

Morgan Stanley

Free Writing Prospectus  
Dated September 17, 2010  
Registration Statement No. 333-156423  
Filed Pursuant to Rule 433

# Morgan Stanley Second Quarter 2010 Overview

September 2010

# Notice

The information provided herein may include certain non-GAAP financial measures. The reconciliation of such measures to the comparable GAAP figures are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, 2010 Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, including any amendments thereto, all of which are available on [www.morganstanley.com](http://www.morganstanley.com).

**This presentation may contain forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made, which reflect management's current estimates, projections, expectations or beliefs and which are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of risks and uncertainties that may affect the future results of the Company, please see the Company's Annual Report on Form 10-K for the year ended December 31, 2009, 2010 Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, including any amendments thereto.**

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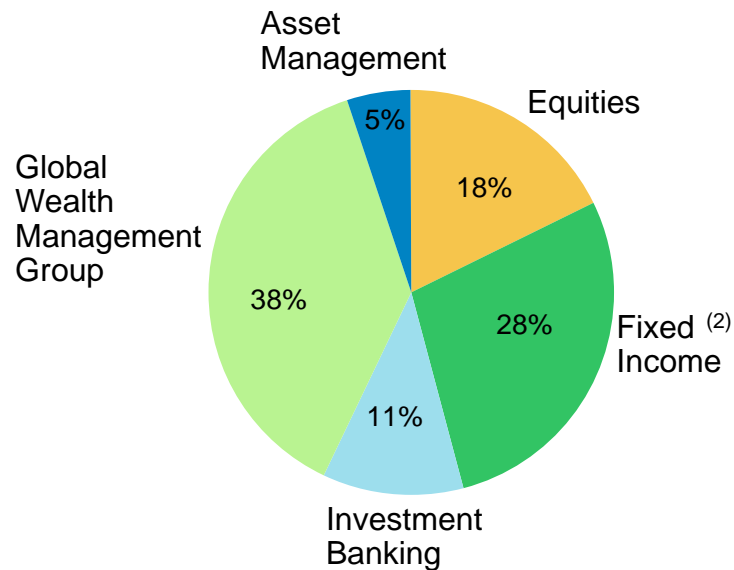
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# Consolidated Financial Highlights

2Q10 Net Revenues of \$8.0 Bn<sup>(1)</sup>

## Business Mix 2Q10



## 2Q 2010 Highlights -

- Second quarter revenues were \$8.0 billion
- Difficult macro environment characterized by uncertainties regarding global growth, concerns on European sovereign credit risk, and in the United States the impact of financial regulatory reform
- Earnings Per Diluted Share were \$1.09
  - Income from Continuing Operations of \$0.80 per Diluted Share
- Continued progress on the execution of our strategy

**Source:**

Morgan Stanley Earnings Conference Call, SEC Filings

(1) The quarter ended June 30, 2010 includes results from the Morgan Stanley Smith Barney joint venture effective from May 31, 2009.

(2) Represents combined revenues from Fixed Income Sales and Trading, Other Sales and Trading and other ISG.

# Executing Our Business Strategy

## Institutional Securities

*Leading position in many businesses, with upside from more broadly leveraging our client franchise*

## Long Term Performance Goals

### **Strengthen Institutional Securities**

- Strong talent pool
- Increase footprint
- Expand market share

## Wealth Management

*World's largest wealth management firm, with upside from integration*

### **Integrate and build MSSB**

- One MSSB platform
- Improve PBT margin to 20%+ post-integration
- Grow net new money

## Asset Management

*Institutional asset management focus, with upside from ongoing optimization*

### **Rebuild strong Asset Management**

- Restructure business / return to profitability
- Rebuild investment culture

## Global Footprint

*Historic U.S./European strength complemented with the best Asian strategic relationships and targeted strength in emerging markets*

