



Merchant John East Securities

PRIVATE CLIENT ADVISORY

The MJES Highest FTSE 100 Look Back Growth Note 1

26 NOVEMBER 2009

The Merchant John East Securities Highest FTSE 100 Look Back Growth Note 1

This investment has been designed to provide investors with investment exposure to the FTSE 100 Index and increase the investor's opportunity to exit near the high of the index over the term of the investment. This investment puts your capital at risk if there is a fall in the FTSE 100 Index. The following characteristics are incorporated:

- The investment will be structured within a corporate bond issued by Morgan Stanley and therefore, this will be a loan to Morgan Stanley based on the terms set out below.
- If the FTSE 100 Index appreciates, the investment is designed to capture and return to the investor the full amount of the increase, which is the difference between the initial valuation and the highest valuation achieved over the 6 year term of the investment. Valuations are taken on the 23rd of each month.
- The investment structure allows the investor to exit at any time subject to being able to buy and sell the Note in the secondary market.
- The only limit on the amount of the potential return to investors is the level of the FTSE 100 Index at the maturity date.
- If however, at the end of the six year term, the highest FTSE 100 Index rate achieved over the term is not either above the initial valuation level or sufficiently high to offset a fall in the index over the term to below the initial valuation level, an investor will not get back all of his capital.
- The FTSE 100 Index can be regarded as a broad representation of the United Kingdom economy and is constructed from the shares of the leading 100 companies by market capitalisation.
- The Note is eligible for ISA, SIPP and SSAS investments.

The key features of the Merchant John East Securities Highest FTSE 100 Look Back Growth Note 1 are as follows:

- The investment tracks the performance of the FTSE 100 Index and therefore any capital invested is at risk in line with any decline in the index below the initial strike level of 5356.
- Once a new high in the FTSE 100 Index is recorded (valued on the 23rd day of each month from the strike date to maturity date), this value will be permanently referred to as the 'Index High' point, until another 'Index

Terms	
Objective	Capital Growth
Underlying	FTSE 100
ISIN	XS0470474981
Offer Price	100p
Nominal Value	100p
Denomination	£ sterling
Minimum investment	£1,000
Secondary market size	£1,000
Initial valuation date	23 rd November 2009
Note issue date	7 th December 2009
Maturity date	7 th December 2015
Term	6 years
Index initial valuation	5356
Note yield	Nil coupon
Issuer	Morgan Stanley
Guarantor	Morgan Stanley with an S&P credit rating of A

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High' is recorded. This 'Index High' is valid for the full six year life of the Note.

- On Maturity, the investor will receive 100 per cent of the difference between the 'Index High' and the initial strike level of 5356, less any percentage decline between the initial strike level and the final index level, if this is below the initial strike level, at maturity.
- Morgan Stanley will, subject to market conditions, endeavour to provide a secondary market in the Note to enable investors to buy or sell it at any time throughout the term of the investment prior to maturity.
- Any purchases or sales after the Note issue date will be subject to market fluctuations.

Note: This investment will put your capital at risk and you may lose some or all of your investment. Morgan Stanley is legally committed to repaying the loan but, in the event that it becomes bankrupt, it may be unable to do so. If this is the case you may or may not be able to rely on the Financial Services Compensation Scheme. Past performance of the FTSE 100 Index is not a reliable indicator of future results.

Investment objective

- To provide an investor with full investment participation in the FTSE 100 Index, taking investment risk in line with any rise and fall in the index.
- To capture as much as possible of the growth, if any, in the FTSE 100 Index over the term regardless of when the index high occurs within the term.
- To provide liquidity in the secondary market, provided by Morgan Stanley.

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Investment Returns

I don't know anyone who's ever got it right. In fact, I don't know anyone who knows anyone who's ever got it right. - Jack Bogle, founder of the Vanguard Group.

