

Schwab Industry Ratings Sorted By Grade

Ratings As Of October 05, 2007 <sup>1</sup>

Sectors	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Telecommunication Services	Utilities
<b>A</b> Rated Industries Within Their Sector	Automobiles ..... Internet & Catalog Retail	Household Products			Health Care Equipment & Supplies ..... Pharmaceuticals	Industrial Conglomerates	Communications Equipment ..... Computers & Peripherals ..... IT Services ..... Semiconductors & Semiconductor Equipment ..... Software	Chemicals		
<b>B</b> Rated Industries Within Their Sector	Auto Components	*Tobacco		Commercial Banks ..... Thrifts & Mortgage Finance	Health Care Providers & Services ..... Health Care Technology ..... Life Sciences Tools & Services	Aerospace & Defense ..... Construction & Engineering ..... Machinery	Internet Software & Services	Paper & Forest Products		
<b>C</b> Rated Industries Within Their Sector	Household Durables ..... Media ..... Multiline Retail ..... Textiles, Apparel & Luxury Goods	Beverages		Insurance		Air Freight & Logistics ..... Commercial Services & Supplies ..... Electrical Equipment ..... Marine	Electronic Equipment & Instruments	Containers & Packaging ..... Metals & Mining	Diversified Telecommunication Services ..... Wireless Telecommunication Services	Gas Utilities
<b>D</b> Rated Industries Within Their Sector	Distributors ..... Diversified Consumer Services ..... Leisure Equipment & Products ..... Specialty Retail	Food Products ..... Personal Products	Energy Equipment & Services	Capital Markets ..... Consumer Finance	Biotechnology					Independent Power Producers & Energy Traders
<b>F</b> Rated Industries Within Their Sector	Hotels, Restaurants & Leisure	Food & Staples Retailing	Oil, Gas & Consumable Fuels	Diversified Financial Services ..... Real Estate Management & Development		Airlines ..... Building Products ..... Road & Rail ..... Trading Companies & Distributors		Construction Materials		Electric Utilities ..... Multi-Utilities ..... Water Utilities

Important Information

Ratings As Of October 05, 2007<sup>1</sup>

About Schwab Industry Ratings™

The Schwab Center for Financial Research (SCFR) uses an objective and disciplined approach to rank industries as classified by the widely recognized GICS (Global Industry Classification Standard) groupings. The GICS structure is comprised of sectors, industry groups, industries and sub-industries. Schwab Industry Ratings is a ranking at the industry level.

The term industry is used to describe a business activity (e.g. software, airlines, beverages). If a company participates in multiple business activities, it is usually considered to be in the industry in which most of its revenues is derived.

There are three component grades underlying Schwab Industry Ratings. Each Schwab Industry Rating component grade and respective factors are calculated for each stock in the Schwab Equity Ratings® universe of 3200 stocks and ranked relative to the universe. Stock rankings are then aggregated into an average score for each GICS industry. Next, average scores are ranked relative to the GICS industries and each industry is assigned a Schwab Industry Rating grade of “A”, “B”, “C”, “D” or “F.” An industry must include at least 6 companies in order to be rated.

Charles Schwab & Co., Inc. (“Schwab”) rates industries “A”, “B”, “C”, “D” or “F.” Schwab’s outlook is that “A” rated industries, on average, will strongly outperform and “F” rated industries, on average, will strongly underperform the broad equities market over the next 12 months. Schwab Industry Ratings are based upon a disciplined, systematic approach that evaluates each industry on the basis of a wide variety of investment criteria from three broad categories: Fundamental Perspective, Valuation Perspective and Momentum Perspective. This approach attempts to gauge investor expectations and the potential of an industry. Schwab Industry Ratings are not based on the Schwab Equity Ratings of the securities within the industry. Over time, the methodology upon which Schwab Industry Ratings are based may be altered.

How to use Schwab Industry Ratings

There are two uses for Schwab Industry Ratings. The primary use should be for stock selection in conjunction with Schwab Equity Ratings. The other use can be for clients interested in pursuing industry over- and under-weightings within their portfolios and/or industry rotation strategies. It is important for investors to maintain a well diversified portfolio.

How to use Schwab Industry Ratings in conjunction with Schwab Equity Ratings®

In conjunction with Schwab Equity Ratings, Schwab Industry Ratings can be useful in screening new stock purchases and in identifying portfolio holdings for possible sale. Schwab Equity Ratings should be given more consideration when making individual stock buy and sell decisions. For example, a “D” or “F” rated stock in an “A” rated industry is still considered a sell candidate by Schwab. Schwab’s outlook is that among stocks with similar Schwab Equity Ratings, those with high industry ratings will outperform those with low industry ratings over a 12-month time horizon.