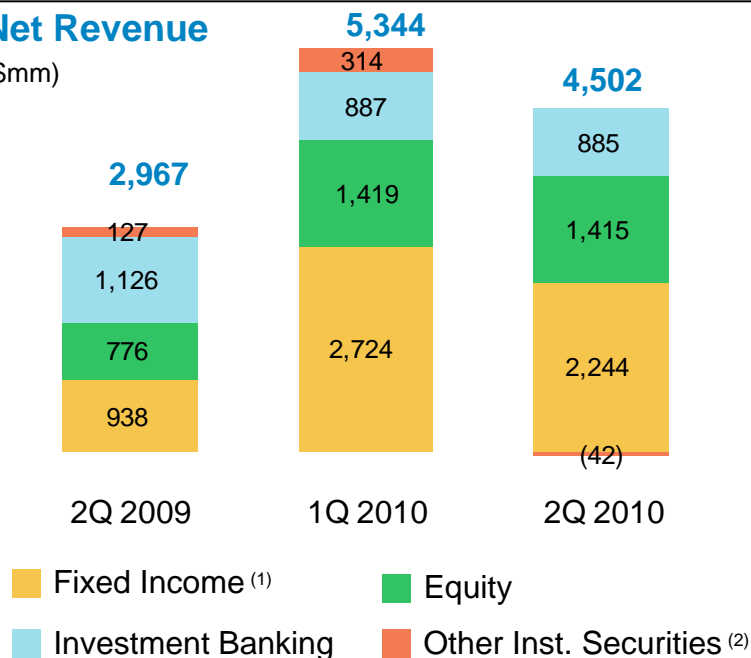
### **Leverage Global Footprint**

- Leverage relationships with MUFG and CIC
- Continue to add talent internationally

# Institutional Securities

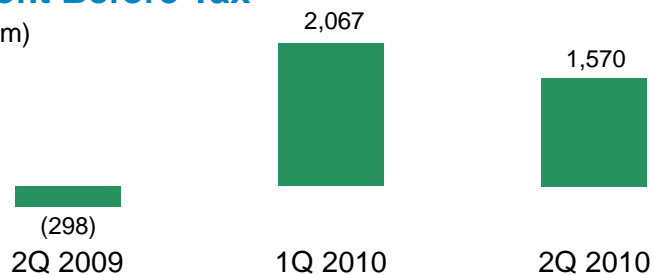
## Net Revenue

(\$mm)



## Profit Before Tax

(\$mm)



**Source:**

Morgan Stanley Earnings Conference Call, SEC Filings, Thomson Reuters – for the period of January 1, 2010 to June 30, 2010

(1) Represents combined revenues from Fixed Income Sales and Trading and Other Sales and Trading.

(2) Includes Investments and other revenues.

(3) Represents the changes in Morgan Stanley's credit spreads resulting from fluctuation in the fair value of certain of its long-term and short-term borrowings (commonly referred to as "DVA").

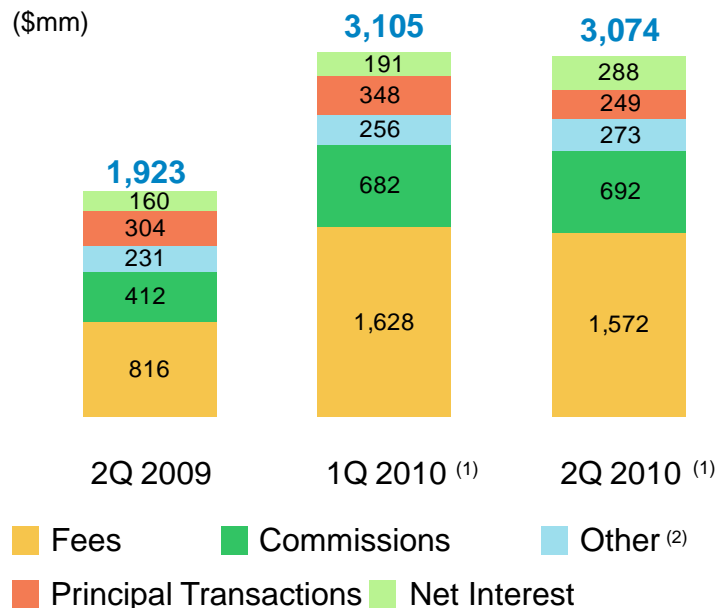
## 2Q 2010 Highlights -

- Net Revenues of \$4.5 billion
  - Positive impact of approximately \$750 million from DVA<sup>(3)</sup>
- For the first half of 2010, Investment Banking was
  - #1 In Global IPOs
  - #2 in Global Announced & Completed M&A
  - #3 in Global Equity
- Investment Banking, Commodities, Prime Brokerage and Cash Equity Trading reported solid results

# Global Wealth Management Group

## Net Revenue

(\$mm)



## 2Q 2010 Highlights -

- \$207 million PBT and 7% PBT margin
  - Quarterly integration costs of \$106 million
- 18,087 Financial Advisors
- \$1.5 trillion total client assets
- (\$5.5) billion in retail net new assets, reflecting the quarter's market volatility and seasonal tax payment-related outflows
- \$679,000 average annualized revenue per global representative

## Profit Before Tax

(\$mm)



Source:

Morgan Stanley Earnings Conference Call, SEC Filings

(1) Results include Morgan Stanley Smith Barney joint venture effective from May 31, 2009.

