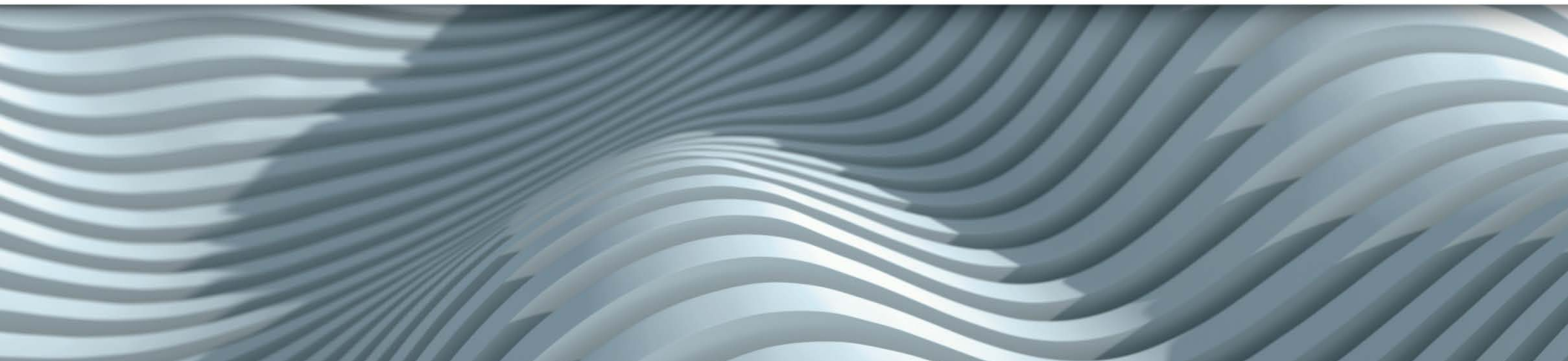
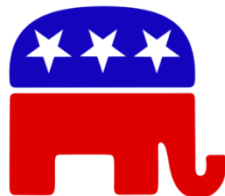


Client Conversations & Primers

The Midterm Elections



The Midterm Elections



- Midterm elections will be heated as the Democrats look to shift the balance of power in the federal government, governorships and state legislatures that has favored Republicans.
- In the House of Representatives, where all 435 seats are contested, the Democrats need to keep their existing 194 seats and flip 23 seats to reclaim a majority. *The Cook Political Report*, a nonpartisan newsletter, rates 105 House races as competitive, with 42 noted as toss-ups. Of these 42 seats, 39 are currently held by Republicans, making the GOP more susceptible to electoral losses.
- Republicans are stronger in the Senate, defending nine seats compared to the Democrats attempting to hold 24. Cook rates 18 seats (12 of them currently held by Democrats) as competitive and eight as toss-ups.
- As of October 8, statistician Nate Silver's polling aggregator and website FiveThirtyEight.com gives Democrats a 74% probability of flipping the House based on such factors as fundraising, past voting in districts and historical trends. It gives the GOP a 79% chance of maintaining control of the Senate.
- If Democrats were to gain control of one or both chambers, legislative deadlock would likely ensue. Three possible electoral outcomes include a split with Democrats taking control of the House, the Republicans holding both chambers, or a Democratic sweep that turns both the House and Senate.
- Policy debates will likely focus on trade, spending, taxes, immigration, health care, infrastructure, executive branch oversight and deregulation.
- Across scenarios, we believe the results for equities will be neutral. Though certain sectors may benefit depending on which party takes control, we think sector leaders and laggards will balance out. Historically, midterm elections have been positive for markets. Since 1930, there have only been two instances of negative returns in the 12 months following election day, with an average return of 12.9%.

Source: Morgan Stanley Wealth Management GIC, FiveThirtyEight.com, Cook Political Report

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Current Political Landscape

With Democrats defending 24 seats, the Republicans have a numerical advantage in defending the Senate. The House, on the other hand, looks more vulnerable for the incumbent party.

Party Balance Across the Senate, House, Governor Seats, and State Legislatures

As of March 31, 2018

Republican	Independent
Democrat	Vacant

Senate



- 35 seats up for election in 2018:
 - 9 Republican seats
 - 24 Democratic seats
 - 2 Independent seats
- 18 seats are rated as competitive, with 7 noted as toss-ups
- **Democrats need a net 4 seat gain to flip the Senate**

House



- 435 seats up for election in 2018:
 - 236 Republican seats
 - 193 Democratic seats
 - 6 vacant seats
- 112 seats are rated as competitive, with 29 noted as toss-ups
- **Democrats need a net 23 seat gain to flip the House**

Governors



- 36 gubernatorial elections in 2018:
 - 26 Republican
 - 9 Democratic
 - 1 Independent
- 26 governorships are rated as competitive, with 8 noted as toss-ups
- **Democrats need a net 11 seat gain to have the majority of governorships**

State Legislatures



- 50 state legislatures up for control in 2018:
 - 35 Republican
 - 12 Democratic
 - 3 Split

Source: Cook Political Report, 270toWin.com, National Conference of State Legislatures

