Physical Precious Metals and the Individual Investor

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. After nearly two decades as net sellers, central banks collectively are now net buyers of precious metals (mainly gold), contributing to a decrease in supply and an increase in demand.1

Also, 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.2

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

Precious Metals 10-Year Returns

<table>
<thead>
<tr>
<th></th>
<th>Gold</th>
<th>Silver</th>
<th>Platinum</th>
<th>Palladium</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>600%</td>
<td>500%</td>
<td>400%</td>
<td>300%</td>
</tr>
<tr>
<td>2002</td>
<td>500%</td>
<td>400%</td>
<td>300%</td>
<td>200%</td>
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<td>2003</td>
<td>400%</td>
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<td>2004</td>
<td>300%</td>
<td>200%</td>
<td>100%</td>
<td>0%</td>
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<tr>
<td>2005</td>
<td>200%</td>
<td>100%</td>
<td>0%</td>
<td>-100%</td>
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<tr>
<td>2006</td>
<td>100%</td>
<td>0%</td>
<td>-100%</td>
<td>-200%</td>
</tr>
<tr>
<td>2007</td>
<td>0%</td>
<td>-100%</td>
<td>-200%</td>
<td>-300%</td>
</tr>
<tr>
<td>2008</td>
<td>-100%</td>
<td>-200%</td>
<td>-300%</td>
<td>-400%</td>
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<tr>
<td>2009</td>
<td>-200%</td>
<td>-300%</td>
<td>-400%</td>
<td>-500%</td>
</tr>
<tr>
<td>2010</td>
<td>-300%</td>
<td>-400%</td>
<td>-500%</td>
<td>-600%</td>
</tr>
</tbody>
</table>

Source: KITCO; London Fix prices in U.S. dollars

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All That Glitters

If it glitters, it is likely a precious metal. Luster—the state or quality of reflecting light—together with malleability, non-corrosiveness and high melting points are common traits shared by gold, silver, platinum and palladium. The key characteristic that has historically distinguished them from their non-precious 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 more scarce. 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 not 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 in 2010 reached a 10-year high of more than 3,800 tons (valued at approximately $150 billion), lifted by jewelry, coin and bar purchases in India and China. While India is the world’s largest market for gold jewelry, second-place China posted a higher rate of growth in 2010 largely driven by recent increases in buying for investment purposes, and demand from China’s growing technology manufacturing sector. Reflecting concerns about the U.S. dollar weakness and domestic inflation concerns, China’s and India’s central banks have also recently become net purchasers of gold.

India is the largest market for gold jewelry in the world, consuming a staggering 746 tons of gold in 2010.

China is the fastest-growing market for gold jewelry in the world, accounting for 400 tons of demand in 2010.

The United States accounted for 129 tons of gold demand used in jewelry during 2010, making it one of the world’s most significant consumer markets. The U.S. market is dominated by gifting where over 50% of the total value of gold jewelry offered to retail customers is comprised of pieces priced at over $1,000.

Source: World Gold Council

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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 most 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, The Silver Institute
* Glass, electronics and petroleum
† Electronics

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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 the handful of assets whose value is not dependent on an issuer’s promise 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 simply by visiting a local coin dealer. In several countries, some coins have the advantage of being accepted as legal tender.

**Hedge Against a Declining U.S. 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 U.S. 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, 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),

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**Price of Gold vs. U.S. Dollar**

![Graph showing the price of gold vs. the U.S. Dollar from 1979 to 2011.](source: World Gold Council and Board of Governors of the Federal Reserve System, June 2011.)

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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 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.

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<thead>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Years</td>
<td>0.71</td>
<td>0.84</td>
<td>0.9</td>
<td>0.64</td>
<td>0.84</td>
<td>-0.61</td>
<td>0.89</td>
<td>0.31</td>
</tr>
<tr>
<td>10 Years</td>
<td>0.66</td>
<td>0.43</td>
<td>-0.01</td>
<td>0.32</td>
<td>0.32</td>
<td>-0.18</td>
<td>0.26</td>
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</tr>
<tr>
<td>30 Years</td>
<td>0.88</td>
<td>0.69</td>
<td>0.4</td>
<td>0.03</td>
<td>0.03</td>
<td>-0.15</td>
<td>0.42</td>
<td>0</td>
</tr>
</tbody>
</table>

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.

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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.

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 U.S. 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 $1,831.70 on August 31, 2011 this 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.

