schwab. Schwab Active Trading clients who do not meet these requirements can subscribe to NASDAQ TotalView for a quarterly fee. Professional clients may be required to meet additional criteria before obtaining a subscription to NASDAQ TotalView. This offer may be subject to additional restrictions or fees, and may be changed at any time.

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Photos courtesy of Bill Fox (left), Ed Spalding (right)

Is It TECH'S Time?

The future appears **BRIGHT** for US innovation and the technology sector.

Many investors still shun technology stocks, wary of being burned again like they were when the tech bubble burst in early 2000.

But those investors might be missing out, says Brad Sorensen, Director of Market and Sector Analysis at the Schwab Center for Financial Research. He sees numerous technological advances that are providing game-changing developments across a wide swath of the US economy, creating potential opportunities for investors. ›››

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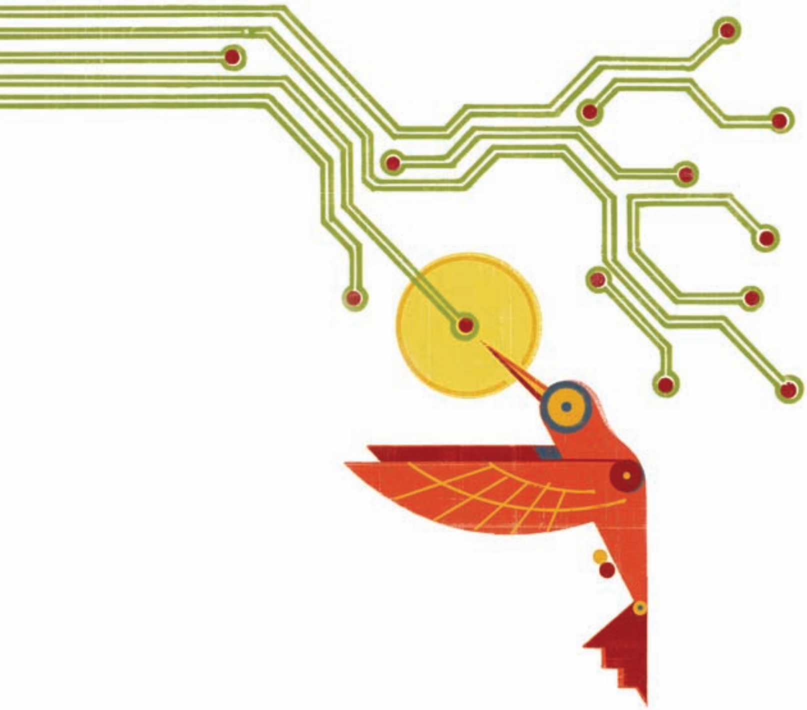

> Based on historical levels and compared to the market, tech seems fairly **UNDERVALUED.**
>
> —Brad Sorensen, Director of Market and Sector Analysis, Schwab Center for Financial Research

"A new surge in innovation could be right around the corner, and we believe now is the time for investors to get involved," Brad says.

Technological breakthroughs are rampant in energy, health care, consumer products, travel and manufacturing, to name a few sectors. Advances in finding and producing various kinds of fuel have turned the conversation from energy dependence to energy independence. DNA sequencing and medical records-tracking are progressing quickly and could have many profound benefits. Tracking customer trends and tendencies is helping companies keep inventories lean and target consumers more effectively with specific, personalized advertisements.

This innovation boom is opening the door for investors looking to benefit by holding stocks in the companies behind these advances. Brad believes that stock investors should have some exposure to the technology sector, at least close to that of major benchmarks. Technology stocks accounted for roughly 18% of the S&P 500® Index as of late January.[1]

STRONGER FUNDAMENTALS

Today's technology sector is in a much different state than it was in the 1990s, according to Brad. "While painful, the bursting of the tech bubble forced out many companies that had no business being there," he says. "Those left standing are stronger today, almost across the board."

On the whole, companies that survived the winnowing-out period tend to have experienced management, solid balance sheets showcasing large cash balances, and the lowest debt percentage of any S&P 500 sector, Brad says. What's more, it isn't just the cash accounts of technology companies that have been growing. Companies in many sectors are stockpiling cash, so much so that not since World War II have companies had this much excess liquidity.

"We believe this accumulating cash is in part the result of companies delaying capital expenditures meant to upgrade and improve current systems," Brad says. "That bodes well for a snap-back in business investment and the tech sector."

VALUATIONS LOOK GOOD

The other part of the story is that technology stock valuations look relatively attractive right now. "Based on historical levels and compared to the market, tech seems fairly undervalued," Brad says.

The current price-to-earnings (P/E) ratio of the tech sector stands at 11.7 times anticipated results over the next 12 months, compared to its

Tech Appears to Be Undervalued

Source: FactSet, Standard & Poor's, as of December 10, 2012.

15-year average of 23.1 times anticipated results. Although that average skews higher due to the aforementioned tech bubble, tech is now the cheapest of all sectors in the S&P 500.[2]

MITIGATING FACTORS

Of course, there are risks to the bullish view on the tech sector. For one, global growth concerns could portend another downturn. And with the ongoing budgetary and regulatory uncertainty in the US, as well as a structural shift within the sector—from hardware, PC-based dominance to a preference for wireless, mobile and cloud-based solutions—returns may continue to be suppressed, especially in the near term.

Brad thinks these concerns, while valid, don't torpedo the bullish case. Furthermore, he says, global competition is increasing, bringing renewed focus to containing costs. He believes technology will play a large part in alleviating that pressure.

"Of course, trying to time the market never makes sense because that's largely a losing proposition for the vast majority of investors," Brad points out. "But we can't ignore the fact that some time periods offer better relative potential for adding to certain positions," he says. "Now appears to be one of those times for technology stocks." ■

DO THE RESEARCH
Visit **schwab.com/OIsectorviews** to view Brad's latest outlook on all 10 market sectors.

[1]Standard & Poor's, as of January 30, 2013.
[2]Strategas Research Partners, as of December 10, 2012.

Past performance is no guarantee of future results.

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

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.

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LIVING OFF YOUR NEST EGG

Strategies for generating a steady income stream in retirement.

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When Ernie Herbert married his wife, it was his father-in-law who gave him the best advice: "He said you should start saving for retirement now," Ernie recalls. Starting with a $1,000 mutual fund investment and investing regularly, the couple built up a solid nest egg. »

Now on the cusp of retirement, they find themselves asking a number of questions. Are we going to be okay without a regular paycheck? How do we invest to maximize retirement income? What if we outlive our investments? Fortunately for the Herberts, there are time-tested strategies for generating income that can help them reach their retirement goals.

"The transition from saving for retirement to living off your nest egg may seem difficult at first," says Rob Williams, Director of Income Planning at the Schwab Center for Financial Research. "But there are steps you can take and strategies you can consider to help create a sound, long-lasting retirement income plan. Of course, no plan will fit every investor, but there are solid strategies that can help you plan."

RETIREMENT INCOME FUNDAMENTALS

When it's time to turn savings into income, start with a big-picture overview of what it takes to help generate retirement income that lasts. Whether you plan to build your own portfolio or have it professionally managed, it helps to start with a close look at your situation, including a retirement budget.

The first thing Ernie and his wife did was review their expenses and cash needs—separating discretionary spending from necessities like housing, food, health care and utilities—in order to establish a rudimentary annual budget. This is an important step toward creating a broader plan because knowing how much you'll need to cover necessary expenses makes it easier to understand how much income you'll need to sustain them.

Next, the Herberts determined how much income they'd likely draw from other sources, such as Social Security, rental income, part-time work or pension benefits. The difference between that figure and their annual budget yielded an estimate of how much income they'd need their portfolio to generate each year.

When Ernie and his wife did the math, they realized they'd need their portfolio to generate income to supplement their other sources of income. "We estimated that we would need a 5% yield in retirement to achieve the kind of lifestyle we wanted to lead," Ernie said.

The Herberts aren't alone. For many investors, interest and dividends from lifetime savings alone might not be sufficient to fund retirement, Rob says. "Most investors will want a well-balanced portfolio that continues to work for them, even in retirement. This will likely include stocks and bonds." Once you have a portfolio that's right for you and that has the potential to keep growing in retirement, you'll also want to start thinking about income, says Rob. And you have a number of investment options to choose from. Here are three to consider.

1 Build a Bond Ladder

Investors should consider bonds a foundation of their retirement portfolios, Rob says, because they help reduce risk through diversification and have the potential to generate income. That's where bond ladders come into the picture, providing diversification through staggered maturities and helping to generate a steady stream of predictable income with regular coupon payments.

Ladders are a collection of individual bonds with staggered maturities spread out over time. By staggering ("laddering") your bonds' maturities, you'll have bonds coming due regularly, making the principal available for reinvestment should interest rates rise.

Investors can build ladders to help generate predictable, steady income. For example, an investor can buy one bond that matures in one year, another that matures in two years, the next in three years and so on. When you redeem the one-year bond, you can use the proceeds to buy another bond to keep the ladder going. And the more bonds in your ladder, the more stable your yield and the higher your average yield, all else being equal.

If interest rates move higher, you can reinvest short-term bonds at higher rates when they mature. If rates stay low, you still have some bonds locked in for the longer term at higher yields.

Some investors use this principle to create a ladder with certificates of deposit (CDs) that mature each year to help meet cash flow needs. Investors should price both CDs and bonds for any given time frame to determine which could provide the highest yield.

Be aware that this strategy may not outperform a more targeted strategy and it won't prevent the bonds from declining in value if interest rates rise.

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“A BOND LADDER HELPS MANAGE INTEREST RATE AND ISSUER RISK **WHILE ALSO GENERATING A STEADY INCOME STREAM THROUGHOUT RETIREMENT.”**

—**ROB WILLIAMS**, DIRECTOR OF INCOME PLANNING, SCHWAB CENTER FOR FINANCIAL RESEARCH

Additionally, bond ladders might not provide as much diversification as would a bond fund, which raises the potential impact a default could have on your portfolio.

However, constructing a bond ladder can help mitigate some of the problems associated with trying to time the market, and also allows you to stay invested throughout the ups and downs of the interest rate cycle.

“A ladder can be a reasonable and effective way to manage your fixed income investments,” Rob says. “It helps manage interest rate and issuer risk while also generating a steady income stream throughout retirement.”

2 Turn to Stocks with Dividends

Relying on interest and dividends as the first sources of income from your portfolio is an easy-to-understand approach that helps keep your savings intact. In this approach, a retiree withdraws interest and dividends as they are generated, drawing down investment principal only if necessary.

For decades, investors have relied on bonds and other fixed income investments to generate interest income. However, interest rates on many traditional investments have fallen to historic lows, and the impact on retirees is significant. For example, in 2007, someone with $1.5 million could have bought five-year US Treasury notes and earned about $51,150 in annual income. At the end of 2012, that same investor would earn about $9,500 annually. Income from bonds is also fixed. When you buy a bond, you get a fixed interest payment. There’s no potential for growth.

“We think that most retirement portfolios should include an allocation to stocks as well as bonds,” says Rob. Historically, dividend-paying stocks not only generate income but also have tended to outperform over the long haul. From 1927 through 2011, high-dividend paying stocks have returned 11% per year, beating the 8% return from nonpayers.[1]

Investing in individual dividend-paying stocks may make sense for some investors. For broader diversification, however, investors may wish to choose from the numerous mutual funds and exchange-traded funds that invest in an array of dividend-paying stocks.

To help hedge against inflation and potentially achieve growth, Rob recommends that retired investors hold some equities; however, stocks should account for no more than 60% of most retirees’ portfolios. And for the majority of retirees, that exposure to stocks should decrease over time as they transition to more conservative allocations in their portfolios.

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3 Consider Annuities

Annuities are another option for retirees seeking to turn their savings into income. Unlike the other strategies, annuities can offer a guaranteed income stream that will last as long as you live. Broadly speaking, there are two types of annuities: immediate fixed annuities and deferred variable annuities.

With immediate fixed annuities, investors pay the insurance company a lump sum up front in return for fixed monthly payments for the rest of their lives (or some other specified period of time). These annuities make the most sense for retirees who are willing to give up control in return for not having to worry about fluctuations in capital markets or actively manage their portfolios.

With an immediate fixed annuity, you "buy it, set it and forget it." As long as the insurance company remains solvent, annuity owners generally get a check for the same amount every month—they can even set up payments to last as long as they live, so that the longer they live, the more valuable the annuity becomes.

A deferred variable annuity allows investors to retain oversight of their money and provides growth potential by allowing them to choose from a selection of investment options called "subaccounts." At retirement, the contract value can be converted into a stream of lifetime income through a process called "annuitization."

The amount of income the annuity owner receives may be more or less than the amount paid into the annuity because it is based on how the subaccounts performed during the accumulation phase. That might sound risky, but many annuities also offer an optional feature called a Guaranteed Lifetime Withdrawal Benefit (GLWB) rider, which can be purchased for an additional cost. A variable annuity with a GLWB rider can help protect the income you plan to rely on during retirement from downturns in the market.

"The GLWB is a significant innovation in the annuity business," Rob says. "It's an optional rider that can be added for a fee and provides investors with protection."

A benefit of the GLWB is that investors can enjoy the upside if the value of their annuity assets increases. Here's how that works. Each year on your contract anniversary, the insurance company takes a look at your account value. If it's higher than it was the year before, your income base is set to the new amount. When you reach retirement, you get to withdraw a set percentage of that income base annually for the rest of your life.

If the contract value is less than it was the year before, your income base remains as it was, so your income base cannot go down, only up. However, the income base is not a contract value, nor the amount you can expect to receive should you choose to surrender the annuity. Additionally, the income base cannot be accessed like a cash value and will not preserve your account value, which will deplete with each withdrawal until it reaches zero—though payments under the terms of the rider will continue for life. And, any withdrawals in excess of the specified annual amount may permanently reduce future income.

Variable annuity fees erode investment performance over time, so you'll want to look for low-cost variable annuities, taking into account base fees and the cost of any optional riders.

Variable annuities can be complex. Just ask Ernie, who turned 63 last year and wanted to buy a deferred variable annuity for himself and his wife. "We were attracted to the downside income protection that a variable annuity can provide," Ernie said. "But the features can be very complicated." Ernie reviewed the prospectuses of eight different insurers before buying an annuity offered through Schwab.

