

Understanding Your Relationship With Morgan Stanley Smith Barney

Brokerage and Investment Advisory Relationships

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Depending on your needs and your investment objectives, you may have brokerage accounts, advisory accounts or both. There are important differences between these types of accounts, and you should understand them so you choose the services that are right for you.

Morgan Stanley Smith Barney LLC is registered with the SEC as a broker-dealer and an investment adviser, offering both brokerage and investment advisory services. Your relationship with your Financial Advisor, and the obligations of Morgan Stanley Smith Barney, will be different in different types of accounts.

Brokerage Services

As a broker-dealer, we will work with you to facilitate the execution of securities transactions on your behalf. In addition to taking your orders, executing your trades and providing custody services, we also provide investor education, investment research, financial tools (including financial calculators and financial analyses) and professional, personalized information about financial products and services, including recommendations to our brokerage clients about whether to buy, sell or hold securities. We do not charge a separate fee for these services because these services are part of, or “incidental to,” our brokerage services.

When we act as your broker-dealer, we will not have discretion to buy and sell securities for you. This means that you will provide approval for each trade before it is executed and that you, not we, will make individual buy and sell decisions.

Additionally, we do not have a fiduciary or advisory relationship with you, and our obligations to disclose information regarding our business, conflicts between our interests and yours and other matters are more limited than if we had fiduciary or advisory duties to you.

For example, we may buy securities from you, or sell securities to you, for our own accounts (acting as principal), or we may buy or sell securities acting as agent. We are not required to notify you or obtain your prior consent regarding the capacity in which we act, which may affect our profit on trades. Further, when we act as a broker, we are paid by you and, sometimes, by people who compensate us based on what you buy. Therefore, our profits, and our Financial Advisors’ compensation, may vary by product and over time.

Broker-Dealers are subject to the Securities Act of 1933, the Securities Exchange Act of 1934, the rules of self-regulatory organizations such as the Financial Industry Regulatory Authority (“FINRA”) and state securities laws, where applicable.

These rules and laws require broker-dealers to:

- *Conduct due diligence so that there is a reasonable belief that any recommendations to clients are suitable, in light of their stated investment objectives, financial status, level of understanding and risk tolerance.*
- *Seek to execute all client orders in the best available market by taking into account all the facts and circumstances, such as order price, order size and trading characteristics of the security involved.*
- *Treat all clients in a manner characterized by high standards of honesty and integrity.*

A Range of Brokerage Solutions

To match the different needs and objectives of our clients, Morgan Stanley Smith Barney offers a variety of brokerage alternatives, including our Active Assets AccountSM and our

innovative Choice Select pricing alternative for moderate and active traders.¹ If you're a moderate or active trader, you may want to consider Choice Select. Choice Select is a different way of paying brokerage commissions on equity and option transactions. Instead of paying commissions trade by trade, Choice Select clients are charged commissions quarterly according to an annual schedule, based on the cumulative PV (the total purchase or sale price of securities, net of any fees) of their eligible trades for the previous quarter. You can also place trades anytime, online, only with Choice Select Online.

Your Financial Advisor's Role

Your Morgan Stanley Smith Barney Financial Advisor can assist you in identifying your investment needs and goals and creating investment strategies to pursue them as part of a brokerage relationship. Some of the investment guidance we offer through our brokerage relationships may involve suitability assessments and targeted planning services; such investment guidance should not be considered an advisory service unless it is offered as an integrated component of our comprehensive financial planning services.

Investment Advisory Services

In addition to brokerage services, Morgan Stanley Smith Barney offers a variety of investment advisory programs and services to our clients, including comprehensive financial planning, nondiscretionary and discretionary asset management, and advice on the selection of professional asset managers, exchange-traded funds and mutual funds offered through our investment advisory programs.

These programs include our separately managed accounts, Morgan Stanley AccessSM and Morgan Stanley VisionSM, our mutual fund advisory account, Morgan Stanley Fund SolutionSM and our unified managed account, Morgan Stanley Personal PortfolioSM. In addition, Financial Advisors who have received special training and meet certain eligibility requirements may also offer services through Morgan Stanley Custom PortfolioSM, our

sole discretionary investment management service where you may delegate ongoing portfolio management decisions, via discretionary authority, to your Financial Advisor, and Morgan Stanley AdvisorySM, our nondiscretionary investment advisory program where you retain the authority to make investment decisions, but your Financial Advisor may provide advice on a wide variety of eligible assets including equities, bonds, open- and closed-end mutual funds, exchange-traded funds ("ETFs") and cash.

