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SECURITIES LITIGATION & CONSULTING GROUP

Structured Products Research Report

Report Prepared On: 07/30/13

Structured Product Details

Name	Buffered Securities linked to NIKKEI 225 Index
Issue Size	$4.50 million
Issue Price	$10,000.00
Term	48 Months
Annualized Coupon	0.00%
Pricing Date	May 17, 2011
Issue Date	May 20, 2011
Valuation Date	May 15, 2015
Maturity Date	May 20, 2015
Issuer	Morgan Stanley
CDS Rate	128.19 bps
Swap Rate	1.59%
Reference Asset	the NIKKEI 225 Index
Initial Level	9,567.02
Dividend Rate	1.94%
Implied Volatility	21.38%
Delta[1]	0.83
Fair Price at Issue	$8,967.50
CUSIP	617482UE2
SEC Link	www.sec.gov/Archives/edgar/data/895421/000095010311001933/dp22666_424b2-ps785.htm

Buffered Securities linked to NIKKEI 225 Index

Description

Morgan Stanley issued $4.50 million of Buffered Securities linked to NIKKEI 225 Index on May 20, 2011 at $10,000.00 per note.

These notes are Morgan Stanley-branded Buffered PLUS securities that do not pay periodic coupons, but instead pay a single amount at maturity depending on the final level of the NIKKEI 225 Index.

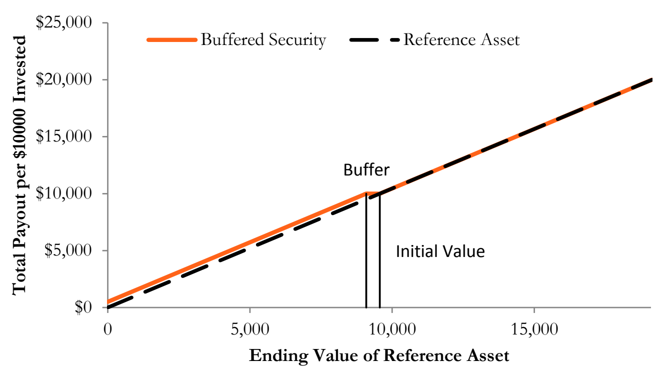
If on May 15, 2015 the NIKKEI 225 Index level is higher than 9,567.02, the notes pay a return equal to the percentage increase in the NIKKEI 225 Index. If on May 15, 2015 the refe is below 9,567.02 but not below 9088.67, investors receive $10,000.00 face value per note. If the NIKKEI 225 Index level on May 15, 2015 is lower than 9088.67, investors receive face value per note reduced by the amount the reference asset is below 9088.67 as a percent of the initial level, 9,567.02.

Valuation

This product can be valued as a combination of a note from Morgan Stanley, one short out-of-the-money put option, and one long at-the-money call option. For reasonable valuation inputs this note was worth $8,967.50 when it was issued on May 20, 2011 because the value of the options investors gave Morgan Stanley plus the interest investors would have received on Morgan Stanley's straight debt was worth $1,032.50 more than the options investors received from Morgan Stanley.

There is no active secondary market for most structured products. Structured products, including this note, therefore are much less liquid than simple stocks, bonds, notes and mutual funds. Investors are likely to receive less than the structured product's estimated market value if they try to sell the structured product prior to maturity. Our valuations do not incorporate this relative lack of liquidity and therefore should be considered an upper bound on the value of the structured product.

Payoff Curve at Maturity



The payoff diagram shows the final payoff of this note given the NIKKEI 225 Index level (horizontal axis). For comparison, the dashed line shows the payoff if you invested in the NIKKEI 225 Index directly.