Rob's general advice for your entire income strategy is to remain engaged and make sure your investments remain within your comfort zone, irrespective of whether you choose to generate retirement income by dividend stocks, bond ladders or annuities.

"Markets change and so will your investments," Rob says. "So check in on your portfolios regularly. Make sure you hold investments that have the potential to generate income for you, but also that are in line with your risk tolerance." ■

LEARN MORE
Get additional guidance on generating income in retirement at **schwab.com/OIretirementincome**.

[1]Michael Rawson, "Our Favorite Dividend ETFs for 2012," Morningstar, January 11, 2012.

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Past performance is no guarantee of future results.

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.

CDs available through Schwab CD OneSource typically offer a fixed rate of return, although some offer variable rates. They are FDIC-insured and offered through Charles Schwab & Co., Inc.

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

Unlike a CD, which is an FDIC-insured bank product, an annuity's guarantees of principal and interest are only as strong as the financial strength and claims-paying ability of the issuing insurance company. Consult an insurance company's ratings for its financial strength, and read its contract carefully before investing.

Variable annuities are sold by prospectus only. Before purchasing a variable annuity, you should carefully read the prospectus and consider all risks, charges and expenses associated with the annuity, its investment objective and its investment options. You can request a prospectus by calling Schwab at 888-311-4887 or by visiting schwab.com/annuity.

The contract value of a variable annuity may be more or less than the premiums paid and it is possible to lose money.

All guarantees under the Schwab Retirement Income Variable Annuity are subject to the financial health and claims-paying ability of Pacific Life, not Schwab.

The Guaranteed Lifetime Withdrawal Benefit (GLWB) is an optional rider available for an additional cost. The Protected Payment Base is not a contract value and is not available for withdrawal like a cash value. Your actual contract value and death benefit will deplete with each withdrawal, though you may continue to withdraw the specified annual protected amount for life, even after the account value has been depleted to zero. Withdrawals in excess of the annual protected payment amount may permanently reduce the protected payment base.

Variable annuities are long-term investment vehicles designed for retirement purposes and offer tax deferral on potential growth; however, withdrawals prior to age 59½ may be subject to a 10% federal tax penalty in addition to applicable income taxes. Variable annuities are also subject to a number of fees, including mortality and risk expense charges, administrative fees, premium taxes, investment management fees, and charges for additional optional features. Although there are no surrender charges on the variable annuities offered by Schwab, such charges do apply in the early years of many contracts.

The Schwab Retirement Income Variable Annuity is issued by Pacific Life Insurance Company in all states except New York, and in New York by Pacific Life & Annuity Company. The contracts are sold exclusively by Charles Schwab & Co., Inc. ("Schwab"), through its representatives including both employees and independent contractors and their employees ("Schwab Financial Consultants"). Charles Schwab Investment Management, Inc. (CSIM), is the advisor for the underlying investment options. Charles Schwab & Co., Inc., and Charles Schwab Investment Management, Inc., are separate but affiliated companies and subsidiaries of The Charles Schwab Corporation and are not affiliated with Pacific Life Insurance Company or Pacific Life & Annuity Company.

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Spotlight

optionsXpress

A powerful way to trade options and futures.

Regardless of your investing experience, you may want to consider using options and futures as part of your overall trading strategy. With optionsXpress, Schwab's online options brokerage service,[1] you can enter options and futures orders, as well as trade stocks, bonds, mutual funds and exchange-traded funds, all with one user-friendly platform.

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Idea Hub™

Need trading ideas? Idea Hub can help simplify the research process by identifying potential options trading candidates that reflect your market view, whether you are bullish, bearish or neutral.

"Idea Hub does the baseline screening for traders, drawing on the analytical tools that optionsXpress clients use today," says Joseph Vietri, Chief Executive Officer at optionsXpress. "What makes this tool unique is the way it identifies, filters and presents these trading ideas. Traders can then continue with their research, and easily enter orders in just a few clicks."

New Opportunities with Futures

If you're ready to move beyond traditional assets like stocks and bonds, optionsXpress also has powerful capabilities to trade commodity and financial futures. Futures and futures options contracts can help further diversify your portfolio. And, with a complete package of futures trading tools and resources, backed by 24-hour Futures Trade Support online chat during the trading week, you will be prepared to participate in these exciting markets.

Education and Support

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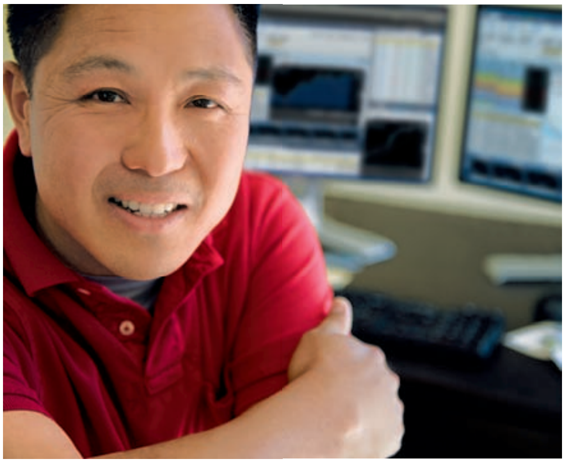

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NEXT STEPS

To learn more about optionsXpress or to get started today, call **888-280-8020** or visit **schwab.com/OIoptionsXpress.**

[1]Schwab and optionsXpress are independent broker-dealers, and their accounts are separate. To access the account services and features of both firms, you will need to open an account at each firm.

Options carry a high level of risk and are not suitable for all investors. Certain requirements must be met to trade options through Schwab. Multiple leg options strategies will involve multiple commissions. Please read the Options Disclosure Document titled "Characteristics and Risks of Standardized Options" before considering any option transaction. Call Schwab at **800-435-4000** for a current copy. Supporting documentation for any claims or statistical information is available upon request.

Futures trading carries a high level of risk and is not suitable for all investors. Certain requirements must be met to trade futures. Please read the Risk Disclosure Statement for Futures and Options before considering any futures transactions.

The information here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. The type of securities and investment strategies mentioned may not be suitable for everyone. Each investor needs to review a security transaction for his or her own particular situation.

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Spotlight

FOCUSED ON EXCHANGE-TRADED FUNDS

We're improving our ETF offering to help you meet your investing goals.

Schwab ETF OneSource™

Clients now have more low-cost choices to build and diversify their portfolios than ever before. Schwab ETF OneSource provides online access to more than 100 zero-commission ETFs[1]—from leading providers—that span a broad range of asset categories. Providers include:

- Charles Schwab Investment Management, Inc.
- State Street SPDR®
- Guggenheim Investments
- PowerShares
- ETF Securities
- United States Commodity Funds®

ETF Select List™

The recently expanded ETF Select List contains Schwab experts' top picks for low-cost ETFs from 65 asset categories. ETF selection is based primarily on cost of ownership, and all ETFs on the list have been screened to ensure a basic standard of liquidity, viability and structural stability. The ETF Select List can help you spend less time researching and more time making confident investment decisions.

ETF Selection Tools and Education

On top of the ETF Select List, Schwab offers extensive tools, education and guidance to help you choose the right ETFs for your investing goals.

- **Schwab ETF Portfolio Builder™:** Construct a diversified ETF portfolio based on your chosen risk profile.
- **ETF Screener:** Search for and compare ETFs online using various criteria, such as assets under management and whether the ETF is featured on Schwab's ETF Select List.
- **Schwab ETF Education Exchange™:** Get the latest insights from both Schwab and third-party professionals by visiting **schwabETFeducationexchange.com**.

NEXT STEPS

Call **800-435-4000** or visit **schwab.com/OIETFOneSource** to start trading commission-free ETFs with Schwab ETF OneSource today.

[1]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.

Investors in ETFs should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling 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 (NAV).

Schwab's quarterly-updated ETF Select List is designed to inform and support self-directed investors searching for the right ETFs to fit individual investment needs and goals. Please note this List is not exhaustive. Many high-quality ETFs could be appropriate for you based on your portfolio goals and trading strategies. Schwab offers additional tools and resources on **schwab.com** to help you find them, such as the ETF Screener, in-depth fund-level analysis, and expert opinions covering a wide variety of products and investing strategies.

Cost of ownership is a significant component of the evaluation of ETFs for the List and is governed by the assumption that a $5,000 purchase is made online on **schwab.com** and held for one year before being sold. Commissions can add significantly to the cost of ownership, particularly for transactions in smaller amounts. Schwab does not charge a commission for online trades of Schwab ETFs or other Schwab OneSource ETFs. This gives Schwab OneSource ETFs an advantage for the List, because the calculation methodology includes the cost of two online commissions (a buy and a sell).

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.

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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.

Only actively managed OneSource funds are included in this version of the OneSource Select List. CSIA includes up to two index funds for each of the large-cap, small-cap, international and taxable bond asset classes on the electronic version of the OneSource Select List available on **schwab.com**. Index funds have separate selection criteria. Visit the OneSource Select List on **schwab.com** to view index funds 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 a 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, 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.

"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.

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 those 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.

(continued on page 36)

(continued from page 35)

The **Index Fund** section of the Select List features up to two index funds for each of the large-cap, small-cap, international, and taxable bond asset classes. Index funds have similar selection criteria to actively managed OneSource funds. These funds are evaluated by CSIA based on a quantitative analysis of risk, performance, expenses, active share (when meaningful), and assets under management. CSIA also may apply additional qualitative factors to its analysis to enhance its overall evaluation of an index fund, including, for example, the breadth of the index tracked by the fund, the index construction methodology, and the tracking error of the fund to its underlying index.

The third-party index fund and 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.

Important Considerations when Building a Portfolio for Growth and Income

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 ultrashort 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.

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 reinstate fees on any funds.

Information on the Mutual Fund OneSource Select List®

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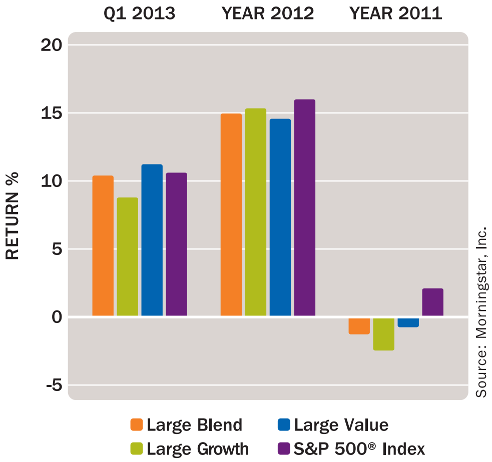
LARGE-CAP U.S. STOCK FUNDS



Perspectives and First Quarter 2013 Summary

The favorable environment for domestic stocks is likely to continue as inflation and recession concerns remain in check. Job growth and manufacturing activity are holding up, while housing appears to be firing on nearly all cylinders. Moreover, the Fed is continuing its stimulus measures and uncertainty toward Washington has waned. However, the impact of tax hikes and government spending cuts, along with slowing growth in China and the possibility of flare-ups in Europe, present potential headwinds. While we continue to strongly recommend a diversified portfolio appropriate for your time horizon and risk tolerance, on a relative basis, the U.S. market appears to us to be one of the better places in which to invest.

- This quarter saw very strong returns across all large-cap domestic categories, although at lower levels as compared to small- and mid-cap categories. The U.S. economy continued to show significant signs of improvement, particularly in housing, agriculture and industrial production.
- Similar to the previous quarter, large-cap U.S. stocks underperformed as compared to small- and mid-cap stocks. The large-cap value category had the best relative performance, returning gains of 11.23%, while large blend and large growth were lower with returns of 10.40% and 8.79%, respectively.

All perspectives are as of April 11, 2013
For the latest up-to-date perspectives, please visit **schwab.com**

FOR THE QUARTER ENDED MARCH 31, 2013

	FUND NAME (FUND INCEPTION DATE)	MORNINGSTAR CATEGORY	QUOTE SYMBOL	LOW HIGH RISK LEVEL	3 MOS.[c]	AVERAGE ANNUALIZED TOTAL RETURN 1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	GROSS EXPENSE RATIO[a]	NET EXPENSE RATIO[a]	TOTAL ASSETS ($M)
	LEADING SCHWAB AFFILIATE FUNDS[e]												
	Schwab Core Equity Inv (07/01/96)	Large Blend	SWANX		10.25	12.53	10.91	5.14	8.71	7.47	0.73	0.73	1,999
	Laudus Growth Investors US Large Cap Gr (10/14/97)	Large Growth	LGILX		8.04	7.09	13.14	8.24	11.11	5.16	0.88	0.78	1,635
	Schwab Dividend Equity (09/02/03)	Large Value	SWDSX		11.45	15.17	12.19	5.90	–	7.97	0.89	0.89	1,490
	LEADING 3RD PARTY FUNDS												
	Janus Contrarian T (02/29/00)	Large Blend	JSVAX		11.98	20.12	6.15	-0.10	12.02	6.22	0.76	0.76	903
	Parnassus Equity Income – Inv (09/01/92)	Large Blend	PRBLX		12.68	20.87	12.04	9.12	9.51	10.35	0.94	0.94	4,466
■	Yacktman Focused Svc (04/30/97)	Large Blend	YAFFX		12.09	16.08	12.36	14.41	12.96	9.57	1.25	1.25	7,336
	FMI Large Cap (12/31/01)	Large Blend	FMIHX		11.40	15.20	11.05	7.73	11.15	8.05	0.96	0.96	6,861
	American Century Equity Growth Inv (05/09/91)	Large Blend	BEQGX		10.45	13.37	13.24	5.88	8.73	9.10	0.68	0.68	1,943
	Glenmede Large Cap Growth (02/27/04)	Large Growth	GTLLX		11.08	11.36	14.41	7.80	–	7.09	0.89	0.89	113
■	INTECH U.S. Growth T (07/06/09)	Large Growth	JDRTX		10.34	12.42	13.42	–	–	18.69	0.83	0.83	4
	Janus Research T (05/03/93)	Large Growth	JAMRX		8.91	10.20	11.67	5.48	9.65	10.44	0.96	0.96	1,321
	Brown Advisory Growth Equity Inv (06/28/99)[b]	Large Growth	BIAGX		9.33	7.55	13.87	10.43	10.08	3.68	0.93	0.93	1,262
	Principal Equity Income A (05/31/39)[f]	Large Value	PQIAX		4.71	9.01	10.76	4.72	9.22	8.62	0.96	0.96	775
	JPMorgan Equity Income A (02/18/92)[f]	Large Value	OIEIX		5.11	8.74	12.89	6.26	8.58	8.05	1.09	1.05	938
	JPMorgan Value Advantage A (02/28/05)[f]	Large Value	JVAAX		6.04	12.81	12.13	7.19	–	7.43	1.43	1.27	594
	ClearBridge Equity Income A (11/06/92)[f]	Large Value	SOPAX		4.58	9.52	11.63	4.56	7.82	8.03	1.27	1.15	2,502
	BlackRock Equity Dividend Inv A (10/21/94)[f]	Large Value	MDDVX		2.66	6.39	9.85	3.87	9.88	9.60	0.99	0.99	9,771
	PERFORMANCE BENCHMARKS												
	Schwab 1000 Index® (Dividends Reinvested)				10.86	14.05	12.83	6.14	8.97	–			
	S&P 500 Index® (Dividends Reinvested)				10.61	13.96	12.67	5.81	8.53	–			

