

# Morgan Stanley

**S&P Recommendation** **HOLD** ★★☆☆☆

**Price**  
\$15.13 (as of Dec 30, 2011)

**12-Mo. Target Price**  
\$22.00

**Investment Style**  
Large-Cap Blend

**UPDATE: PLEASE SEE THE ANALYST'S LATEST RESEARCH NOTE IN THE COMPANY NEWS SECTION**

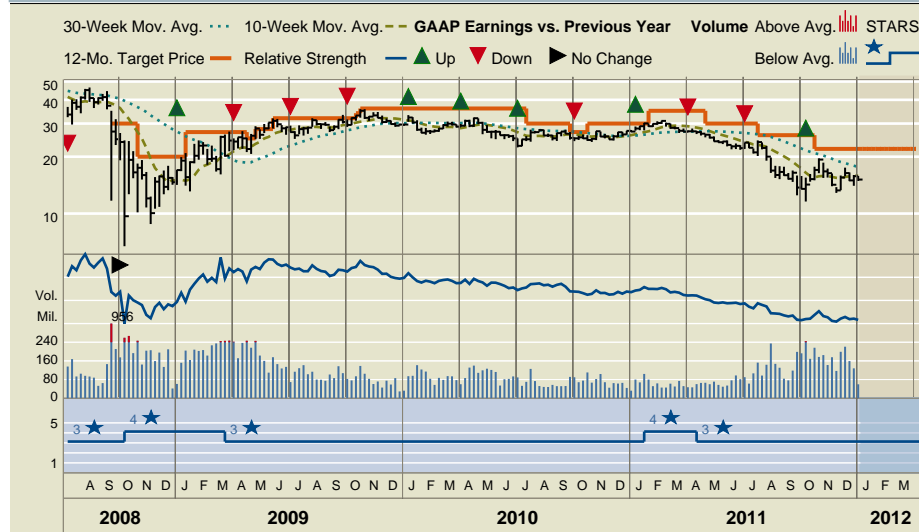
**GICS Sector** Financials  
**Sub-Industry** Investment Banking & Brokerage

**Summary** Morgan Stanley is among the largest financial services firms in the U.S., with operations in investment banking, securities, and investment and wealth management.

**Key Stock Statistics** (Source S&P, Vickers, company reports)

52-Wk Range	<b>\$31.04–11.58</b>	S&P Oper. EPS 2011E	<b>1.71</b>	Market Capitalization(B)	<b>\$29.162</b>	Beta	<b>1.53</b>
Trailing 12-Month EPS	<b>\$1.53</b>	S&P Oper. EPS 2012E	<b>2.16</b>	Yield (%)	<b>1.32</b>	S&P 3-Yr. Proj. EPS CAGR(%)	<b>NM</b>
Trailing 12-Month P/E	<b>9.9</b>	P/E on S&P Oper. EPS 2011E	<b>8.8</b>	Dividend Rate/Share	<b>\$0.20</b>	S&P Credit Rating	<b>A-</b>
\$10K Invested 5 Yrs Ago	<b>NA</b>	Common Shares Outstg. (M)	<b>1,927.4</b>	Institutional Ownership (%)	<b>76</b>		

**Price Performance**



**Qualitative Risk Assessment**

**LOW** **MEDIUM** **HIGH**

Our risk assessment reflects our favorable view of the company's diversification by product and by region, offset by our concerns about corporate governance and our view that certain segments lack competitive advantages.

**Quantitative Evaluations**

**S&P Quality Ranking** **B-**

D C **B-** B B+ A- A A+

**Relative Strength Rank** **MODERATE**

36

LOWEST = 1 HIGHEST = 99

**Revenue/Earnings Data**

**Revenue (Million \$)**

	1Q	2Q	3Q	4Q	Year
2011	9,488	11,311	11,501	--	--
2010	10,439	9,566	8,534	9,499	38,036
2009	--	--	--	--	30,070
2008	--	--	--	--	62,264
2007	23,192	26,195	21,230	14,711	85,328
2006	18,119	19,062	20,055	19,473	76,551

**Earnings Per Share (\$)**

	1Q	2Q	3Q	4Q	Year
2011	0.50	-0.38	1.14	E0.45	E1.71
2010	1.03	0.60	0.05	0.43	2.46
2009	-0.57	-1.37	0.38	0.13	-0.94
2008	1.45	0.95	1.32	-2.24	1.54
2007	2.17	2.24	1.32	-3.61	2.37
2006	1.50	1.85	1.75	2.08	7.09

Fiscal year ended Dec. 31. Next earnings report expected: NA. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

**Dividend Data** (Dates: mm/dd Payment Date: mm/dd/yy)

Amount (\$)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.050	01/20	01/27	01/31	02/15/11
0.050	04/21	04/27	04/29	05/13/11
0.050	07/19	07/27	07/29	08/15/11
0.050	10/19	10/27	10/31	11/15/11

Dividends have been paid since 1993. Source: Company reports.

Analysis prepared by Equity Analyst **Robert McMillan** on Oct 20, 2011, when the stock traded at **\$16.45**.