(2) "Other" includes Investment Banking and Other revenues.

# GWM / MSSB – Metrics that Matter

Metric	2009	Long-Term Target
Run-rate Cost Synergies <sup>(1)</sup>	\$550MM	\$1.1Bn target
One-time Costs <sup>(1)</sup>	\$280MM	\$1.1Bn target
Number of FAs	18,135	18,500-19,000
PBT Margin	8% <sup>(2)</sup>	>20%
Net New Money	(\$14Bn) <sup>(2)</sup>	\$50Bn
Net FA Attrition to Competition, Top 2 Quintiles	<2% <sup>(2)</sup>	<5%

Source: Morgan Stanley SEC filings and Company presentations

(1) Cumulative cost synergies and one-time costs; 2009 one-time costs exclude transaction costs

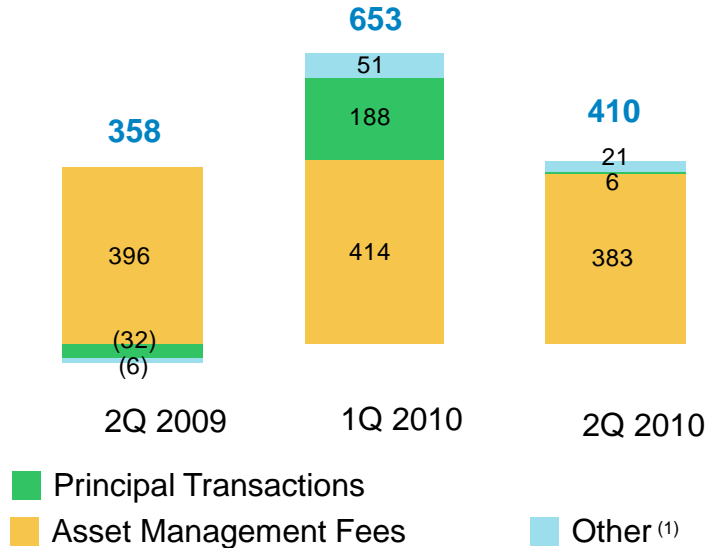
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# Asset Management

## Net Revenue

(\$mm)



## 2Q 2010 Highlights -

- Total assets under management of \$251 billion
- Approximately 70% of our equity and fixed income strategies continued to outperform their respective benchmarks on a three, five, and ten-year basis

## Profit Before Tax

(\$mm)



Source:

Morgan Stanley Earnings Conference Call, SEC Filings

(1) "Other" includes Investment Banking, Net Interest, Commissions and Other revenues.

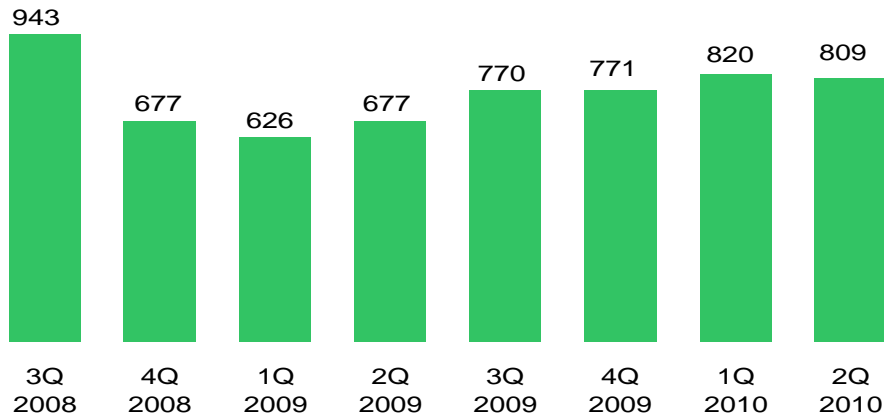
# MSIM – Key 2010 Execution Milestones (7-Step Plan)

