Physical precious metals — gold, silver, platinum and palladium — are well known for their historical use as a medium of exchange, a component in jewelry and for their application in several industries, including the electronics, automotive, photographic and evolving nanotechnology sectors. Their role as an investment is also important and growing. According to historical data, when asset prices fall during recessions, investor demand for physical precious metals (particularly gold and silver) has increased because they are presumed to provide a safe haven.¹

Thus, physical precious metals may play an important role as a defensive component in a diversified investment portfolio.

Source: Bloomberg, January 2014.

¹ This material has been prepared for informational purposes only and is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. This is not a research report and was not prepared by the research departments of Morgan Stanley & Co. LLC or Morgan Stanley Smith Barney LLC. It was prepared by Morgan Stanley Wealth Management sales, trading or other non-research personnel. Past performance is not a guide to future performance. Please see additional important information and qualifications at the end of this material.
All That Glitters

If it glitters, it is likely a precious metal. Luster — the state or quality of reflecting light — together with malleability, noncorrosiveness and high melting points are common traits shared by gold, silver, platinum and palladium. The key characteristic that has historically distinguished them from their nonprecious metal counterparts, however, is higher economic value attributable to scarcity.

According to the World Gold Council, gold production requires long lead times, with new mines taking up to 10 years to become operational. As a result, a rally in gold prices doesn’t translate easily into an increase in production. Platinum and palladium are even more scarce than gold. Unlike most metals, which are found on every continent, they are found mainly in South Africa, Russia, the United States and Canada, and are expensive to extract and refine.

Gold and silver are the best known precious metals. They have been mined, smelted and fashioned into jewelry and coins from antiquity to the present day. They also have numerous industrial applications, with gold being a key component in the information technology and telecommunications industries and silver playing an essential role in batteries, photography and the manufacture of solar energy panels.

Unlike gold and silver, platinum and palladium have relatively recent histories. When Spanish Conquistadors discovered platinum in the 16th century, in what is now Ecuador, they thought it was silver that had ripened. They named it little silver, or platina, and left it to age.

Platinum was first categorized as a precious metal in 1751, and English physician William Hyde Wollaston obtained the first pure sample of the element in 1801. Two years later, Wollaston isolated palladium (a member of the Platinum group of metals) as a separate material from platinum ore. Although their uses are largely industrial — the automobile catalytic converter is the largest source of demand — platinum and palladium are also fashioned to create jewelry and coins.

Demand for Precious Metals:

Jewelry and Industrial Use

The major drivers of demand for precious metals are jewelry, industrial use (electronics, automotive, medical/dental) and investment, although the demand from each segment varies by the type of material.

Gold

Demand for gold is driven by consumer spending, investment and industrial applications. Jewelry routinely accounts for the largest component of gold demand, and the largest consumer markets are in India, China and the United States.

The investor universe for physical gold has increased in recent years, expanding beyond individuals and developed market central banks to include investment companies, notably exchange-traded funds. Emerging market central banks are another relatively new source of demand. Their interest stems largely from the Great Recession of 2007 – 2009, and they view physical gold as a possible hedge against a decline in the value of foreign currency reserves, which occurred during the financial crisis.

Industrial uses of gold include electronics, optics and medicine, among others. Gold is used for wiring and as electrical connectors; as a coating on glasses and mirrors because it reflects infrared light 98%; and in combination with other metals for tooth repair.

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Silver
Demand for silver is heavily influenced by industrial uses: photography, jewelry and silverware. Together, these categories represent more than 95% of annual silver consumption.

Paul Revere is one of the most renowned figures in American history. On April 18, 1775, Revere made his famous midnight ride to warn of the British invasion. In his professional life, however, Revere was a craftsman and silversmith. According to historical records, Revere’s silver shop produced more than 5,000 items from 1761 to 1797. Objects produced by his shop are marked with the trademark “REVERE.”

Source: World Gold Council

Platinum and Palladium
The Platinum Group Metals — platinum, palladium, iridium, rhodium, osmium and ruthenium — are physically, chemically and atomically similar and are produced from the same ore. Platinum and palladium have the widest commercial applications, and key drivers of demand are the automobile industry — both are used in catalytic converters, a pollution reduction device — and jewelry.

Platinum has become the metal of choice for many buyers of diamond rings because its high luster highlights a diamond’s brilliance better than gold. White gold, also a popular choice for rings as well as earrings, is actually a gold and palladium alloy.