**Highlights**

- Concerns about sovereign risk and the global economy restricted results at Morgan Stanley during the 2011 third quarter. Investment banking revenues fell 16%, year to year, while trading and investments posted a 44% drop after excluding the \$3.4 billion debt valuation adjustment (DVA). Results in the consumer-oriented businesses were more resilient, with commissions and fees rising 38%, year to year, and asset management increasing 13%. After advancing 32% in 2010, we see net revenues up about 11% in 2011 (including the DVA). For 2012, we expect a nearly 10% gain in net revenues driven by increasing business and investor confidence.
- The third-quarter compensation ratio was about 37% of net revenues and was impacted by the DVA. For 2011, we expect compensation costs to be near 48% of net revenues, and see the pretax margin rising to about 23%. In 2012, we project a more normal compensation ratio of about 50% and look for the compensation ratio to be around 21%.
- We estimate EPS of \$1.71 (which includes a \$1.12 debt valuation adjustment) in 2011 and \$2.16 in 2012.

**Investment Rationale/Risk**

- We are encouraged that management is taking steps to further de-risk MS business, especially given ongoing changes in the regulatory environment. Value at Risk decreased about 10% sequentially to \$130 million in the third quarter. We believe the integration of the Smith Barney joint venture and its sizable brokerage force will provide long-term revenue stability, especially once interest rates rise. However, in the medium term, we think that MS's costs will remain elevated relative to revenues, and make it difficult to maintain high operating margins.
- Risks to our recommendation and target price include stock market depreciation and additional industry regulation.
- Our 12-month target price of \$22 is 11.2X our forward 12-month EPS estimate of \$1.96; the shares recently traded at 7.6X our 2012 estimate. We expect economic uncertainty and volatility in the capital markets to ease over the next 12 months, which should allow MS's businesses and the stock's valuation multiple to expand.

Please read the Required Disclosures and Analyst Certification on the last page of this report.

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**Business Summary** October 20, 2011

**CORPORATE OVERVIEW.** Morgan Stanley is a global financial services firm that provides a comprehensive suite of products to a diverse group of clients and customers, including corporations, governments, financial institutions and individuals. MS currently has three operating segments: Institutional Securities, Global Wealth Management Group and Asset Management.

The Institutional Securities segment includes capital raising; financial advisory services; corporate lending; sales, trading, financing and market-making activities for equity and fixed-income securities and related products such as foreign exchange and commodities; benchmark indices and risk management analytics; research; and investment activities. The investment banking business is included in this segment, and includes capital raising activities, financial advisory services and corporate lending. This business is one of the largest in the world, ranking second globally during its fiscal year in announced mergers and acquisitions, third in initial public offerings, and 10th in global debt issuance. This segment accounted for approximately 52% of net revenues in 2010.

The Global Wealth Management Group provides brokerage and investment advisory services; financial and wealth planning services; annuity and insurance products; credit and other lending products; banking and cash management services; retirement services; and trust and fiduciary services through the 51%-owned Morgan Stanley Smith Barney joint venture with Citigroup (C 40, Buy). It provides these services to clients through a network of more than 18,000 global representatives. The segment accounted for about 40% of net revenues in 2010.

The Asset Management segment provides global asset management products and services in equity, fixed income, alternative investments and private equity to institutional clients. It had \$253 billion of assets under management or supervision at the end of 2009. These totals exclude its retail asset management unit, which the company has sold to Invesco (IVZ 17 Buy). In the deal, completed in June 2010, MS gained about a 6.5% stake in Invesco. MS hopes to renew its focus on institutional asset management customers. The segment accounted for 8% of net revenues in 2010.

**LEGAL/REGULATORY ISSUES.** Most aspects of MS's business are subject to strict regulation by U.S. federal, state and international regulatory agencies and exchanges. New laws or regulations or changes to existing laws and regulations could materially adversely affect its financial condition or results of operations. The financial services industry faces substantial litigation and regulatory risks, and we believe MS may face damage to its reputation and legal liability from time to time.

Following the financial crisis and economic recession, the Obama administration and lawmakers vowed to more strictly regulate the financial industry and limit additional risk to taxpayers. Their efforts culminated in the Dodd-Frank Act, a bill which puts restrictions on activities, attempts to limit risks to the financial system and protect consumers, and bring more clarity and safety to certain markets, among other things. The ultimate impact of this legislation will not likely be known for a number of years, considering actual rules must be written and firms, for the most part, will have many years to comply with these guidelines. We expect industry profitability will decline, at least in the near term, though intended and unintended consequences are difficult to model.

**FINANCIAL TRENDS.** Net revenues increased at a compound annual growth rate (CAGR) of about 10% in the five years ended in FY 07 (Nov.), but declined 18% in FY 08 and a further 3% in 2009. In 2010, net revenues increased by 35% as the broad economy improved, client activity picked up, and capital markets activity also increased. In the second quarter of 2011, Mitsubishi UJF Financial Group (MUFG) converted its \$7.8 billion preferred equity stake in MS to common shares, which has improved MS's Tier 1 Common ratio by 290 basis points and its overall capital position by eliminating the \$784 million of annual preferred dividends paid to MUFG. Although this transaction has increased the number of common shares outstanding, we think that the move will better enable MS to achieve its goal of acquiring the remainder of its Smith Barney joint venture over the next two to three years.

