

The fear that AI spending would blow up like a dot-com scenario was the narrative. Nope.

How about private credit fears? Are there some bad loans on the books? Quantifying the impact is proving more difficult. Finally, don't forget about the few days when everyone thought AI would replace software, then AI was going to replace consulting firms and finally AI was going to replace financial services firms (more on that later).

It's no wonder that there seems to be a disconnect between how people are feeling the markets should be and actual returns.

How do you handle this environment as an investor and how do we navigate this for clients? First, we aim to like what we own with the confidence that portfolios may power through. Next, we make changes if something isn't working or the facts as we interpret them change. We use market movement to add into areas we want to be in and away from areas we do not.

As I type this, U.S. stocks remain near record highs, driven mostly by spending on artificial intelligence, strong corporate earnings, and expectations for continued economic growth. We are paying attention to several important areas of concern. First, inflation remains high, due to higher energy prices and geopolitical tensions. Second, bond yields have climbed above recent averages this can put pressure on stock valuations, especially on companies that borrow to fund their operations. Third, the Federal Reserve's path on interest rates remains uncertain, with expectations that rates stay elevated for longer. Regime change in the Federal Reserve can make the odds of a policy mistake higher than usual. We view client portfolios through the dual lens of 'what could go wrong' and 'what could go right' and so we must like what own with the confidence that portfolios will power through.

Where do we see growth? In our opinion, the most exciting potential growth trends in 2026 continue to be centered around artificial intelligence, energy infrastructure, automation, cybersecurity and space.

AI remains a preferred investment theme, with major technology companies projected to spend trillions of dollars over the next several years on data centers, chips, cloud computing, and software. Another major trend we like is electrification and power demand, as AI data centers require enormous amounts of electricity, benefiting utilities, nuclear energy firms, and grid modernization companies. Cybersecurity remains a strong theme as governments and corporations increase digital defense spending. We also like the theme of robotics and industrial automation as companies attempt to improve productivity. Finally, of my favorite themes is: outer space.

Satellites have quietly become core infrastructure for modern economies. There seems to be a shift from a handful of large, specialized spacecraft to constellations of smaller satellites that refresh technology faster and can provide better coverage. (How to see and track a satellite train in the sky.) We all watched the satellite coverage of oil tankers stuck in the middle east via maritime tracking. Satellites are being used for precision agriculture, supply-chain visibility and insurance analytics. Space-based data is becoming a useful competitive differentiator and not just a scientific asset. This is just the kind of growth trend we like.

Circling back to my earlier comment about financial services and AI. We want clients to know that our firm is a leader in investing in AI to support our business and our clients. Our team is a regular pilot team for some of that technology and continues to provide feedback as new technology is rolled out. For example, clients know that we frequently use an AI notetaking tool that allows us to record a meeting. It produces a short, mid length or long summary. If you would like to see it – let us know! This helps us by enabling us to prioritize listening instead of taking notes - and helps to automate some of the follow up tasks that are an inevitable result of client meetings. Next is our Estate Planning Document Analyzer – this summarizes trusts, wills, POAs with structured summaries and page level references. We often use this to help our clients think about what an updated estate plan could look like.

Where is all this going? Is AI coming for us all? Maybe. It's a fair question. From our vantage point, technology is moving fast. It is both enabling more complexity and freeing up more capacity. Know that our team is dedicated to keeping our practice current and bringing the best forward to clients.

We appreciate your confidence in our advice and of course are available to discuss anything, including outer space.

Stocks Up, Yields Up: Why Risk Appetite Still Rules

Russell Smith, CFA®, CAIA®

As we head into a portfolio rebalance this week, a question came up that feels timely. Can markets appear bullish in the near term while the longer-term backdrop remains less certain? That tension seems evident today. TD Cowen describes it as “bullish price action in a fundamentally fragile environment.” Momentum is feeding off investor optimism despite macroeconomic warning signs beginning to build.

Consider the following five conditions and potential implications.