Source: Gold Field Mineral Services, 2013; The Silver Institute, 2013.

* Glass, electronics and petroleum
† Electronics
Demand for Physical Precious Metals: Investment

The demand for physical precious metals is also driven by their role as investments and reputation for being a store of value, particularly in times of economic distress. They are among a handful of investments whose value is not dependent on an issuer’s ability to pay. Key attributes are liquidity, a possible hedge against a declining dollar and low correlation with traditional financial asset classes over long-term holding periods.

**Liquidity.** One of the most attractive features of physical precious metals is its relatively high liquidity, defined as the ability to quickly convert an asset into cash. Physical precious metals are considered to be among the most liquid investment options. In addition to being traded in several markets around the world, many gold, silver and platinum coins can be easily converted into cash by visiting a local coin dealer. In several countries, some coins have the advantage of being accepted as legal tender.

**Hedge Against a Declining US Dollar.** In addition to low correlation with broad-based equity indexes and debt securities (over longer holding periods), precious metals — gold in particular — have historically provided a hedge against weakness in the US dollar. Gold is quoted in dollars, the world’s main trading currency, and when it appreciates, the price of gold generally falls. Conversely, a decline in the dollar, relative to the other major currencies, generally produces an increase in the price of gold. For this reason, gold has consistently proved to be one of the most effective assets in protecting against dollar weakness.

**Diversification — Low Correlation with Stocks and Bonds.** Diversification is the cornerstone of a well-developed asset allocation strategy. The concept’s fundamental premise is that prices of different asset classes do not move in the same direction at the same time (known as low-to-negative correlation), and allocating across a variety of investment types balances the risk of a significant drop in any one holding.

Most individuals invest largely in financial assets, such as stocks and bonds, and lack exposure to physical precious

![Price of Gold vs. US Dollar](image_url)


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metals, whose prices have historically moved inversely to those of equities, broadly, and debt securities. While there are publicly traded precious metals investment options, such as mining company stocks and sector funds, these tend to have greater correlation with the broader stock indexes. In contrast, physical precious metals, due to their underlying supply-demand characteristics, have diversification properties that may lower correlation and improve the risk-reward parameters of a diversified investment portfolio.a

Physical precious metals are tangible assets, allowing you to participate in the selection and direct ownership of your investment, ensuring that your holdings are exactly what you intended, and you control all buy and sell decisions.

## Correlation of Annual Returns of Physical Precious Metals, Selected Asset Classes and Inflation

Correlations of Gold Annual Returns with the annual returns of:

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>5 Years</td>
<td>0.89</td>
<td>0.61</td>
<td>0.68</td>
<td>-0.45</td>
<td>0.34</td>
<td>0.27</td>
<td>0.82</td>
</tr>
<tr>
<td>10 Years</td>
<td>0.78</td>
<td>0.60</td>
<td>0.51</td>
<td>-0.13</td>
<td>0.24</td>
<td>0.45</td>
<td>0.44</td>
</tr>
<tr>
<td>30 Years</td>
<td>0.66</td>
<td>0.53</td>
<td>0.10</td>
<td>-0.22</td>
<td>-0.01</td>
<td>-0.09</td>
<td>-0.36</td>
</tr>
</tbody>
</table>