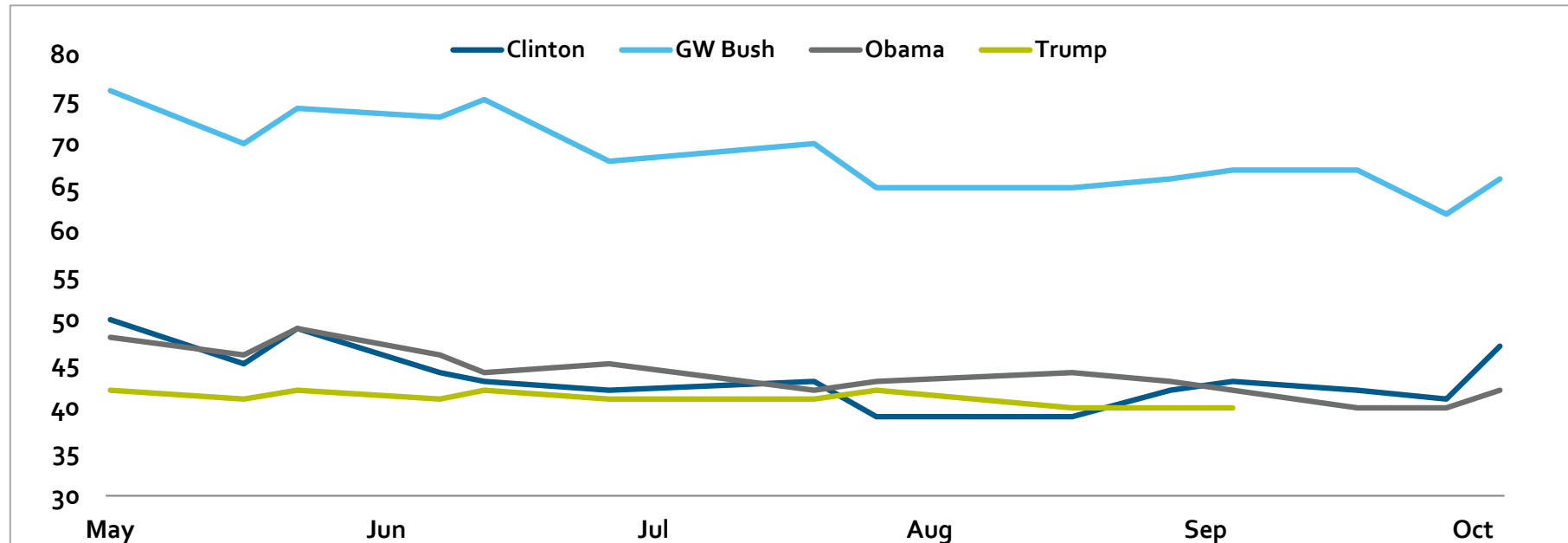
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First-Term Presidential Popularity into Midterm Elections

Ahead of their first round of midterm elections, former Presidents Obama and Clinton had favorability ratings in a similar range as President Trump. Each of the former presidents lost control of at least one chamber of Congress.

Gallup Presidential Approval Rating Heading into Midterm Elections

As of August 5, 2018



	Clinton (1994)	GW Bush (2002)	Obama (2010)	Trump (2018)
Average Approval Six Mos. Before Election	44%	69%	44%	41%
Midterm House Result	Flipped to Republican	Remained Republican	Flipped to Republican	-
Midterm Senate Result	Flipped to Republican	Remained Republican	Remained Democratic	-

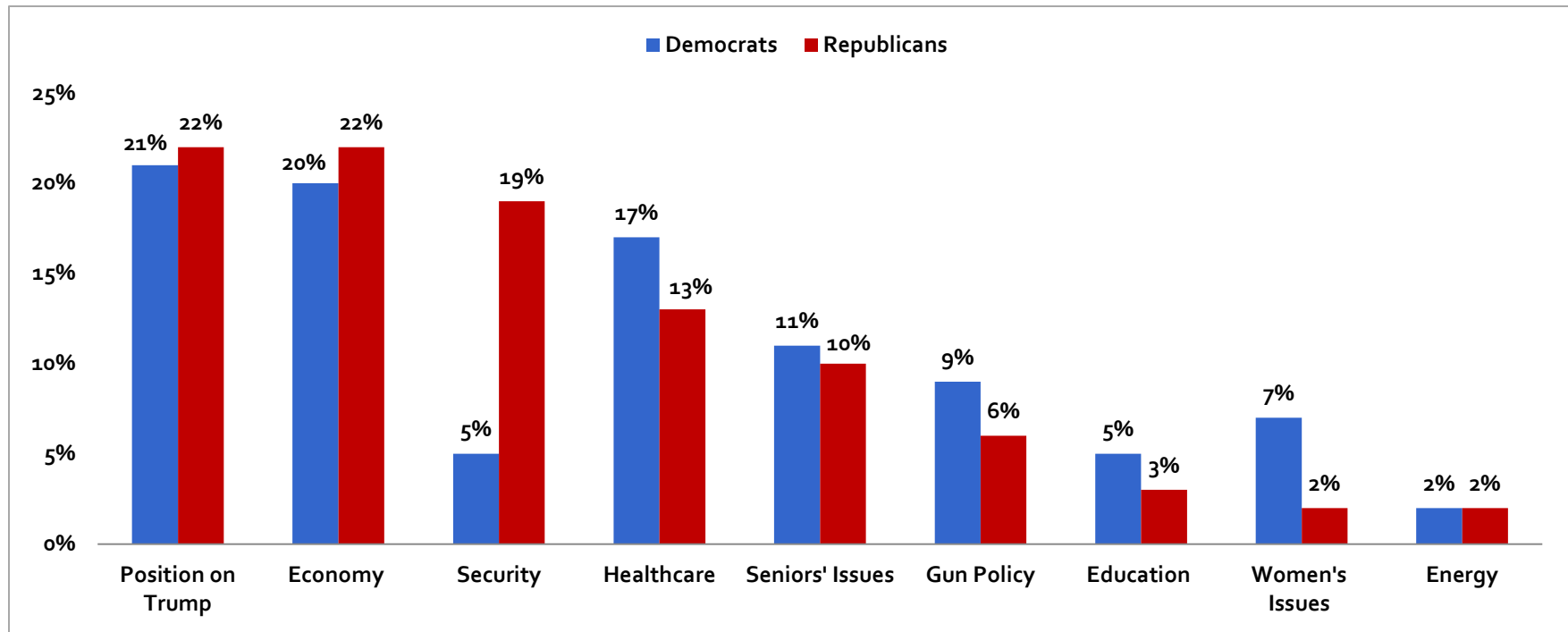
Source: Gallup, Inc.