Action Item	Status
1 Combined AIP and Graystone	✓
2 Announced sale of Retail Asset Management	✓
3 Signed strategic outsourcing partnership with State Street	✓
4 Rebuild investment culture in long-only business	In Progress
5 Restructure and renew Real Estate business	In Progress
6 Expand Fund of Funds business into new assets (Private Equity Fund of Fund, Real Estate Fund of Fund)	In Progress
7 Evaluating hedge fund business	In Progress

# Capital

## Total Assets

(\$Bn)



## 2Q10 Key Capital Ratios (Basel I)

Tier 1 Common Ratio 9.2%

Tier 1 Capital Ratio 16.5%

**August Mandatory Convertible Equity Conversion  
increased Tier 1 Common by \$5.6 Billion**

# Liquidity

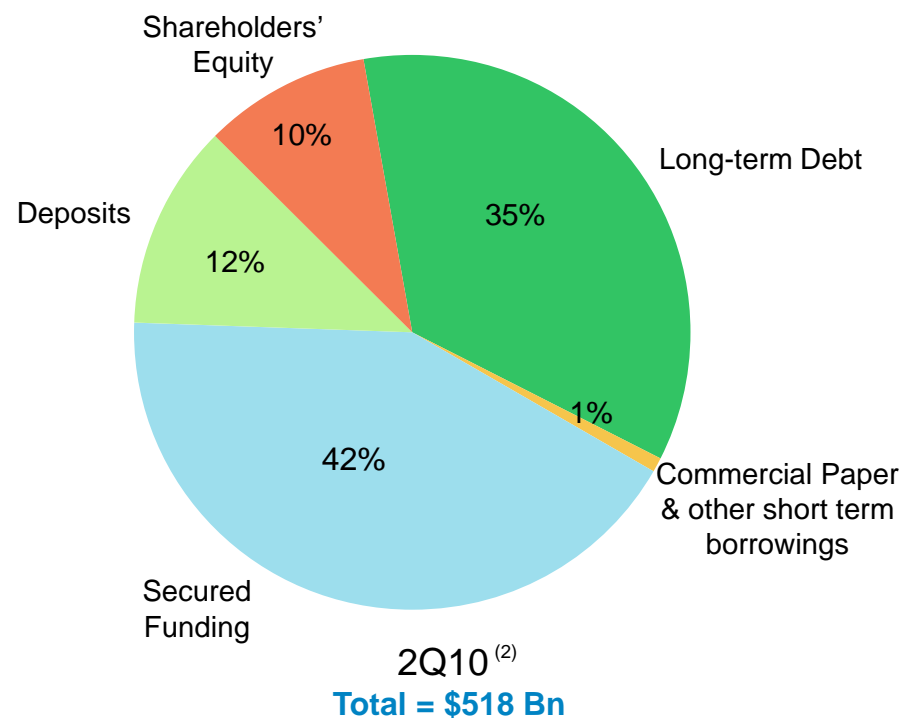
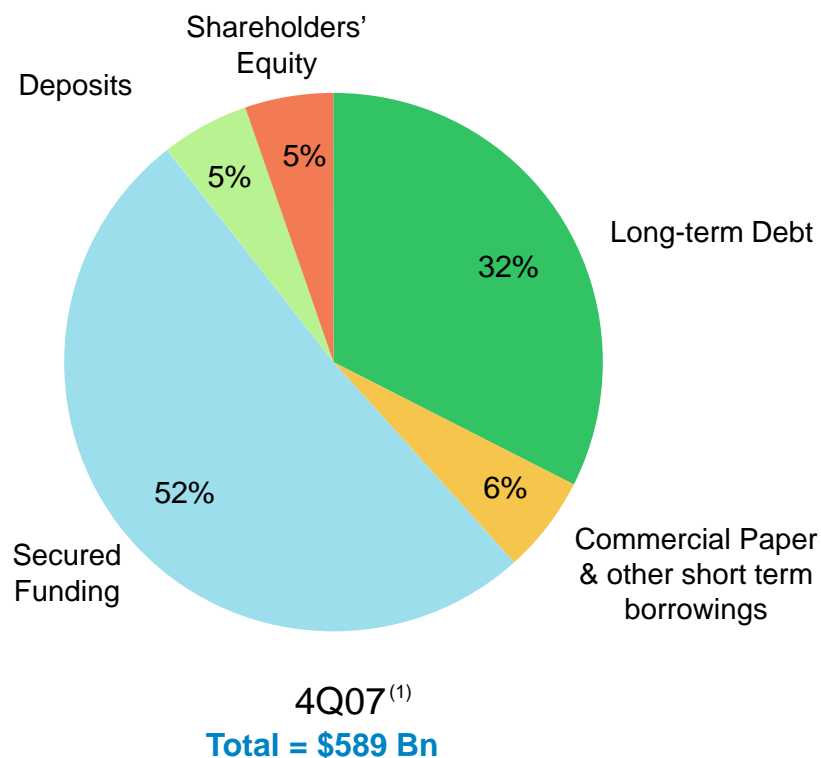
Sufficient liquidity is maintained to meet funding and contingent obligations based on the Company's balance sheet, business mix and as modeled in its liquidity stress tests

