

Report Prepared On: 08/02/13

Structured Product Details

Name	Buffered Performance Leveraged Upside Securities linked to Russell 2000 Index
Issue Size	\$6.99 million
Issue Price	\$10
Term	36 Months
Annualized Coupon	0.00%
Pricing Date	March 13, 2013
Issue Date	March 18, 2013
Valuation Date	March 15, 2016
Maturity Date	March 18, 2016
Issuer	Morgan Stanley
CDS Rate	84.78 bps
Swap Rate	0.55%
Reference Asset	the Russell 2000 Index
Initial Level	943.9
Dividend Rate	1.83%
Implied Volatility	20.68%
Delta¹	0.71
Fair Price at Issue	\$9.68
CUSIP	61761M730
SEC Link	www.sec.gov/Archives/edgar/data/895421/000095010313001782/dp36993_424b2-ps677.htm

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

Buffered Performance Leveraged Upside Securities linked to Russell 2000 Index

Description

Morgan Stanley issued \$6.99 million of Buffered Performance Leveraged Upside Securities linked to Russell 2000 Index on March 18, 2013 at \$10 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 Russell 2000 Index.

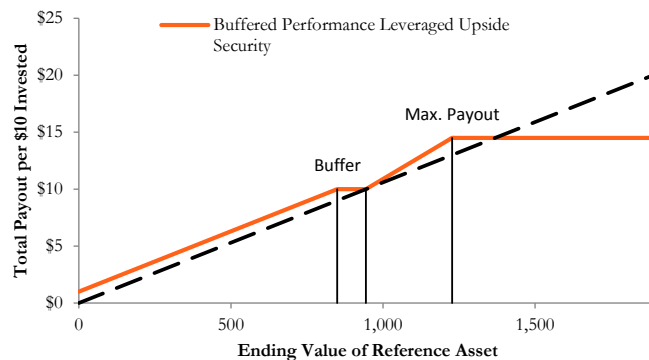
If on March 15, 2016 the Russell 2000 Index level is higher than 943.9, but lower than 1,227.07, the notes pay a return equal to the percentage increase in the Russell 2000 Index multiplied by 1.5, up to a cap of 45.00%. If on March 15, 2016 the refe is below 943.9 but not below 849.51, investors receive \$10 face value per note. If the Russell 2000 Index level on March 15, 2016 is lower than 849.51, investors receive face value per note reduced by the amount the reference asset is below 849.51 as a percent of the initial level, 943.9.

Valuation

This product can be valued as a combination of a note from Morgan Stanley, one short out-of-the-money put option, 1.5 long at-the-money call options, and 1.5 short out-of-the-money call options. For reasonable valuation inputs this note was worth \$9.68 when it was issued on March 18, 2013 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 \$0.32 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

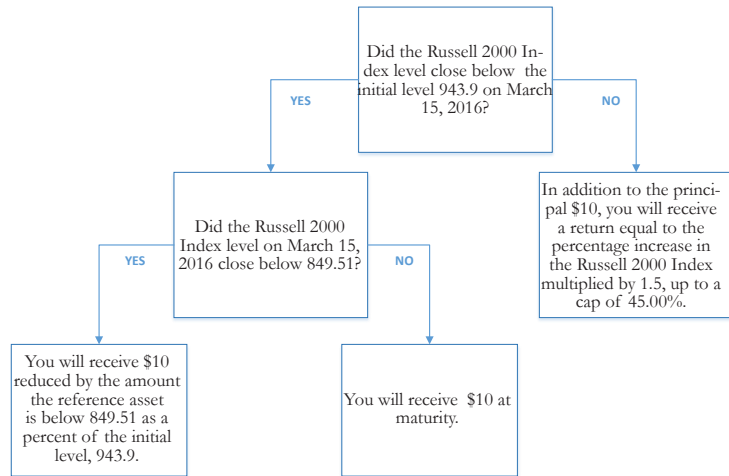


The payoff diagram shows the final payoff of this note given the Russell 2000 Index level (horizontal axis). For comparison, the dashed line shows the payoff if you invested in the Russell 2000 Index directly.

Principal Payback Table

The Russell 2000 Index	Note Payoff
0.00	\$1.00
94.39	\$2.00
188.78	\$3.00
283.17	\$4.00
377.56	\$5.00
471.95	\$6.00
566.34	\$7.00
660.73	\$8.00
755.12	\$9.00
849.51	\$10.00
943.90	\$10.00
1,038.29	\$11.50
1,132.68	\$13.00
1,227.07	\$14.50
1,321.46	\$14.50
1,415.85	\$14.50

Maturity Payoff Diagram

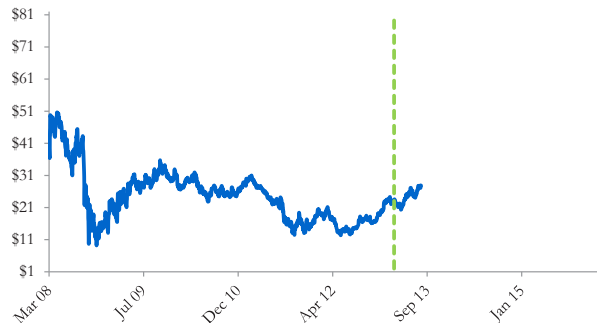


The contingent payoffs of this Buffered Performance Leveraged Upside Security.

