

Understanding Your Relationship with Morgan Stanley Smith Barney

Brokerage and Investment Advisory Relationships

July 2011

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 is registered as both a broker-dealer and as an investment adviser under federal and state securities laws, and provides services in both capacities. Morgan Stanley Smith Barney is a member of the Financial Industry Regulatory Authority (FINRA) and other self-regulatory entities. In accordance with the rules of FINRA and other self-regulatory entities, whether acting in a brokerage or advisory capacity, Morgan Stanley Smith Barney must observe high standards of commercial honor and just and equitable principles of trade.

There are several fundamental differences between brokerage services and advisory services. We want you to be informed of the following differences between those types of services.

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 (except in some very limited circumstances). This means that you will provide approval for each trade before it is executed and that you, not we, will make individual buy, sell and hold decisions. When recommending that you purchase, sell, hold or exchange a security, we must have a reasonable basis for believing that the recommendation is suitable for you. However, 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 like a broker-dealer, 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.

Your Financial Advisor's Role When Providing Broker-Dealer Services

Your Morgan Stanley Smith Barney Financial Advisor can provide you with the brokerage services described above and assist you in identifying your investments 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 we expressly state in writing that it is offered as a component of an investment advisory service.

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.

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 an annual fee, payable quarterly based on the total value of the assets in your account at the end of the previous quarter. The fee typically covers both the advisory and the brokerage services provided by Morgan Stanley Smith Barney that are described in the investment advisory agreement and, in certain programs that offer professional third-party money management, the fee also includes the professional money manager's fee. In advisory programs that 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.

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 or avoid material conflicts of interest.*
- *Conduct proper due diligence and review clients' investment restrictions and guidelines to make suitable and appropriate investment recommendations or decisions on behalf of clients.*
- *Act in the best interests of their clients by providing investment advice that is based on the client's stated overall financial situation and investment objectives.*
- *Owe their clients a duty of undivided loyalty and utmost good faith.*

Your Financial Advisor's Role in Advisory Programs

Your Financial Advisor can provide you with a variety of services depending on the advisory program that you choose. For example, in our Portfolio Management program, and where you elect in our Select UMA program, your Financial Advisor will have the discretionary authority to execute investment decisions on your behalf. In our Consulting Group Advisor program, and the TRAK Fund Solution program, your Financial Advisor will work with you and make investment recommendations, but you will maintain discretion over all 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 the delivery of the financial plan. The investment advisory relationship starts with the delivery of the financial plan and ends thirty days later 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, or with the Branch Office Manager at your Morgan Stanley Smith Barney branch office.

The investments listed may not be suitable for all investors. Morgan Stanley Smith Barney LLC recommends that investors independently evaluate particular investments, and encourages investors to seek the advice of a financial advisor. The appropriateness of a particular investment will depend upon an investor's individual circumstances and objectives.

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