1. Stocks are moving higher. But so are rates. Normally when Treasury yields spike, markets struggle, particularly growth names as yields compete for equity capital while at the same time pressure valuations. Right now, stocks, especially those involved in AI, continue to rally despite US Treasury yields hovering near multi-year highs. The short-term enthusiasm seems to be ignoring the longer-term historic relationship between equity performance and yield.
2. Ignoring geopolitical risk. Yes, there was an initial pullback on the Iran situation, but it didn't take long to get back to daily runs at new all-time highs. Again, it is bullish that the headline risks from the middle east haven't dampened investor spirit, but this is a volatile situation that can change in a heartbeat should tension escalate unexpectedly.
3. The promise of trillions in AI spending trumps all. That includes inflation fears, oil prices, geopolitical tension, and a hawkish Fed. Normally enough to put a lid on sentiment but the opposite seems to be happening. Stocks are being bid relentlessly and indices like CNN Fear & Greed confirm underlying strength across a wide range of indicators.
4. Here is my vote for the biggest surprise. The Dow Jones Industrial Average is printing new highs at the same time AI and semi stocks are dominating investor behavior. You could argue there are some stocks in the DJIA index that are also AI plays. Regardless, this suggests broad market participation at a time that would traditionally favor only the Nasdaq.
5. Finally, equity volatility remains in check. Given the spike in Treasury yields, inflation concerns, geopolitical uncertainty, Fed uncertainty and stretched valuations you would normally expect VIX to be materially higher. Instead, volatility remains subdued. Interestingly, you could argue the bond market is beginning to show signs of stress but the same cannot be argued about stocks. This divergence is uncommon and will resolve in one of two ways. Either the stock market proves to be fragile or resilient. Right now, resilience appears to have the upper hand so advantage stocks.

Recent trading is telling us sentiment trumps macroeconomic fear, damage from the recent rate spike is being viewed as transitory, AI is expected to continue influencing the market, and rather than a narrow speculative surge, enthusiasm can be seen across multiple indices and sectors. Markets are operating in a highly optimistic environment where investors expect growth and innovation to outweigh traditional economic headwinds.

In short, everything we see points to more of the same. The outlook remains positive.

529's – NOT JUST A COLLEGE PLANNING VEHICLE

Dan Kapple, CFP®, CIMA®, CEPA

With graduation season in full force and May 29th being “529 Day”, the topic of 529s seems timely. 529 plans have long been a popular way to save for college expenses. Although that remains to be their main purpose, recent legislation has significantly expanded their flexibility, making them an even more valuable long-term planning tool.

But first, what is a 529 plan?

A 529 plan is a tax-advantaged savings account designed to help save for future education expenses. Investments grow tax-deferred and qualified withdrawals are generally tax-free when used for qualified education expenses. Although funds can be used nationwide, each state sponsors its own plan with unique investment options, contribution limits, and costs. Some plans even provide a state income tax benefit.

Prior to 2017, qualified withdrawals were limited to traditional higher education expenses such as college tuition, fees, books and room and board. In recent years legislation has continued to expand their use, making them a more attractive vehicle to further encourage education planning and savings. Today, 529s funds can be used in a variety of ways:

- Higher education expenses
- K-12 education expenses- Currently \$20,000 annually, including tuition, curriculum materials, tutoring, testing fees & education therapies
- Apprenticeship Programs
- Up to \$10,000 in lifetime student loan repayment
- Professional certifications & continuing education
- Roth IRA rollovers- If the 529 has been opened for at least 15 years, unused assets can be rolled into a Roth IRA for the beneficiary subject to their annual contribution limit. Currently the lifetime rollover limit is \$35,000. (Source: irs.gov)

These accounts are often being set up for young children. Originally, one of the primary concerns was being afraid of overfunding the account and not knowing the educational path for the child. Expanding the ways in which 529 funds can be used helped to address those concerns while encouraging saving.

That said, 529s offer flexibility beyond just how the funds are used. Most often a 529 is opened by a parent or grandparent for their child or grandchild. However, most anyone can open a 529: other relatives, friends or even the future student for themselves. The person opening the account becomes the owner and maintains control over the account including any beneficiary changes. The beneficiary of a 529 can be changed among eligible family members. This too helps address the concern of having unused funds and allows the 529 to be multigenerational.

In addition, 529 plans are often used as an estate planning tool, allowing assets to be transferred efficiently for future generations. Contributions are considered completed gifts for tax purposes, allowing individuals to move assets out of their taxable estate while still maintaining control of the account.

Clearly 529 plans have evolved far beyond traditional college savings accounts. Through multiple legislative updates, they now offer families greater flexibility to support a wide range of education and training expenses, while providing potential retirement and estate planning benefits.

For more information and to discuss your specific situation please contact your financial advisor.

PERSPECTIVE ON PURCHASING POWER

Brandon Bolock, CFP®

During one of my “scroll” periods on X (formerly Twitter), the algorithm fed me a video above of Ron Baron discussing inflation back in December 2025. Baron lays out such a simple case regarding inflation and risk-free assets, yet so often I feel we overlook this even when our focus is on wealth creation. Take money market funds: They’re earning roughly 3.5% and may even have investors feeling prudent, doing the right thing, and being mindful of risk. What investors don’t see — what almost nobody sees — is the tax running silently underneath. After inflation. After tax. Every year, they are losing ground.