The success of selling an investment at the top of the market can only ever be assessed with hindsight. At Merchant John East Securities, we have developed an investment which is able to look back over historical prices and enable an investor to benefit from the highest closing price on the 23rd of each month over the term of the investment.

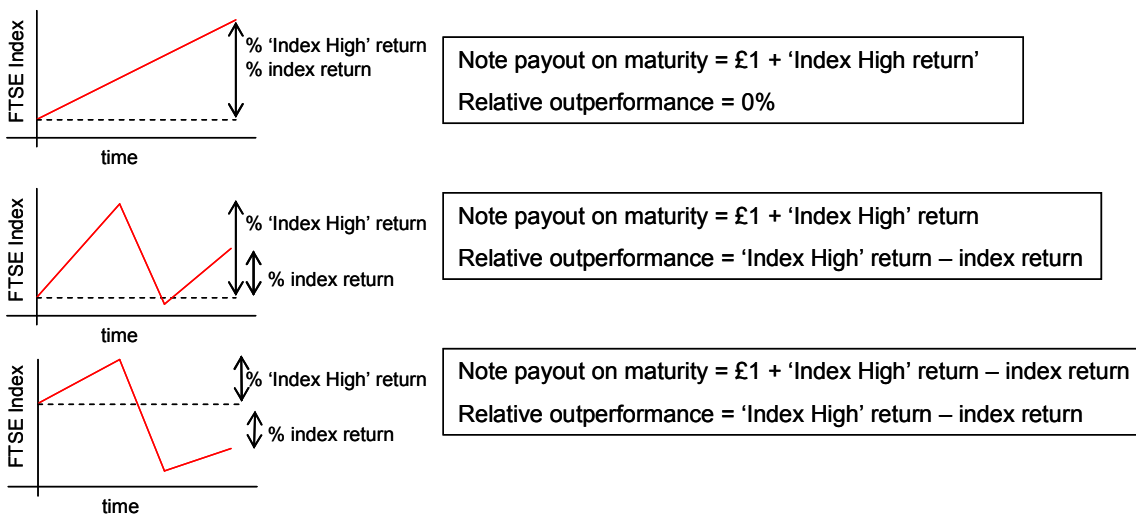


Figure 1: Return Profile

Top illustration – If the FTSE 100 Index appreciates in a linear way over 6 years, the appreciation of the Note at maturity matches the appreciation of the underlying FTSE 100 Index. The overall return of the Note at maturity will be the initial capital invested together with the percentage of the index high calculated by taking the percentage difference between the strike price and the highest closing index price achieved on each of the observation dates (23rd of each month) over the term of the investment.

Middle illustration – If the FTSE 100 Index fluctuates over the next 6 years and is **higher** than the strike level at maturity, the overall return of the Note at maturity will be the initial capital invested, together with the percentage difference between the percentage growth from the 'Index High' and the initial strike price.

Bottom illustration – If the FTSE 100 Index fluctuates over the next 6 years and is **lower** than the strike level at maturity, the return on maturity is

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the percentage growth from the strike level to the 'Index High', less the percentage change from the strike level to the closing index position at maturity. In contrast, a conventional index tracking investor's, capital return for the entire 6 year period would be the percentage decline of the FTSE 100 Index.

Table 1: Total return on equity

Initial Growth in FTSE 100 index	Corresponding 'Index high'	Later Growth in FTSE 100 index	Index position at Maturity	Overall Index return	Projected Note return	Total Investment Return at Maturity
30%	6963	30%	9052	69%	69%	£1,690
	6963	0%	6963	30%	30%	£1,300
	6963	-30%	4874	-9%	21%	£1,210
0%	5356	30%	6963	30%	30%	£1,300
	5356	0%	5356	0%	0%	£1,000
	5356	-30%	3749	-30%	-30%	£700
-30%	3749	30%	4874	-9%	-9%	£910
	3749	0%	3749	-30%	-30%	£700
	3749	-30%	2624	-51%	-51%	£490

Source: Merchant John East Securities Limited.