<table>
<thead>
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<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>CPI</td>
<td>1.00</td>
<td>0.00</td>
<td>0.48</td>
<td>0.38</td>
<td>0.20</td>
<td>0.07</td>
<td>0.33</td>
<td>-0.10</td>
<td>-0.20</td>
<td>0.36</td>
</tr>
<tr>
<td>U.S. Dollar Index</td>
<td>0.00</td>
<td>1.00</td>
<td>-0.40</td>
<td>-0.09</td>
<td>-0.39</td>
<td>0.09</td>
<td>-0.16</td>
<td>0.04</td>
<td>-0.11</td>
<td>-0.24</td>
</tr>
<tr>
<td>Gold</td>
<td>0.48</td>
<td>-0.40</td>
<td>1.00</td>
<td>0.79</td>
<td>0.60</td>
<td>0.45</td>
<td>0.83</td>
<td>-0.23</td>
<td>-0.12</td>
<td>0.46</td>
</tr>
<tr>
<td>Silver</td>
<td>0.38</td>
<td>-0.09</td>
<td>0.79</td>
<td>1.00</td>
<td>0.55</td>
<td>0.54</td>
<td>0.91</td>
<td>0.05</td>
<td>-0.02</td>
<td>0.24</td>
</tr>
<tr>
<td>Platinum</td>
<td>0.20</td>
<td>-0.39</td>
<td>0.60</td>
<td>0.55</td>
<td>1.00</td>
<td>0.63</td>
<td>0.77</td>
<td>0.12</td>
<td>0.28</td>
<td>0.45</td>
</tr>
<tr>
<td>Palladium</td>
<td>0.07</td>
<td>-0.09</td>
<td>0.45</td>
<td>0.54</td>
<td>0.63</td>
<td>1.00</td>
<td>0.79</td>
<td>0.19</td>
<td>0.09</td>
<td>0.31</td>
</tr>
<tr>
<td>Precious Metals Basket</td>
<td>0.33</td>
<td>-0.16</td>
<td>0.83</td>
<td>0.91</td>
<td>0.77</td>
<td>0.79</td>
<td>1.00</td>
<td>0.06</td>
<td>0.05</td>
<td>0.39</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>-0.10</td>
<td>0.04</td>
<td>-0.23</td>
<td>0.05</td>
<td>0.12</td>
<td>0.19</td>
<td>0.06</td>
<td>1.00</td>
<td>0.15</td>
<td>-0.06</td>
</tr>
<tr>
<td>S&amp;P Case Shiller</td>
<td>-0.20</td>
<td>-0.11</td>
<td>-0.12</td>
<td>-0.02</td>
<td>0.28</td>
<td>0.09</td>
<td>0.05</td>
<td>0.15</td>
<td>1.00</td>
<td>0.22</td>
</tr>
<tr>
<td>GSC I</td>
<td>0.36</td>
<td>-0.24</td>
<td>0.46</td>
<td>0.24</td>
<td>0.45</td>
<td>0.31</td>
<td>0.39</td>
<td>-0.06</td>
<td>0.22</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Types of Physical Precious Metals

At Morgan Stanley Wealth Management, all four major physical precious metals can be purchased and owned in the form of bullion, which encompasses bars and coins. Bullion is the pure form of a precious metal, and its market price is determined by the purity, or fineness, of the raw material (gold, silver, platinum or palladium).

**Precious Metals** available through Morgan Stanley Wealth Management are priced solely for their metal content and will not be priced or valued based on a coin’s face value or value attributable to rarity. However, some coins and bars will sell at a premium that far exceeds the value of their gold content. Numismatics is the study and collection of money in the form of coins and bars, and those that are considered rare and coveted by collectors are said to have numismatic value and will generally sell for significantly more than their metal per ounce spot price.

### Bars

Your Morgan Stanley Financial Advisor is able to offer you gold, silver, platinum and palladium bars, subject to availability.

<table>
<thead>
<tr>
<th>METAL TYPE</th>
<th>FINENESS</th>
<th>WEIGHT</th>
<th>EXAMPLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>.995</td>
<td>1 oz., 10 oz., 1 kilo (32.15 oz.), 100 oz. and 400 oz.</td>
<td></td>
</tr>
<tr>
<td>Silver</td>
<td>.999</td>
<td>1 oz., 10 oz., 100 oz. and 1,000 oz.</td>
<td></td>
</tr>
<tr>
<td>Platinum</td>
<td>.9995</td>
<td>1 oz., 10 oz. and 50 oz.</td>
<td></td>
</tr>
<tr>
<td>Palladium</td>
<td>.9995</td>
<td>1 oz., 10 oz. and 100 oz.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Morgan Stanley Wealth Management

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**Bullion Products** can be produced by both government and private mints, but only a sovereign body has the authority to mint coins with a currency denomination. Most US government issued coins have a currency value of between $10 and $100, and usually contain between 1/10 and one troy ounce (1.1 oz) of gold. For example, with an ounce of gold valued at $1,201 on Dec. 31 2013, the US government-assigned tender amount is not reflective of the actual value of the metal. However, coins are not purchased, sold or valued by Morgan Stanley Wealth Management based on currency values.