	6/30/10	3/31/10	Average Balance	
			For Qtr End 6/30/10	For Qtr End 3/31/10
<b>Balance Sheet (\$Bn)</b>	809	820	824	816
<b>Liquidity Reserve</b>				
Parent (\$Bn)	63	57	60	65
Subsidiaries (\$Bn)	90	96	92	90
<b>Total (\$Bn)</b>	153	153	152	155
<b>Liquidity as % of Balance Sheet</b>	19%	19%	18%	19%

Source:  
Morgan Stanley SEC Filings

# Funding Diversification

## Composition of Funding Liabilities and Equity



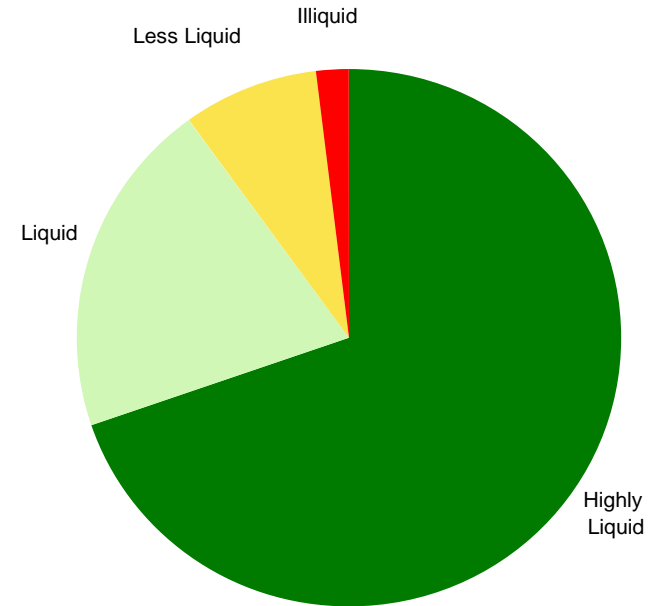
Source: Morgan Stanley SEC Filings

- (1) 4Q07 numbers as reported on a fiscal-year basis. 4Q07 Liabilities and Equity – Commercial Paper & Other Short-Term Borrowings - \$34.5, Long-Term Debt - \$190.6, Secured Financing - \$301.0, Deposits - \$31.2, Shareholders Equity - \$31.3
- (2) 2Q10 numbers as reported on a calendar-year basis. 2Q10 Liabilities and Equity – Commercial Paper & Other Short-Term Borrowings - \$3.8, Long-Term Debt - \$182.8, Secured Financing - \$219.4, Deposits - \$61.4, Shareholders Equity (Excluding Non-controlling Interests) - \$51.0.

# Secured Funding Term Consistent with Asset Fundability

## Focus on Liquidity Characteristics of Assets

- Assets Tiered by Fundability:
  - **Highly Liquid** – Governments, Agencies, Open Market Operations and Central Clearing Counterparty eligible collateral
  - **Liquid** - AAA or AA bonds, Supranationals, Primary Index equities and Sovereigns like Great Britain or Denmark
  - **Less Liquid** - Lower-rated Investment Grade bonds, Emerging Market Equities and Emerging Market Sovereigns such as Russia and Brazil
  - **Illiquid** - Sub-Investment Grade ABS, Unrated Convertible Bonds or Distressed Debt