**Corporate Information**

**Investor Contact**  
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**Telephone**  
212-761-4000.

**Website**  
<http://www.morganstanley.com>

**Officers**

**Chrmn** J.J. Mack **EVP & CFO** R. Porat

**Pres & CEO** J.P. Gorman **Chief Admin Officer** S. Barney

**COO** J.A. Rosenthal

**Board Members**

R. J. Bostock  
E. B. Bowles  
H. J. Davies  
J. P. Gorman  
J. H. Hance, Jr.  
C. R. Kidder  
J. J. Mack  
D. T. Nicolaisen  
H. S. Olayan  
J. W. Owens  
O. G. Sexton  
R. Tamakoshi  
M. Tanaka  
L. D. Tyson

**Domicile**  
Delaware

**Founded**  
1981

**Employees**  
62,542

**Stockholders**  
88,852

# Morgan Stanley

## Quantitative Evaluations

<b>S&amp;P Fair Value Rank</b>	5-	1	2	3	4	5
		LOWEST				

Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

<b>Fair Value Calculation</b>	<b>\$19.20</b>	Analysis of the stock's current worth, based on S&P's proprietary quantitative model suggests that MS is Undervalued by \$4.07 or 26.9%.
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<b>Investability Quotient Percentile</b>	<b>97</b>
	LOWEST = 1 HIGHEST = 100
	MS scored higher than 97% of all companies for which an S&P Report is available.

<b>Volatility</b>	LOW	AVERAGE	HIGH
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<b>Technical Evaluation</b>	<b>NEUTRAL</b>	Since December, 2011, the technical indicators for MS have been NEUTRAL.
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<b>Insider Activity</b>	<b>NA</b>	UNFAVORABLE	NEUTRAL	FAVORABLE
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## Expanded Ratio Analysis

	2010	2009	2008	2007
Price/Sales	1.01	1.17	0.28	0.66
Price/Tangible Book Value	1.13	1.61	0.59	2.06
Price/Pretax Income	6.19	40.94	7.68	16.50
P/E Ratio	8.60	30.97	9.73	21.85
Avg. Diluted Shares Outstg (M)	1,411.3	1,185.4	1,095.7	1,054.2

Figures based on calendar year-end price

## Key Growth Rates and Averages

<b>Past Growth Rate (%)</b>	1 Year	3 Years	5 Years	9 Years
Net Income	NM	12.72	-17.60	-5.83

## Ratio Analysis (Annual Avg.)

	2010	2009	2008	2007
Return on Assets (%)	0.60	0.34	0.39	0.50
Return on Equity (%)	10.50	6.58	10.19	13.01

## Company Financials Fiscal Year Ended Dec. 31

<b>Per Share Data (\$)</b>	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Tangible Book Value	24.05	18.38	27.24	25.75	34.89	25.23	23.93	21.52	19.43	17.36
Earnings	2.46	-0.94	1.54	2.37	7.09	4.81	4.08	3.45	2.69	3.19
S&P Core Earnings	2.05	-1.15	1.07	2.17	7.12	5.00	4.18	3.48	2.38	2.84
Dividends	0.20	0.40	1.08	1.08	1.08	1.08	1.00	0.92	0.92	0.92
Payout Ratio	8%	NM	70%	46%	15%	22%	25%	27%	34%	29%
Prices:High	33.27	35.78	53.40	90.95	83.40	60.51	62.83	58.78	60.02	90.49
Prices:Low	22.40	13.10	6.71	47.25	54.52	47.66	46.54	32.46	28.80	35.75
P/E Ratio:High	14	NM	8	38	12	13	15	17	22	28
P/E Ratio:Low	9	NM	1	20	8	10	11	9	11	11

## Income Statement Analysis (Million \$)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Net Interest Income	864	990	3,202	2,781	3,279	3,750	3,731	2,935	3,896	3,348
Non Interest Income	30,758	22,368	21,537	25,245	45,558	23,906	20,959	19,189	16,549	19,600
Loan Loss Provision	Nil	Nil	Nil	831	756	878	925	1,267	1,336	1,052
Non Interest Expenses	25,420	22,501	22,452	24,858	23,614	20,857	18,333	16,636	15,725	17,264
% Expense/Operating Revenue	83.7%	61.8%	49.9%	96.0%	84.6%	84.2%	80.8%	79.9%	81.3%	84.6%
Pretax Income	6,202	857	2,287	3,394	10,772	7,050	6,312	5,334	4,633	5,684
Effective Tax Rate	11.9%	NM	21.0%	24.5%	30.4%	26.4%	28.6%	29.0%	35.5%	36.5%
Net Income	4,464	1,133	1,807	2,563	7,497	5,192	4,509	3,787	2,988	3,610
% Net Interest Margin	NA	NA	NA	NA	NA	NA	NA	5.40	5.50	5.57
S&P Core Earnings	2,809	-1,371	1,163	2,284	7,511	5,401	4,624	3,830	2,658	3,203

