

Report Prepared On: 02/03/13

## Structured Product Details

**Name** Contingent Income Auto-Callable  
Securities linked to Freeport-  
McMoRan Copper & Gold, Inc.

**Issue Size** \$11.75 million  
**Issue Price** \$10  
**Term** 12 Months  
**Annualized Coupon** 21.75%

**Pricing Date** May 30, 2012  
**Issue Date** June 4, 2012  
**Valuation Date** May 24, 2013  
**Maturity Date** May 30, 2013

**Issuer** Morgan Stanley  
**CDS Rate** 380.51 bps  
**Swap Rate** 1.05%

**Reference Asset** Freeport-McMoRan Cop-  
per & Gold, Inc.'s stock  
**Initial Level** \$32.41  
**Dividend Rate** 3.23%  
**Implied Volatility** 43.39%

**Fair Price at Issue** \$9.48

**CUSIP** 61755S156  
**SEC Link** [www.sec.gov/Archives/edgar/  
data/895421/000095010312002914/  
dp30968\\_424b2-ps180.htm](http://www.sec.gov/Archives/edgar/data/895421/000095010312002914/dp30968_424b2-ps180.htm)

## Related Research

### Research Papers:

[www.slcg.com/research.php](http://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.

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## Contingent Income Auto-Callable Securities linked to Freeport-McMoRan Copper & Gold, Inc.

### Description

Morgan Stanley issued \$11.75 million of Contingent Income Auto-Callable Securities linked to Freeport-McMoRan Copper & Gold, Inc. on June 4, 2012 at \$10 per note.

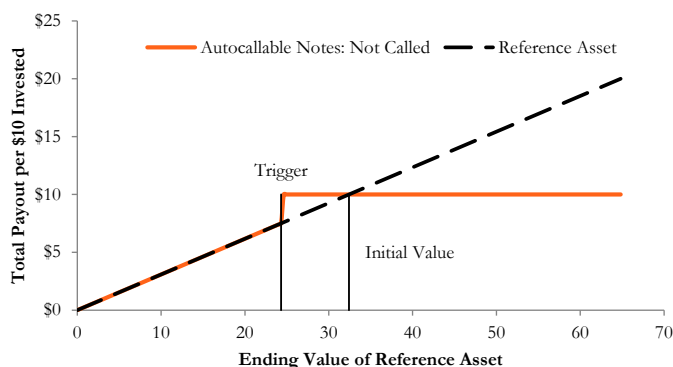
These 12-month notes are UBS-branded reverse convertible notes. On the quarterly coupon observation date, if the notes are not called back, they pay either quarterly coupon at an annualized rate of 21.75% if Freeport-McMoRan Copper & Gold, Inc.'s stock price closes above the coupon barrier \$24.31, or no coupon if the stock price closes below the barrier. The first coupon observation date is August 24, 2012. This autocallable notes will be called back if the reference stock price on any quarterly call observation date after August 24, 2012 exceeds the initial stock price \$32.41. In this case, investors receive the principal plus any unpaid coupons. At maturity, the notes convert into shares of the reference security—0.31 share of Freeport-McMoRan Copper & Gold, Inc.'s stock in this case—if the market value of the reference stock at the note's maturity is below the trigger price \$24.31 (75% of the reference asset on May 30, 2012). Otherwise, investors will receive the \$10 face value.

### Valuation

This note can be viewed as a combination of a zero-coupon note from Morgan Stanley, a series of contingent coupon payments, and a short put option on the reference asset. For reasonable valuation inputs this note was worth \$9.48 per \$10 face value when it was issued on June 4, 2012, including \$9.72 for the present value of the zero-coupon note, (\$1.07) for the short put options, and \$0.83 for the present value of all future contingent coupon payments.