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Issues on the Table – A Presidential Referendum

Morning Consult Poll: Priorities Ahead of the Midterms

As of July 23, 2018



- When polled about the most important issues at stake in the midterm elections, a plurality of voters in both parties said that a candidate's position on President Trump was the most important factor in forming an opinion.
- The economy polled as the second most important issue across political parties, but after that viewpoints diverged significantly. Notably, security, which ranked third among Republicans, was listed second to last by surveyed Democrats. Healthcare, Seniors' Issues, and Women's Issue all polled higher among left-leaning voters.

Source: Morning Consult as of July 23, 2018, Morgan Stanley Wealth Management Investment Resources

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Legislative Party Goals and Stances

Issue	Generic Republican Take	White House Wildcard	Generic Democratic Take
Trade	<ul style="list-style-type: none"> Traditionally pro-free trade Following White House lead on disputes NAFTA withdrawal could be red line 	<ul style="list-style-type: none"> Protectionist position deviates from traditional Republic trade platform 	<ul style="list-style-type: none"> Seek greater trade oversight Review Presidential fast-track ability Likely adopt remain in NAFTA stance
Health Care	<ul style="list-style-type: none"> Attempt to repeal the ACA again Traditionally favor free market approach 	<ul style="list-style-type: none"> Call for lower drug prices aligns with Democrats rather than Republicans 	<ul style="list-style-type: none"> Pass an ACA stabilization law Push for lower drug prices
Immigration	<ul style="list-style-type: none"> Overhaul using a “merit-based” system Strengthen border and homeland security Little internal support for a wall 	<ul style="list-style-type: none"> Hardline stance on issues like a wall and family separations 	<ul style="list-style-type: none"> Support pro-immigration causes Defend Deferred Action for Childhood Arrivals Possibly push for comprehensive “Dreamer” bill
Taxes	<ul style="list-style-type: none"> Platform favors lower taxes over spending Supported White House 2017 tax bill Tax 2.0 extending individual cuts possible 	<ul style="list-style-type: none"> In line with Republican platform 	<ul style="list-style-type: none"> Supports taxes sufficient for social priorities Opposed 2017 tax bill on corporate rate cut Potential attempted rollback of 2017 bill
Spending/ Infrastructure	<ul style="list-style-type: none"> Fiscal conservatism is traditional priority Deficit reduction over infrastructure Defense and smaller government priority 	<ul style="list-style-type: none"> Deficit spending and desire for infrastructure bill departs from party’s fiscal conservatism 	<ul style="list-style-type: none"> Platform based on providing social safety net Infrastructure has long been of interest Traditionally not relied on shutdown tactics
Presidential Oversight	<ul style="list-style-type: none"> Historically favor strong executive branch Mueller investigation divides party Little appetite for challenging White House 	<ul style="list-style-type: none"> In line with Republican platform, but possibly pushing boundaries 	<ul style="list-style-type: none"> Will look to restrict executive branch as possible Control of one legislative body insufficient Harness investigations and public perception
Regulation	<ul style="list-style-type: none"> Favor smaller government Free market over regulation 	<ul style="list-style-type: none"> In line with Republican platform 	<ul style="list-style-type: none"> Occasional protection from free markets needed Could pursue legislative blocks on deregulation

