

About Schwab Equity Ratings®

Schwab Equity Ratings are assigned to approximately 3000 of the largest (by market capitalization) U.S. headquartered stocks using a scale of “A”, “B”, “C”, “D”, and “F.” The explanation and table in this document are included to assist you in using Schwab Equity Ratings as one component of your own research to evaluate stocks and investment opportunities.

Charles Schwab & Co. (“Schwab”) rates stocks “A” to “F.” Schwab’s outlook is that “A” rated stocks, on average, will strongly outperform and “F” rated stocks, on average, will strongly underperform the equities market over the next 12 months. Schwab Equity Ratings are based upon a disciplined, systematic approach that evaluates each stock on the basis of a wide variety of investment criteria from four broad categories: Fundamentals, Valuation, Momentum, and Risk. This approach attempts to gauge investor expectations since stock prices tend to move in the same direction as changes in investor expectations. Stocks with low and potentially improving investor expectations tend to receive the best Schwab Equity Ratings (“A” or “B” ratings), while stocks with high and potentially falling investor expectations tend to receive the worst Schwab Equity Ratings (“D” or “F” ratings). From time to time, Schwab may update the Schwab Equity Ratings methodology. For more on the components of the Schwab Equity Ratings, see the About Schwab Equity Ratings—Component Grades section in this document.

Percentile Rankings Explanation

Each of the approximately 3000 stocks rated in the Schwab Equity Ratings universe is given a score that is derived from several research factors. The assignment of a final Schwab Equity Rating depends on how well a given stock scores in each of the factors and then how that stock stacks up against all other rated stocks. The result is a stock’s percentile ranking. The lowest percentile rankings represent the best scores and correspond to the best letter grades. For example, in a universe of 3000 rated stocks, the top 30 stocks would receive a percentile ranking of 1 and the bottom 30 stocks would receive a percentile ranking of 100. Furthermore, stocks ranked in percentile groups 1-5 are rated “A” and those in percentile groups 6-30 are rated “B.”

The table below illustrates the percentile rankings and approximate Schwab Equity Ratings distributions.

Schwab Equity Ratings Distribution				
Schwab Equity Rating	Percentile Ranking Distribution	Schwab Equity Rating Distribution	12 Month Return Outlook	General Buy/Hold/Sell Guidance [†]
A	1-5	Top 5%	Strongly Outperform	Buy
B	6-30	Next 25%	Outperform	Buy
C	31-70	Next 40%	Marketperform	Hold
D	71-95	Next 25%	Underperform	Sell
F	96-100	Bottom 5%	Strongly Underperform	Sell

[†]The general buy/hold/sell guidance is relative to other rated equities only. Before considering whether to take any action, an investor should consider whether equities generally are performing well in comparison to other asset classes and whether other equities in the same sector or category with the same or better rating may be more appropriate.

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 the forming of 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 individualized advice, please contact Schwab at 1 (877) 284-9817.

Descriptions for Non-Rated Stocks		
Category	Definition	Description
NR	Not Rated	Schwab has decided not to publish a rating on this stock due to unusual or extraordinary business circumstances related to this company.
NA	Not Available	A Schwab Equity Rating is not available on this stock due to insufficient information about the stock.
NC	Not Covered	This stock is not currently in the Schwab Equity Rating universe or is prohibited from coverage for regulatory reasons.

Modifiers		
Category	Definition	Description
*	Check News	Check current news because a potentially significant event has been announced for an A or B rated stock. Although Schwab generally does not monitor C, D, and F rated stocks for current news, from time to time, asterisks may appear on a particular stock due to certain circumstances (e.g. the downgrade of a stock from a B to a C-rating). In any event, you should always check news on a stock before placing a trade.

**Investment Ratings
Explanation**

“A” Rating (Strongly Outperform) If an investor is looking to add a stock to his or her portfolio, “A” rated stocks may be the best candidates for consideration.

“B” Rating (Outperform) An investor looking to add a stock to his or her portfolio should also consider a “B” rated stock, though preference should be given to “A” rated stocks.

“C” Rating (Marketperform) An investor would not usually consider a “C” rated stock for purchase. An investor that has a “C” rated stock in his or her portfolio should consider continuing to hold the stock, and might monitor the stock’s ongoing performance and compare the potential benefits of owning a stock with higher ratings.

“D” Rating (Underperform) An investor holding a “D” rated stock should consider whether it is appropriate to continue to hold that stock in his or her portfolio. An investor would not usually consider a “D” rated stock for purchase.

“F” Rating (Strongly Underperform) An investor holding an “F” rated stock should consider whether it is appropriate to eliminate that stock from his or her portfolio. An investor would not usually consider an “F” rated stock for purchase.

**About Schwab
Equity Ratings—
Component Grades**

Fundamentals: The Fundamentals grade underlying the Schwab Equity Rating is based upon several earnings quality measures derived from recent financial statement data. Stocks with attributes such as high cash return on investment, improving asset utilization, and a track record of reporting earnings that exceed consensus forecasts tend to have better Fundamentals grades. Highly rated stocks with such grades may have the potential for price appreciation, as investors perceive that these companies have the financial strength to potentially grow earnings faster than the average stock.

Valuation: The Valuation grade underlying the Schwab Equity Rating is based upon several value-oriented investment criteria. From a valuation ratio perspective, stocks with attributes such as high levels of operating income and cash liquidity per dollar of current stock price tend to have better Valuation grades. From an investor sentiment perspective, stocks with shrinking shares outstanding and relatively few total shares sold short tend to have better Valuation grades. Highly rated stocks with such grades may have the potential for price appreciation, as investors perceive the current stock prices of these companies are too low relative to measures of investment value.

Momentum: The Momentum grade underlying the Schwab Equity Rating is based upon several measures of short-term investor expectation change. Stocks with attributes such as recently improving analyst forecasts, strong relative price performance, and decreasing short interest tend to have better Momentum grades. Highly rated stocks with such grades may have the potential for price appreciation, as investors become more aware of these companies’ improving short-term performance prospects.

Risk: The Risk grade underlying the Schwab Equity Rating is based upon diverse measures of investment risk. Larger stocks with attributes such as stable sales growth tend to have better Risk grades. Highly rated stocks with such grades may have the potential for price appreciation, as investors perceive these companies to offer an attractive risk vs. return trade-off.

Using Schwab Equity Ratings— Component Grades

The component grades should not be used alone in making investment decisions, but can be used to identify top-ranked stocks with particular investment characteristics (e.g., low-risk, high momentum).

Component Grade Investment Characteristics	
A	Superior
B	Above Average
C	Average
D	Below Average
F	Poor

Special considerations

What are some special considerations when using the systematic approach of Schwab Equity Ratings?

Consider the following when using Schwab's systematic approach:

- The quality of the ratings depend on the accuracy of financial data provided by third parties, including the companies rated through the approach.
- Any stock selection discipline has its limitations. Given that systematic stock selection approaches cannot capture all the dynamics that affect individual stock returns, Schwab Equity Ratings may not capture more subjective, qualitative influences on return and risk such as management changes and pending lawsuits. Furthermore, the ratings may not reflect the possible impact of late-breaking news. Thus, it is important to conduct additional research prior to making a trading decision.
- Schwab Equity Ratings are generally updated weekly. As a result, ratings may not reflect the possible impact of late-breaking news.
- The approach is intended to support long-term, diversified investing, it reflects a 12 month outlook, and is not appropriate for short-term trading strategies.