### Bars

<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><img src="image" alt="Gold Bars" /></td>
</tr>
<tr>
<td>Silver</td>
<td>.999</td>
<td>1 oz, 10 oz, 100 oz. and 1,000 oz.</td>
<td><img src="image" alt="Silver Bars" /></td>
</tr>
<tr>
<td>Platinum</td>
<td>.9995</td>
<td>1 oz, 10 oz. and 50 oz.</td>
<td><img src="image" alt="Platinum Bars" /></td>
</tr>
<tr>
<td>Palladium</td>
<td>.9995</td>
<td>1 oz, 10 oz. and 100 oz.</td>
<td><img src="image" alt="Palladium Bars" /></td>
</tr>
</tbody>
</table>

Source: Morgan Stanley Wealth Management

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# 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><strong>Gold</strong></td>
<td>American Eagle</td>
<td>.9167</td>
<td>1/20, 1/4, 1/2 and 1 oz.</td>
<td>1986 – present</td>
<td><img src="image1.jpg" alt="Image" /></td>
</tr>
<tr>
<td></td>
<td>American Buffalo</td>
<td>.9999</td>
<td>1 oz.</td>
<td>2006 – present</td>
<td><img src="image2.jpg" alt="Image" /></td>
</tr>
<tr>
<td></td>
<td>Canadian Maple Leaf</td>
<td>.9999</td>
<td>1/20, 1/4, 1/2 and 1 oz.</td>
<td>1979 – present</td>
<td><img src="image3.jpg" 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.jpg" alt="Image" /></td>
</tr>
<tr>
<td></td>
<td>Austrian Philharmonic</td>
<td>.9999</td>
<td>1 oz.</td>
<td>1989 – present</td>
<td><img src="image5.jpg" alt="Image" /></td>
</tr>
<tr>
<td><strong>Silver</strong></td>
<td>American Eagle</td>
<td>.999</td>
<td>1 oz.</td>
<td>1991 – present</td>
<td><img src="image6.jpg" alt="Image" /></td>
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<tr>
<td></td>
<td>Canadian Maple Leaf</td>
<td>.9999</td>
<td>1 oz.</td>
<td>1988 – present</td>
<td><img src="image7.jpg" alt="Image" /></td>
</tr>
<tr>
<td><strong>Platinum</strong></td>
<td>American Eagle</td>
<td>.9995</td>
<td>1 oz.</td>
<td>1997 – present</td>
<td><img src="image8.jpg" alt="Image" /></td>
</tr>
<tr>
<td><strong>Palladium</strong></td>
<td>Canadian Maple Leaf</td>
<td>.9995</td>
<td>1 oz.</td>
<td>2005 – 2007, 2009</td>
<td><img src="image10.jpg" alt="Image" /></td>
</tr>
</tbody>
</table>

Source: Morgan Stanley Wealth Management

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Physical Precious Metals Ownership Choices

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.

- **Unallocated metals**
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 are backed by physical precious metal stored in either the United States or London. Unallocated metals cannot be physically delivered, and storage costs are generally lower than those for allocated and specifically identified metals.

- **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, subject to availability, are available as allocated metals. Allocated metals may appeal to individual investors interested in making a relatively small investment in physical precious metals. Please note, when purchasing coins, Morgan Stanley Wealth Management cannot guarantee the year the coins were minted, either when executing your order or when delivering coins to your Morgan Stanley Wealth Management account.

- **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 1:00pm 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.** Once purchased, you can choose the method of storage for your physical precious metals that best suits your needs. You can either take direct possession (physical delivery) or decide where your metals investment is stored, insured and managed. Morgan Stanley Wealth Management will charge a fee to deliver your metals, and some states will charge a sales tax on delivered precious metals.

For a fee, Morgan Stanley Wealth Management can also arrange for storage of your metals holdings. Your Morgan Stanley Financial Advisor can provide you with more information about storage options.
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 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.

  Ask your Morgan Stanley Financial Advisor for more information on precious metals investment considerations. Commissions and fees are subject to change without notice. You should consider your individual investment goals, objectives and level of risk tolerance before investing in precious metals.

• **Tax Considerations**

  Physical precious metals, as well as the vehicles that invest in them (open-end mutual funds and ETFs), are classified by the U.S. Internal Revenue Service as collectibles, and the gain on the sale of a collectible held for more than one year (long term) will be taxed at the special long-term rate for collectibles, currently 28%. The gain on the sale of a collectible held for a year or less (short term), is taxed at ordinary income rates.

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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: U.S. Treasury minted American Eagle ¼-, ½- and 1-oz. gold coins; 1-oz. silver coins; or 1-oz. platinum coins.

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.

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.

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6 Based on a 2010 average price of $1,224.50 per troy ounce. A troy ounce equals about 1.1 ounces. In the bullion market—and this publication—all references to ounces, means troy ounce.
9 Diversification does not guarantee a profit or protect against a loss in a declining financial market.
11 Clients may transact in precious metals in a traditional brokerage account. According to Internal Revenue Service regulations, retirement accounts are permitted to invest only in American Eagle gold, silver and platinum coins.
12 Fineness or fine gold content is the actual quantity of pure gold in bullion coins and bars. Quality and quantity standards are set by the Commodity Exchange, Inc (COMEX).
13 New York Mercantile Exchange, Inc. (NYMEX) is one of the world’s largest physical commodity futures exchanges. Trading on the exchange is conducted through two divisions: the NYMEX Division, home to the energy, platinum, palladium futures and options markets; and the COMEX Division, on which all other metals futures and options trade.
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