Source: Eurasia Group, Morgan Stanley Wealth Management GIC

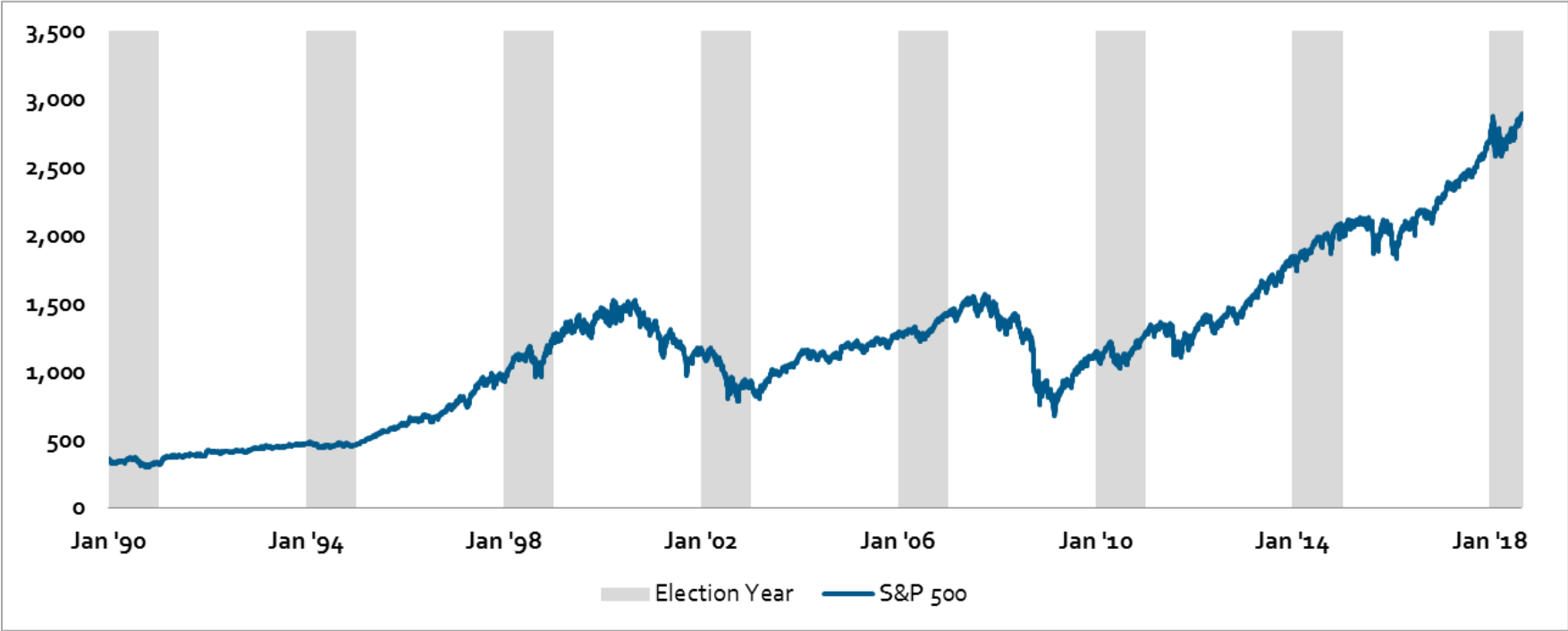
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Market Performance in Recent Midterm Election Years

The market on average has returned 5.2% in midterm election years, though it has generated better results in the three elections since 2006. Year to date, we are trading above the average.

S&P 500 Performance

As of September 19, 2018



Election Year	Return	Election Year	Return
1990	-6.6%	2006	13.6%
1994	-1.5%	2010	12.8%
1998	26.7%	2014	11.4%
2002	-23.4%	2018 YTD	8.8%

Average Market Performance
in Midterm Election Years:

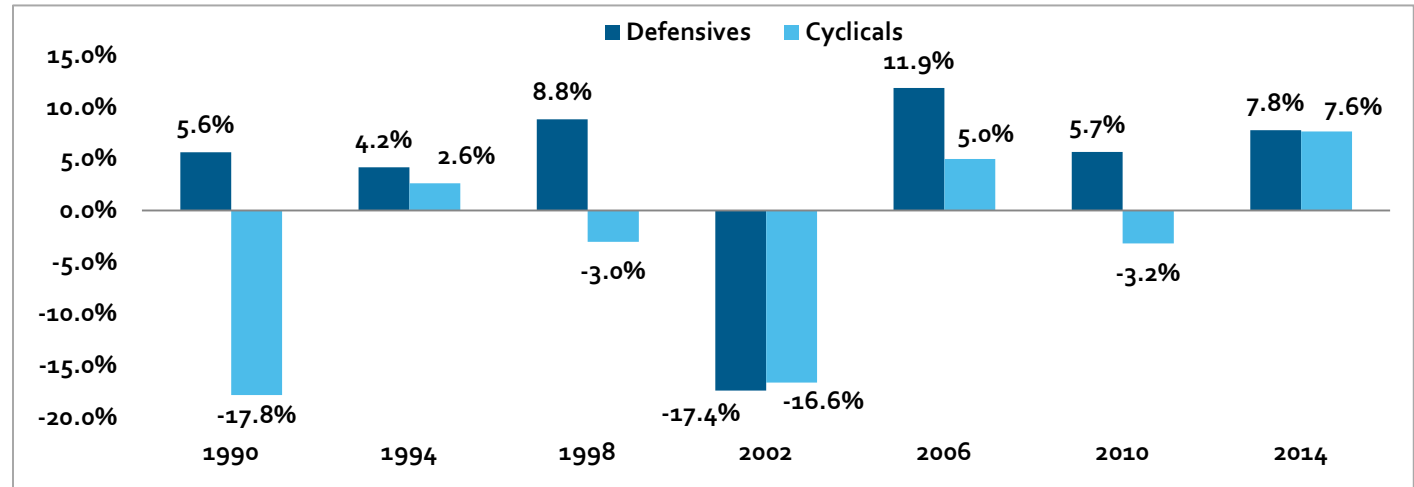
+5.2%

Source: Bloomberg
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Sector Performance Around Elections – Defensive to Cyclical

Since 1990, the market has rewarded defensive positioning in the six months leading up to the midterms. This has reversed sharply in the six months following, where cyclical sectors like Technology, Consumer Discretionary, Industrials, and Financials have outperformed.