The above figures do not take into account dealing charges when buying and selling your investment

Table 1 illustrates various numerical scenarios that we have modelled. If for example the FTSE 100 Index initially appreciates by 30% and then by a further 30%, returning 69% over the 6 year period, the Note will also return 69% of your initial investment on maturity. Therefore an initial investment of £1,000 will appreciate to £1,690.

If the FTSE 100 Index appreciated initially by 30% and then declined by 30%, returning -9% over the entire 6 year period, the Note will return on maturity 30% ('Index High'/initial strike level) less 9% (% decline in the index from the initial strike level). The overall return is therefore 21% of your initial investment, an out performance of the FTSE 100 index by 30%. From an initial investment of £1,000, the redemption value will be £1,210

On the worst case scenario illustrated above, if the FTSE 100 Index falls by 30% initially then by a further 30% thus falling -51% over the 6 year period, the note will return -51% as the 'Index High' is also the initial strike price. If this were to happen, the £1,000 initial capital invested would decline to £490 at maturity.

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Investment Rationale



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Table 2: Sector Allocation by industry sector

FTSE 100	
Sector	% Allocation by market cap
Financials	22.31
Oil & Gas	20.73
Basic Materials	12.74
Consumer Goods	12.24
Health Care	8.65
Consumer Services	8.39
Telecommunications	6.61
Industrials	4.05
Utilities	3.64
Technology	0.64

Source: Bloomberg 25 November 2009

The FTSE 100 Index is the main UK equity market index which is also viewed as a leading economic indicator. The FTSE 100 Index consists of the largest UK listed companies by market capitalisation and is rebalanced quarterly.

Whilst the FTSE 100 is often used as a barometer for the UK economy, a significant part of the revenue derived from the companies within the FTSE 100 Index is derived from outside the UK and therefore the index also provides some diversification to the UK domestic economy.

The UK equity market has made a remarkable recovery (+51%) from its recent low of 3542, which was recorded on 9 March 2009, as the global economic outlook and market sentiment has improved.

The International Monetary Fund has recently released impartial economic data which has increased the Gross Domestic Product (GDP) outlook for the UK. Table 3 below identifies the findings of its recent research and estimates regarding World GDP growth. The IMF identifies that it expects the UK economy to grow at an annualised rate of +5.7% over the next five years, which is above its expectations of +5.5% for the World trend. In fact, the UK is highlighted as having one of the highest GDP growth rates within the G7 over the next 5 years. These are IMF estimates and there is obviously no guarantee that actual growth in GDP will occur or that it will occur at the rates illustrated in the table.

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Table 3: Estimated GDP growth by country

Country	2009 Est. billions \$	2014 Est. billions \$	Total % growth from 2009 to 2014 Est.	Annualised growth Est.	2014 % of world GDP Est.
World	57.2	74.7	30.6%	5.5%	
EU	16.2	19.1	17.6%	3.3%	19.4%
USA	14.3	17.4	22.1%	4.1%	18.3%
Japan	5.0	5.8	16.0%	3.0%	5.5%
China	4.8	8.3	74.1%	11.7%	15.5%
UK	2.2	2.9	31.8%	5.7%	2.9%

Source: - International Monetary Fund October 2009

The Structure

The Merchant John East Securities Highest FTSE 100 Look Back Growth Note I is a Medium Term Note issued by Morgan Stanley, which will be held by the investor and based on warrants and preference shares issued by Morgan Stanley. We are advised that this structure enables gains to be eligible for Capital Gains Tax rather than Income Tax but this is subject to change in the future and we would recommend that you seek independent tax advice to confirm this based on your personal circumstances.

The effect for the investor is that the initial investment will track the FTSE 100 Index. On the twenty third (23rd) day of every month, at the market close, the FTSE 100 Index value is recorded. If this value is higher than any other value previously recorded on the 23rd day of the month or higher than the strike price for the FTSE 100 Index of 5356, the value will be known as the 'Index High'. The 'Index High' can only either stay the same or increase in value over time, when the FTSE 100 Index reaches new market highs from the initial strike 5356 level.