### Bullion Coins Available Through Morgan Stanley Wealth Management

<table>
<thead>
<tr>
<th>Metal Type</th>
<th>Name of Bullion Coin</th>
<th>Fineness</th>
<th>Weight</th>
<th>Year Minted</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>American Eagle</td>
<td>.9167</td>
<td>1 oz.</td>
<td>1986–present</td>
<td><img src="image1.png" alt="Image" /></td>
</tr>
<tr>
<td>Gold</td>
<td>American Buffalo</td>
<td>.9999</td>
<td>1 oz.</td>
<td>2006–present</td>
<td><img src="image2.png" alt="Image" /></td>
</tr>
<tr>
<td></td>
<td><strong>Canadian Maple Leaf</strong></td>
<td>.9999</td>
<td>1 oz.</td>
<td>1979–present</td>
<td><img src="image3.png" alt="Image" /></td>
</tr>
<tr>
<td></td>
<td>South Africa Krugerrand</td>
<td>.9167</td>
<td>1 oz.</td>
<td>1967–present</td>
<td><img src="image4.png" alt="Image" /></td>
</tr>
<tr>
<td>Silver</td>
<td>American Eagle</td>
<td>.999</td>
<td>1 oz.</td>
<td>1991–present</td>
<td><img src="image5.png" alt="Image" /></td>
</tr>
<tr>
<td></td>
<td><strong>Canadian Maple Leaf</strong></td>
<td>.9999</td>
<td>1 oz.</td>
<td>1988–present</td>
<td><img src="image6.png" alt="Image" /></td>
</tr>
<tr>
<td>Palladium</td>
<td>Canadian Maple Leaf</td>
<td>.9995</td>
<td>1 oz.</td>
<td>2005–2007, 2009</td>
<td><img src="image8.png" alt="Image" /></td>
</tr>
</tbody>
</table>

Source: Morgan Stanley Wealth Management
There are a number of physical precious metals holding choices.

Morgan Stanley Wealth Management’s Precious Metals Trading Desk offers unallocated metals, allocated metals and specifically identified metals, although all are subject to availability.

The Precious Metals Trading Desk offers unallocated gold, silver, platinum and palladium bullion. Unallocated physical precious metals are held in book-entry form in your Morgan Stanley Wealth Management account and cannot be physically delivered. Storage costs are generally lower than those for allocated and specifically identified metals. Holders of unallocated metal are subject to the credit risk of Morgan Stanley Wealth Management. This means that if we were to default on our obligations to you, your investment could be at risk, and you could lose some or all of your investment.

Allocated Metals

Allocated metals are purchased and stored on your behalf, but no specific asset is identified as belonging to you. Your precious metals are stored with those owned by other customers, and storage costs are generally higher than those for unallocated metals.

All the coins and small bars listed in this brochure are available as allocated metals, subject to availability. Allocated metals may appeal to individual investors interested in making a relatively small investment in physical precious metals. Please note, Morgan Stanley Wealth Management does not guarantee that your precious metals order will be executed, nor can we assure that delivered coins will be from a particular year of minting.
Specifically Identified Metals (bars)

Specifically identified metals are bars that are distinguished by a serial number or other unique marker that identifies them as belonging to you. Your Morgan Stanley Financial Advisor can purchase specifically identified metals on your behalf. Storage costs are generally higher for specifically identified metals than for unallocated and allocated metals.

Trading Precious Metals. The Precious Metals Trading Desk is available to take orders placed by you through your Financial Advisor between 8:30 a.m. and 5:00 p.m., Eastern Standard Time (EST), Monday to Friday. Spot metal prices are affected by the New York Mercantile Exchange (NYMEX) and Commodities Market Exchange (COMEX) futures markets, which close between 1:00 p.m. and 1:30 p.m., EST, depending on the metal. Transactions after 1:00 p.m. are considered after-hours, and bid/ask spreads may be wider due to a lower trading volume. Therefore, execution of market orders received after 1:00 p.m. EST will be completed subject to wider bid/ask spreads and at the discretion of the Precious Metals Trading Desk.

Delivery and Storage Options for Allocated and Specifically Identified Metals. You can take direct possession of your physical precious metals, or for a fee, Morgan Stanley Wealth Management can arrange storage at one of its third-party depositories. Facilities that store allocated metals will not be identified because those holdings can be assigned to any provider within the network.

Some states charge a sales tax on delivered precious metals that is equal, in most instances, to the local sales tax on general merchandise. Morgan Stanley Wealth Management is required to collect sales tax incurred from a precious metals delivery.