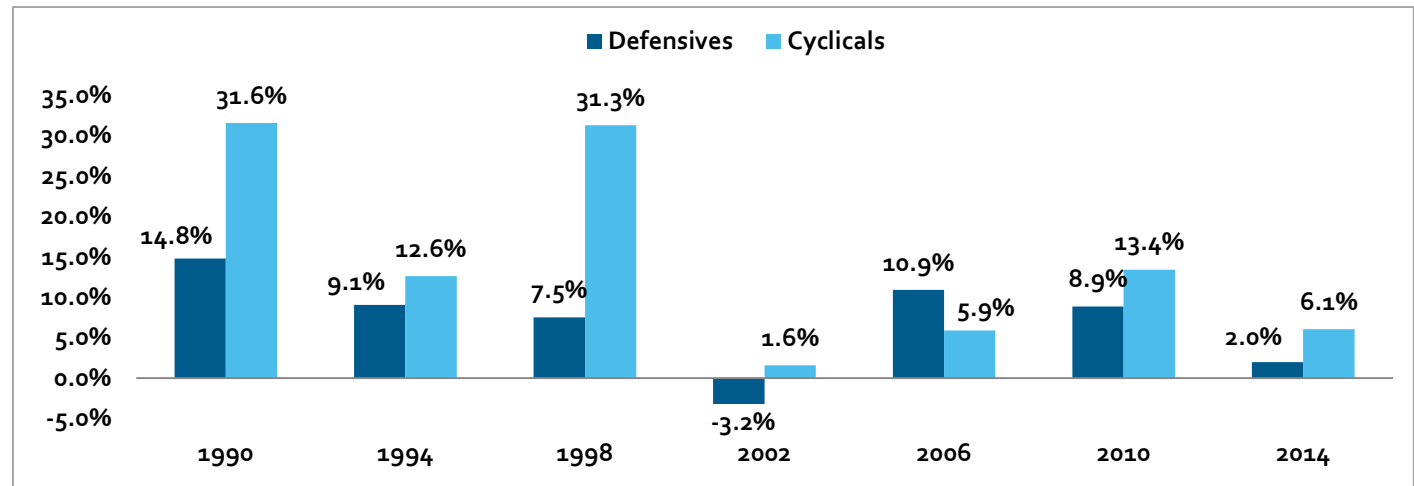
Sector Performance in the 6 Months Before Midterm Elections



Average Defensive
Relative Outperformance
Six Months Prior to
Elections:

+7.4%

Sector Performance in the 6 Months Following Midterm Elections



Average Cyclical Relative
Outperformance
Six Months Following
Elections:

+7.5%

Source: Bloomberg. Defensives are defined as Consumer Staples, Healthcare, Utilities, and Telecom. Cyclicals are defined as Consumer Discretionary, Technology, Industrials, and Financials. Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material.

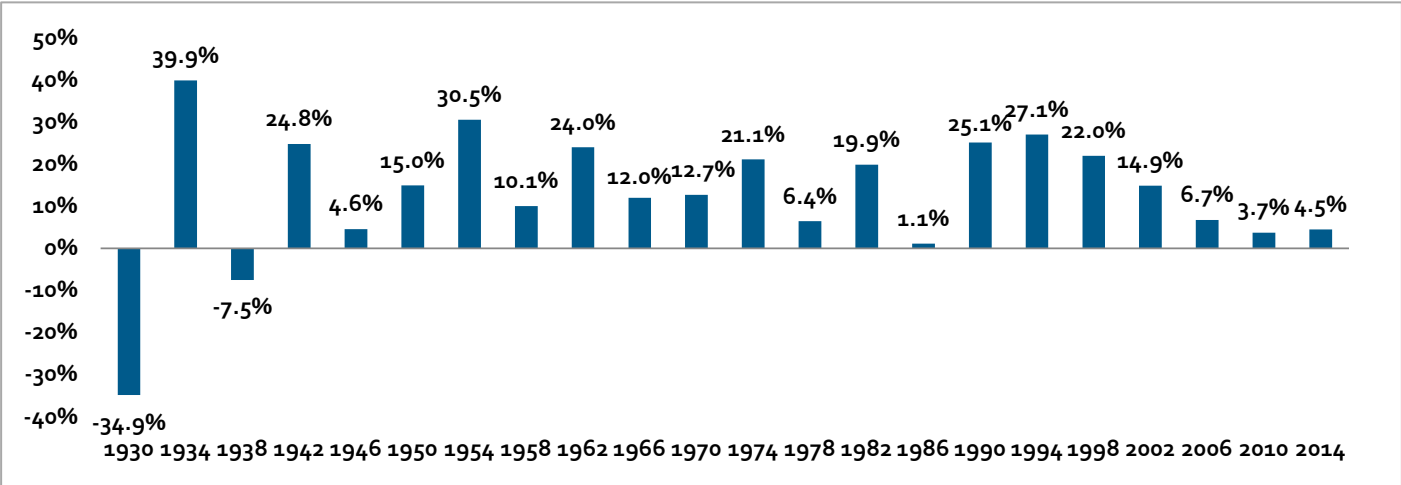
Post Midterm Election Results and Return by Party Control

There have only been two instances of negative returns in the 12 months following midterm elections since 1930. Looking at market returns compared to party control Congress, a split legislature actually has actually generated the strongest results for equities.