Related Research

Research Papers:
www.slcg.com/research.php

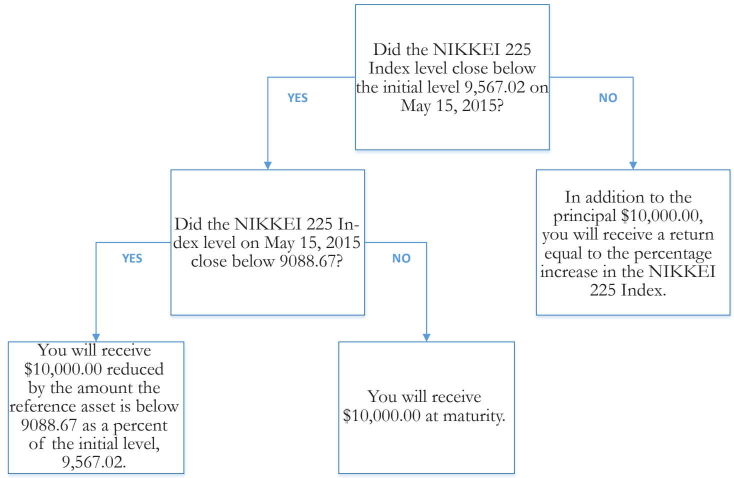
- *"Are Structured Products Suitable for Retail Investors?"* December 2006.
- *"Structured Products in the Aftermath of Lehman Brothers,"* November 2009.
- *"What TiVo and JP Morgan Teach Us about Reverse Convertibles,"* June 2010.

Tim Husson, Ph.D.,
Senior Financial Economist, SLCG
(+1) 703.890.0743
TimHusson@slcg.com

Principal Payback Table

The NIKKEI 225 Index	Note Payoff
0.00	$500.00
956.70	$1,500.00
1,913.40	$2,500.00
2,870.11	$3,500.00
3,826.81	$4,500.00
4,783.51	$5,500.00
5,740.21	$6,500.00
6,696.91	$7,500.00
7,653.62	$8,500.00
8,610.32	$9,500.00
9,567.02	**$10,000.00**
10,523.72	$11,000.00
11,480.42	$12,000.00
12,437.13	$13,000.00
13,393.83	$14,000.00
14,350.53	$15,000.00

Maturity Payoff Diagram

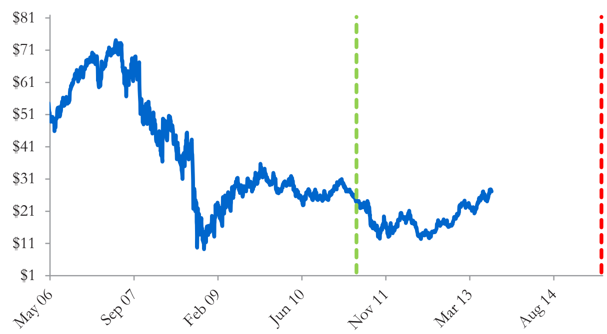


The contingent payoffs of this Buffered Security.

Analysis

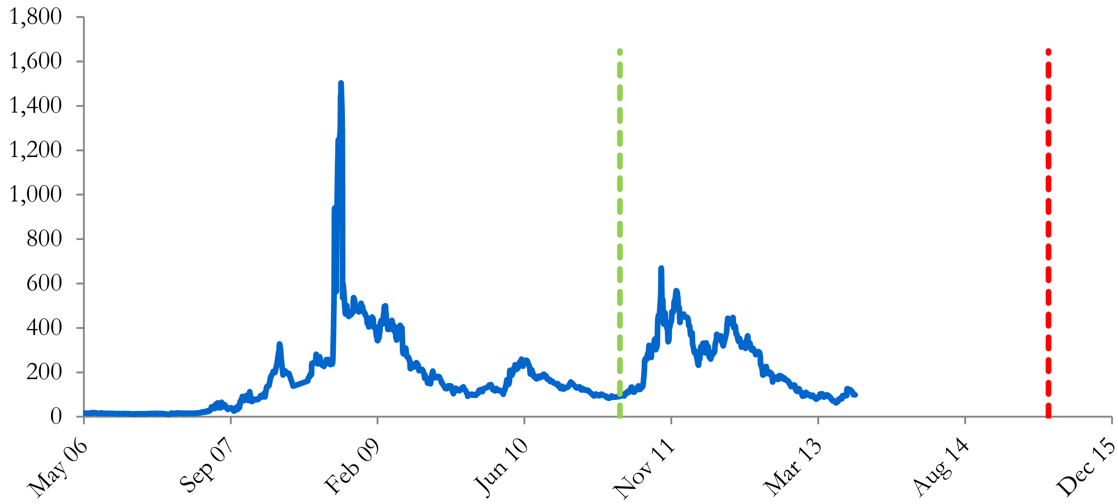
This Buffered Security pays investors the increase in the NIKKEI 225 Index, but if the NIKKEI 225 Index declines over the term of the note, investors will suffer losses equal to the percentage decline in the NIKKEI 225 Index. In addition, investors bear the credit risk of Morgan Stanley. Investors purchasing this Buffered Security effectively sell at-the-money put options to Morgan Stanley, buy at-the-money call options, and a zero-coupon note from Morgan Stanley. This Buffered Security is fairly priced if and only if the market value of the options investors received from Morgan Stanley equals the market value of the options investors gave Morgan Stanley plus the interest investors would have received on Morgan Stanley's straight debt.