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

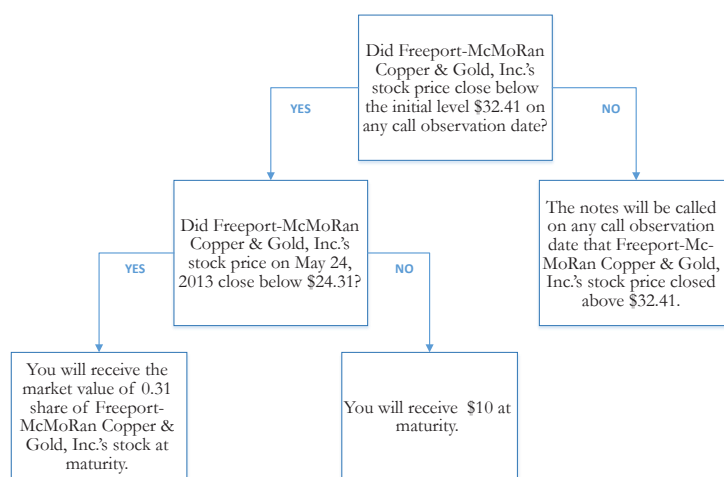


The payoff diagram shows the final payoff of this note given Freeport-McMoRan Copper & Gold, Inc.'s stock price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in Freeport-McMoRan Copper & Gold, Inc.'s stock directly.

## Principal Payback Table

Freeport-McMoRan Copper & Gold, Inc.'s Stock	Note Payoff
\$0.00	\$0.00
\$3.24	\$1.00
\$6.48	\$2.00
\$9.72	\$3.00
\$12.96	\$4.00
\$16.21	\$5.00
\$19.45	\$6.00
\$22.69	\$7.00
\$25.93	\$10.00
\$29.17	\$10.00
<b>\$32.41</b>	<b>\$10.00</b>
\$35.65	\$10.00
\$38.89	\$10.00
\$42.13	\$10.00
\$45.37	\$10.00
\$48.62	\$10.00

## Maturity Payoff Diagram



*The contingent payoffs of this Contingent Income Auto-Callable Security.*

## Analysis

The 21.75% coupon rate on this Contingent Income Auto-Callable Security is higher than those paid by Morgan Stanley on its straight debts but, in addition to Morgan Stanley's credit risk, investors bear the risk that, 1) the note may be called; 2) the note may pay zero coupon because of the coupon contingency; 3) and the note will be converted into shares of Freeport-McMoRan Copper & Gold, Inc.'s stock when Freeport-McMoRan Copper & Gold, Inc.'s stock is worth substantially less than the face value of the note.

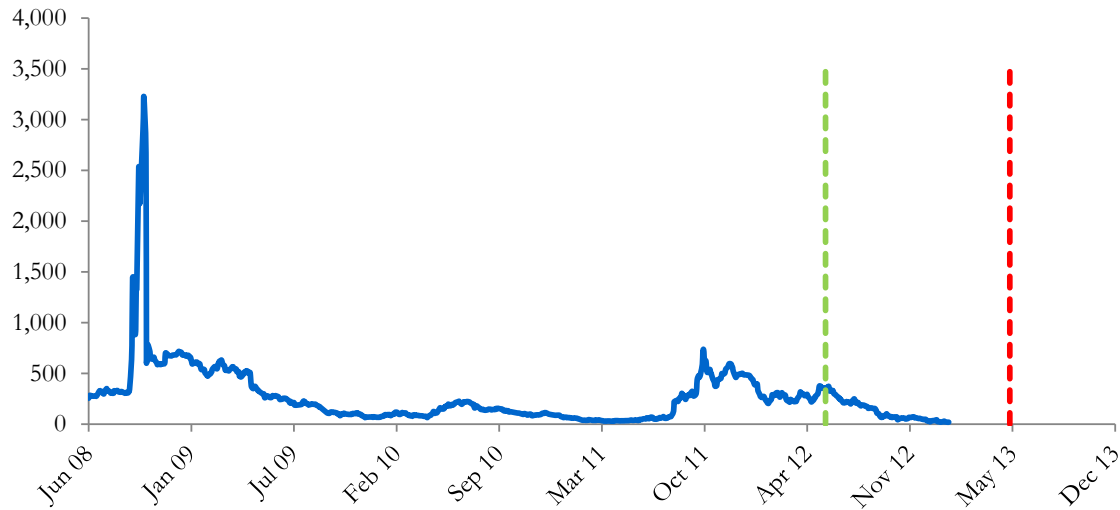
Investors purchasing these autocallable phoenix notes effectively sell contingent put options to Morgan Stanley and post the note's issue price as collateral to secure satisfaction of the investors' obligations under the option contracts. Morgan Stanley pays investors a contingent coupon that is part payment for the put options and part interest on the investors' posted collateral. This Contingent Income Auto-Callable Security is fairly priced if and only if the difference between the contingent coupon and interest paid on Morgan Stanley's straight debt equals the value of the contingent put options investors are giving to Morgan Stanley. Whether this Contingent Income Auto-Callable Security is suitable or not is identically equivalent to whether selling put options on the reference stock at the option premium being paid by Morgan Stanley was suitable for the investor.