■ New to the **Select List** this quarter

Asset Class and Performance Benchmark Definitions

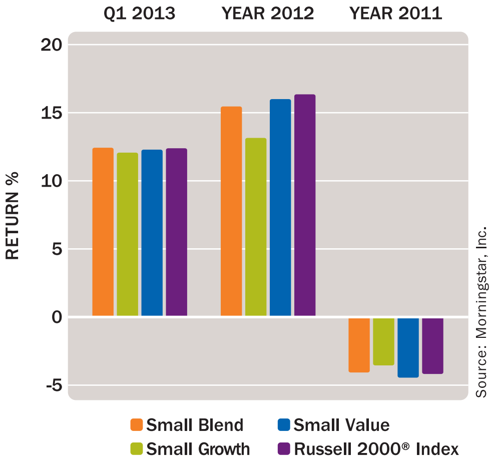
Large-cap U.S. stock funds invest primarily in stocks that fall in the top 70% of the U.S. market capitalization range as defined by Morningstar, Inc. Growth funds invest in companies that may be experiencing rapid growth in earnings, sales or return on equity. Value funds invest in companies that may 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 2013 Summary

The domestic environment will likely continue to benefit Mid-and Small-Cap stocks, while U.S. dollar strength may favor more domestically-oriented companies. The dollar could find some support as the Fed continues to mull tapering off asset purchases, weakness in the yen persists amid aggressive actions by the Bank of Japan, and whether the European Central Bank introduces more accommodative policies. However, we remain concerned about the impact of the Affordable Care Act and ongoing Dodd-Frank Act uncertainty on both the budget and business growth.

- Small- and Mid-Cap categories experienced significant gains, and led with the highest domestic returns for the quarter. Significant improvement in domestic economic indicators, coupled with a subsiding of concerns around the fiscal cliff and congressional deadlock, helped push more optimistic sentiment for small businesses in the U.S.
- The largest gains from these categories were found in mid-cap value at 12.89%, followed by Small-Cap blend at 12.43%, and mid-cap blend which returned 12.34%. Mid-Cap growth at 10.74% had the lowest returns relative to the Small- and Mid-Cap universe, followed by small-cap growth with a return of 12.07%, and small-cap value at 12.29%.

All perspectives are as of April 11, 2013
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FOR THE QUARTER ENDED MARCH 31, 2013

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	LEADING SCHWAB AFFILIATE FUNDS[e]												
	Schwab Small-Cap Equity (07/01/03)[f]	Small Blend	SWSCX		13.19	20.82	16.50	8.32	–	10.46	1.12	1.12	443
	LEADING 3RD PARTY FUNDS												
	First Eagle Fund of America A (11/19/98)[f]	Mid-Cap Blend	FEFAX		4.11	12.81	13.10	7.23	10.27	8.07	1.45	1.45	874
	Janus Enterprise T (09/01/92)	Mid-Cap Growth	JAENX		9.43	12.64	14.42	7.43	12.51	10.24	0.96	0.96	930
	TIAA-CREF Mid-Cap Growth Retail (10/01/02)	Mid-Cap Growth	TCMGX		11.01	11.24	13.64	7.03	11.07	11.43	0.84	0.84	139
	American Century Mid Cap Value Inv (03/31/04)	Mid-Cap Value	ACMVX		11.59	18.11	13.13	9.94	–	9.70	1.01	1.01	2,287
■	TIAA-CREF Mid-Cap Value Retail (10/01/02)	Mid-Cap Value	TCMVX		12.52	16.66	12.92	6.60	12.70	12.29	0.81	0.81	285
	Touchstone Small Cap Value A (03/04/02)[f]	Small Value	TVOAX		3.38	10.28	11.71	4.38	10.96	9.17	1.78	1.44	33
■	Northern Small Cap Core (09/30/99)	Small Blend	NSGRX		12.34	17.57	14.78	8.31	10.75	6.25	1.21	0.76	203
■	Nuveen NWQ Small-Cap Value A (12/09/04)[f]	Small Blend	NSCAX		3.80	13.23	14.42	5.41	–	5.60	1.44	1.44	9
	Hodges Small Cap (12/18/07)	Small Blend	HDPSX		14.85	20.40	21.49	12.10	–	10.32	1.48	1.41	374
	Royce Total Return Svc (01/03/02)	Small Blend	RYTFX		9.57	16.02	12.43	7.00	10.27	8.40	1.44	1.44	427
■	Wells Fargo Advantage Intrns SmCpVal Inv (03/28/02)	Small Blend	SCOVX		13.36	20.34	12.17	7.29	12.09	9.21	1.54	1.50	56
■	Janus Venture T (04/30/85)	Small Growth	JAVTX		11.12	14.34	15.98	9.86	13.47	12.04	0.95	0.95	642
	PNC Small Cap A (04/02/04)[f]	Small Growth	PPCAX		7.66	16.24	16.01	8.57	–	6.40	1.56	1.29	15
■	Scout Small Cap (11/17/86)	Small Growth	UMBHX		14.90	20.51	15.07	5.68	9.92	7.68	1.12	1.12	227
	American Beacon Stephens Sm Cp Gr Inv (12/01/05)	Small Growth	STSGX		14.01	14.19	16.97	10.10	–	7.19	1.58	1.37	96
	ClearBridge Small Cap Growth A (07/01/98)[f]	Small Growth	SASMX		7.80	8.44	15.25	9.05	12.42	9.82	1.32	1.28	633
	Diamond Hill Small Cap A (12/29/00)[b,f]	Small Value	DHSCX		10.65	14.05	9.86	6.74	12.93	10.86	1.31	1.31	428
	Undiscovered Mgrs Behavioral Value A (06/04/04)[f]	Small Value	UBVAX		6.93	12.30	14.85	11.92	–	7.86	2.15	1.32	64
■	Skyline Special Equities (04/23/87)	Small Value	SKSEX		16.62	22.21	16.47	12.07	12.55	12.27	1.52	1.33	232
■	DWS Small Cap Value A (05/22/92)[f]	Small Value	KDSAX		6.58	9.26	7.44	5.61	12.27	9.94	1.19	1.19	876
	PERFORMANCE BENCHMARK												
	Russell 2000 Index® (Dividends Reinvested)				12.39	16.30	13.45	8.24	11.52	–			

■ New to the **Select List** this quarter

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.

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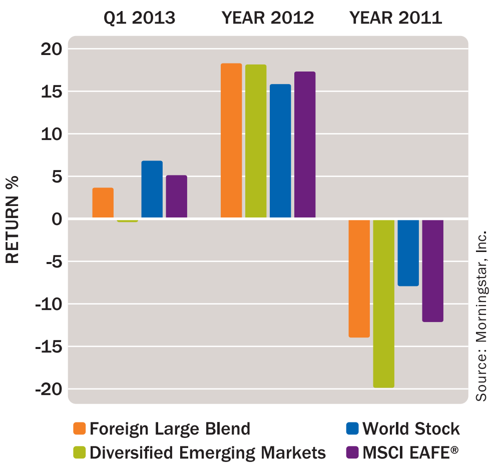
INTERNATIONAL STOCK FUNDS



Perspectives and First Quarter 2013 Summary

We are concerned about China's ability to transition to a more consumer-led economy, while containing inflation threatens economic growth. Stagflation and structural issues in other large emerging market economies such as Brazil and India could hamstring the asset class. We believe longer-term investors may want to consider re-orienting international exposure away from China and emerging markets and toward developed international markets. Economic data in Europe and Japan has shown signs of potential stabilization, while valuations look low relative to historical averages, so stocks in these markets could be attractive.

- The Japan Stock category continued showing dramatic improvements (14.23% in Q1 versus 7.25%), reflecting optimism that their economy could enter a renewed growth period.
- The China Region category had the worst returns (-2.43%) across the International Equity categories, amid indicators that the country's recovery was losing stream and experiencing higher inflation.
- Foreign fund investors had moderate gains across all categories, with Foreign Small/Mid Growth recording the best performance with returns of 7.62%. This was followed by Foreign Small/Mid Value with 6.50%, while Foreign Large Blend and Foreign Large Value had significantly lower relative returns of 3.66% and 3.28%, respectively.

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FOR THE QUARTER ENDED MARCH 31, 2013

	FUND NAME (FUND INCEPTION DATE)	MORNINGSTAR CATEGORY	QUOTE SYMBOL	LOW HIGH RISK LEVEL	3 MOS.[c]	AVERAGE ANNUALIZED TOTAL RETURN 1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	GROSS EXPENSE RATIO[a]	NET EXPENSE RATIO[a]	TOTAL ASSETS ($M)
	LEADING SCHWAB AFFILIATE FUNDS[e]												
	Laudus Mondrian Emerging Markets Select (11/05/07)[b,*]	Diversified Emerging Mkts	LEMSX		1.13	6.03	6.04	2.97	–	1.60	1.66	1.52	16
	Schwab International Core Equity (05/30/08)	Foreign Large Blend	SICNX		5.54	15.82	8.05	–	–	-0.81	1.17	0.87	96
	Laudus International MarketMasters Sel (04/02/04)[b,*]	Foreign Large Growth	SWMIX		5.55	14.62	9.62	3.37	–	8.46	1.47	1.25	1,217
■	Laudus Mondrian Intl Equity Select (06/17/08)[b,*]	Foreign Large Value	LIEFX		3.47	7.18	3.77	–	–	-3.05	1.40	1.12	1
	LEADING 3RD PARTY FUNDS												
	Matthews China Dividend Investor (11/30/09)	China Region	MCDFX		1.54	13.52	9.85	–	–	10.27	1.52	1.50	101
	Matthews China Investor (02/19/98)	China Region	MCHFX		-3.03	-0.37	-0.31	3.65	16.72	10.61	1.13	1.13	1,649
	Acadian Emerging Markets Instl (06/17/93)	Diversified Emerging Mkts	AEMGX		1.41	6.66	6.16	0.07	18.92	9.24	1.31	1.31	1,196
	Harding Loevner Emerging Markets Advisor (11/09/98)	Diversified Emerging Mkts	HLEMX		-0.64	5.23	5.50	1.03	16.94	14.03	1.47	1.47	1,833
	Matthews Asia Growth Investor (10/31/03)	Diversified Pacific/Asia	MPACX		8.66	14.10	9.60	7.06	–	10.33	1.18	1.18	331
	Matthews Asia Dividend Investor (10/31/06)	Diversified Pacific/Asia	MAPIX		7.41	17.11	9.66	10.24	–	11.49	1.10	1.10	3,238
	Oakmark International I (09/30/92)	Foreign Large Blend	OAKIX		5.35	16.56	8.75	7.08	13.21	10.52	1.06	1.06	13,323
	Artisan International Inv (12/28/95)	Foreign Large Blend	ARTIX		6.02	15.11	10.23	1.77	11.60	10.06	1.19	1.19	7,503
	Lazard Intl Strategic Equity Open (02/03/06)	Foreign Large Blend	LISOX		6.10	17.11	9.50	2.97	–	4.52	1.16	1.16	380
	Aberdeen International Equity A (08/30/00)[f]	Foreign Large Blend	GIGAX		-2.85	2.83	6.41	-0.57	12.89	4.01	1.42	1.42	232
	Harbor International Inv (11/01/02)	Foreign Large Blend	HIINX		2.00	7.47	6.47	0.57	12.87	11.68	1.15	1.14	4,721
	Scout International (09/14/93)	Foreign Large Growth	UMBWX		3.12	10.10	6.61	1.86	11.31	8.87	1.00	1.00	9,043
	Harding Loevner International Eq Inv (09/30/05)	Foreign Large Growth	HLMNX		2.01	9.51	7.51	2.83	–	6.24	1.24	1.24	350
	Federated Intl Strategic Val Dividend A (06/03/08)[f]	Foreign Large Value	IVFAX		-0.92	5.69	6.65	–	–	-1.48	1.47	1.11	142
■	Wasatch International Growth (06/28/02)	Foreign Small/Mid Growth	WAIGX		10.23	25.14	18.42	9.04	15.47	12.73	1.57	1.56	750
	Aberdeen Global Small Cap A (09/30/96)[f]	Foreign Small/Mid Growth	WVCCX		-0.41	13.49	15.58	6.09	10.90	7.39	2.09	1.59	87
	Matthews Japan Investor (12/31/98)	Japan Stock	MJFOX		14.34	15.03	9.62	2.37	8.03	4.66	1.21	1.21	99
	JPMorgan Latin America A (02/28/07)[f]	Latin America Stock	JLTAX		-2.66	-4.31	1.62	0.27	–	5.97	1.98	1.70	33
	Matthews Pacific Tiger Investor (09/12/94)	Pacific/Asia ex-Japan Stk	MAPTX		2.78	12.12	9.53	7.67	18.95	9.22	1.11	1.11	3,196
	Matthews Asian Growth & Inc Investor (09/12/94)	Pacific/Asia ex-Japan Stk	MACSX		4.41	19.34	10.67	7.21	14.93	11.18	1.12	1.12	3,533
	Perkins Global Value T (06/29/01)	World Stock	JGVAX		8.08	12.81	9.49	4.30	10.18	6.48	1.12	1.12	38
	Artisan Global Opportunities Inv (09/22/08)	World Stock	ARTRX		5.77	13.56	16.19	–	–	10.81	1.34	1.34	267
	PERFORMANCE BENCHMARKS												
	MSCI EAFE Index (Dividends Reinvested)				5.13	11.25	5.00	-0.89	9.69	–			

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

Asset Class and Performance Benchmark Definitions

Foreign stock funds typically have less than 20% of assets invested in the United States. Funds that do not have a specific growth or value orientation compared to a benchmark are classified as blend funds. World Stock funds invest primarily in equity securities of issuers located throughout the world and generally invest at least 20% of assets in the United States. Regional funds generally hold high concentrations of securities from one specific geographic region. Emerging markets funds generally invest in securities from less developed countries.