Morgan Stanley's Stock Price



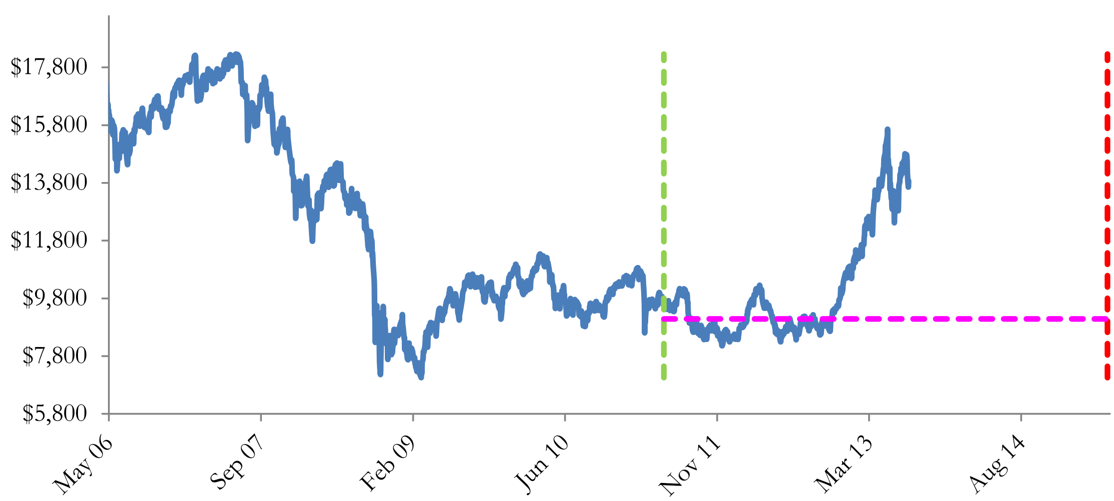
The graph above shows the adjusted closing price of the issuer Morgan Stanley for the past several years. The stock price of the issuer is an indication of the financial strength of Morgan Stanley. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

Morgan Stanley's CDS Rate



Credit default swap (CDS) rates are the market price that investors require to bear credit risk of an issuer such as Morgan Stanley. CDS rates are usually given in basis points (bps). One basis point equals 0.01%. Higher CDS rates reflect higher perceived credit risk, higher required yields, and therefore lower market value of Morgan Stanley's debt, including outstanding Buffered Security. Fluctuations in Morgan Stanley's CDS rate impact the market value of the notes in the secondary market.

The NIKKEI 225 Index Level

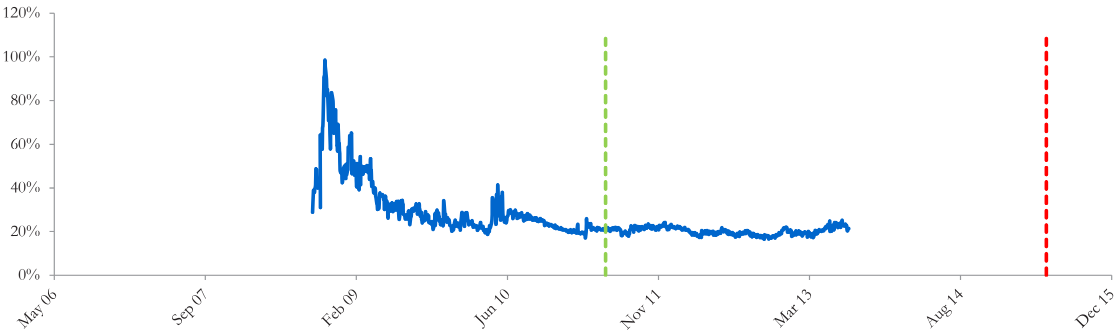


The graph above shows the historical levels of the NIKKEI 225 Index for the past several years. The final payoff of this note is determined by the NIKKEI 225 Index level at maturity. Higher fluctuations in the NIKKEI 225 Index level correspond to a greater uncertainty in the final payout of this Buffered Security.