Ron Baron laid out the math plainly. It’s not complicated. But most investors never run the second-order calculation, and that gap is where purchasing power goes to disappear. Baron’s framework starts with a simple number: 7%. Real inflation runs 4 to 5%. The economy grows at roughly 2% real. Add them together and that’s the annual hurdle investor’s wealth needs to clear just to preserve purchasing power — not grow, just stand still. The Rule of 72 makes this concrete. Divide 72 by 7, and real purchasing power halves in roughly 10 years if their assets don’t clear that bar. That’s not a market crash. That’s not a recession. That’s just the quiet, mechanical grind of holding the wrong assets for a decade.

The headline math actually undersells the trap, because there’s a tax layer underneath that most investors never think to calculate. Consider an investor who parks \$100,000 in a 3.5% money market fund. They earn \$3,500 in nominal yield. At a 35% combined federal and state rate, they pay \$1,225 in tax on that yield, leaving a net return of \$2,275 — effectively 2.27%. Real inflation per Baron runs 4 to 5%. That “safe” account is losing 1.5 to 2% in real terms every single year. The IRS taxes on nominal returns. Inflation eats real value. The government collects on the illusion of a gain while an investor’s actual purchasing power compounds backward. This is not a risk to be managed. It is a structural certainty for anyone in a meaningful tax bracket who runs only the first-order math.

This is not a small problem. There is currently \$7.6 trillion sitting in money market funds at record levels. The yield looks attractive on the screen. The after-tax real return is structurally negative. Investors see 3.5% and stop. They don’t run the inflation adjustment. They don’t run the tax calculation. And every year the gap quietly widens. Baron has spent four decades pointing at this dynamic. His investment decisions famously ignore most macro factors — wars, elections, commodity prices, headlines. The one exception is inflation, which he regards not as a risk to model but as a certainty to plan around, because it has held without interruption across his entire investing life. His “Inflation

According to Ron's data makes the point without abstraction. A Ford Mustang started at \$2,500 in 1966 and now starts at over \$32,000. A sirloin steak ran \$0.67 per pound in 1966 and costs \$13.37 today. These aren't anomalies — they're the same compounding pattern applied to everything for 60 years running. The price of most goods and services doubles roughly every 14 years. A \$500,000 cash position held for 15 years is functionally closer to \$250,000 in real purchasing power, before taxes.

This is not a theoretical concern. There is a historical case study, and it should be required reading for any investor tempted by "safe" fixed income. In the 1970s, Treasuries paid 7% while inflation ran 11%. Anyone holding "safe" bonds lost half their real wealth in eight years. Stocks, real estate, and commodities were the only assets that kept pace. The mechanism was mechanical then and it's mechanical now. It doesn't pause for politics. It doesn't take a break during business cycles. Either you own assets that compound faster than the headwind, or you watch purchasing power get cut in half on a roughly fixed schedule.

One of the most stubborn behavioral problems in wealth management: the illusion of safety in cash. When an investor is hesitant to deploy cash after a pullback, the question isn't whether the market timing is right — it's whether they can afford another year of structurally negative real returns. When an investor views money markets as a long-term strategy, consider the after-tax math, the actual net yield, and what 4 to 5% inflation does to it over 10 years. The numbers in Baron's inflation data land differently than a chart of CPI data. They're things we can feel. Gasoline, grocery shopping, going out to dinner, \$17 cocktail. Use them.

Holding cash is paying a tax to the system. Most people never see the line item. It doesn't appear on a statement. It isn't labeled anywhere. It shows up later, quietly, when an investor who thought they were being cautious realizes their \$500,000 "safe" account has the purchasing power of something considerably less — and the years required to recover it are running out. Baron's thesis isn't a prediction about what the market will do next quarter. It's a statement about the mechanics of money over time, backed by 60 years of data and a portfolio built entirely around the implications. This isn't to say we should never hold cash or bonds, but for many investors I think this perspective on inflation deserves some serious consideration. Remind them that the bar is 7%. Cash doesn't clear it. Taxes make it worse. And the clock is always running.

UNDERSTANDING EQUITY DILUTION

Paul Hanrahan

Understanding Equity Dilution

For private companies, fundraising decisions are critical to facilitating growth. To make an informed decision, however, it's important to understand the long-term implications of equity dilution.

What is Equity Dilution?

Equity dilution is defined as the decrease in equity ownership for existing shareholders that occurs when a company issues new shares. Typically, a founder starts out owning 100% of a company and, every time capital is raised or shares are issued, that ownership stake is reduced. This is why equity dilution is sometimes called founder dilution. It is also known as stock dilution, share dilution, private company dilution and startup dilution.