## Balance Sheet & Other Financial Data (Million \$)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Money Market Assets	188,527	168,211	140,155	126,887	174,866	174,330	123,041	78,205	76,910	54,618
Investment Securities	323,283	313,434	233,542	457,192	680,484	304,172	260,640	228,904	185,588	164,011
Earning Assets:Total Loans	10,576	7,259	6,528	11,629	24,173	23,754	21,169	20,384	24,322	20,955
Total Assets	807,698	771,462	658,812	1,045,409	1,120,645	898,523	775,410	602,843	529,499	482,628
Demand Deposits	59,856	57,114	36,673	27,186	14,872	2,629	1,117	1,264	1,441	1,741
Time Deposits	3,956	5,101	6,082	3,993	13,471	16,034	12,660	11,575	12,316	10,535
Long Term Debt	172,236	167,286	141,466	190,624	144,978	110,465	95,286	68,410	43,985	40,851
Common Equity	47,614	37,091	31,676	30,169	34,264	29,248	28,272	24,933	21,951	20,437
% Return on Assets	0.6	0.2	0.2	0.2	0.7	0.6	0.7	0.7	0.6	0.8
% Return on Equity	10.5	3.4	5.8	7.7	23.5	18.9	16.9	16.2	14.1	18.2
% Loan Loss Reserve	0.8	Nil	Nil	Nil	3.3	3.5	4.5	4.9	3.8	4.0
% Loans/Deposits	14.2	12.2	24.5	78.0	85.2	127.3	153.7	158.8	176.8	170.7
% Loans/Assets	1.1	1.0	1.1	2.1	2.3	2.7	3.0	3.9	4.5	4.7
% Equity to Assets	5.4	4.7	3.6	3.0	3.1	3.3	3.9	4.1	4.2	4.3

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. Prior to 2009, fiscal year ended November 30. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

**Morgan Stanley**

**Sub-Industry Outlook**

We have a positive fundamental outlook on the investment banking and brokerage sub-industry. With recent volatility in the financial markets that caused equity trading volumes to increase significantly in the third quarter of 2011, trading volumes have increased.

We view three main factors as positive contributors for continued underwriting and advisory improvement. We think there is a positive correlation between equity market appreciation and IPO activity, boosting private companies' incentive to go public when valuations are higher. Additionally, we think the below-average speed of the economic recovery is forcing many companies to purchase earnings growth through M&A. Furthermore, we note still healthy CEO sentiment from earnings conference calls and a relatively high level of cash on corporate balance sheets as additional support for our positive outlook; we think companies will put this cash to work once economic uncertainty subsides.

We see evidence of institutional clients increasing activity at major brokerages in the wake of greater volatility in global financial markets. We also expect retail investors to continue re-engaging into risky assets, especially equities. The recent increased volatility in markets has caused mutual fund investors to pull back funds in equities and fixed income securities in the third quarter, but we expect re-engagement to resume in the fourth quarter and into 2012 as we expect investor confidence to increase once certain political issues are resolved such as deficit legislation, an issue that largely disrupted markets in the third quarter of 2011.

We prefer companies that are leveraged to retail investors as well as those that have bolstered headcount during the economic downturn as a

means of increasing market share in the IPO and M&A space. Despite our positive outlook, there is still uncertainty surrounding the regulation of the financial services industry and potential impacts on principal investment revenue generation. Basel III capital requirements may, in our view, limit the profitability of fixed income operations due to higher minimum capital and liquidity ratios. Major brokerages have begun winding down their proprietary trading desks, and most firms are on pace to comply with capital requirements imposed by Basel III guidelines, though the official guidelines have still yet to be finalized as of October 31, 2011.

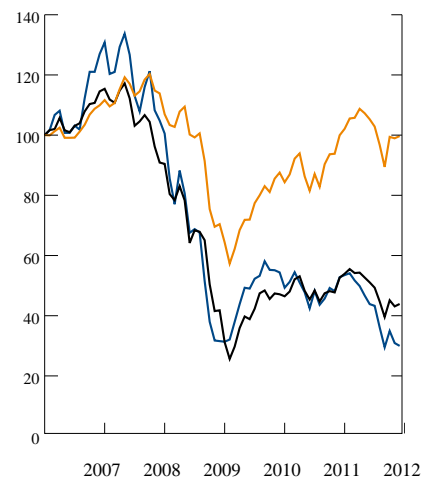
Year to date through October 31, the S&P Investment Banking and Brokerage Index declined 33.8%, versus a 0.5% loss for the S&P 1500 Index.

--R. McMillan

**Stock Performance**

**GICS Sector: Financials**  
**Sub-Industry: Investment Banking & Brokerage**

Based on S&P 1500 Indexes  
Month-end Price Performance as of 12/30/11



Sub-Industry      Sector      S&P 1500

NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

**Sub-Industry : Investment Banking & Brokerage Peer Group\*: Investment Banking/Brokerage - Major**

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	Quality Ranking	S&P IQ %ile	Return on Revenue (%)	LTD to Cap (%)
<b>Morgan Stanley</b>	<b>MS</b>	<b>29,162</b>	<b>15.13</b>	<b>31.04/11.58</b>	<b>1.53</b>	<b>1.3</b>	<b>10</b>	<b>19.20</b>	<b>B-</b>	<b>97</b>	<b>11.7</b>	<b>64.3</b>
Goldman Sachs Group	GS	44,520	90.43	175.34/84.27	1.40	1.5	14	104.00	A-	48	18.2	64.5
Nomura Holdings ADR	NMR	10,910	2.98	6.75/2.91	1.32	2.9	NM	3.10	NR	22	2.3	74.4

NA-Not Available NM-Not Meaningful NR-Not Rated. \*For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

**Morgan Stanley****S&P Analyst Research Notes and other Company News****December 28, 2011**

According to N.Y. State Dept. of Labor filing, MS announces planned layoff of 580 positions in NYC.