Average Performance 12 Months Following Midterm Elections:

+12.9%

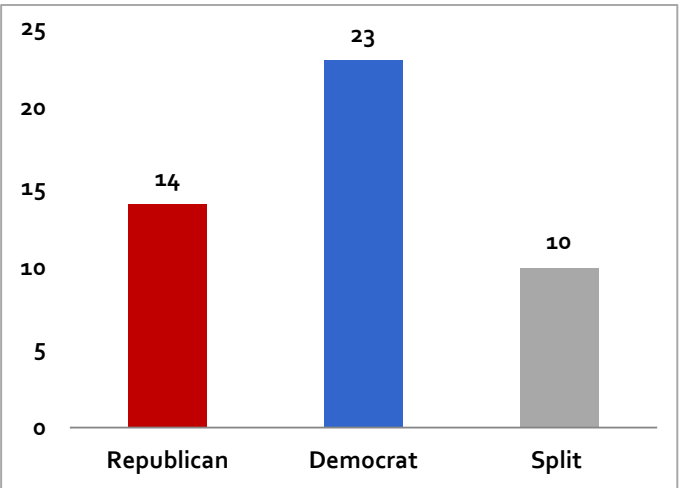
Market Performance in the 12 Months Following Midterm Elections



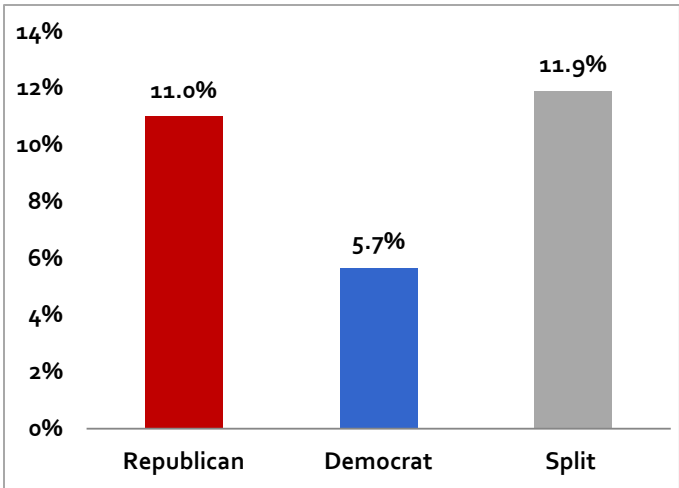
Average Performance of Split Congress:

+11.9%

Years of Congressional Party Control Since 1970



Average Annual Return by Party in Power Since 1970



Source: Bloomberg
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What Are Some Potential Outcomes?

Scenario	Potential Legislative Outcomes	Potential Market Outcomes
Republicans Hold Congress	<ul style="list-style-type: none"> • Tax 2.0 • Immigration overhaul • Renewed focus on repealing Obamacare • Continued push for deregulation • Status quo on trade disputes 	<ul style="list-style-type: none"> • Neutral for US equities with Tax 2.0; likely too small to impact Fixed Income Markets • Health Care, Energy, Financials may benefit • Trade dispute could bolster the dollar; represents downside risk to equities
Democrats Flip the House	<ul style="list-style-type: none"> • Increased legislative deadlock • Greater attempt at White House oversight, including with trade • Attempted ACA stabilization and drug prices • Potential infrastructure compromise • Attempts at Net Neutrality reinstatement • Modest DACA agreement 	<ul style="list-style-type: none"> • Risk to equities may decline with policy deadlock • More oversight could limit trade risks, keeping dollar range bound • Health Care remains under pressure with ACA • Capital goods and infrastructure industries may benefit from potential infrastructure • Fixed income neutral as probability of deadlock and infrastructure offset
Democrats Take Congress	<ul style="list-style-type: none"> • Increased legislative deadlock • Greater White House oversight, including with trade • Increased debate around single-payer Health Care • Potential infrastructure bill • More scrutiny on deregulation • Net Neutrality reinstatement • Attempt at comprehensive immigration reform 	<ul style="list-style-type: none"> • Neutral for equities on potential deadlock • Reduced trade oversight likely keeps dollar range bound or weaker • Health Care remains under pressure • Capital goods and infrastructure industries benefit • Fixed income pressured by reduced fiscal conservatism and more emphasis on social welfare • Net Neutrality reinstatement neutral for new Communications sector

Source: Morgan Stanley Wealth Management GIC

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KEY ASSET CLASS CONSIDERATIONS AND OTHER RISKS

Investing in the markets entails the risk of market volatility. The value of all types of investments, including stocks, mutual funds, exchange-traded funds ("ETFs"), closed-end funds, and unit investment trusts, may increase or decrease over varying time periods. To the extent the investments depicted herein represent **international securities**, you should be aware that there may be additional risks associated with international investing, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards. These risks may be magnified in **emerging markets and frontier markets**. **Small- and mid-capitalization companies** may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of small- and mid-capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies. The value of **fixed income securities** will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer. **High yield bonds** are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. In the case of **municipal bonds**, income is generally exempt from federal income taxes. Some income may be subject to state and local taxes and to the federal alternative minimum tax. Capital gains, if any, are subject to tax. **Treasury Inflation Protection Securities' (TIPS)** coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation. There is no guarantee that investors will receive par if TIPS are sold prior to maturity. The returns on a portfolio consisting primarily of **environmental, social, and governance-aware investments ("ESG")** may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because ESG criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. The companies identified and investment examples are for illustrative purposes only and should not be deemed a recommendation to purchase, hold or sell any securities or investment products. They are intended to demonstrate the approaches taken by managers who focus on ESG criteria in their investment strategy. There can be no guarantee that a client's account will be managed as described herein. **Options** and margin trading involve substantial risk and are not suitable for all investors. Besides the general investment risk of holding securities that may decline in value and the possible loss of principal invested, **closed-end funds** may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance and potential leverage. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. NAV is total assets less total liabilities divided by the number of shares outstanding. At the time an investor purchases shares of a closed-end fund, shares may have a market price that is above or below NAV. Portfolios that invest a large percentage of assets in only one industry **sector** (or in only a few sectors) are more vulnerable to price fluctuation than those that diversify among a broad range of sectors.

Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are suitable only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing. Certain of these risks may include but are not limited to: Loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; Lack of liquidity in that there may be no secondary market for a fund; Volatility of returns; Restrictions on transferring interests in a fund; Potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; Absence of information regarding valuations and pricing; Complex tax structures and delays in tax reporting; Less regulation and higher fees than mutual funds; and Risks associated with the operations, personnel, and processes of the manager. As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication, and other activities. In the ordinary course of its business, Morgan Stanley Wealth Management therefore engages in activities where Morgan Stanley Wealth Management's interests may conflict with the interests of its clients, including the private investment funds it manages. Morgan Stanley Wealth Management can give no assurance that conflicts of interest will be resolved in favor of its clients or any such fund. All expressions of opinion are subject to change without

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Individual funds have specific risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice.

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It should be noted that the majority of hedge fund indexes are comprised of hedge fund manager returns. This is in contrast to traditional indexes, which are comprised of individual securities in the various market segments they represent and offer complete transparency as to membership and construction methodology. As such, some believe that hedge fund index returns have certain biases that are not present in traditional indexes. Some of these biases inflate index performance, while others may skew performance negatively. However, many studies indicate that overall hedge fund index performance has been biased to the upside. Some studies suggest performance has been inflated by up to 260 basis points or more annually depending on the types of biases included and the time period studied. Although there are numerous potential biases that could affect hedge fund returns, we identify some of the more common ones throughout this paper.

Self-selection bias results when certain manager returns are not included in the index returns and may result in performance being skewed up or down. Because hedge funds are private placements, hedge fund managers are able to decide which fund returns they want to report and are able to opt out of reporting to the various databases. Certain hedge fund managers may choose only to report

returns for funds with strong returns and opt out of reporting returns for weak performers. Other hedge funds that close may decide to stop reporting in order to retain secrecy, which may cause a downward bias in returns.

Survivorship bias results when certain constituents are removed from an index. This often results from the closure of funds due to poor performance, “blow ups,” or other such events. As such, this bias typically results in performance being skewed higher. As noted, hedge fund index performance biases can result in positive or negative skew. However, it would appear that the skew is more often positive. While it is difficult to quantify the effects precisely, investors should be aware that idiosyncratic factors may be giving hedge fund index returns an artificial “lift” or upwards bias.

Hedge Funds of Funds and many funds of funds are private investment vehicles restricted to certain qualified private and institutional investors. They are often speculative and include a high degree of risk. Investors can lose all or a substantial amount of their investment. They may be highly illiquid, can engage in leverage and other speculative practices that may increase volatility and the risk of loss, and may be subject to large investment minimums and initial lockups. They involve complex tax structures, tax-inefficient investing and delays in distributing important tax information. Categorically, hedge funds and funds of funds have higher fees and expenses than traditional investments, and such fees and expenses can lower the returns achieved by investors. Funds of funds have an additional layer of fees over and above hedge fund fees that will offset returns. An investment in an **exchange-traded fund** involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock and bond prices. An investment in a **target date portfolio** is subject to the risks attendant to the underlying funds in which it invests, in these portfolios the funds are the Consulting Group Capital Market funds. A target date portfolio is geared to investors who will retire and/or require income at an approximate year. The portfolio is managed to meet the investor’s goals by the pre-established year or “target date.” A target date portfolio will transition its invested assets from a more aggressive portfolio to a more conservative portfolio as the target date draws closer. An investment in the target date portfolio is not guaranteed at any time, including, before or after the target date is reached. **Managed futures** investments are speculative, involve a high degree of risk, use significant leverage, are generally illiquid, have substantial charges, subject investors to conflicts of interest, and are suitable only for the risk capital portion of an investor’s portfolio. Managed futures investments do not replace equities or bonds but rather may act as a complement in a well diversified portfolio. Managed Futures are complex and not appropriate for all investors. **Rebalancing** does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. **Asset allocation and diversification** do not assure a profit or protect against loss in declining financial markets. Past performance is no guarantee of future results. Actual results may vary.

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Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustration purposes only and do not show the performance of any specific investment. Reference to an index does not imply that the portfolio will achieve return, volatility or other results similar to the index. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error target, all of which are subject to change over time.

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For index, indicator and survey definitions referenced in this report please visit the following: <http://www.morganstanleyfa.com/public/projectfiles/id.pdf>

GLOBAL INVESTMENT COMMITTEE (GIC) ASSET ALLOCATION MODELS: The Asset Allocation Models are created by Morgan Stanley Wealth Management's GIC.

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FEES REDUCE THE PERFORMANCE OF ACTUAL ACCOUNTS: None of the fees or other expenses (e.g. commissions, mark-ups, mark-downs, fees) associated with actual trading or accounts are reflected in the GIC Asset Allocation Models. The GIC Asset Allocation Models and any model performance included in this presentation are intended as educational materials. Were a client to use these models in connection with investing, any investment decisions made would be subject to transaction and other costs which, when compounded over a period of years, would decrease returns. Information regarding Morgan Stanley's standard advisory fees is available in the Form ADV Part 2, which is available at www.morganstanley.com/adv. The following hypothetical illustrates the compound effect fees have on investment returns: For example, if a portfolio's annual rate of return is 15% for 5 years and the account pays 50 basis points in fees per annum, the gross cumulative five-year return would be 101.1% and the five-year return net of fees would be 96.8%. Fees and/or expenses would apply to clients who invest in investments in an account based on these asset allocations, and would reduce clients' returns. The impact of fees and/or expenses can be material.