Analysis

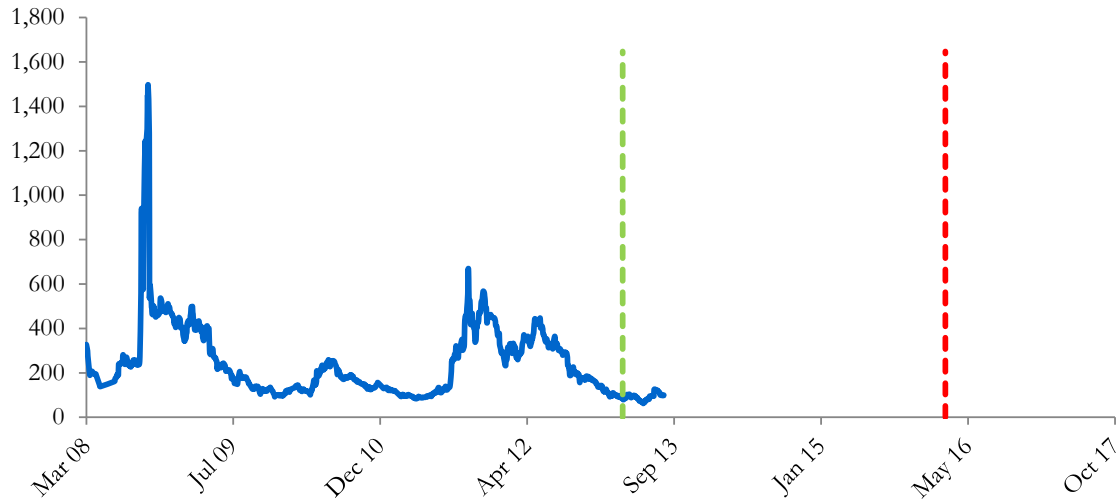
This Buffered Performance Leveraged Upside Security pays investors the increase in the Russell 2000 Index multiplied by 1.5 capped at 45.00%, but if the Russell 2000 Index declines over the term of the note, investors will suffer losses equal to the percentage decline in the Russell 2000 Index. In addition, investors bear the credit risk of Morgan Stanley. Investors purchasing this Buffered Performance Leveraged Upside Security effectively sell at-the-money put and out-of-the-money call options to Morgan Stanley, buy at-the-money call options, and a zero-coupon note from Morgan Stanley. This Buffered Performance Leveraged Upside 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



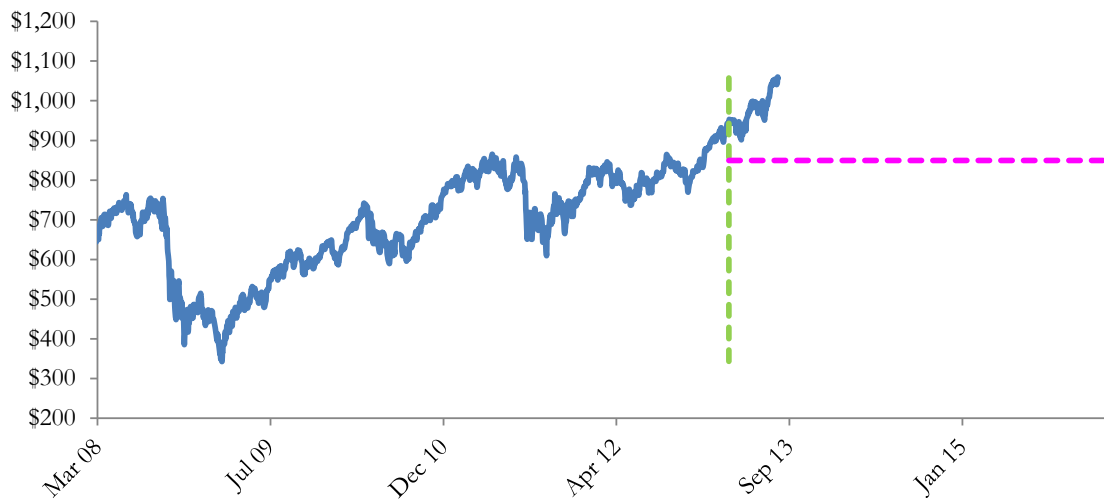
The graph above shows the adjusted closing price of the issuer Morgan Stanley for the past several years. The stock price of the issuer is an indication of the financial strength of Morgan Stanley. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

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 Performance Leveraged Upside Security. Fluctuations in Morgan Stanley's CDS rate impact the market value of the notes in the secondary market.