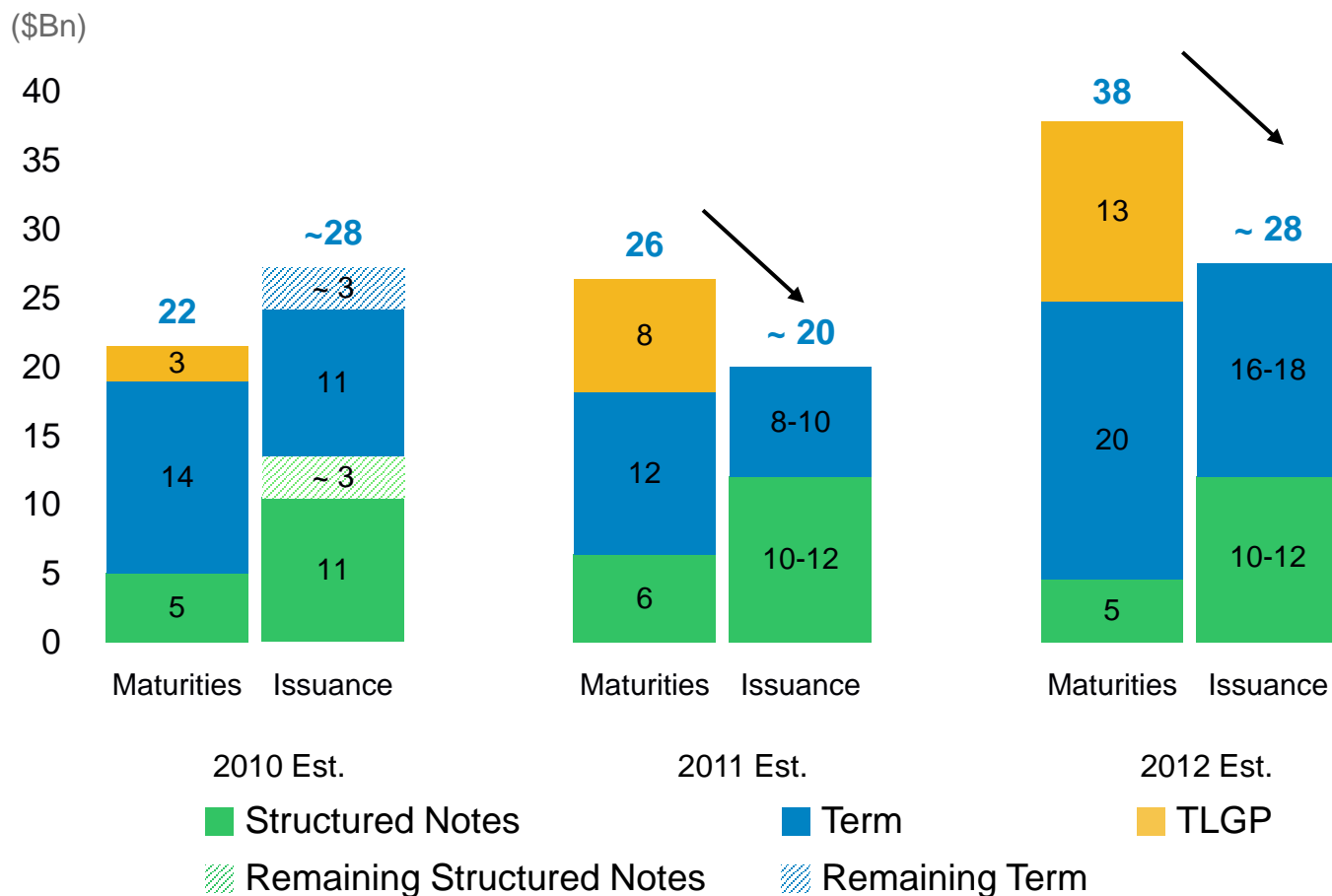
## Strong Governance and Contingency Planning

- Each fundability category is risk managed with:
  - A minimum maturity
  - A limit on the amount funded overnight
  - Global Liquidity Reserves held for the potential loss of secured funding
- Active limit monitoring and reporting to senior management (Asset Liability Committee)

# Estimated Senior Unsecured Funding Issuance

As of 9/14/10

- Reduction in term funding planned for 2011 and 2012 given success in
  - Pre-funding
  - Structured Notes Issuance
  - Term Secured Funding
- Assumes a constant balance sheet through 2012



# Well Positioned for Strong Execution Going Forward

Significant Market Share Opportunities

Targeted Growth Strategy

Experienced Leadership Team

Strategic Execution

## Unique Opportunity to Increase Share

- Clients receptive to Morgan Stanley offerings
- Expanding capability to deliver flow products and content / ideas across the firm
- Leadership in place
- Focused on discipline and execution