Schwab Industry Ratings Distribution

Schwab Industry Rating	Schwab Industry Rating Distribution	12 Month Investment Outlook for Industry
A	Top 20%	Outperform
B	Next 20%	Moderately Outperform
C	Next 20%	Marketperform
D	Next 20%	Moderately Underperform
F	Bottom 20%	Underperform

Schwab Industry Ratings should not be considered as guidance for buying, holding or selling an individual security. Please refer to Schwab Equity Ratings for information on general buy, hold and sell guidance for individual equities.

Descriptions for Non-Rated Industries

Category	Definition	Description
NR	Not Rated	Schwab has decided not to publish a rating on this industry due to unusual or extraordinary business circumstances related to this industry.
NC	Not Covered	This industry is not currently in the Schwab Industry Ratings universe or there are an insufficient number of companies in the industry for Schwab to provide a rating.

Modifiers

Category	Definition	Description
*	Check News	Check current news because a potentially significant event has been announced for a rated industry. Asterisks may appear on a particular industry due to certain circumstances. In any event, you should always check news.

About Schwab Sector Views

Schwab Sector Views are determined by Charles Schwab & Co., Inc.’s (“Schwab’s”) Investment Strategy Council. Schwab Sector Views are Schwab’s outlook on the ten broad sectors as classified by the widely recognized GICS (Global Industry Classification Standard) groupings. The GICS structure is comprised of sectors, industry groups, industries and sub-industries. Schwab Sector Views are at the sector level. While Schwab Equity Ratings and Schwab Industry Ratings utilize a disciplined approach that evaluates all stocks (Schwab Equity Ratings) or all industries (Schwab Industry Ratings) in the same manner, Schwab Sector Views uses analytical techniques and methods that vary from sector to sector. Schwab’s Sector Views are designed to have a 3 to 6 month time horizon, however they can change at any time based on changes in Schwab’s outlook for the economy and the stock market.

Schwab’s current recommended deviation from the benchmark represents our current view on each particular sector. All investors should be well diversified across all sectors, however investors who want to tactically over- or under-weight particular sectors may want to consider over- or under-weighting up to the amounts reflected in this column. The percentage over- and under-weights refer only to the domestic equity portion of investors’ portfolios.

### How to use Schwab Sector Views

Sector and industry diversification is a critical building block in portfolio construction. A review of sector weights coupled with individual stock concentration is a critical step in evaluating portfolio risk. Simply investing in industries or sectors that Schwab rates highly will not result in a diversified portfolio. To find out how well diversified your portfolio is, Schwab clients should use the Portfolio Checkup tool on schwab.com. It calculates sector weightings of your entire portfolio—both your holdings at Schwab as well as other holdings outside of Schwab that you can specify—and provides a comparison to the sector weightings of the overall market. It also identifies individual stock concentration situations.

Schwab Sector Views are expressed in terms of a recommended portfolio over- or under-weighting relative to the overall market. Those investors seeking to tactically overweight or underweight particular sectors may find Schwab's Sector Views a useful resource in considering portfolio overweight and underweight sector candidates. Schwab clients can also use the Schwab Stock Screener or the Schwab Mutual Fund Screener to help identify buy and/or sell stock or mutual fund candidates in

particular sectors that they may be underweighted or overweighted in their portfolios.

### How does the Schwab Sector View methodology compare to that used for Schwab Equity Ratings and Schwab Industry Ratings

While Schwab Equity Ratings and Schwab Industry Ratings utilize a disciplined approach that evaluates all stocks (Schwab Equity Ratings) or all industries (Schwab Industry Ratings) systematically and in the same manner, Schwab Sector Views are determined by a group of investment professionals using analytical techniques and methods that vary from sector to sector.

### Disclaimer Information

General Information: This material is for informational purposes only and is not an offer to sell or the solicitation of an offer to buy any security(ies) within an industry or sector. Additionally, Schwab Industry Ratings and Schwab Sector Views 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.

The Schwab Investment Strategy Council is part of Charles Schwab & Co., Inc. The information contained herein is obtained from sources believed to be reliable, but its accuracy or completeness is not guaranteed. Schwab does not assess the suitability or the potential value of any particular investment. All expressions of opinions are subject to change without notice.

The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Charles Schwab & Co., Inc.

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

<sup>1</sup>Data represents the market close from the Friday prior to the "list generated date."