## Morgan Stanley's Stock Price



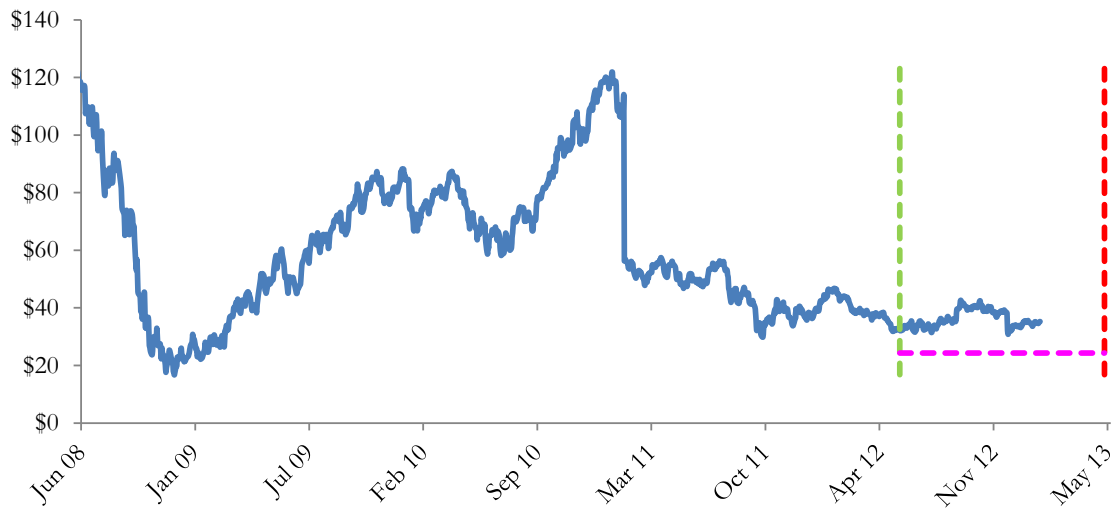
*The graph above shows the adjusted closing price of the issuer Morgan Stanley for the past several years. The stock price of the issuer is an indication of the financial strength of Morgan Stanley. The adjusted price shown above incorporates any stock split, reverse stock split, etc.*

### 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 Contingent Income Auto-Callable Security. Fluctuations in Morgan Stanley's CDS rate impact the market value of the notes in the secondary market.

### Freeport-McMoRan Copper & Gold, Inc.'s Stock Price

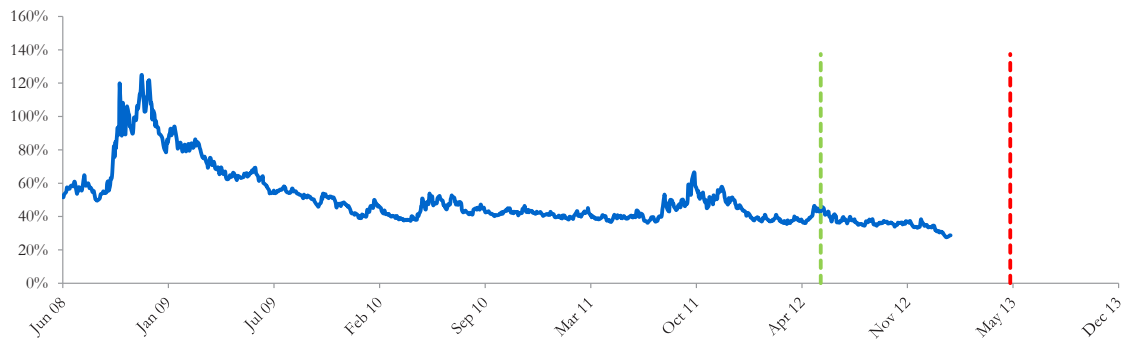


The graph above shows the historical levels of Freeport-McMoRan Copper & Gold, Inc.'s stock for the past several years. The final payoff of this note is determined by Freeport-McMoRan Copper & Gold, Inc.'s stock price at maturity. Higher fluctuations in Freeport-McMoRan Copper & Gold, Inc.'s stock price correspond to a greater uncertainty in the final payoff of this Contingent Income Auto-Callable Security.