The Russell 2000 Index Level

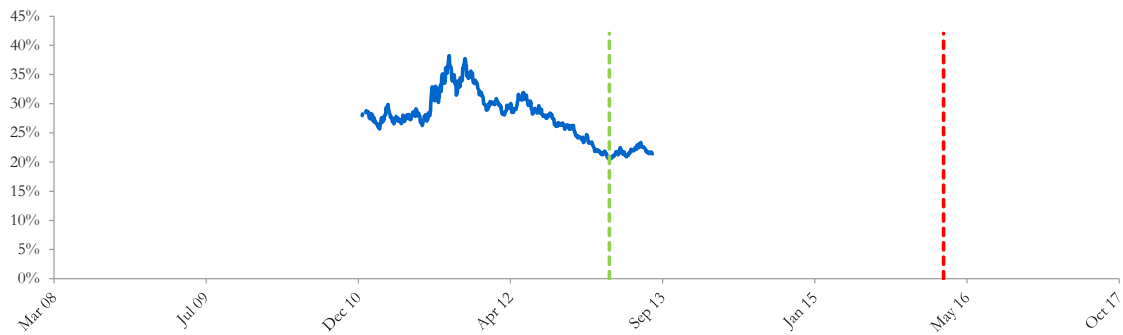


The graph above shows the historical levels of the Russell 2000 Index for the past several years. The final payoff of this note is determined by the Russell 2000 Index level at maturity. Higher fluctuations in the Russell 2000 Index level correspond to a greater uncertainty in the final payout of this Buffered Performance Leveraged Upside Security.

Realized Payoff

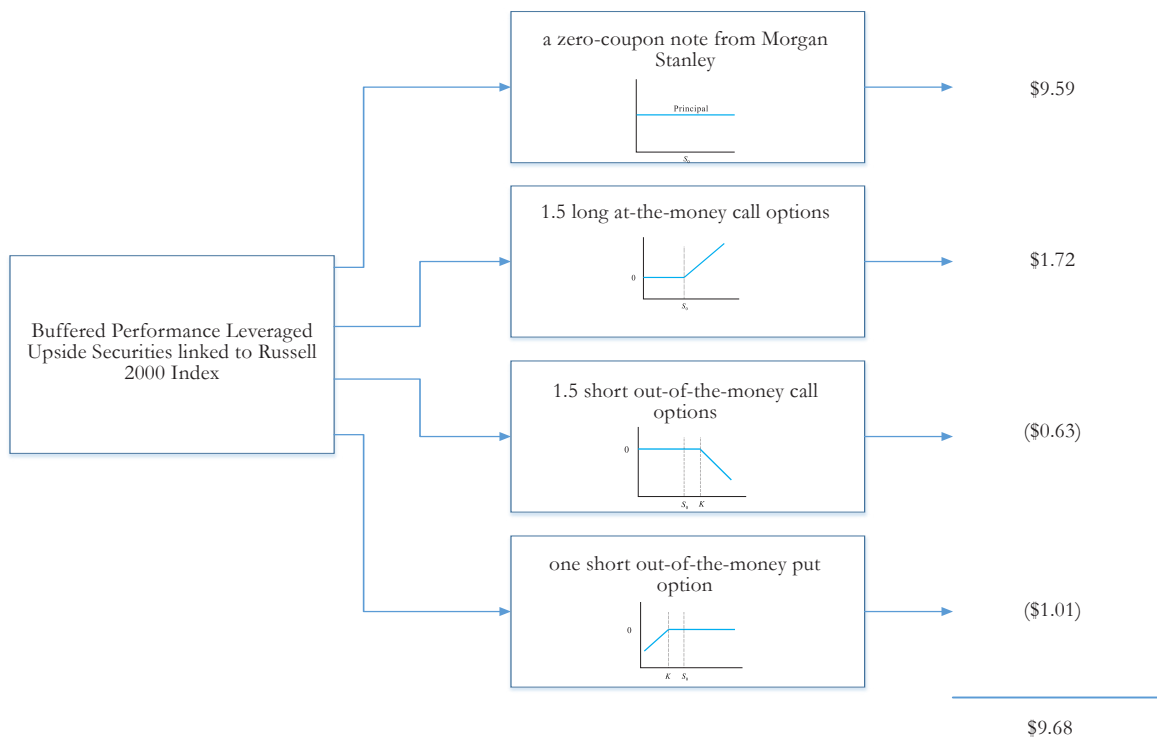
This product will mature on March 18, 2016.

Reference Asset The Russell 2000 Index's Implied Volatility



The annualized implied volatility of the Russell 2000 Index on March 13, 2013 was 20.68%, meaning that options contracts on the Russell 2000 Index were trading at prices that reflect an expected annual volatility of 20.68%. The higher the implied volatility, the larger the expected fluctuations of the Russell 2000 Index level and of the Note's market value during the life of the Notes.

Decomposition of this Buffered Performance Leveraged Upside 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 Performance Leveraged Upside Security.

1. Delta measures the sensitivity of the price of the note to the the Russell 2000 Index level on March 13, 2013.
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 Russell 2000 Index on March 13, 2013.
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.