

Financial Strategies for the 21st Century

SUMMARY

While individuals with substantial assets have often looked to multiple professionals to meet specific financial needs, financial management for most households has been strictly a do-it-yourself affair. Increasingly, however, investors want a lead advisor who can help them organize the various aspects of their financial lives.

Over the past decade, the wealth management model has evolved to meet these needs, combining traditional investment-related services with guidance on the other aspects of an individual's financial affairs. A lynchpin of this new model is the position of lead advisor. Choosing such an advisor with the time, knowledge and resources to address life's changing priorities can play a critical role in helping to achieve short- and long-term financial objectives.

A BRIEF INTRODUCTION TO MANAGING YOUR WEALTH

In today's fast-paced world, investors—particularly more affluent investors—have a lot more to worry about than just their equity portfolios. In many (if not most) cases, managing their financial affairs means dealing with a host of complex issues, such as tax planning, risk management, credit needs, estate planning and charitable giving.

Traditionally, individuals with substantial assets or complex financial affairs have looked to multiple professionals to meet specific financial needs. The extremely wealthy or the highly sophisticated might also retain a business manager to oversee these areas. In most households, however, financial management has been strictly a do-it-yourself affair.

Increasingly, investors want a lead advisor who can help them organize the various elements of their financial lives. To help meet this need, many financial professionals are stressing a new client-service concept: "wealth management." This approach combines traditional investment-related services, such as asset allocation and

portfolio management, with guidance on the other aspects of a client's financial affairs.

At the same time, many financial professionals—accountants, financial planners, stockbrokers—are seeking to fill the role of lead advisor. But this raises a key question: Do these professionals have the financial training, knowledge and experience to advise clients with substantial wealth management needs?

Even more importantly, do they have the resources for the job? Do they have access to planning tools, investment products and in-depth information about the capital markets, tax policy, the law of trusts and estates, and other critical topics? Can they call on trained in-house professionals to assist them with these highly technical issues?

Clients need to choose their advisors with care. To help them do so, this report looks at some of the financial issues they face, and describes some of the components of a comprehensive wealth management program.

THE FINANCIAL LIFE CYCLE

Life is about change. So is wealth management. As investors move through the stages of life, they face a succession of financial challenges. Some, like the need to prudently manage the relationship between investment risk and return, start early and never go away. Others, like estate planning, come later in life.

These changing goals and priorities can be summarized as a cycle with four broad stages:

- **WEALTH ACCUMULATION.** During this phase, individuals are primarily focused on acquiring the assets they are likely to need to help meet their long-term financial goals.
- **WEALTH PRESERVATION.** As investors move into their peak earnings years, their financial focus may gradually shift from asset growth to risk management—protecting their families and their portfolios from unexpected adversity or market volatility.
- **WEALTH UTILIZATION.** At some point, most individuals will need to draw upon their accumulated resources to fund specific needs,

such as college tuition costs or retirement expenses.

- **WEALTH TRANSFER.** Many, if not most, affluent individuals hope to leave a sizable legacy behind—for their children, their grandchildren or their communities.

It’s important to note that the stages of the wealth management process overlap, and that the transition between those stages can be very gradual. This means individuals and their advisors must address a constantly changing mix of new and old financial problems. Just to pick one example: Lengthening life expectancies, soaring medical costs and rising expectations for a comfortable standard of living all mean that even retired investors can’t ignore the need to continue balancing current income and capital growth.

Finding strategies to address these problems may require difficult trade-offs. Investors need to decide, for example, what level of risk they are willing to accept in their attempt to achieve a given return objective. They may also have to choose between generating a high level of

current income and a rate of capital growth sufficient to support a somewhat lower standard of living for a longer period of time.

These choices are never easy, and need to be made within the context of a comprehensive wealth management strategy.

THE WEALTH MANAGEMENT MODEL

Obviously, many wealth management services are closely related, and may require different financial professionals to play multiple roles. These days, for example, effective management of tax liabilities may span an entire range of financial services.

That’s why so many individuals with substantial assets are looking for a quarterback—someone who can play a lead role in coordinating their various financial needs with their other advisors, such as tax and legal advisors. This means helping clients plan their broad wealth strategy, providing access to the products and services needed to execute that strategy, and helping them to make intelligent financial decisions.

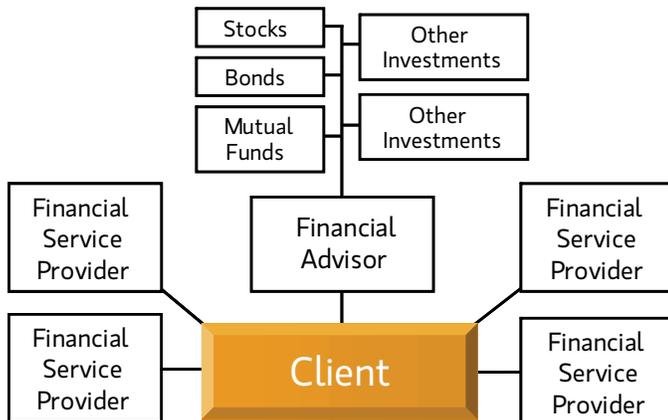
The result has been a major shift in traditional financial relationships, as shown in the chart at left. The old model, in which clients dealt separately with various financial providers, has given way to one in which a primary advisor is the client’s main point of contact with his or her wealth management team.