**December 15, 2011**

UP 0.32 to 15.38... MS plans to cut about 1,600 jobs globally in Q1 2012: Bloomberg

**December 13, 2011**

UP 0.77 to 16.15... MS announces a comprehensive settlement with MBIA INC. that terminates all credit default swap protection purchased from MBI on commercial mortgage-backed securities and resolves pending litigation between the two parties for consideration of a net cash payment to MS. In connection with the settlement, MS said it will take a \$1.8B pretax loss (~\$1.2B after tax) this Q.

**December 13, 2011**

09:59 AM EST... S&P KEEPS HOLD RECOMMENDATION ON SHARES OF MORGAN STANLEY (MS 16.01\*\*\*). MS announces a settlement with MBIA (MBI 12\*) that terminates all credit default swap protection on commercial mortgage backed securities originally purchased from MBI. In return, MS receives an undisclosed cash settlement. Overall, the disclosed net impact on MS is a \$1.8B pre-tax loss, equal to \$1.2B after-tax. We view this settlement positively for MS, as it reduces its risk-weighted assets, thus improving Basel III Tier 1 common by 75 basis points. We keep our \$22 target price, a premium to peers 11.2X our unchanged forward four quarters EPS estimate of \$1.96. Kenneth Leon, CPA, /Erik Oja

**December 13, 2011**

09:51 AM EST... S&P KEEPS STRONG SELL OPINION ON SHARES OF MBIA INC. (MBI 11.40\*) Morgan Stanley (MS 16, Hold) said it has reached settlement with MBI over certain structured finance guarantees that will lead to MS incurring a \$1.8B pretax charge, and has agreed to drop its suit challenging MBI splitting into two separate entities. We view this resolution positively, but still view MBI shares as overvalued, particularly amid our view that it will have to raise additional (dilutive) capital to effectively re-enter the municipal bond insurance space. Our \$6.50 target price assumes the shares trade below tangible book value, in line with other distressed firms. /C. Seifert

**November 30, 2011**

Morgan Stanley has promoted Mark Burmeister to head of global capital markets for Australia. Burmeister, who has served as head of Australia equity capital markets since June 2010, will oversee fixed-income capital markets along with equity capital markets in the newly created role.

**November 17, 2011**

Morgan Stanley announced the appointment of Kamal Jabre as Chairman and CEO for the Middle East and North Africa (MENA) region. Mr. Jabre, 44, is a twenty year veteran of Morgan Stanley and he has advised on a large number of transactions for the Firm's most important clients in North America, Europe and the Middle East and North Africa. Clients for whom he has executed transactions include, amongst others: Bayer, BP, Dubai Holding, Dubai World, Emirates NBD Bank, KIPCO, Etisalat, KKR, Qatar Holding, Mubadala, Pfizer, Shell, Statoil and Saudi Telecom. In addition to his role as part of Morgan Stanley's M&A department, Mr. Jabre has also been an integral part of the leadership team of the MENA business since 2006. Mr. Jabre replaces Habib Achkar, currently the regional manager for the MENA region, who will return to Europe in a new role as a Vice Chairman in Morgan Stanley's Senior Relationship Management group, where he will focus on expanding the Sales and Trading relationship coverage of some of the Firm's most important clients in Europe and the Middle East.

**October 27, 2011**

Morgan Stanley has formed a new team that aims to advise banks on capital issues while also providing debt and equity underwriting services, as European institutions continue to face pressure. The new team which will carry the unwieldy title of financial institutions group global capital markets, and is also known as FIG -- will both advise clients and underwrite stock and debt offerings. Its formation arises as European banks in particular continue to grapple with changing regulations and difficult markets that will force them to raise new capital. The group will be led by Shyam Parekh, a managing director based in London, and Kevin Ryan and Taylor Wright, who are based in New York. Mr.

Parekh was most recently the head of the FIG capital markets team for Europe, the Middle East and Asia. Mr. Ryan ran the FIG Solutions group in the United States, which already advises clients on capital and regulatory issues. Mr. Wright was most recently the head of the FIG equity underwriting team in the United States. Two other executives, Claus Skrumsager and Leo Civitillo, were promoted to global co-heads of debt derivatives. Mr. Skrumsager is already the head of European fixed-income capital markets, while Mr. Civitillo is his counterpart for the Americas.

**October 24, 2011**

04:52 pm ET ... S&P KEEPS HOLD OPINION ON SHARES OF MORGAN STANLEY (MS 17.15\*\*\*): MS agrees to sell its Saxon Mortgage Services business, which provides servicing and subservicing of residential mortgage loans, to Ocwen Financial Corporation (OCN 14, NR), for a base purchase price of \$59.3 million, plus an estimated \$1.4 billion for servicing advance receivables outstanding. We expect the transaction, subject to customary closing conditions, to be completed in Q1 2012. We don't see the sale of this peripheral business impacting MS results meaningfully and view the sale as part of MS's refocusing on its core businesses. /RMcMillan