If the FTSE 100 Index immediately falls below the strike price for the Index of 5356, the investment performance will track in line with the falling index, since the strike level will have become the 'Index High'. If the index continues to fall and finishes below the initial strike price, the investor's funds are at risk in direct proportion to the decline in the index at maturity, subject also to counterparty risk as the investment is a Medium Term Note issued by Morgan Stanley (the issuer and guarantor).

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Trading the Merchant John East Securities Highest FTSE 100 Look Back Growth Note I

Morgan Stanley will endeavour to provide a secondary market in the Note so that the investment can be traded (bought or sold) at any point prior to maturity, although in particular market conditions it may not be possible for Morgan Stanley to make a market, or if so it may widen the bid to offer spread.

If you wish to trade this Note you should speak to your usual Merchant John East contact.

At Maturity

If the investor does not sell the Note in the secondary market before maturity, the proceeds of the Medium Term Note will be used to purchase a warrant at maturity. This will then be settled for the cash equivalent at a fixed value in accordance with the below calculation:

Initial value (£1)
+ % increase from strike level (5356) to 'Index High'
- % decrease from strike level (5356) to closing index value on 7th December 2015

Payout at maturity

The purpose of this warrant purchase is to create a chargeable event which we are advised is subject to capital gains tax, as will be the case if you sell the Note in the secondary market before maturity.

Tax rules are subject to change and we recommend that you consult your personal tax and accounting advisers to confirm the tax treatment and the applicability of this investment for you.

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Risk Factors

A number of risks are present and are detailed below, including issuer (also known as “counterparty risk”) and the ability of the issuer, Morgan Stanley, to repay the nominal value at maturity. As a result, investors should be aware that since their money is being loaned to Morgan Stanley, their capital is at risk and repayment of their loan at maturity depends upon the solvency of Morgan Stanley at that time.

General risks

The value of any securities or financial instruments mentioned in this financial promotion can fall as well as rise and therefore, upon withdrawal, you may receive back less than the full amount invested.

Transactions, including those involving options and other derivative instruments, can give rise to substantial risk and are not suitable for all investors.

Foreign-currency denominated commodity contracts and financial instruments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such securities or financial instruments. Changes in rates of exchange may have an adverse effect on the value or price of investments in sterling terms. All investments may fluctuate in value.

Past performance is no guarantee of the future performance of investments. You should consider carefully, in the light of your financial resources whether investing in stocks, shares, securities or a collective investment scheme is suitable for you.

The Note holder and prospective purchasers of the Note should consider the risks described in this financial promotion and conduct their own investigations. In deciding whether or not to purchase the Note, prospective purchasers should form their own views of the risks involved and the merits of an investment related to the underlying index, based upon such investigations and not in reliance on any information given in this financial promotion.

Insolvency Risk

When Merchant John East Securities Limited (“Merchant John East”) receives your investment, it will be deposited into an investor account at Pershing Securities Limited pending investment. In the event of Merchant John East’s insolvency during the period that your investment monies are held with Pershing Securities Limited, your money is held as client money and will be protected.

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Counterparty Risk

There exists a counterparty risk with the issuer who in this case is Morgan Stanley, as they are securing the Note against their balance sheet. In the event of Morgan Stanley's insolvency your money will not be protected and you must rely on any right of recourse you have to the Financial Services Compensation Scheme. You may therefore lose all or part of your initial capital investment.

Morgan Stanley is rated A by Standard & Poor's Ltd an independent credit rating agency. Standard & Poor's Ltd rates companies from AAA (most secure/best) to D (most risky/worst). Based on an A rating, as at the date of this financial promotion, we believe Morgan Stanley is likely to repay its debts at maturity, but this cannot be guaranteed.