Your Morgan Stanley Financial Advisor can provide you with more information.

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Precious Metals Investment Considerations

Like all financial investments, precious metals involve market risk, therefore, returns can never be guaranteed. In particular, precious metals may experience both short-term and long-term price volatility. Before investing in precious metals, you should understand the investment considerations.

No Interest Payments. UNLIKE BONDS AND STOCKS, A PRECIOUS METALS investment does not make interest or dividend payments. Therefore, precious metals may not be suitable for investors who require current income.

No Principal Protection. PRECIOUS METALS DO NOT OFFER GUARANTEED return of principal. As precious metals are traded commodities, there is no maturity date; any return is based on appreciation in the value of your investment. If sold in a declining market, the price you receive may be less than your original investment.

Precious Metals Service Fees. PRECIOUS METALS ARE COMMODITIES that should be safely stored, which may impose additional costs on the investor. Upon request, Morgan Stanley Wealth Management can arrange for storage with a third-party custodian. Stored metals may be subject to additional fees. Morgan Stanley Wealth Management may charge an insurance shipping fee if you choose to take direct physical delivery of purchased metals. In addition, some states charge a sales tax on delivered precious metals.

No SIPC Coverage. THE SECURITIES INVESTOR PROTECTION CORPORATION (SIPC) provides protection of customers’ assets in the event of a brokerage firm’s bankruptcy, other financial difficulties or if customers’ assets are missing. SIPC does not cover commodities, which includes precious metals investments.

Minimum Transactions, Fees and Commissions. MORGAN STANLEY WEALTH MANAGEMENT’S minimum trade value, for purchases or sales, is $5,000 per metals class, per transaction. We may act in an agency or principal capacity when providing precious metals execution services to investors, and we may charge a markup, markdown or commission on purchases and sales. In addition, the precious metals trading desk may buy and sell for its own account the physical precious metals that back unallocated holdings, and may profit by such use.

Tax Considerations. PHYSICAL PRECIOUS METALS, AS WELL as the vehicles that invest in them (open-end mutual funds and ETFs), are classified by the US Internal Revenue Service as a collectible. The gain on the sale of collectibles, held for more than one year (long term) will be taxed at the special long-term rate for collectibles, currently a maximum rate of 28%. The gain on the sale of a collectible held for a year or less (short term), is taxed at ordinary income rates.

Morgan Stanley Smith Barney LLC, its affiliates and Financial Advisors do not render advice on tax and tax accounting matters to clients. This material was not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under US federal tax laws. You should always consult your own legal or tax advisor for information concerning your individual situation.

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Why Morgan Stanley Wealth Management for Physical Precious Metals

Morgan Stanley Wealth Management’s size in the marketplace enables competitive pricing.

Precious metals can be purchased in your existing Morgan Stanley Wealth Management brokerage account, allowing you to monitor their performance on your consolidated statement, or more frequently via our online account service. Certain precious metals may also be purchased in your Morgan Stanley Individual Retirement Account: US Treasury minted American Eagle 1/10-, 1/4-, 1/2- and 1-oz. gold coins; 1-oz. silver coins; or 1-oz. platinum coins.

Your portfolio may also benefit from the diversification benefits that precious metals may provide.

Gold, silver, platinum and palladium have historically had a low correlation with broad-based equity indexes over long-term holding periods, and exposure to them may help reduce overall portfolio volatility during periods of market turbulence.

ADD A NEW DIMENSION TO YOUR PORTFOLIO.

Investors with portfolios invested solely in stocks and bonds may benefit from an allocation to physical precious metals. For income oriented portfolios that may need to add a growth component, precious metals may be a suitable choice because they may offer the potential to generate capital appreciation.

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This material was prepared by or in conjunction with Morgan Stanley Wealth Management trading desks that may deal as principal in or own or act as market maker or liquidity provider for the securities/instruments (or related derivatives) mentioned herein and may trade them in ways different from those discussed in this material. Morgan Stanley Wealth Management and its affiliates may act in a principal or agency capacity, and will charge a markup or commission. The trading desk may have accumulated a position in the subject securities/instruments based on the information contained herein. Trading desk materials are not independent of the proprietary interests of the firm, which may conflict with your interests. We may also perform or seek to perform investment banking services for the issuers of the securities/instruments mentioned herein.

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