The shift in investment relationships has been particularly striking. Under the old model, stockbrokers or other investment professionals sold specific investments— such as stocks and bonds—to their clients, usually on a commission basis. Asset allocation advice and financial planning services were often provided as part of the deal, but were not necessarily central to the relationship.

Increasingly, however, stockbrokers and other investment professionals are evolving into primary

The Old Service Model

In the traditional model for financial relationships, clients dealt separately with various financial service providers.



Source: Consulting Group

wealth advisors—providing clients with personal services such as financial planning and asset allocation advice for a fee, while delegating security selection decisions to outside third-party portfolio managers.

PUTTING THE PIECES TOGETHER

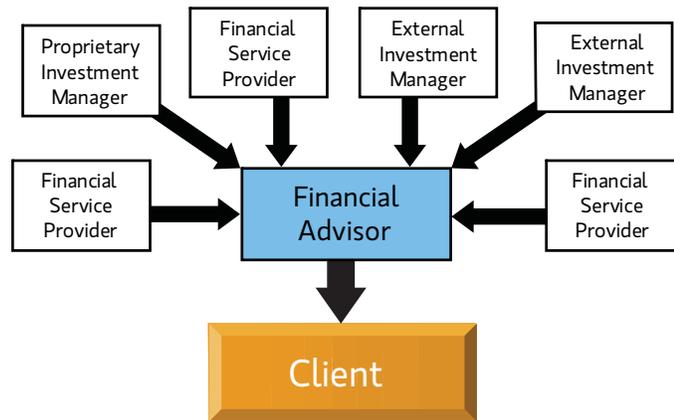
A strong financial relationship requires more than just a strong financial advisor. Investors need to know their primary wealth advisor has access to the resources needed to create an effective wealth management strategy. This is where your Morgan Stanley Financial Advisor can help.

Because Morgan Stanley believes prosperity begins with a well-defined wealth plan, your Financial Advisor is well equipped to analyze various aspects of your financial situation and advise you on a prudent course of action. Some of these services include:

- **PERSONAL NET-WORTH ANALYSIS.** Your Financial Advisor may be able to identify ways to consolidate debt and improve your monthly cash flow.
- **ASSET ALLOCATION ANALYSIS.** Your Financial Advisor can recommend a diversified asset allocation model tailored to your goals, tolerance for risk and other factors.
- **EDUCATION FUNDING ANALYSIS.** Your Financial Advisor can analyze the projected future cost of your child’s education and advise you on your funding strategy, including the use of Section 529 savings plans and other tax-favored vehicles.
- **RETIREMENT ANALYSIS.** Your Financial Advisor can help you clarify your retirement objectives, evaluate your resources, expected returns and income needs; and calculate the probability of meeting your goals.
- **ESTATE PLANNING ANALYSIS.** Using Morgan Stanley’s estate planning tools, your Financial Advisor can help you see to it that

The New Service Model

Under the new service model, a financial advisor or similar professional takes a lead role in coordinating his or her client’s varying financial needs.



Source: Consulting Group

a good part of the wealth you have accumulated is protected and distributed according to your wishes.

WHAT MORGAN STANLEY CAN OFFER

For many, if not most, individual investors, the key to successful wealth management is having a disciplined, long-term investment strategy—and an effective team of investment professionals to carry out that strategy. This is where the resources available through Morgan Stanley—including the investment advisory services available through Consulting Group, its managed money unit—can help play a critical role.

Consulting Group’s “open architecture” approach and array of non-discretionary and discretionary investment programs provide clients with access to a wide range of investment products and services, including asset allocation and investment product selection advice complemented by rigorous due diligence from our manager research team on both affiliated and independent third-party money management firms.

Many of these investment programs offer specific benefits that

facilitate an integrated approach to wealth management. Unified managed accounts, for example, allow investors to consolidate different types of investment vehicles within a single account structure, while separately managed accounts may give investors considerable flexibility to manage their tax liabilities through the use of capital loss harvesting techniques.

For clients with a minimum of \$5 million in investable assets or more than \$10 million in net worth, Morgan Stanley also offers access to our Wealth Planning Centers, where an experienced staff of highly credentialed professionals, including former trust and estate attorneys who remain current with tax rules, regulations and practices, can help educate clients on proven strategies for working towards their wealth management goals and objectives, including risk management and philanthropy.¹

Using the planning resources provided by Morgan Stanley and the more specialized investment tools developed by Consulting Group, your Financial Advisor can provide in-depth advice on virtually every aspect of your wealth management program.

Finally, depending on your financial requirements, your Morgan Stanley Financial Advisor also may be able to act as your primary financial advisor—helping you coordinate and oversee the other members of your wealth management team. This could include such tasks as working with your other advisors to lower tax liabilities, reduce debt-service costs, review your personal or business insurance coverage and assist with estate planning.

CONCLUSION

Wealth management is an emerging concept in the financial services industry, and as such, not always easy to define. In essence, it is a model for serving the increasingly complex

needs of today’s individual investors—particularly those with substantial financial assets.

Morgan Stanley is committed to providing the tools, resources and personalized service investors are looking for in an advisory relationship. Consulting Group can play a critical role in this relationship as well, by helping clients and their Financial Advisors with the investment-related aspects of their wealth management strategy.

For more information on the many services and programs available from Morgan Stanley and its Consulting Group, speak to your Financial Advisor at Morgan Stanley.

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