Variable annuities are long-term investments designed for retirement purposes and may be subject to market fluctuations, investment risk, and possible loss of principal. All guarantees, including optional benefits, are based on the financial strength and claims-paying ability of the issuing insurance company and do not apply to the underlying investment options. Optional riders may not be able to be purchased in combination and are available at an additional cost. Some optional riders must be elected at time of purchase. Optional riders may be subject to specific limitations, restrictions, holding periods, costs, and expenses as specified by the insurance company in the annuity contract. If you are investing in a **variable annuity** through a tax-advantaged retirement plan such as an IRA, you will get no additional tax advantage from the variable annuity. Under these circumstances, you should only consider buying a variable annuity because of its other features, such as lifetime income payments and death benefits protection. Taxable distributions (and certain deemed distributions) are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal income tax penalty. Early withdrawals will reduce the death benefit and cash surrender value.

Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment. **Ultrashort-term fixed income** asset class is comprised of fixed income securities with high quality, very short maturities. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

Master Limited Partnerships (MLPs) are limited partnerships or limited liability companies that are taxed as partnerships and whose interests (limited partnership units or limited liability company units) are traded on securities exchanges like shares of common stock. Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. Individual MLPs are publicly traded partnerships that have unique risks related to their structure. These include, but are not limited to, their reliance on the capital markets to fund growth, adverse ruling on the current tax treatment of distributions (typically mostly tax deferred), and commodity volume risk. The potential tax benefits from investing in MLPs depend on their being treated as partnerships for federal

income tax purposes and, if the MLP is deemed to be a corporation, then its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distribution to the fund which could result in a reduction of the fund's value. MLPs carry interest rate risk and may underperform in a rising interest rate environment. MLP funds accrue deferred income taxes for future tax liabilities associated with the portion of MLP distributions considered to be a tax-deferred return of capital and for any net operating gains as well as capital appreciation of its investments; this deferred tax liability is reflected in the daily NAV, and, as a result, the MLP fund's after-tax performance could differ significantly from the underlying assets even if the pre-tax performance is closely tracked.

Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention. **Physical precious metals** are non-regulated products. Precious metals are speculative investments, which may experience short-term and long term price volatility. The value of precious metals investments may fluctuate and may appreciate or decline, depending on market conditions. Unlike bonds and stocks, precious metals do not make interest or dividend payments. Therefore, precious metals may not be suitable for investors who require current income. Precious metals are commodities that should be safely stored, which may impose additional costs on the investor.

REITs investing risks are similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions. Risks of **private real estate** include: illiquidity; a long-term investment horizon with a limited or nonexistent secondary market; lack of transparency; volatility (risk of loss); and leverage. Principal is returned on a monthly basis over the life of a **mortgage-backed security**. Principal prepayment can significantly affect the monthly income stream and the maturity of any type of MBS, including standard MBS, CMOs and Lottery Bonds. **Asset-backed securities** generally decrease in value as a result of interest rate increases, but may benefit less than other fixed-income securities from declining interest rates, principally because of prepayments.

Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision. **Credit ratings** are subject to change. **Duration**, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates. The majority of \$25 and \$1000 par **preferred securities** are "callable" meaning that the issuer may retire the securities at specific prices and dates prior to maturity. Interest/dividend payments on certain preferred issues may be deferred by the issuer for periods of up to 5 to 10 years, depending on the particular issue. The investor would still have income tax liability even though payments would not have been received. Price quoted is per \$25 or \$1,000 share, unless otherwise specified. Current yield is calculated by multiplying the coupon by par value divided by the market price. The initial interest rate on a **floating-rate security** may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in the floating security's underlying reference rate. The reference rate could be an index or an interest rate. However, there can be no assurance that the reference rate will increase. Some floating-rate securities may be subject to call risk. The market value of **convertible bonds** and the underlying common stock(s) will fluctuate and after purchase may be worth more or less than original cost. If sold prior to maturity, investors may receive more or less than their original purchase price or maturity value, depending on market conditions. Callable bonds may be redeemed by the issuer prior to maturity. Additional call features may exist that could affect yield. Some \$25 or \$1000 par **preferred securities** are QDI (Qualified Dividend Income) eligible. Information on QDI eligibility is obtained from third party sources. The dividend income on QDI eligible preferreds qualifies for a reduced tax rate. Many traditional 'dividend paying' perpetual preferred securities (traditional preferreds with no maturity date) are QDI eligible. In order to qualify for the preferential tax treatment all qualifying preferred securities must be held by investors for a minimum period – 91 days during a 180 day window period, beginning 90 days before the ex-dividend date.

Companies paying **dividends** can reduce or cut payouts at any time.

Nondiversification: For a portfolio that holds a concentrated or limited number of securities, a decline in the value of these investments would cause the portfolio's overall value to decline to a greater degree than a less concentrated portfolio. The **indices selected by Morgan Stanley Wealth Management** to measure performance are representative of broad asset classes. Morgan Stanley Wealth Management retains the right to change representative indices at any time. Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies.

Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations. **Value investing** does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

Any type of **continuous or periodic investment plan** does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low price levels.

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