**October 19, 2011**

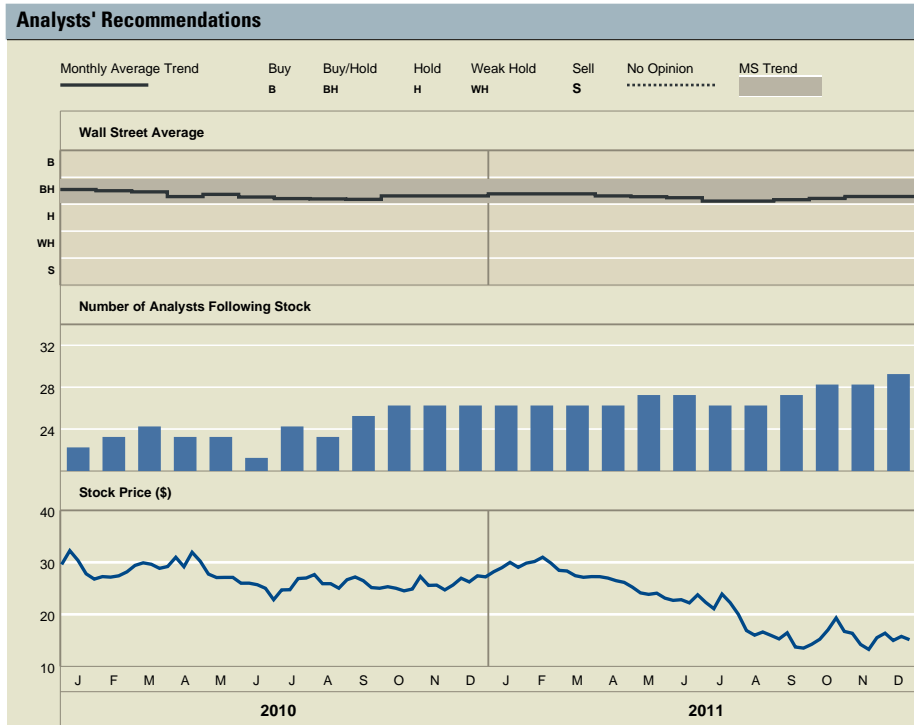
MS posts \$1.14 vs. \$0.05 Q3 EPS from cont. ops on 46% revenue rise. S&P Capital IQ consensus forecast was \$0.31 normalized EPS. Says current results incl. positive revenue of \$3.4B, or \$1.12 per share related to changes in its debt-related credit spreads and other credit factors.

**October 19, 2011**

11:52 am ET ... S&P KEEPS HOLD OPINION ON SHARES OF MORGAN STANLEY (MS 17.04\*\*\*): Q3 EPS of \$1.14 (including \$1.12 debt valuation adjustment), vs. \$0.05, exceeded our \$0.29 estimate and \$0.31 Capital IQ consensus. Concerns about sovereign risk and the global economy weighed heavily on investment banking and core principal transaction activities. Commissions from retail brokerage and asset management fees were less affected. We expect management to continue its de-risking. We raise our '11 EPS estimate to \$1.71 from \$0.89 on higher revenues, but cut our target price to \$22 from \$26 on revised P/E analysis. /RMcMillan

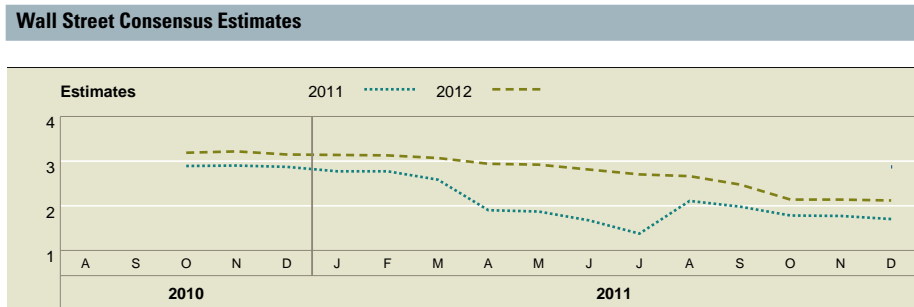
**October 11, 2011**

12:36 pm ET ... S&P KEEPS HOLD OPINION ON SHARES OF MORGAN STANLEY (MS 15.38\*\*\*): The FDIC will publish the proposed Volcker rule banning U.S. banks from making short-term trades of financial instruments for their own accounts, and preventing them from owning or sponsoring hedge funds and private-equity funds. The rule is open for comment until mid January 2012, and we think it will undergo revisions before final approval. We think the proposed changes will impact MS' fixed income business, but MS may be able to offset restrictions with growth in its other businesses. We cut our '11 EPS estimate to \$0.89 from \$1.39 on a lower revenue estimates. /RMcMillan



Of the total 30 companies following MS, 29 analysts currently publish recommendations.

	No. of Ratings	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	10	34	10	8
Buy/Hold	4	14	4	4
Hold	13	45	12	13
Weak Hold	2	7	2	2
Sell	0	0	0	0
No Opinion	0	0	0	0
<b>Total</b>	<b>29</b>	<b>100</b>	<b>28</b>	<b>27</b>



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2012	2.13	3.02	1.63	25	7.1
2011	1.71	1.71	1.71	1	8.8
<b>2012 vs. 2011</b>	<b>▲ 25%</b>	<b>▲ 77%</b>	<b>▼ -5%</b>	<b>▲ 2400%</b>	<b>▼ -19%</b>
Q4'12	0.57	0.86	0.35	9	26.5
Q4'11	-0.06	0.55	-0.81	13	NM
<b>Q4'12 vs. Q4'11</b>	<b>▲ 1050%</b>	<b>▲ 56%</b>	<b>▲ 143%</b>	<b>▼ -31%</b>	<b>NA</b>