International investments are subject to risks such as currency fluctuations and political instability. Investing in emerging markets can accentuate these risks.

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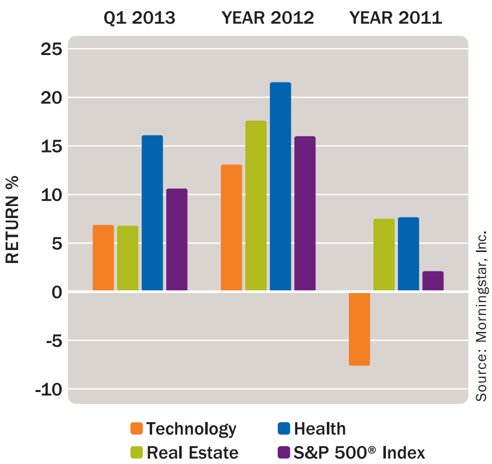
SECTOR FUNDS



Perspectives and First Quarter 2013 Summary

The technology sector continues to appeal to us due to its fundamentals, while signs of loosening lending standards could feed pent up capital spending demand. Meanwhile, housing's accelerating recovery could lend support to financials and real estate stocks, while the traditionally defensive and relatively higher-yielding utilities sector may continue to attract investor interest as fixed income yields remain low. However, the healthcare sector could face political headwinds. Finally, domestic inflation fears remain contained, which might keep demand for gold in check, but its recent tumble and potential headwinds out of China and the European financial crisis may resuscitate demand for the precious metal.

- The Specialty categories mirrored the broader domestic categories in terms of strong quarterly returns. The Specialty category returns were led by the generally defensive oriented categories Health and Utilities. The Health category led the way with a quarterly return of 16.10% followed by 11.41% for the Utilities category. The only category with negative returns was the Equity Precious Metals category with a quarterly return of -17.30%. The low returns can be attributed to the decline in gold prices as investor demand subsided with decreased inflation fears. Gold posted the first back to back quarterly losses since 2001.

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FOR THE QUARTER ENDED MARCH 31, 2013

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	LEADING SCHWAB AFFILIATE FUNDS[e]												
	FINANCIAL FUNDS (CATEGORY AVERAGE)†				9.21	15.30	5.83	0.47	3.89				
■	Schwab Financial Services (07/03/00)	Financial	SWFFX		10.70	15.53	6.75	-0.52	5.54	3.73	1.10	0.94	54
	HEALTH FUNDS (CATEGORY AVERAGE)†				14.50	22.74	15.24	11.87	10.86				
	Schwab Health Care (07/03/00)	Health	SWHFX		16.01	26.94	17.72	11.68	13.97	7.86	0.85	0.82	589
	LEADING 3RD PARTY FUNDS												
	COMMUNICATIONS FUNDS (CATEGORY AVERAGE)†				4.27	11.69	9.97	2.70	7.65				
■	DWS Communications A (01/18/84)[f]	Communications	TISHX		1.03	7.77	10.59	3.81	7.69	9.52	1.78	1.78	109
	EQUITY ENERGY FUNDS (CATEGORY AVERAGE)†				9.44	6.46	5.36	-2.83	13.52				
	ICON Energy S (11/05/97)	Equity Energy	ICENX		15.47	16.84	11.01	4.26	16.18	12.42	1.23	1.23	594
■	BlackRock Natural Resources Inv A (10/21/94)[f]	Equity Energy	MDGRX		1.48	-1.20	3.69	-2.09	13.26	9.16	1.13	1.13	303
	FINANCIAL FUNDS (CATEGORY AVERAGE)†				9.21	15.30	5.83	0.47	3.89				
	Burnham Financial Services A (06/07/99)[f]	Financial	BURKX		4.49	16.91	3.12	4.88	6.50	11.28	1.90	1.80	55
■	Royce Financial Services Svc (12/31/03)	Financial	RYFSX		13.06	19.46	11.63	6.67	–	7.18	1.89	1.54	20
	HEALTH FUNDS (CATEGORY AVERAGE)†				14.50	22.74	15.24	11.87	10.86				
	Janus Global Life Sciences T (12/31/98)	Health	JAGLX		14.70	24.19	16.77	10.48	11.10	9.39	0.99	0.99	295
	BlackRock Health Sciences Opps Inv A (12/21/99)[f]	Health	SHSAX		11.37	19.58	12.20	11.04	15.97	14.24	1.30	1.30	1,159
	NATURAL RESOURCES FUNDS (CATEGORY AVERAGE)†				1.18	-0.99	3.27	-1.77	12.54				
■	ICON Materials S (05/06/97)	Natural Resources	ICBMX		5.72	4.90	8.31	0.37	13.05	4.24	1.39	1.39	39
	PRECIOUS METALS FUNDS (CATEGORY AVERAGE)†				-18.47	-24.52	-5.66	-3.70	11.88				
	First Eagle Gold A (08/31/93)[f]	Equity Precious Metals	SGGDX		-19.37	-21.23	-2.13	0.38	11.74	8.06	1.21	1.21	1,181
■	American Century Global Gold Inv (08/17/88)	Equity Precious Metals	BGEIX		-17.42	-21.93	-3.06	-2.33	10.55	3.85	0.69	0.69	649
	GLOBAL REAL ESTATE FUNDS (CATEGORY AVERAGE)†				3.53	19.72	11.80	2.09	11.19				
	Northern Multi-Manager Glbl Real Estate (11/19/08)	Global Real Estate	NMMGX		4.15	17.86	12.15	–	–	23.78	1.47	1.10	1,122
	REAL ESTATE FUNDS (CATEGORY AVERAGE)†				5.41	12.16	15.89	5.74	11.12				
	DWS RREEF Real Estate Securities A (09/03/02)[f]	Real Estate	RRRAX		-0.27	6.34	14.49	4.83	11.54	11.07	0.98	0.98	488
■	Manning & Napier Real Estate Series (11/10/09)	Real Estate	MNREX		6.93	15.91	16.16	–	–	19.27	1.19	1.19	174
	TECHNOLOGY FUNDS (CATEGORY AVERAGE)†				5.42	-1.22	8.69	7.02	10.19				
	Janus Global Technology T (12/31/98)	Technology	JAGTX		6.58	6.40	10.91	9.01	11.16	5.24	1.02	1.00	252
■	Red Oak Technology Select (12/31/98)	Technology	ROGSX		12.63	7.47	13.09	11.10	10.02	1.12	1.30	1.30	71

■ New to the **Select List** this quarter † Reflects load-adjusted returns

Asset Class and Performance Benchmark Definitions

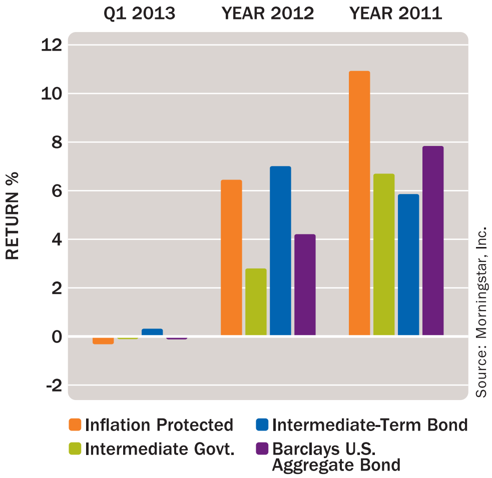
Sector funds concentrate investments in firms that fall into specific industries that produce related products or services. Sector funds, in general, have a low correlation to market indices, such as the S&P 500 Index, so they tend to perform differently than broader market measures. Because of their unique investment objectives, it's unfair to compare sector funds with broader market indices as they will seldom correlate. When evaluating sector fund performance, it's more appropriate to compare an individual fund's returns with the average performance of funds in its category.

Due to the concentrated nature of sector funds, they can be more volatile than broadly diversified equity funds.

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.

TAXABLE BOND FUNDS



Perspectives and First Quarter 2013 Summary

Credit-related sectors of the bond market outperformed their government counterparts as investors continue to sacrifice credit quality for higher yields. The Fed's ongoing quantitative easing programs and near-zero interest rate policy should keep short-term rates anchored. Bond investors should be aware that the strong run of price-driven gains won't likely continue, with the possibility of falling prices, but rising income, over the year ahead. Focus on a core portfolio of intermediate-term, high quality mutual funds, and we think that those reaching for yield in the lower-rated segments of the bond market should consider moving up in quality.

- The Taxable Fixed Income categories posted mixed returns for the second quarter. The High Yield bond category was the top performer with a quarterly return of 2.79%. Long-Term Bonds returned 0.65% followed by returns of 0.32%, 0.35% and 0.23% for the Intermediate, Short, and Ultra Short Bond categories. The Government category returns were slightly negative due to increasing rates throughout the quarter. The Long Government bonds were the laggard in taxable fixed income with a quarterly return of -2.36% followed by -0.05% and 0.02% for Intermediate and Short Government categories.

All perspectives are as of April 11, 2013
For the latest up-to-date perspectives, please visit **schwab.com**

FOR THE QUARTER ENDED MARCH 31, 2013

	FUND NAME (FUND INCEPTION DATE)	MORNINGSTAR CATEGORY	QUOTE SYMBOL	LOW HIGH RISK LEVEL	3 MOS.[c]	AVERAGE ANNUALIZED TOTAL RETURN 1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	GROSS EXPENSE RATIO[a]	NET EXPENSE RATIO[a]	AVG. WEIGHTED MATURITY (YRS)	TOTAL ASSETS ($M)
	LEADING SCHWAB AFFILIATE FUNDS[e]													
	Schwab GNMA (03/03/03)	Intermed Gov't	SWGSX		-0.25	1.71	4.49	4.91	4.60	4.54	0.60	0.55	5.70	530
■	Schwab Intermediate-Term Bond (10/31/07)	Interm-Term Bond	SWIIX		0.20	2.81	4.64	5.66	–	5.76	0.62	0.45	4.20	392
	LEADING 3RD PARTY FUNDS													
	RidgeWorth Seix Floating RT High Inc I (03/01/06)	Bank Loan	SAMBX		2.02	7.67	6.51	6.22	–	4.84	0.65	0.62	4.40	5,207
	Eaton Vance Floating Rate A (05/05/03)[f]	Bank Loan	EVBLX		-0.38	4.19	4.76	5.44	–	4.01	1.02	1.02	–	1,860
■	TCW Emerging Markets Income N (03/01/04)	Emerging Mkts	TGINX		0.12	12.99	11.42	13.62	–	10.84	1.11	1.11	10.10	1,699
	PIMCO Emerging Markets Bond D (03/31/00)	Emerging Mkts	PEMDX		-1.32	9.64	9.62	8.57	10.11	12.13	1.25	1.25	10.50	501
■	RidgeWorth Seix High Yield I (12/29/00)	High Yield Bond	SAMHX		2.49	12.80	10.37	9.19	7.39	7.86	0.57	0.57	7.90	1,794
	TIAA-CREF High-Yield Retail (03/31/06)	High Yield Bond	TIYRX		2.46	11.99	10.81	10.53	–	8.55	0.70	0.70	7.80	422
	PIMCO Real Return D (04/08/98)	Infl-Protected	PRRDX		0.02	7.18	8.69	6.34	6.45	7.56	0.87	0.85	9.50	2,577
	American Century Infl-Adj Bond Inv (02/10/97)	Infl-Protected	ACITX		-0.38	5.36	8.14	5.67	5.97	6.34	0.48	0.48	9.30	3,542
	American Century Ginnie Mae Inv (09/23/85)	Intermed Gov't	BGNMX		0.10	2.16	4.72	5.30	4.64	6.87	0.56	0.56	4.00	1,547
	American Century Government Bond Inv (05/16/80)	Intermed Gov't	CPTNX		-0.08	2.36	4.52	4.64	4.44	7.23	0.48	0.48	5.20	1,082
	Metropolitan West Total Return Bond M (03/31/97)[b]	Interm-Term Bond	MWTRX		0.89	9.43	8.27	8.53	7.70	7.50	0.62	0.62	6.70	10,717
	PIMCO Total Return D (04/08/98)	Interm-Term Bond	PTTDX		0.53	7.61	6.61	7.45	6.33	6.83	0.75	0.75	6.10	19,978
	Baird Core Plus Bond Inv (09/29/00)	Interm-Term Bond	BCOSX		0.17	6.16	7.25	7.33	6.40	6.81	0.55	0.55	6.60	1,100
	TCW Total Return Bond N (03/01/99)	Interm-Term Bond	TGMNX		1.09	10.12	8.78	9.23	6.84	7.19	0.84	0.74	5.20	2,653
	RidgeWorth Total Return Bond I (12/30/97)	Interm-Term Bond	SAMFX		-0.36	4.01	6.25	6.76	5.57	5.85	0.39	0.39	6.80	1,228
	PIMCO Income D (03/30/07)	Multisector Bond	PONDX		2.75	18.97	14.87	12.35	–	11.04	0.91	0.75	5.30	4,234
■	Putnam Diversified Income A (10/03/88)[f]	Multisector Bond	PDINX		-0.51	5.86	5.79	5.27	5.78	6.66	0.99	0.99	6.90	1,843
	Northern Short-Intermediate US Govt (10/01/99)	Short Government	NSIUX		-0.41	1.76	2.31	2.63	2.82	3.86	0.73	0.44	3.10	275
	Sit US Government Securities (06/02/87)[b]	Short Government	SNGVX		-0.27	1.39	2.91	3.95	4.03	6.16	0.80	0.80	3.20	1,680
	Federated Short-Term Income Instl (07/01/86)	Short-Term Bond	FSTIX		0.23	2.51	2.80	3.52	3.38	5.17	0.83	0.53	1.60	548
	PIMCO Low Duration D (04/08/98)	Short-Term Bond	PLDDX		0.35	4.46	3.45	4.37	3.86	4.66	0.75	0.75	3.40	2,055
	RidgeWorth US Gov Sec Ultra-Short Bd I (04/11/02)	Ultrashort Bond	SIGVX		0.18	1.10	1.49	2.47	2.85	2.90	0.39	0.39	4.00	2,363
	PIMCO Short-Term D (04/08/98)	Ultrashort Bond	PSHDX		0.32	2.02	1.50	2.42	2.59	3.35	0.71	0.70	1.10	470
	PIMCO Foreign Bond (Unhedged) D (04/30/04)	World Bond	PFBDX		-4.03	1.68	7.13	5.17	–	6.31	0.90	0.90	7.60	627
	PIMCO Global Bond (Unhedged) D (07/31/08)	World Bond	PGBDX		-2.39	3.74	7.67	–	–	7.06	0.95	0.95	6.90	65
	PERFORMANCE BENCHMARKS													
	Barclays U.S. Aggregate Bond Index (Dividends Reinvested)				-0.12	3.77	5.52	5.47	5.02	–				

■ New to the **Select List** this quarter

Asset Class and Performance Benchmark Definitions

Bond funds invest in corporate, municipal or government debt obligations of different maturities and interest rates. Taxable bond funds generally invest in the debt obligations issued by the U.S. Treasury, other U.S. government agencies and U.S. corporations. They also may invest in high-yield and foreign (non-U.S.) bonds.

