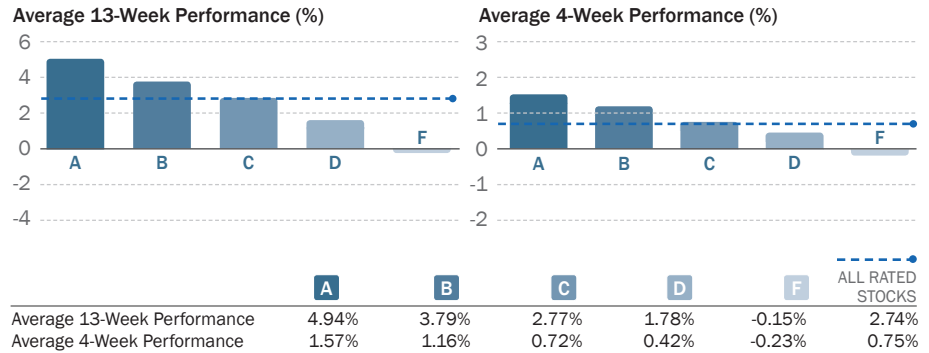


Schwab Equity Ratings® Model Performance

UPDATE FOR SHORTER-TERM TIME HORIZONS

While Schwab Equity Ratings were designed to evaluate the relative return outlook for stocks over a 12-month time horizon, the Schwab Center for Financial Research recently completed an analysis of Schwab Equity Ratings performance over shorter-term time horizons. This analysis demonstrated that since its inception in May 2002, Schwab Equity Ratings has also been an effective rating tool for time periods (assumed holding periods) as short as 4 or 13 weeks.

SER MODEL PERFORMANCE SINCE INCEPTION (5/6/2002 TO 12/28/2009)



Schwab measured the average performance of all stocks in a particular rating cohort (A/B/C/D/F) for all 4- and 13-week holding periods from May 6, 2002 through December 28, 2009 using a buy-and-hold methodology. As the table above shows, the average return for A-rated stocks for all 13-week holding periods from May 6, 2002 through December 28, 2009 was 4.94% versus -0.15% for F-rated stocks. The average return for all A-rated stocks for all 4-week holding periods in that period was 1.57% versus -0.23% for F-rated stocks. While we typically recommend that clients use a performance evaluation period that is more consistent with Schwab Equity Ratings' 12-month time horizon, it is interesting to note that this analysis found effective performance for shorter time horizons as well. Please see the description below for a more detailed explanation of how the performance was calculated.

Schwab Equity Ratings performance for assumed holding periods from 26 to 52 weeks is calculated for each week and updated each month on schwab.com. Visit [Schwab Equity Ratings Model Performance](#) for more details.

IMPORTANT INFORMATION ABOUT THIS REPORT

How Performance is Calculated

Schwab follows a straightforward approach to calculating historical performance. First, Schwab creates five cohorts (defined as those stocks that received the same A, B, C, D or F rating on the start date). Schwab calculates the total return for each stock in each A, B, C, D and F rating cohort by dividing the ending price plus dividends paid during the period, if any, by the starting price for a particular holding period, minus one. For example, the total return of a stock with a starting price of \$20 and an ending price of \$22.20, which paid a dividend of \$1 during the period, would be 16% ($[\$22.20 + \$1] / \$20$). Returns are calculated based on the market closing prices on the Holding Period Start Date and the market closing prices on the Holding Period End Date. Start Dates and End Dates are the first trading day of the week (generally Mondays).

All stocks within a Schwab Equity Rating cohort are equal-weighted at the beginning of the performance calculation period, meaning each stock has the same value relative to any other stock. Performance is calculated assuming stocks are held for the entire holding period, unless the stock has stopped trading due to acquisition, financial distress, delisting by an exchange, or other similar circumstance. If the stock has stopped trading (for example, because the company was acquired by another firm), it is assumed to have been liquidated on the close of its last trading day, without transaction costs. Proceeds, if any, are held as non-interest bearing cash. In instances in which a stock continues to trade but its stock symbol changes during a performance calculation period, the symbol reflected will be the stock's symbol as of the start of the applicable performance calculation period.

After individual stock returns are calculated, Schwab averages the total returns for all of the stocks within a cohort during that time period to find the average return.

Transaction costs such as brokerage commissions, fees or other expenses have not been deducted from the total return calculations. Results would have been lower if such costs were deducted. For example, if you invest in a stock with a total return of 16% before commissions and you paid 0.25% in initial commission, your total return for that stock after commission would be 15.71% ($[\$22.20 + \$1] / \$20.05$). If you sell the stock, you will incur the cost of selling as well, so the net return would be 15.42%. The amount of the actual commissions and other fees you may pay will vary depending on, among other things, the number of shares you buy and the way you execute the trade (such as via schwab.com or through a Schwab Investment Consultant). A list of commission charges and other fees is available on request on by calling (877) 284-9817.

Since ratings are generally updated weekly, new performance numbers are also calculated on a weekly basis but may be presented less frequently. Fifty-two week time periods were selected for tracking performance because Schwab Equity Ratings are meant to identify those stocks that will most likely outperform or underperform the broader market over the next 12 months. Shorter time periods have also been included to demonstrate more recent performance. Over time, the model upon which ratings are based may be altered.

Limitations of Model Performance

Model performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual investment performance or trading. Also, since the trades have not actually been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as the effect of limited trading liquidity. No representation is being made that any investor will or is likely to achieve profits or losses similar to those shown.

The results presented should not and cannot be viewed as an indicator of future performance, as an indicator of the returns a Schwab client would have realized or will realize in relying on Schwab Equity Ratings, or how individual Schwab Equity Ratings are performing or will perform in the future. This material is for informational purposes only and is not an offer to sell or the solicitation of an offer to buy. Additionally, Schwab Equity Ratings, Percentile Rankings, and the general guidance are not personal recommendations for any particular investor or client and do not take into account the financial, investment or other objectives or needs of, and may not be suitable for any particular investor or client. Before buying, investors and clients should consider whether the investment is suitable. Investors and clients should consider Schwab Equity Ratings as only a single factor in making their investment decision while taking into account the current market environment. Accordingly, Charles Schwab & Co., Inc. ("Schwab") does not assess the suitability (or the potential value) of any particular investment. Schwab also does not provide tax advice and the views in the material do not take into account any client's or investor's tax situation. Clients and investors should consult their tax advisers before investing. Schwab Equity Ratings utilize third-party data in establishing a rating. While Schwab believes such third-party information is reliable, we do not guarantee its accuracy, timeliness or completeness. Schwab Equity Ratings are generally updated weekly, so you should review and consider any recent market or company news before taking any action. Stocks may go down as well as up and investors (including clients) may lose money, including their original investment. Past history is no indication of future performance and returns are not guaranteed.

For questions, please contact Schwab at (877) 284-9817