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

**Wall Street Consensus Opinion**

**BUY/HOLD**

**Companies Offering Coverage**

- Argus Research Company
- Atlantic Equities LLP
- Barclays Capital
- BofA Merrill Lynch
- Buckingham Research Group Inc.
- Citigroup Inc
- Collins Stewart plc
- Credit Agricole Securities (USA) Inc.
- Credit Suisse
- Daiwa Securities America Inc.
- Deutsche Bank
- FBR Capital Markets & Co.
- Goldman Sachs
- HSBC
- JMP Securities
- JP Morgan
- Keefe, Bruyette, & Woods, Inc.
- Macquarie Research
- Meredith Whitney Advisory Group
- Morningstar Inc.
- Oppenheimer & Co. Inc.
- RBC Capital Markets
- Rochdale Securities LLC
- Sanford C. Bernstein & Co., Inc.
- Societe Generale Cross Asset Research
- Susquehanna Financial Group, LLLP
- Ticonderoga Securities LLC
- UBS Investment Bank
- Wells Fargo Securities, LLC
- William Blair & Company L.L.C.

**Wall Street Consensus vs. Performance**

For fiscal year 2011, analysts estimate that MS will earn \$1.71. For the 3rd quarter of fiscal year 2011, MS announced earnings per share of \$1.15, representing 67% of the total annual estimate. For fiscal year 2012, analysts estimate that MS's earnings per share will grow by 25% to \$2.13.

**Glossary**

**S&P STARS**

Since January 1, 1987, Standard and Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

**S&P 12-Month Target Price**

The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Fair Value.

**Investment Style Classification**

Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

**S&P EPS Estimates**

Standard & Poor's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P EPS estimates reflect either forecasts of S&P equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to Standard & Poor's Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

**S&P Core Earnings**

Standard & Poor's Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the Standard & Poor's definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

**Qualitative Risk Assessment**

The S&P equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment

is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

**Quantitative Evaluations**

In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

**S&P Quality Ranking**

Growth and stability of earnings and dividends are deemed key elements in establishing S&P's Quality Rankings for common stocks, which are designed to capsize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization
NR Not Ranked	

**S&P Fair Value Rank**

Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

**S&P Fair Value Calculation**

The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

**Insider Activity**

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

**Funds From Operations FFO**

FFO is Funds from Operations and equal to a REIT's net income, excluding gains or losses from sales of property, plus real estate depreciation.

**Investability Quotient (IQ)**

The IQ is a measure of investment desirability. It serves

as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

**S&P's IQ Rationale:**

**Morgan Stanley**

	Raw Score	Max Value
Proprietary S&P Measures	27	115
Technical Indicators	18	40
Liquidity/Volatility Measures	16	20
Quantitative Measures	74	75
<b>IQ Total</b>	<b>135</b>	<b>250</b>

**Volatility**

Rates the volatility of the stock's price over the past year.

**Technical Evaluation**

In researching the past market history of prices and trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

**Relative Strength Rank**

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

**Global Industry Classification Standard (GICS)**

An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 68 Industries, and 154 Sub-Industries.

**S&P Issuer Credit Rating**

A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor. Issuer Credit Ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any Issuer Credit Rating and may, on occasion, rely on unaudited financial information. Issuer Credit Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

**Exchange Type**

ASE - American Stock Exchange; NNM - Nasdaq National Market; NSC - Nasdaq SmallCap; NYSE - New York Stock Exchange; BB - OTC Bulletin Board; OT - Over-the-Counter; TO - Toronto Stock Exchange.

**S&P Equity Research Services**

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**Abbreviations Used in S&P Equity Research Reports**

**CAGR**- Compound Annual Growth Rate; **CAPEX**- Capital Expenditures; **CY**- Calendar Year; **DCF**- Discounted Cash Flow; **EBIT**- Earnings Before Interest and Taxes; **EBITDA**- Earnings Before Interest, Taxes, Depreciation and Amortization; **EPS**- Earnings Per Share; **EV**- Enterprise Value; **FCF**- Free Cash Flow; **FFO**- Funds From Operations; **FY**- Fiscal Year; **P/E**- Price/Earnings; **PEG Ratio**- P/E-to-Growth Ratio; **PV**- Present Value; **R&D**- Research & Development; **ROE**- Return on Equity; **ROI**- Return on Investment; **ROIC**- Return on Invested Capital; **ROA**- Return on Assets; **SG&A**- Selling, General & Administrative Expenses; **WACC**- Weighted Average Cost of Capital

**Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).**

**Required Disclosures**

In contrast to the qualitative STARS recommendations covered in this report, which are determined and assigned by S&P equity analysts, S&P's quantitative evaluations are derived from S&P's proprietary Fair Value quantitative model. In particular, the Fair Value Ranking methodology is a relative ranking methodology, whereas the STARS methodology is not. Because the Fair Value model and the STARS methodology reflect different criteria, assumptions and analytical methods, quantitative evaluations may at times differ from (or even contradict) an equity analyst's STARS recommendations. As a quantitative model, Fair Value relies on history and consensus estimates and does not introduce an element of subjectivity as can be the case with equity analysts in assigning STARS recommendations.

**S&P Global STARS Distribution**

**In North America:** As of September 30, 2011, research analysts at Standard & Poor's Equity Research Services North America recommended 42.2% of issuers with buy recommendations, 54.2% with hold recommendations and 3.6% with sell recommendations.

**In Europe:** As of September 30, 2011, research analysts at Standard & Poor's Equity Research Services Europe recommended 34.4% of issuers with buy recommendations, 49.4% with hold recommendations and 16.2% with sell recommendations.