The Barclays U.S. Aggregate Bond Index tracks the total U.S. bond market, which includes U.S. Treasury, government agency, investment-grade corporate bond and mortgage-backed securities with maturities of at least one year. The index includes reinvestment of interest.

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.

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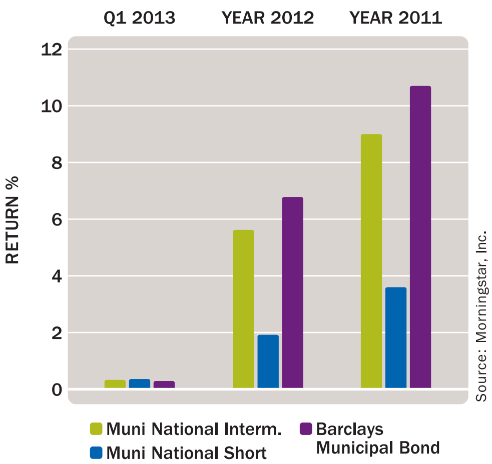
TAX-FREE BOND FUNDS



Perspectives and First Quarter 2013 Summary

Tax free bonds ended the quarter with modest gains following tax-season selling in March. Investors pushed for yield in tax-free bond markets in Q1 2013 by taking on more credit risk, driving outperformance in the High Yield Muni sector. We see the high yield sector of the muni market as a supporting player to a core portfolio of short- or intermediate-term funds. Overall, absolute yield levels remain low, but still relatively attractive compared to U.S. government and corporate bonds after accounting for the tax advantages.

- The Tax Free categories all produced positive quarterly returns despite pull backs in the last month of the quarter. High Yield Muni was the top performer with a quarterly return of 1.11%. Intermediate issues slightly outperformed the longer issues in the national categories with the Muni Intermediate category returning 0.33% followed by 0.32% for the Muni National Long category.
- The Single State categories produced positive quarterly returns for the quarter. The Muni California Long returned 0.57% followed by 0.32% for the Muni California Intermediate category. The Muni New York Intermediate-term returned 0.27% followed by 0.26% for the Muni New York Long category. The Muni Single State Long category returned 0.20% followed by 0.10% for the Single State Intermediate category.

All perspectives are as of April 11, 2013
For the latest up-to-date perspectives, please visit **schwab.com**

FOR THE QUARTER ENDED MARCH 31, 2013

FUND NAME (FUND INCEPTION DATE)	MORNINGSTAR CATEGORY	QUOTE SYMBOL	LOW HIGH RISK LEVEL	3 MOS.[c]	AVERAGE ANNUALIZED TOTAL RETURN 1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	GROSS EXPENSE RATIO[a]	NET EXPENSE RATIO[a]	AVG. WEIGHTED MATURITY (YRS)	TOTAL ASSETS ($M)
LEADING SCHWAB AFFILIATE FUNDS[e]													
Schwab Tax-Free Bond (09/11/92)	Muni National Interm	SWNTX		0.22	4.60	5.76	6.20	4.56	5.47	0.59	0.49	6.10	722
LEADING 3RD PARTY FUNDS													
American Century High-Yield Muni Inv (03/31/98)	High Yield Muni	ABHYX		0.89	9.88	8.65	5.59	4.70	5.05	0.61	0.61	18.30	275
Western Asset Municipal High Income A (11/06/92)[f]	High Yield Muni	STXAX		-3.29	3.76	6.71	5.86	5.45	5.22	0.78	0.78	13.80	663
American Century IntermTrm Tx-Fr Bd Inv (03/02/87)	Muni National Interm	TWTIX		0.41	4.46	5.40	5.17	4.28	5.30	0.47	0.47	9.40	2,019
BMO Intermediate Tax-Free Y (02/01/94)	Muni National Interm	MITFX		0.45	5.36	5.96	6.31	4.67	4.84	0.70	0.55	5.60	953
Baird Intermediate Muni Bd Inv (03/30/01)	Muni National Interm	BMBSX		0.16	3.11	4.38	4.74	4.06	4.71	0.55	0.55	5.50	261
Nuveen Interm Duration Muni Bond A (06/13/95)[f]	Muni National Interm	NMBAX		-2.43	1.83	4.12	4.47	3.88	4.61	0.71	0.71	8.80	505
■ Wells Fargo Advantage Interm T/AmtF Inv (07/31/01)	Muni National Interm	SIMBX		0.47	5.31	6.07	5.63	4.93	5.42	0.85	0.73	5.60	555
Northern Tax-Exempt (03/31/94)	Muni National Long	NOTEX		-0.01	5.85	6.23	6.14	4.81	5.50	0.87	0.47	14.10	1,202
American Century Long-Term Tax-Free Inv (04/03/06)	Muni National Long	ACLVX		0.25	5.64	6.45	6.29	–	5.28	0.48	0.48	14.40	67
Federated Shrt-Interm Dur Muni Instl (09/04/81)	Muni National Short	FSHIX		0.58	2.60	3.01	3.23	2.73	4.53	0.80	0.47	–	455
Wells Fargo Advantage S/T Muni Bd Inv (12/31/91)	Muni National Short	STSMX		0.45	1.80	2.54	3.40	3.38	4.04	0.81	0.63	1.80	2,151
PERFORMANCE BENCHMARKS													
Barclays Municipal Bond Index (Dividends Reinvested)				0.29	5.25	6.23	6.10	5.01	–				

■ New to the **Select List** this quarter

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.

The Barclays Municipal Bond Index is a total-return performance benchmark for the investment-grade tax-exempt bond market. The index includes reinvestment of interest.

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.

NOTES: ALL DATA SHOWN IS AS OF MARCH 31, 2013

a. 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.

b. Fund has an initial minimum investment greater than $2,500.

c. Three-month (3-mos.) total return is not annualized.

d. Investor Shares™ are available at a lower minimum but with higher operating expenses than Select Shares.®

e. 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.

f. 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.

ADDITIONAL FUND CATEGORIES

FOR THE QUARTER ENDED MARCH 31, 2013

FUND NAME (FUND INCEPTION DATE)	MORNINGSTAR CATEGORY	QUOTE SYMBOL	LOW HIGH RISK LEVEL	3 MOS.[c]	AVERAGE ANNUALIZED TOTAL RETURN 1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	GROSS EXPENSE RATIO[a]	NET EXPENSE RATIO[a]	TOTAL ASSETS ($M)
BALANCED FUNDS—LEADING SCHWAB AFFILIATE FUNDS[e]												
Schwab Balanced (11/18/96)	Moderate Allocation	SWOBX		5.93	8.11	9.01	5.51	7.08	6.23	0.81	0.65	136
BALANCED FUNDS—LEADING 3RD PARTY FUNDS												
American Century One Choice Agrsv Inv (09/30/04)	Aggressive Allocation	AOGIX		6.42	10.25	10.28	4.89	–	7.16	1.01	1.01	777
Value Line Asset Allocation (08/24/93)	Aggressive Allocation	VLAAX		7.26	12.05	13.61	6.28	8.93	9.87	1.32	1.22	149
JPMorgan Income Builder A (05/31/07)[f]	Conservative Allocation	JNBAX		-1.24	7.93	8.10	7.14	–	4.92	1.16	0.76	2,082
American Century One Choice Vry CnsrvInv (09/30/04)	Conservative Allocation	AONIX		1.98	5.26	6.26	4.62	–	5.08	0.62	0.62	330
Oakmark Equity & Income I (11/01/95)	Moderate Allocation	OAKBX		6.18	7.30	6.82	4.89	9.16	10.72	0.78	0.78	17,411
Buffalo Flexible Income (08/12/94)	Moderate Allocation	BUFBX		7.69	12.96	12.10	7.24	10.29	7.59	1.03	1.03	786
First Eagle Global A (04/28/70)[f]	World Allocation	SGENX		-0.19	3.33	8.12	5.37	12.47	12.04	1.15	1.15	16,813
■ BlackRock Global Allocation Inv A (10/21/94)[f]	World Allocation	MDLOX		-1.22	0.54	4.19	2.49	10.14	9.36	1.16	1.16	17,526
TARGET DATE FUNDS—LEADING SCHWAB AFFILIATE FUNDS[e]												
Schwab Monthly Income Max Payout (03/28/08)	Retirement Income	SWLRX		0.61	3.52	4.83	4.03	–	4.05	0.66	0.49	71
Schwab Monthly Income Enh Payout (03/28/08)	Retirement Income	SWKRX		1.83	5.31	6.44	4.68	–	4.71	0.73	0.58	86
Schwab Monthly Income Mod Payout (03/28/08)	Retirement Income	SWJRX		3.15	6.92	7.43	4.83	–	4.86	1.13	0.67	35
Schwab Target 2015 (03/12/08)	Target Date 2011-2015	SWGRX		4.32	8.34	8.44	4.87	–	4.96	0.80	0.61	78
Schwab Target 2020 (07/01/05)	Target Date 2016-2020	SWCRX		5.44	9.77	9.39	5.46	–	5.59	0.73	0.67	336
Schwab Target 2025 (03/12/08)	Target Date 2021-2025	SWHRX		6.28	10.57	9.98	6.37	–	6.52	0.82	0.72	175
Schwab Target 2030 (07/01/05)	Target Date 2026-2030	SWDRX		7.03	11.31	10.29	6.12	–	6.10	0.80	0.75	500
Schwab Target 2035 (03/12/08)	Target Date 2031-2035	SWIRX		7.61	11.97	10.66	6.53	–	6.69	0.92	0.79	137
Schwab Target 2040 (07/01/05)	Target Date 2036-2040	SWERX		8.10	12.49	10.95	6.44	–	6.45	0.87	0.81	502
TARGET DATE FUNDS—LEADING 3RD PARTY FUNDS												
PIMCO Real Income 2029 D (10/30/09)	Retirement Income	PORDX		-0.50	5.85	9.05	–	–	8.17	0.79	0.79	7
PIMCO Real Income 2019 D (10/30/09)	Retirement Income	PRLDX		0.25	2.21	4.78	–	–	4.55	0.79	0.79	4
American Century LIVESTRONG 2015 Inv (08/31/04)	Target Date 2011-2015	ARFIX		4.13	7.92	8.55	5.14	–	6.31	0.80	0.80	511
American Century LIVESTRONG 2020 Inv (05/30/08)	Target Date 2016-2020	ARBVX		4.45	8.47	8.95	–	–	4.73	0.83	0.83	326
American Century LIVESTRONG 2025 Inv (08/31/04)	Target Date 2021-2025	ARWIX		4.89	8.80	9.26	5.20	–	6.72	0.86	0.86	716
American Century LIVESTRONG 2030 Inv (05/30/08)	Target Date 2026-2030	ARCVX		5.46	9.33	9.55	–	–	4.30	0.88	0.88	270
American Century LIVESTRONG 2035 Inv (08/31/04)	Target Date 2031-2035	ARYIX		6.09	9.89	9.98	5.04	–	7.02	0.91	0.91	493
American Century LIVESTRONG 2040 Inv (05/30/08)	Target Date 2036-2040	ARDVX		6.58	10.43	10.33	–	–	4.37	0.95	0.95	182
American Century LIVESTRONG 2045 Inv (08/31/04)	Target Date 2041-2045	AROIX		7.00	10.78	10.57	5.05	–	7.19	0.98	0.98	304
American Century LIVESTRONG 2050 Inv (05/30/08)	Target Date 2046-2050	ARFVX		7.08	10.87	10.67	–	–	3.88	1.00	1.00	86
JPMorgan SmartRetirement 2020 A (05/15/06)[f]	Target Date 2016-2020	JTTAX		-0.37	4.47	7.50	4.74	–	4.64	1.24	0.94	563
■ JPMorgan SmartRetirement 2040 A (05/15/06)[f]	Target Date 2036-2040	SMTAX		1.87	6.56	8.34	4.62	–	4.59	1.39	1.04	380
■ JPMorgan SmartRetirement 2045 A (07/31/07)[f]	Target Date 2041-2045	JSAAX		1.87	6.70	8.32	4.98	–	3.28	1.41	1.04	159
JPMorgan SmartRetirement 2050 A (07/31/07)[f]	Target Date 2046-2050	JTSAX		1.86	6.58	8.44	4.98	–	3.30	1.43	1.04	121
CONVERTIBLE, LONG-SHORT, COMMODITY AND MARKET NEUTRAL FUNDS—LEADING SCHWAB AFFILIATE FUNDS[e]												
Schwab Hedged Equity (09/03/02)	Long/Short Equity	SWHEX		4.79	7.16	5.65	3.40	6.97	6.48	2.13	1.53	191
CONVERTIBLE, LONG-SHORT, COMMODITY AND MARKET NEUTRAL FUNDS—LEADING 3RD PARTY FUNDS												
Putnam Convertible Securities A (06/29/72)[f]	Convertibles	PCONX		0.61	5.23	6.92	4.98	7.97	9.79	1.11	1.11	480
■ Wasatch Long/Short Investor (08/01/03)	Long/Short Equity	FMLSX		9.19	11.29	8.64	6.83	–	6.81	1.51	1.27	1,770
ASTON/Anchor Capital Enhanced Equity N (01/15/08)	Long/Short Equity	AMBEX		4.42	1.25	5.90	3.68	–	3.95	1.22	1.22	84
PIMCO Commodity Real Ret Strat D (11/29/02)	Commodities Broad Basket	PCRDX		-0.67	0.97	6.93	-4.06	6.64	7.66	1.35	1.19	1,054
■ Goldman Sachs Commodity Strategy A (03/30/07)[f]	Commodities Broad Basket	GSCAX		-4.33	-10.87	0.80	-11.21	–	-4.75	1.10	0.96	360
Merger (01/31/89)	Market Neutral	MERFX		0.25	2.76	2.39	3.78	4.26	6.89	1.68	1.37	4,394
PERFORMANCE BENCHMARKS												
S&P 500 Index® (Dividends Reinvested)				10.61	13.96	12.67	5.81	8.53	–			
Barclays U.S. Aggregate Bond Index (Dividends Reinvested)				-0.12	3.77	5.52	5.47	5.02	–			

■ New to the **Select List** this quarter

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% to 80% of assets in fixed income and cash. Moderate Allocation funds may invest 50% to 70% of assets in equities, with the balance invested in fixed income and cash. Convertible funds invest primarily in bonds and preferred stocks that can be converted into common stocks. Target maturity or "Lifecycle" funds are managed for investors planning to retire (or to begin withdrawing substantial portions of their 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.