We act as your investment adviser only when we have entered into a written agreement with you to do so. In such agreements, we expressly acknowledge our advisory relationship and obligations to you. When we act as your investment adviser, we provide you with a disclosure document about our advisory services that describes, among other things, information about our business, the services we provide, our advisory fees, our personnel, and potential conflicts between our interests and yours.

When acting as your investment adviser, we also have fiduciary duties to you and are required to obtain your consent prior to purchasing securities from you, or selling securities to you, for our own accounts (acting as principal). Please note that the fact that we owe fiduciary duties to you under the Investment Advisers Act of 1940 does not mean we are or have accepted responsibility as a fiduciary under Employee Retirement Income Security Act ("ERISA") or the prohibited transaction provisions of the Internal Revenue Code. We do not accept those duties unless we accept them in writing in our agreements with you.

In connection with our advisory services, you generally pay a fee based on the total value of the assets in your account at the end of the previous quarter, which covers investment consulting and certain brokerage services provided by Morgan Stanley Smith Barney and, in programs that provide for professional money management, the professional money manager's fee. In advisory programs that may include exchange-traded funds or mutual funds, you will pay additional expenses charged by the funds that are not reflected in Morgan Stanley Smith Barney's fees.

¹ Moderate and active traders are clients who frequently execute small- to medium-sized equities and options trades, rather than a few large trades. **Options are not suitable for all investors.**

Investment Advisers are governed by the Investment Advisers Act of 1940 and applicable state securities laws, which govern conduct and disclosure requirements, creating a high legal standard that is referred to as a “fiduciary” duty to clients.

These rules and laws require Investment Advisers to:

- *Disclose, and often avoid, any material conflicts of interest.*
- *Disclose additional compensation provided to affiliates as a result of the advisory relationship they have with clients.*
- *Conduct proper due diligence and review clients’ investment restrictions and guidelines to make suitable and appropriate investment recommendations or decisions on behalf of clients.*
- *Provide ongoing investment advice based upon each client’s stated overall financial situation and monitor performance and revise recommendations as each client’s circumstances or investments change.*
- *Always reasonably believe that actions are in the client’s best interests when providing services. However, Investment Advisers may not favor one client if that action will disadvantage another.*

Your Financial Advisor’s Role

In our advisory programs, your Financial Advisor remains involved as a consultant, helping you to monitor performance and adjust your portfolio on an ongoing basis. In Custom Portfolio, your Financial Advisor will have the discretionary authority to execute investment decisions on your behalf. In Morgan Stanley Advisory, your Financial Advisor will make investment recommendations but you will maintain discretion over the investment decisions made in your account.

When We Act as Both Broker-Dealer and Investment Adviser

We may act as investment adviser and as broker-dealer to you at the same time, and the fact that we do so does not mean that our brokerage relationships are advisory ones. For example, although we consider your brokerage account assets in preparing guidelines or determining suitability for your investment advisory services, your brokerage relationship continues on your brokerage assets.

As another example, a client who has a comprehensive financial plan prepared by his or her Financial Advisor has an investment advisory relationship with Morgan Stanley Smith Barney with respect to that financial plan. The investment advisory relationship created by the financial plan terminates when the plan is delivered and does not extend to any existing brokerage accounts or to implementation of the financial plan. Further, the implementation may be done through brokerage accounts, advisory accounts, or a combination of both.

For More Information

We encourage you to ask questions so you completely understand when we are acting as broker-dealer and when we are acting as investment adviser, as well as the differences between your brokerage and advisory accounts, including the extent of our obligation to disclose conflicts of interest to you. The disclosure documents for our investment advisory services, which are available on request, provide information about our advisory services, including conflicts.

If you have additional questions about the nature of your accounts or the services you are receiving, please consult with your Financial Advisor.