**In Asia:** As of September 30, 2011, research analysts at Standard & Poor's Equity Research Services Asia recommended 48.4% of issuers with buy recommendations, 45.7% with hold recommendations and 5.9% with sell recommendations.

**Globally:** As of September 30, 2011, research analysts at Standard & Poor's Equity Research Services globally recommended 41.5% of issuers with buy recommendations, 52.6% with hold recommendations and 5.9% with sell recommendations.

★★★★★ **5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ **3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ **2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★★★★☆ **1-STARS (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

**Relevant benchmarks:** In North America the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

**For All Regions:** All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

**S&P Global Quantitative Recommendations Distribution**

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**In Asia:** As of September 30, 2011, Standard & Poor's Quantitative Services Asia recommended 48.4% of issuers with buy recommendations, 22.0% with hold recommendations and 30.0% with sell recommendations.

**Globally:** As of September 30, 2011, Standard & Poor's Quantitative Services globally recommended 45.0% of issuers with buy recommendations, 20.0% with hold recommendations and 33.0% with sell recommendations.

**Additional information is available upon request.**

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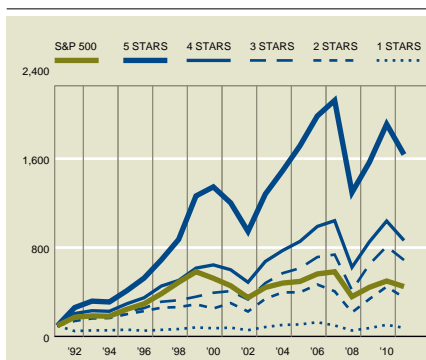
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**U.S. STARS Cumulative Model Performance**  
Hypothetical Growth Due to Price Appreciation of \$100  
For the Period 12/31/1986 through 11/30/2011



The performance above represents only the results of Standard & Poor's model portfolios. Model performance has inherent limitations. Standard & Poor's maintains the models and calculates the model performance shown, but does not manage actual assets. The U.S. STARS model performance chart is only an illustration of Standard & Poor's (S&P) research; it shows how U.S. common stocks, ADRs (American Depositary Receipts) and ADSs (American Depositary Shares), collectively "equities", that received particular STARS rankings performed. STARS categories are models only; they are not collective investment funds. The STARS performance does not show how any actual portfolio has performed. STARS model performance does not represent the results of actual trading of investor assets. Thus, the model performance shown does not reflect the impact that material economic and market factors might have had on decision-making if actual investor money had been managed. Performance is calculated using a time-weighted rate of return. While model performance for some or all STARS categories performed better than the S&P 500 for the period shown, the performance during any shorter period may not have, and there is no assurance that they will perform better than the S&P 500 in the future. STARS does not take into account any particular investment objective, financial situation or need and is not intended as an investment recommendation or strategy. Investments based on the STARS methodology may lose money. High returns are not necessarily the norm and there is no assurance that they can be sustained. Past model performance of STARS is no guarantee of future performance.

For model performance calculation purposes, the equities within each STARS category at December 31, 1986 were equally weighted. Thereafter, additions to the composition of the equities in each STARS category are made at the average value of the STARS category at the preceding month end with no rebalancing. Deletions are

made at the closing price of the day that the deletion is made. Performance was calculated from inception through March 31, 2003 on a monthly basis. Thereafter, performance is calculated daily. Equities in each STARS category will change over time, and some or all of the equities that received STARS rankings during the time period shown may not have maintained their STARS ranking during the entire period.

The model performance does not consider taxes and brokerage commissions, nor does it reflect the deduction of any advisory or other fees charged by advisors or other parties that investors will incur when their accounts are managed in accordance with the models. The imposition of these fees and charges would cause actual performance to be lower than the performance shown. For example, if a model returned 10 percent on a \$100,000 investment for a 12-month period (or \$10,000) and an annual asset-based fee of 1.5 percent were imposed at the end of the period (or \$1,650), the net return would be 8.35 percent (or \$8,350) for the year. Over 3 years, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.1%, a total fee of \$5,375 and a cumulative net return of 27.2% (or \$27,200). Fees deducted on a frequency other than annual would result in a different cumulative net return in the preceding example.

The Standard & Poor's 500 index is the benchmark for U.S. STARS. The S&P 500 index is calculated in U.S. dollars and does not take into account the reinvestment of dividends. Indexes are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index. The S&P 500 index includes a different number of constituents and has different risk characteristics than the STARS equities. Some of the STARS equities may have been included in the S&P 500 index for some (but not necessarily all) of the period covered in the chart, and some such equities may not have been included at all. The S&P 500 excludes ADRs and ADSs. The methodology for calculating the return of the S&P 500 index differs from the methodology of calculating the return for STARS. Past performance of the S&P 500 index is no guarantee of future performance.

An investment based upon the models should only be made after consulting with a financial advisor and with an understanding of the risks associated with any investment in securities, including, but not limited to, market risk, currency risk, political and credit risks, the risk of economic recession and the risk that issuers of securities or general stock market conditions may worsen, over time. Foreign investing involves certain risks, including currency fluctuations and controls, restrictions on foreign investments, less governmental supervision and regulation, less liquidity and the potential for market volatility and political instability. As with any investment, investment returns and principal value will fluctuate, so that when redeemed, an investor's shares may be worth more or less than their original cost.

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