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.

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.

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.

						AVERAGE ANNUALIZED TOTAL RETURN					
	FUND NAME (FUND INCEPTION DATE)	MORNINGSTAR CATEGORY	QUOTE SYMBOL	LOW HIGH RISK LEVEL	3 MOS.[c]	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	GROSS EXPENSE RATIO[a]
	LEADING SCHWAB AFFILIATE FUNDS[e]										
	Schwab Monthly Income Max Payout (03/28/08)	Retirement Income	SWLRX		0.61	3.52	4.83	4.03	–	4.05	0.66
	Schwab International Core Equity (05/30/08)	Foreign Large Blend	SICNX		5.54	15.82	8.05	–	–	-0.81	1.17
	Schwab Tax-Free Bond (09/11/92)	Muni National Interm	SWNTX		0.22	4.60	5.76	6.20	4.56	5.47	0.59
	Schwab Dividend Equity (09/02/03)	Large Value	SWDSX		11.45	15.17	12.19	5.90	–	7.97	0.89
	Schwab Monthly Income Enh Payout (03/28/08)	Retirement Income	SWKRX		1.83	5.31	6.44	4.68	–	4.71	0.73
	Schwab Monthly Income Mod Payout (03/28/08)	Retirement Income	SWJRX		3.15	6.92	7.43	4.83	–	4.86	1.13
	Schwab GNMA (03/03/03)	Intermediate Government	SWGSX		-0.25	1.71	4.49	4.91	4.60	4.54	0.60
	Schwab Core Equity Inv (07/01/96)	Large Blend	SWANX		10.25	12.53	10.91	5.14	8.71	7.47	0.73
■	Schwab Intermediate-Term Bond (10/31/07)	Intermediate-Term Bond	SWIIX		0.20	2.81	4.64	5.66	–	5.76	0.62
	Laudus Mondrian Emerging Markets Select (11/05/07)[b,*]	Diversified Emerging Mkts	LEMSX		1.13	6.03	6.04	2.97	–	1.60	1.66
■	Laudus Mondrian Intl Equity Select (06/17/08)[b,*]	Foreign Large Value	LIEFX		3.47	7.18	3.77	–	–	-3.05	1.40
	LEADING 3RD PARTY FUNDS										
	DOMESTIC										
	Parnassus Equity Income - Inv (09/01/92)[d]	Large Blend	PRBLX		12.68	20.87	12.04	9.12	9.51	10.35	0.94
■	TIAA-CREF Social Choice Eq Retail (03/31/06)	Large Blend	TICRX		13.02	15.43	11.95	6.48	–	5.08	0.49
	Jensen Quality Growth J (08/03/92)	Large Growth	JENSX		10.90	13.35	10.14	6.57	7.19	7.95	0.91
	JPMorgan Equity Income A (02/18/92)[f]	Large Value	OIEIX		5.11	8.74	12.89	6.26	8.58	8.05	1.09
	Principal Equity Income A (05/31/39)[f]	Large Value	PQIAX		4.71	9.01	10.76	4.72	9.22	8.62	0.96
	Parnassus Mid-Cap (04/29/05)	Mid-Cap Growth	PARMX		9.78	15.85	14.62	10.38	–	8.22	1.24
	American Century Mid Cap Value Inv (03/31/04)	Mid-Cap Value	ACMVX		11.59	18.11	13.13	9.94	–	9.70	1.01
	Royce Total Return Svc (01/03/02)	Small Blend	RYTFX		9.57	16.02	12.43	7.00	10.27	8.40	1.44
	INTERNATIONAL										
	Acadian Emerging Markets Instl (06/17/93)	Diversified Emerging Mkts	AEMGX		1.41	6.66	6.16	0.07	18.92	9.24	1.31
	Aberdeen International Equity A (08/30/00)[f]	Foreign Large Blend	GIGAX		-2.85	2.83	6.41	-0.57	12.89	4.01	1.42
	Federated Intl Strategic Val Dividend A (06/03/08)[f]	Foreign Large Value	IVFAX		-0.92	5.69	6.65	–	–	-1.48	1.47
	Perkins Global Value T (06/29/01)	World Stock	JGVAX		8.08	12.81	9.49	4.30	10.18	6.48	1.12
	SECTOR										
■	DWS RREEF Real Estate Securities A (09/03/02)[f]	Real Estate	RRRAX		-0.27	6.34	14.49	4.83	11.54	11.07	0.98
	TAXABLE BOND										
	PIMCO Emerging Markets Bond D (03/31/00)	Emerging Markets Bond	PEMDX		-1.32	9.64	9.62	8.57	10.11	12.13	1.25
	RidgeWorth Seix High Yield I (12/29/00)	High Yield Bond	SAMHX		2.49	12.80	10.37	9.19	7.39	7.86	0.57
	TIAA-CREF High-Yield Retail (03/31/06)	High Yield Bond	TIYRX		2.46	11.99	10.81	10.53	–	8.55	0.70
	American Century Infl-Adj Bond Inv (02/10/97)	Inflation-Protected Bond	ACITX		-0.38	5.36	8.14	5.67	5.97	6.34	0.48
	American Century Government Bond Inv (05/16/80)	Intermediate Government	CPTNX		-0.08	2.36	4.52	4.64	4.44	7.23	0.48
	Baird Core Plus Bond Inv (09/29/00)	Intermediate-Term Bond	BCOSX		0.17	6.16	7.25	7.33	6.40	6.81	0.55
	Metropolitan West Total Return Bond M (03/31/97)[b]	Intermediate-Term Bond	MWTRX		0.89	9.43	8.27	8.53	7.70	7.50	0.62
	PIMCO Total Return D (04/08/98)	Intermediate-Term Bond	PTTDX		0.53	7.61	6.61	7.45	6.33	6.83	0.75
	RidgeWorth Total Return Bond I (12/30/97)	Intermediate-Term Bond	SAMFX		-0.36	4.01	6.25	6.76	5.57	5.85	0.39
	TCW Total Return Bond N (03/01/99)	Intermediate-Term Bond	TGMNX		1.09	10.12	8.78	9.23	6.84	7.19	0.84
	PIMCO Income D (03/30/07)	Multisector Bond	PONDX		2.75	18.97	14.87	12.35	–	11.04	0.91
	Sit US Government Securities (06/02/87)[b]	Short Government	SNGVX		-0.27	1.39	2.91	3.95	4.03	6.16	0.80
	Federated Short-Term Income Instl (07/01/86)	Short-Term Bond	FSTIX		0.23	2.51	2.80	3.52	3.38	5.17	0.83
	PIMCO Low Duration D (04/08/98)	Short-Term Bond	PLDDX		0.35	4.46	3.45	4.37	3.86	4.66	0.75
	RidgeWorth US Gov Sec Ultra-Short Bd I (04/11/02)	Ultrashort Bond	SIGVX		0.18	1.10	1.49	2.47	2.85	2.90	0.39
	PIMCO Foreign Bond (Unhedged) D (04/30/04)	World Bond	PFBDX		-4.03	1.68	7.13	5.17	–	6.31	0.90
	TAX-FREE BOND										
	American Century IntermTrm Tx-Fr Bd Inv (03/02/87)	Muni National Interm	TWTIX		0.41	4.46	5.40	5.17	4.28	5.30	0.47
	BMO Intermediate Tax-Free Y (02/01/94)	Muni National Interm	MITFX		0.45	5.36	5.96	6.31	4.67	4.84	0.70
	Northern Tax-Exempt (03/31/94)	Muni National Long	NOTEX		-0.01	5.85	6.23	6.14	4.81	5.50	0.87
	Federated Shrt-Interm Dur Muni Instl (09/04/81)	Muni National Short	FSHIX		0.58	2.60	3.01	3.23	2.73	4.53	0.80
	RETIREMENT INCOME										
	PIMCO Real Income 2029 D (10/30/09)	Retirement Income	PORDX		-0.50	5.85	9.05	–	–	8.17	0.79

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

Definitions

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").

Whether you need income monthly, quarterly or annually, you have a number of fund choices. The funds on the Income Select List provide different types of income: fixed-income funds generally pay interest measured by yield; equity funds pay dividends measured by dividend return or payout ratio.

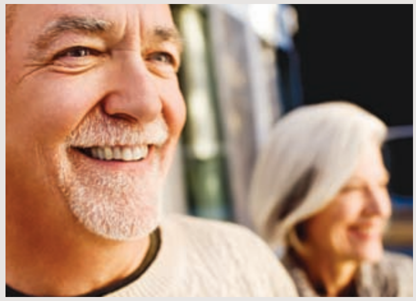
FOR THE QUARTER ENDED MARCH 31, 2013

NET EXPENSE RATIO[a]	AVG. WEIGHTED MATURITY (YRS)	TOTAL ASSETS ($M)	PAYMENT DATE	FREQUENCY	ANNUAL DIVIDEND RETURN	MOST RECENT DIVIDEND PAYMENT	30-DAY SEC YIELD
0.49	–	71	3/15/13	Monthly	2.28	0.01	1.98
0.87	–	96	12/6/12	Annually	2.50	0.21	–
0.49	6.10	722	3/28/13	Monthly	2.30	0.02	1.42
0.89	–	1,490	3/28/13	Quarterly	1.88	0.04	1.66
0.58	–	86	3/15/13	Monthly	2.37	0.01	2.12
0.67	–	35	3/15/13	Monthly	2.46	0.01	2.20
0.55	5.70	530	3/28/13	Monthly	2.84	0.02	1.85
0.73	–	1,999	12/6/12	Annually	1.61	0.17	–
0.45	4.20	392	3/28/13	Monthly	1.91	0.02	1.38
1.52	–	16	12/6/12	Annually	2.18	0.21	–
1.12	–	1	12/6/12	Annually	3.23	0.24	–
0.94	–	4,466	3/28/13	Quarterly	2.28	0.10	–
0.49	–	244	12/7/12	Annually	1.70	0.21	–
0.91	–	2,426	3/20/13	Quarterly	1.03	0.08	–
1.05	–	938	3/28/13	Monthly	2.04	0.03	1.68
0.96	–	775	3/28/13	Quarterly	2.45	0.12	2.64
1.20	–	154	12/27/12	Annually	1.34	0.30	–
1.01	–	2,287	3/12/13	Quarterly	1.69	0.01	1.27
1.44	–	427	3/7/13	Quarterly	0.92	0.03	–
1.31	–	1,196	12/28/12	Annually	1.63	0.32	–
1.42	–	232	12/20/12	Quarterly	1.42	0.02	–
1.11	–	142	3/27/13	Monthly	3.26	0.01	3.37
1.12	–	38	12/20/12	Annually	2.02	0.28	–
0.98	–	488	3/21/13	Quarterly	1.50	0.08	–
1.25	10.50	501	3/28/13	Monthly	4.69	0.05	3.21
0.57	7.90	1,794	3/28/13	Monthly	6.15	0.05	4.74
0.70	7.80	422	3/28/13	Monthly	5.52	0.05	4.68
0.48	9.30	3,542	12/26/12	Quarterly	2.24	0.18	-3.03
0.48	5.20	1,082	3/28/13	Monthly	2.05	0.02	0.92
0.55	6.60	1,100	3/25/13	Monthly	2.90	0.02	2.24
0.62	6.70	10,717	3/28/13	Monthly	3.40	0.03	2.60
0.75	6.10	19,978	3/28/13	Monthly	3.61	0.02	1.09
0.39	6.80	1,228	3/28/13	Monthly	1.89	0.01	1.64
0.74	5.20	2,653	3/28/13	Monthly	5.34	0.04	2.68
0.75	5.30	4,234	3/28/13	Monthly	5.77	0.05	3.67
0.80	3.20	1,680	3/28/13	Monthly	1.48	0.01	–
0.53	1.60	548	3/28/13	Monthly	1.91	0.01	1.33
0.75	3.40	2,055	3/28/13	Monthly	2.40	0.02	0.39
0.39	4.00	2,363	3/28/13	Monthly	0.80	0.01	0.58
0.90	7.60	627	3/28/13	Monthly	3.03	0.01	1.36
0.47	9.40	2,019	3/28/13	Monthly	2.51	0.02	1.19
0.55	5.60	953	3/28/13	Monthly	2.58	0.02	2.59
0.47	14.10	1,202	3/25/13	Monthly	2.85	0.02	2.70
0.47	–	455	3/28/13	Monthly	1.71	0.01	0.98
0.79	9.20	7	3/28/13	Monthly	5.34	0.05	-3.61

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 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.