Realized Payoff

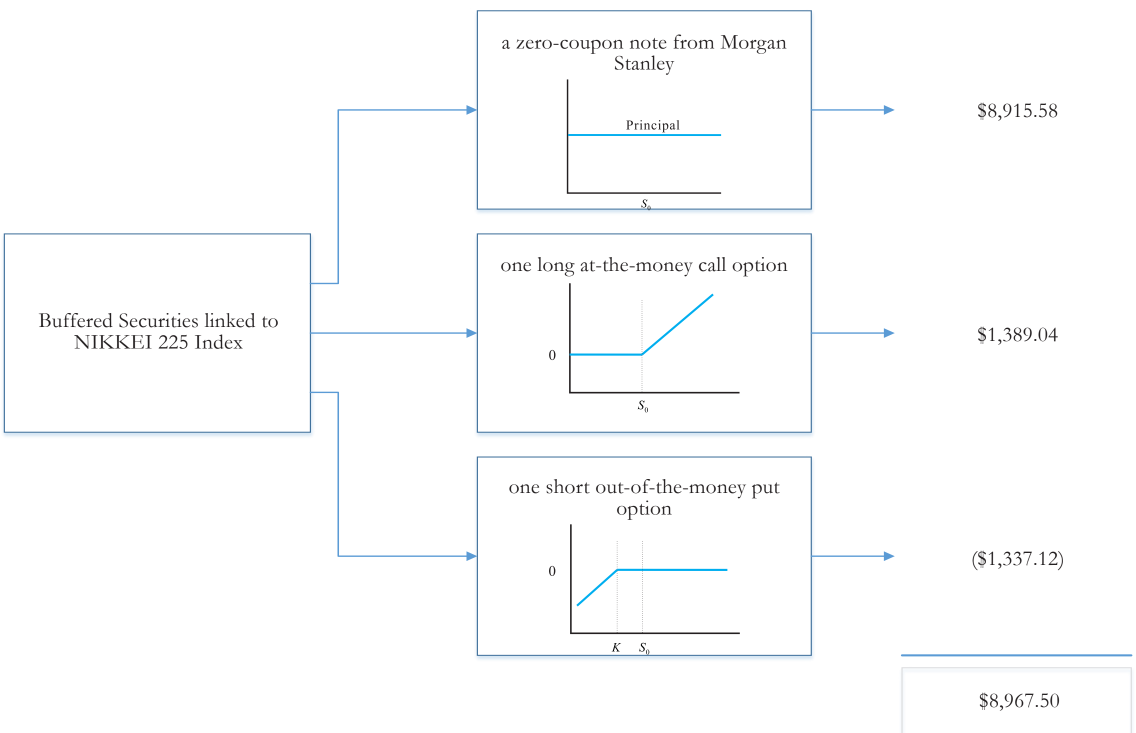
This product will mature on May 20, 2015.

Reference Asset The NIKKEI 225 Index's Implied Volatility



The annualized implied volatility of the NIKKEI 225 Index on May 17, 2011 was 21.38%, meaning that options contracts on the NIKKEI 225 Index were trading at prices that reflect an expected annual volatility of 21.38%. The higher the implied volatility, the larger the expected fluctuations of the NIKKEI 225 Index level and of the Note's market value during the life of the Notes.

Decomposition of this Buffered Security



This note can be decomposed into different components, and each component can be valued separately. The chart above shows the value of each component of this Buffered Security.

1. Delta measures the sensitivity of the price of the note to the the NIKKEI 225 Index level on May 17, 2011.
2. CDS rates can be considered a measure of the probability that an issuer will default over a certain period of time and the likely loss given a default. The lower the CDS rate, the lower the default probability. CDS rate is given in basis points (1 basis point equals 0.01%), and is considered as a market premium, on top of the risk-free rate, that investors require to insure against a potential default.
3. Fair price evaluation is based on the Black-Scholes model of the the NIKKEI 225 Index on May 17, 2011.
4. Calculated payout at maturity is only an approximation, and may differ from actual payouts at maturity.
5. Our evaluation does not include any transaction fees, broker commissions, or liquidity discounts on the notes.