Exit risk

The return of capital described above will exist on the basis that the investment is held until redemption. There may be risks associated with trading on the secondary market. The secondary market price of the securities will depend on many factors, including market liquidity, the value and volatility of the underlying index, level of the underlying index at any time on any day and time left until the maturity of the securities, interest rates, the dividend rate on the stocks that compose the underlying index, and the creditworthiness of the issuer. Therefore the Note holder may receive an amount which may be less than the then intrinsic market value of the securities and which may also be less than the amount the holder would have received had the holder held the securities through to maturity. This is because the Note is based on warrants and preference shares issued by Morgan Stanley and the full value of these instruments are not realised until maturity, thus structured products are seen as more of a buy-and-hold investment strategy.

No interest

Unlike ordinary debt securities, the securities do not pay debt interest. On maturity, the return of only the principal amount will not compensate the holder of the securities for the effects of inflation and other factors relating to the value of money over time.

Hedging risk

On, or prior to and after, the trade date Morgan Stanley, through its affiliates or others, will likely hedge its anticipated exposure to the Notes by taking positions in the stocks that comprise the underlying index, in option contracts on the stocks that comprise the underlying index or positions in any other available securities or instruments. In addition, Morgan Stanley and its affiliates trade the stocks that constitute the underlying index as part of their general business. Any of these activities could potentially affect the

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value of the underlying index, including on the Maturity date, and accordingly could significantly affect the payout to holders on the securities.

Liquidity risk

The Notes will not be traded on an organised exchange. Although the issuer will make a secondary market in the Notes on a best efforts basis, the liquidity of the Notes may be limited. The liquidity of the Notes reflects the liquidity of the securities in the underlying index.

Adjustment and disruption risk

The sponsors of the FTSE 100 Index can add, delete or substitute stocks constituting the index or make other methodological changes that could change the value of the index without regard to the interests of holders of the securities. Any of these decisions/determinations may adversely affect the value of the securities and may result in you receiving a return that is materially different from that received if the event had not occurred.

Underlying sponsor risk

The sponsor of the underlying index is not an affiliate of Morgan Stanley or its affiliates and is not involved with this offering in any way. Consequently, the issuer has no ability to control the actions of the sponsor of each underlying index, including rebalancing that could trigger an adjustment to the terms of the Note.

Note details

Secondary market

Morgan Stanley will endeavour to provide a secondary market in the Note with a typical bid-offer spread of 1%, so that the investment can be traded (bought or sold) at any point prior to maturity. Although in particular market conditions it may not be possible for the issuer to make a market or if so they may widen the bid/ offer spread.

Taxation

It is our opinion that the return of this product will be liable to capital gains tax. You should consult your tax and accounting advisers to the extent you deem necessary.

This Note can be used as an investment within a SIPP/SSAS or ISA.

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Fees and expenses

Merchant John East dealing and management fees are not included and will be applied according to our standard charges for equity investments or at a rate as agreed with your Merchant John East account manager. Merchant John East will charge the issuer a fee for the design and set-up of the Structured Note, which will be the equivalent of no more than 0.67% per annum of the issue amount, which has been taken into account in the terms of the product. Details of our standard fees and charges together with the other terms of this investment are included in our standard Terms of Business available at www.merchantjohneast.com/private-clients-open-an-account.asp

Morgan Stanley's fees for structuring this investment are taken into account when calculating the terms offered, although as identified above they will charge a 1% bid offer spread for trading the investment in the secondary market.

Publication of price

To obtain the latest price of the Merchant John East Securities Highest FTSE 100 Look Back Growth Note I please speak to your usual contact at Merchant John East Securities.

Issue documentation

An electronic version of the Morgan Stanley base prospectus is available on request from your usual contact at Merchant John East. This base prospectus is subject to change from time to time without notification.

Information

For further information on this Note please speak to your usual contact at Merchant John East on 0207 375 9010

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