### Realized Payoff

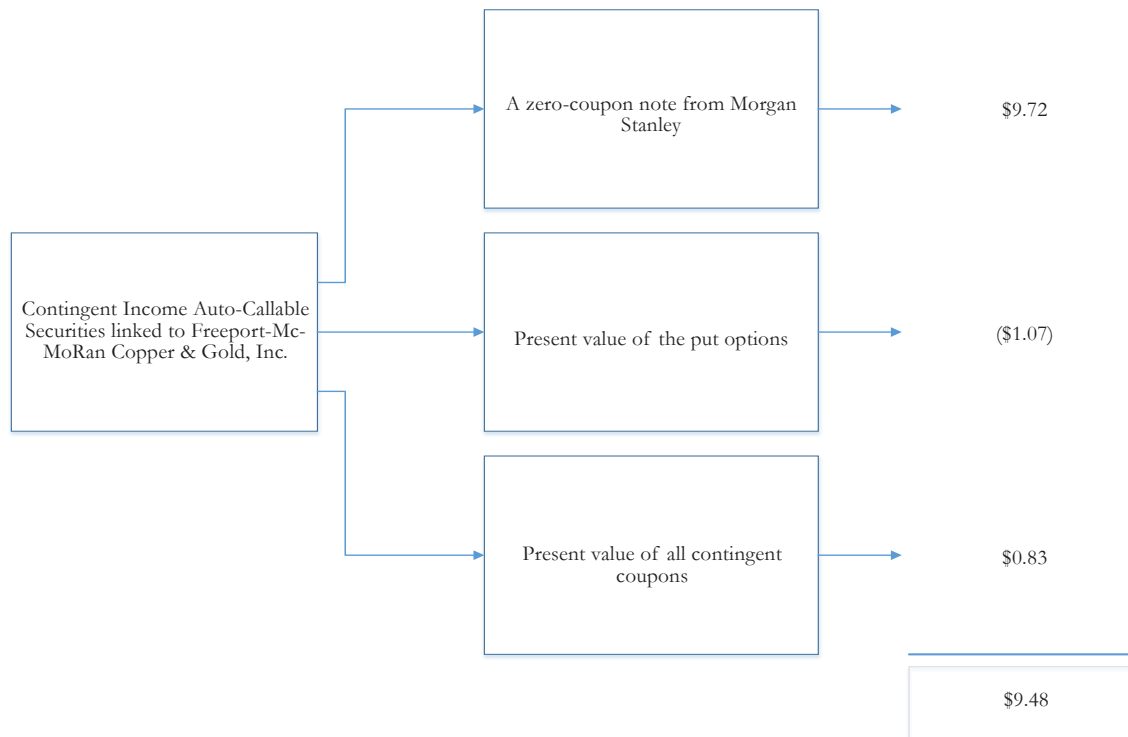
This note was early terminated on August 24, 2012 due to its automatic call feature. The Freeport-McMoRan Copper & Gold, Inc.'s stock price on August 24, 2012 was \$36.13, higher than the initial level \$32.41. Investors received \$10 per note plus any unpaid coupons.

## Reference Asset Freeport-McMoRan Copper & Gold, Inc.'s Stock's Implied Volatility



The annualized implied volatility of Freeport-McMoRan Copper & Gold, Inc.'s stock on May 30, 2012 was 43.39%, meaning that options contracts on Freeport-McMoRan Copper & Gold, Inc.'s stock were trading at prices that reflect an expected annual volatility of 43.39%. The higher the implied volatility, the larger the expected fluctuations of Freeport-McMoRan Copper & Gold, Inc.'s stock price and of the Note's market value during the life of the Notes.

## Decomposition of this Contingent Income Auto-Callable 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 Contingent Income Auto-Callable Security.

1. Delta measures the sensitivity of the price of the note to the Freeport-McMoRan Copper & Gold, Inc.'s stock price on May 30, 2012.
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 Freeport-McMoRan Copper & Gold, Inc.'s stock on May 30, 2012.
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.