For asset class and performance benchmark definitions, please see footnotes on pages 37–43.
Please see page 42 for information on items a–f cited above.



A smart approach to help you generate income from your investments

As you plan for retirement, you want to build a portfolio to sustain you with regular income, but you don't want to sacrifice the potential for growth. One solution is to build a portfolio that incorporates both fixed-income funds that generate regular income and equity funds that pay dividends as well as provide growth potential.

For a few ideas on how to build an income generating portfolio of more than one fund from the Schwab Income Mutual Fund Select List, view a sample portfolio online within the Income Select List pages, by going to **www.schwab.com/incomelist**. Portfolios are provided for conservative, moderately conservative or moderate investors seeking income from a portfolio consisting of taxable bond funds or municipal bond funds.

If you have questions about your retirement, Schwab can help. Get answers to questions like:

- Can I afford to retire?
- How are my expenses likely to change?
- When should I take Social Security?

at **schwab.com/realliferetirement**

Or talk to us about the retirement you want by calling **888-445-4515**.

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 66 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.,[1] 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 qualitative and quantitative variables such as cost of ownership, risk, fund structure and fit within a given category rather than outperforming its peers.

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
- tracking error
- trading volume

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.[2]

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.

Want to learn more about the ETFs listed here?
Log on to **schwab.com/ETFSelectList** and click on a ticker symbol.

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.

† 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.

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, 2013

	ETF SELECT LIST CATEGORY	QUOTE SYMBOL	FUND NAME	INDEX	GROSS EXPENSES*	ONLINE COMMISSION	DESCRIPTION
	U.S. EQUITY ETFs						
	Large Core	SCHX	Schwab U.S. Large-Cap ETF	Dow Jones U.S. Total Stock Market Large Cap	0.04%	$0†	Index covers over 700 largest US firms which comprise about 80% of the US market (by capitalization)
	Large Growth	SCHG	Schwab U.S. Large-Cap Growth ETF	Dow Jones U.S. Total Stock Market Large Cap Growth	0.07%	$0†	ETF has diversified exposure to large growth names such as Apple, Microsoft, Wal-Mart, PepsiCo
	Large Value	SCHV	Schwab U.S. Large-Cap Value ETF	Dow Jones U.S. Total Stock Market Large Cap Value	0.07%	$0†	ETF has diversified exposure to large value names such as ExxonMobil, GE, IBM, and Pfizer
	Mid Core	SCHM	Schwab U.S. Mid-Cap ETF	Dow Jones U.S. Mid-Cap Total Stock Market Index	0.07%	$0†	Over 500 holdings providing US equity exposure to the mid-cap portion of the broader U.S. stock market
■	Mid Growth	MDYG	SPDR S&P 400 Mid Cap Growth ETF	SPDR S&P 400 Mid Cap Growth	0.25%	$0†	U.S. growth stocks with market caps between $850M and $3.8B selected based on sales growth, earnings growth, & momentum
	Mid Value	VOE	Vanguard Mid-Cap Value ETF	MSCI U.S. Mid Cap Value	0.10%	$8.95	Mid-cap value style index. Main sectors are financials, consumer discretionary and utilities
	Small Core	SCHA	Schwab U.S. Small-Cap ETF	Dow Jones U.S. Total Stock Market Small Cap	0.08%	$0†	Focuses on over 1700 small-cap companies; index excludes the smallest micro-cap stocks
■	Small Growth	SLYG	SPDR S&P 600 Small Cap Growth ETF	S&P 600 Small Cap Growth	0.25%	$0†	Holds small-cap stocks with growth characteristics and market caps ranging from $250M to $1.2B
	Small Value	SLYV	SPDR S&P 600 Small Cap Value ETF	S&P SmallCap 600 Value	0.25%	$0†	Holds stocks with value characteristics selected from the S&P SmallCap 600 index
	Total Stock Market	SCHB	Schwab U.S. Broad Market ETF	Dow Jones U.S. Broad Stock Market	0.04%	$0†	Holds over 1500 large to small-cap firms; covers virtually the entire US stock market (by capitalization)
	Dividend-focused	SCHD	Schwab U.S. Dividend Equity ETF	Dow Jones U.S. Dividend 100 Index	0.07%	$0†	Holds U.S. companies that consistently pay dividends and have strong relative fundamental strength based on financial ratios
	INTERNATIONAL EQUITY ETFs						
	Developed Core	SCHF	Schwab International Equity ETF	FTSE Developed ex U.S. Index	0.09%	$0†	Canada included in this index which highlights large and mid-cap stocks from 20 developed markets
	Developed Growth	EFG	iShares MSCI EAFE Growth Index	MSCI EAFE Growth	0.40%	$8.95	Developed stock markets excl. US and Canada. Top index weights are U.K., Japan and Switzerland
	Developed Value	EFV	iShares MSCI EAFE Value Index	MSCI EAFE Value	0.40%	$8.95	Developed stock markets excl. US and Canada. Index heavy in Japan, U.K., and financial services
■	Developed Small	SCHC	Schwab International Small-Cap Eq ETF	FTSE Developed Small Cap Ex U.S. Liquid Index	0.20%	$0†	Canada included in this index featuring approximately 1000 small-cap firms from over 20 developed markets
	Emerging Market	SCHE	Schwab Emerging Markets Equity ETF	FTSE Emerging Index	0.15%	$0†	Large and mid-cap stocks from over 20 emerging mar-kets. Financials are over 30% of the holdings
	All World ex-US	CWI	SPDR MSCI ACWI (ex-US)	MSCI ACWI Ex USA Index	0.34%	$0†	Tracks a cap-weighted index of developed and emerging market countries excluding the US
	Global Stock Market	VT	Vanguard Total World Stock Index ETF	FTSE Global All Cap Index	0.19%	$8.95	Holds over 4000 stocks spanning the investable global stock markets, including emerging markets
	Europe	VGK	Vanguard FTSE Europe ETF	FTSE Developed Europe Index	0.12%	$8.95	Features large and mid-cap stocks from approximately 20 developed markets. Largest sector is financials
	Pacific Asia	VPL	Vanguard FTSE Pacific ETF	FTSE Developed Asia Pacific Index	0.12%	$8.95	Features about 500 stocks, approximately 60% from Japan; also includes Australia, Hong Kong and Singapore
	Pacific Asia ex-Japan	EPP	iShares MSCI Pacific ex-Japan	MSCI Pacific ex-Japan Index	0.50%	$8.95	Includes publicly traded stocks from Australia, Hong Kong, New Zealand and Singapore
■	Japan	NKY	MAXIS Nikkei 225 Index ETF	Nikkei 225 Index	0.53%	$8.95	Holds 225 stocks traded on the Tokyo Stock Exchange; largest sectors are consumer discretionary, industrials and IT
■	China	YAO	Guggenheim China All-Cap	AlphaShares China All-Cap Index	0.70%	$0†	Holds companies based in mainland China. Proprietary data is used to identify and weight holdings.

■ New to the **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.

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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 subjects 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, 2013

ETF SELECT LIST CATEGORY	QUOTE SYMBOL	FUND NAME	INDEX	GROSS EXPENSES*	ONLINE COMMISSION	DESCRIPTION
BOND ETFs						
Short Broad Market	BSV	Vanguard Short-Term Bond ETF	Barclays U.S. 1–5 Year Government/Credit Float Adjusted Index	0.11%	$8.95	Invests in U.S. government and investment grade corporate bonds with durations from one to five years
Short Corporate	VCSH	Vanguard Short-Term Corp Bond Index ETF	Barclays U.S. 1–5 Year Corporate Bond Index	0.12%	$8.95	Holds over 1000 short-term, investment grade U.S. corporate bonds
■ Short Muni	SMB	Market Vectors Short Municipal Index ETF	Barclays Capital AMT-Free Short Continuous Municipal Index	0.20%	$8.95	Tracks a market value weighted index of AMT-free municipal bonds with nominal maturities of 1–6 years
Short Treasury	SCHO	Schwab Short-Term U.S. Treasury ETF	Barclays U.S. 1–3 Year Treasury Bond Index	0.08%	$0†	ETF features 28 Treasuries which mature by March 2016
Intermediate Broad Market	SCHZ	Schwab U.S. Aggregate Bond ETF	Barclays U.S. Aggregate Bond Index	0.05%	$0†	Holds securities that are fixed rate, non-convertible with least $250 million of outstanding face value.
Intermediate Corporate	VCIT	Vanguard Interm-Term Corp Bond Index ETF	Barclays U.S. 5–10 Year Corporate Bond Index	0.12%	$8.95	Provides diversified exposure to the intermediate-term investment-grade U.S. corporate bond market
Intermediate Muni	MUB	iShares S&P National AMT-Free Muni Bond	Standard and Poor's National AMT-Free Muni Bond	0.25%	$8.95	May help avoid AMT bite. Index has a heavy focus on California munis
Intermediate Treasury	SCHR	Schwab Intermediate-Term U.S. Treasury ETF	Barclays U.S. 3–10 Year Treasury Bond Index	0.10%	$0†	ETF features 50 Treasuries maturing between 2016 and 2023
Long Broad Market	BLV	Vanguard Long-Term Bond Index ETF	Barclays U.S. Long Government/Credit Float Adjusted Index	0.11%	$8.95	Provides diversified exposure to the long-term, investment-grade segment of the U.S. bond market
Long Corporate	VCLT	Vanguard Long-Term Corp Bond Index ETF	Barclays U.S. 10+ Year Corp Index	0.12%	$8.95	Invests in high-quality (investment-grade) corporate bonds; maintains a dollar-weighted average maturity of 10–25 years
Long Muni	MLN	Market Vectors Long Municipal Index ETF	Barclays Capital AMT-Free Long Continuous Municipal	0.24%	$8.95	ETF provides broad exposure to investment grade municipal bonds with a nominal maturities of at least 17 years
Long Treasury	TLO	SPDR Barclays Capital Long Term Treasury	Barclays Long U.S. Treasury Index	0.13%	$0†	Market cap weighted index of U.S. Treasury securities with maturities greater than 10 years (excludes TIPS)
High Yield	PHB	PowerShares Fundamental High Yield Corp Bondd	RAFI® Bonds U.S. High Yield 1–10 Index	0.50%	$0†	Tracks an index of high-yield, U.S. bonds that are selected based on the Research Affiliates Fundamental Index® methodology
TIPS	SCHP	Schwab U.S. TIPS ETF	Barclays US Treasury Inflation Protected Securities - Series L	0.07%	$0†	ETF highlights Treasury securities which are designed to adjust for and help protect against inflation
Emerging Markets	PCY	PowerShares Emerging Mkts Sovereign Debt	DB Emerging Market USD Liquid Balanced	0.50%	$0†	Holds U.S. dollar denominated government bonds issued by 22 emerging market countries
International	BWX	SPDR Barclays International Treasury Bond	Barclays Global Treasury Ex U.S.	0.50%	$0†	ETF features debt issued by foreign governments: non-dollar denominated, investment grade
SECTOR ETFs						
Consumer Discretionary	VCR	Vanguard Consumer Discretionary ETF	MSCI U.S. Investable Market Consumer Discretionary 25/50	0.14%	$8.95	Holds stocks that tend to be the most sensitive to economic cycles (automotive, apparel, hotels, restaurants, etc.)
Consumer Staples	VDC	Vanguard Consumer Staples ETF	MSCI U.S. Investable Market Consumer Staples 25/50	0.14%	$8.95	Holds stocks that tend to be less sensitive to economic cycles (food, beverages, tobacco, nondurable household goods, etc.)
Energy	VDE	Vanguard Energy ETF	MSCI U.S. Investable Market Energy 25/50 Index	0.14%	$8.95	Multicapitalization equity in the energy sector; Exxon is over 20% of the portfolio
■ Clean Energy	PBW	PowerShares WilderHill Clean Energy	WilderHill Clean Energy Index	0.76%	$8.95	Holds companies that focus on greener and generally renewable sources of energy; including Tesla Motors and First Solar
■ Financial	VFH	Vanguard Financials ETF	MSCI U.S. Investable Market Financials 25/50	0.19%	$8.95	Includes companies involved in activities ranging from banking and mortgage finance to asset management, insurance and REITs
Health Care	VHT	Vanguard Health Care ETF	MSCI U.S. Investable Market Health Care 25/50	0.14%	$8.95	Includes companies that provide health care-related services or manufacture health care equipment and supplies
Industrials	VIS	Vanguard Industrials ETF	MSCI U.S. Investable Market Industrials 25/50	0.14%	$8.95	Holds companies that produce durable equipment for other firms. Top holdings include GE, United Technologies, and 3M
Materials	VAW	Vanguard Materials ETF	MSCI U.S. Investable Market Materials 25/50 Index	0.14%	$8.95	Includes companies in a wide range of commodity-related manufacturing industries (e.g. chemicals, paper metals, and minerals)
Preferred Stock	PGX	PowerShares Preferred	BofA Merrill Lynch Core Plus Fixed Rate Preferred Securities	0.50%	$0†	Dividends on preferreds may appeal to income seekers; Top 10 holdings are financial firms
Technology	VGT	Vanguard Information Technology ETF	MSCI U.S. Investable Market Information Technology 25/50	0.14%	$8.95	Sector consists of companies that produce computer software and hardware, including semiconductors
Telecommunications	VOX	Vanguard Telecom Services ETF	MSCI U.S. Investable Market Telecommunication Services 25/50	0.14%	$8.95	Multicapitalization equity in the telecommunication services sector
Preferred Utilities	VPU	Vanguard Utilities ETF	MSCI U.S. Investable Market Utilities 25/50 Index	0.14%	$8.95	Holds electric, gas and water utility companies as well as independent producers and distributors of power

■ New to the **Select List** this quarter

† 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.

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 investment in other mutual funds with greater diversification.

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EXCHANGE-TRADED FUNDS

FOR THE QUARTER ENDED MARCH 31, 2013

ETF SELECT LIST CATEGORY	QUOTE SYMBOL	FUND NAME	INDEX	GROSS EXPENSES*	ONLINE COMMISSION	DESCRIPTION
REAL ASSETS						
Commodities Broad	USCI	United States Commodity Index	SummerHaven Dynamic Commodity Index	1.15%	$0†	14 futures contracts on precious metals, industrial metals, energy and agricultural products. Investors will recieve K-1s.
Agriculture	DBA	PowerShares DB Agriculture	DBIQ Diversified Agriculture Index Excess Return	0.85%	$8.95	Uses futures contracts to access a cornucopia of coffee, sugar, livestock, grain, cocoa. Investors will get K-1s at tax time
Gold	SGOL	ETFS Physical Swiss Gold Shares	London PM Fix Price of Gold	0.39%	$0†	Each share backed by gold bullion held in a Swiss vault; provides direct exposure to gold price movements
Broad Precious Metals	GLTR	ETFS Physical PM Basket Shares	London PM Fix Price of Gold, Silver, Platinum and Palladium	0.60%	$0†	ETF is structured as a grantor trust; holds gold, silver, platinum and palladium
Industrial Metals	DBB	PowerShares DB Base Metals	DBIQ Optimum Yield Industrial Metals Index Excess Return	0.75%	$8.95	Tracks a proprietary index including aluminum, copper and zinc using futures contracts. Investors will get K-1s at tax time
Oil	USL	United States 12 Month Oil	West Texas Intermediate light, sweet crude	0.91%	$0†	Holds futures contracts expiring in 12 consecutive months for light, sweet crude. Investors will get K-1s at tax time.
Broad Energy Commodities	DBE	PowerShares DB Energy	DBIQ Optimum Yield Energy Index Excess Return	0.75%	$8.95	Holds futures contracts on light sweet crude, heating oil, Brent oil, gasoline and natural gas. Investors will get K-1s
Real Estate	SCHH	Schwab US REIT ETF	Dow Jones U.S. Select REIT Index	0.07%	$0†	Invests in REITs (real estate investment trusts) that own and commonly operate commercial and residential properties
SPECIALTY ETFs						
Multi-Asset Income	CVY	Guggenheim Multi-Asset Income	Zacks Multi-Asset Income Index	0.86%	$0†	Holdings may include U.S. stocks, ADRs, REITs, MLPs, closed-end funds and/or Canadian royalty trusts; Top sector is financials
ALTERNATIVE WEIGHTED ETFs						
EQUAL WEIGHTED ETFs						
U.S. Large Equal Weighted	RSP	Guggenheim S&P 500 Equal Weight	Standard and Poor's 500 Equal Weight	0.40%	$0†	Compared to market cap weighted indexes, this ETF has lower exposure to the largest companies; Index is rebalanced quarterly
FUNDAMENTAL WEIGHTED ETFs						
U.S. Large Fundamental Weighted	SPHQ	PowerShares S&P 500 High Quality	Standard and Poor's High Quality Rankings Index	0.49%	$8.95	Holds stocks ranked highest by S&P for having long-term growth and stability in earnings and dividends
U.S. Small Fundamental Weighted	PRFZ	PowerShares FTSE RAFI US 1500 Small-Mid	FTSE RAFI US 1500 Small-Mid	0.44%	$8.95	Small-cap U.S. companies are selected based on the following fundamental measures: book value, cash flow, sales and dividends
International Fundamental Weighted	PXF	PowerShares FTSE RAFI Dev Mkts ex-US	FTSE RAFI Developed Markets ex-U.S.	0.45%	$8.95	Index is overweight non-U.S. companies with strong fundamentals as measured by book value, income, sales and dividends
LOW VOLATILITY WEIGHTED ETFs						
U.S. Large Low Volatility Weighted	SPLV	PowerShares S&P 500 Low Volatility	S&P 500® Low Volatility Index	0.25%	$0†	Holds 100 stocks from the S&P 500® Index with the lowest realized volatility over the past 12 months
International Low Volatility Weighted	EFAV	iShares MSCI EAFE Min Volatility	MSCI EAFE Minimum Volatility	0.34%	$8.95	Includes stocks from Europe, Australasia, the Middle and Far East; stocks with the lowest volatility have the highest weights

■ New to the **Select List** this quarter

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.

NEW! ALTERNATIVE WEIGHTED ETFS

We are pleased to introduce 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.

Here are descriptions of the Alternative Weighted ETF types that are in this quarter's ETF Select List:

- **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 citeria 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.

The Influence of Demographics on Stock Markets

Will a maturing Millennial generation trigger a bull market in the United States?

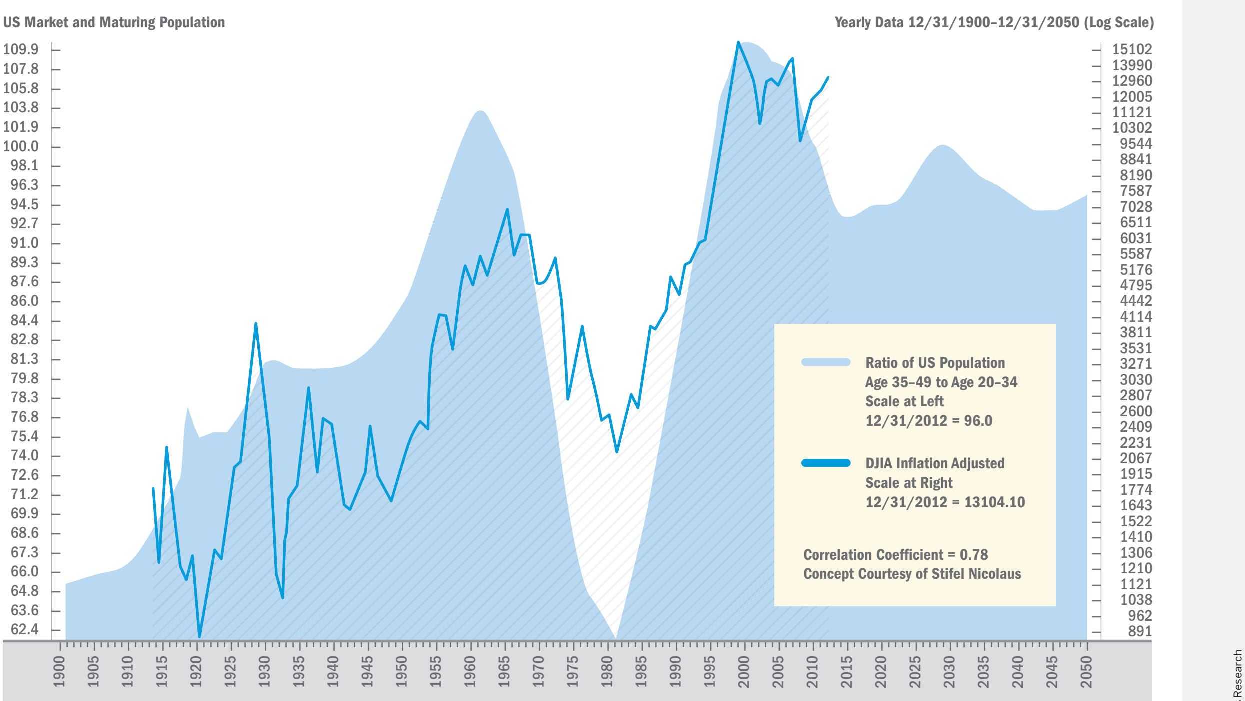
By Alejandra Grindal

Demographics have a definite impact on equity markets. One popular way of depicting this is the MY ratio—the proportion of middle-aged individuals (M) to young people (Y).

- Young people just entering the workforce typically have lower wages and salaries. They are starting families; saving for retirement is less of a concern. As a result, spending is generally a larger share of their income.
- For those approaching middle age, incomes generally peak and saving for retirement becomes more urgent. It's assumed that they will put their additional income into the markets, which can help to increase market share.

When the MY ratio is rising—that is, the middle-aged outnumber the young—stocks should outperform, while a falling MY ratio is consistent

A MATURING US POPULATION CORRELATES WITH STOCK MARKET OUTPERFORMANCE



with lower stock performance. The ratio peaked in 2000, which ushered in a bear market, and it has been declining ever since. But as the first wave of Millennials enter their mid-30s during the next couple of years, this ratio should begin to rise—which may help trigger a bull market in the United States.

Where MY Is Meaningful

According to our research, the relationship between the MY ratio and equity markets is by far the strongest in the United States, so it's harder to make such predictions for other countries, particularly emerging markets. Granted, less historical data is available for other countries, but we also suspect the MY ratio is less telling in countries where consumer spending accounts for a smaller percentage of the total economies. For example, emerging-market earners have lower incomes than those in developed economies and they lack developed retirement schemes, such as 401(k) plans. Also, the size of emerging stock markets is comparatively smaller, so there's a greater inclination to place investments outside the country.

Stock Ownership Affects MY Significance

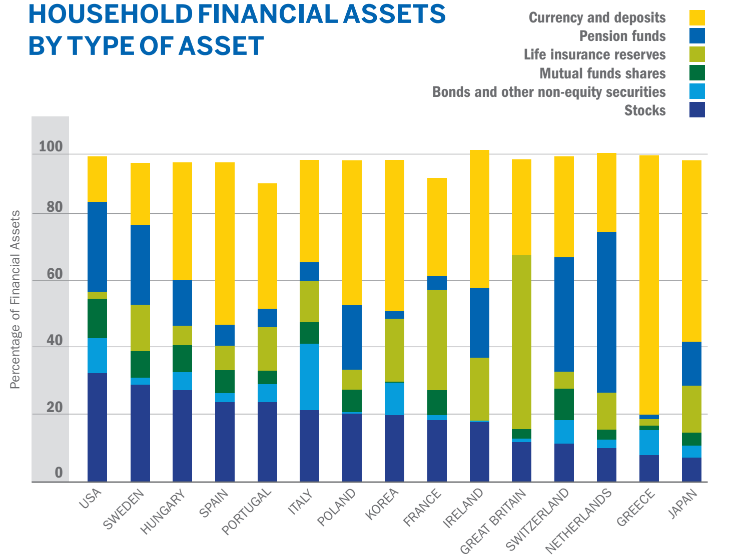
The correlation between the MY ratio and the stock market in the United States is an outgrowth of our level of stock ownership. According to the Organisation for Economic Co-operation and Development (OECD), US households hold one of the largest shares of individual equities as a percentage of total assets in the world. Equities are also present in mutual fund shares, life insurance reserves, and pension funds, which the OECD reports as separate categories. As a result, we estimate that equities make up about 50% of Americans' total household assets.

US Households Heavy on Equities, Light on Cash

On the flip side, US households hold one of the smallest proportions of cash in the world, at just 13.5%. This compares to Japan at 54%, Germany at 40% and the UK at 28%. And emerging markets tend to hold even larger shares of cash than their developed counterparts. As emerging equity markets become larger and more developed, and household incomes in those countries begin to rise beyond just meeting basic needs, citizens there may shift some of their cash to equities. At that point, MY ratios in emerging markets could gain more significance—and given emerging economies' relatively young populations, this shift may translate into bull markets in those regions in the coming decades. ■

Alejandra Grindal is Senior International Economist at Ned Davis Research, Inc.

HOUSEHOLD FINANCIAL ASSETS BY TYPE OF ASSET



Source: OECD. Totals may equal more or less than 100% due to rounding.

Past performance is no guarantee of future results.

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All expressions of opinion are subject to change without notice in reaction to shifting market conditions.

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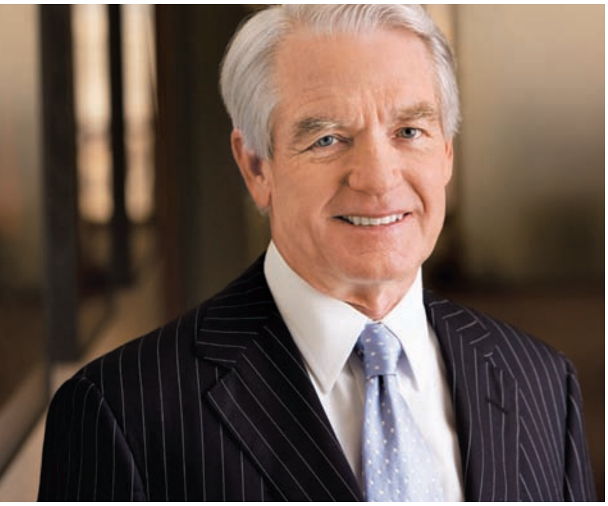

“I still believe that the only way to make the most of your financial future is to get involved, ask questions and truly take ownership.”

When I founded this company 40 years ago, I set out to help people take charge of their investments and their futures. We've worked hard since the beginning to put power into investors' hands so that you have as much control as you want—and also receive advice when and how you need it. Advice that is professional and personalized.

While we have evolved over the years to meet the changing needs of our clients, I still believe that the only way to make the most of your financial future is to get involved, ask questions and truly take ownership.

On our 40th anniversary, we're renewing our commitment to investors by taking our services to a new level. In the coming months, watch for innovative ideas and enhanced offerings designed to help you achieve your financial goals. It's all part of the next chapter in the Schwab story—a story that is ultimately a celebration of you, our clients.

Whether you've been with us since the beginning or are new to Schwab, you probably came to us because you believe that your financial future isn't something that happens to you; it's something you own. We couldn't agree more.

It's been a great 40 years, and I believe the next 40 will be even better. We're glad you'll be here to experience them with us. Thank you for trusting Schwab with your investments.

Chuck Schwab
Founder & Chairman

charles SCHWAB

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At Schwab, we search more than 200 dealers to help you get the right bond at the best price available on our platform. Before you buy, call a Schwab Bond Specialist or check out **schwab.com/BondSource.**

Bond Prices May Vary by Seller, Affecting the Bond's Yield.
Transaction Costs May Push Yields Even Lower.

Hypothetical Bond: 4% Coupon, 10-Year Maturity

Dealer	Price	Yield to maturity
A	$100.00	4.00%
B	$100.50	3.94%
C	$101.25	3.85%

Source: Schwab Center for Financial Research and Bloomberg. Assumes semiannual coupon payments. For illustrative purposes only.

Call 1-866-893-6699 to talk with a Schwab Bond Specialist today.

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.

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