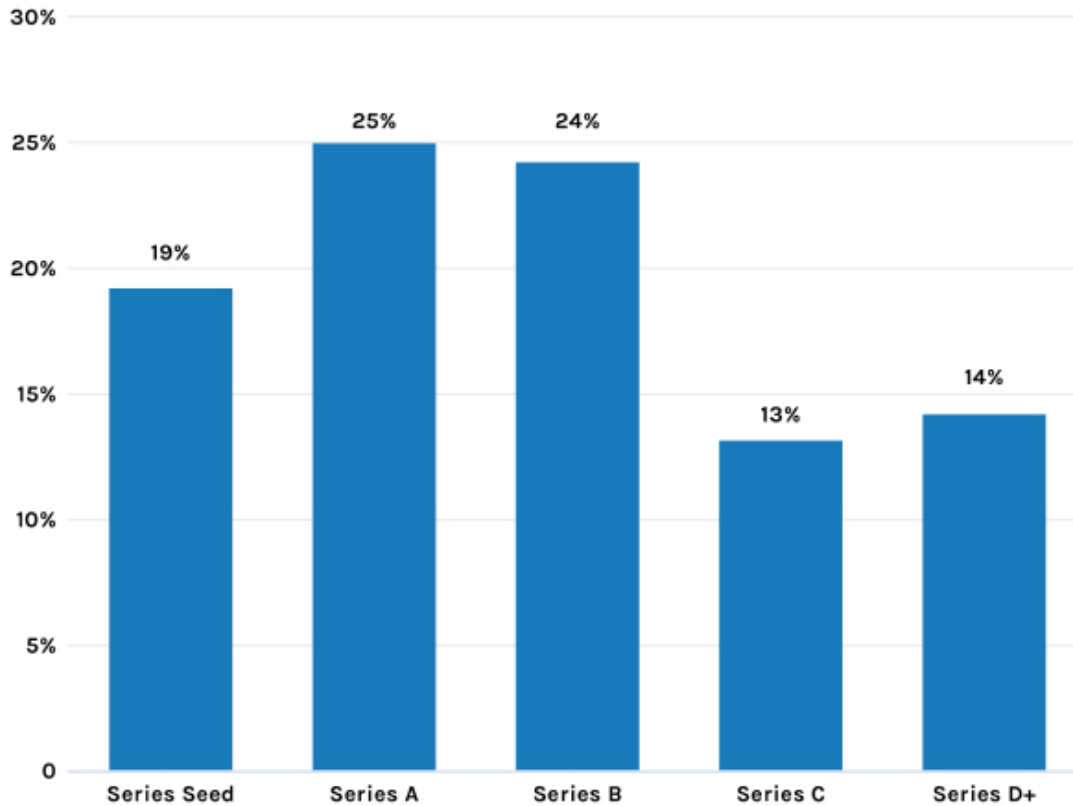
How Does Equity Get Diluted?

To understand how dilution works in practice, consider this example. Let's say the founder of a company valued at \$2 million owns 100 shares, representing a 100% ownership stake. To finance growth, the company raises an additional \$500,000 and issues 25 new shares to its new investor, increasing the total pool of shares to 125. Despite still owning 100 shares, the founder's ownership stake drops to 80% (100 out of 125), while the new investor now owns 20% of the company (25 out of 125). After enough equity dilution takes place, the founder's stake may be reduced to less than 50%, risking the loss of majority voting power.

However, while the founder's ownership stake has declined, the total post-money valuation of the company is now \$2.5 million—meaning the founder's 80% stake is still worth \$2 million. That's why founders and early investors may be willing to accept some measure of equity dilution as long as the valuation of the company rises.

A challenge arises if, due to market conditions or underperformance, the valuation of the company declines. In this case—or if a founder is at risk of losing ownership control—some founders and early investors may seek protection through anti-dilution measures.

Median Employee Dilution by Stage in Percentage Points



"Typical" Dilution Rates

Executives should expect dilution of between 14-25% in nearly any round not matter the stage. However, dilution does appear to be smaller at the earliest and latest stages of a company's life. Dilution peaks in the Series A and B.

What Are Anti-Dilution Measures?

Anti-dilution protection can help protect from dilution when shares are sold at a price per share that is less than the price paid by earlier investors. Also known as subscription privileges, subscription rights and pre-emptive rights, there are two common types of anti-dilution provisions:

- Full ratchet anti-dilution measures allow investors to maintain nearly the same ownership stake as before the company's valuation declined, compensating for any dilution caused by future fundraising rounds.
- Weighted average anti-dilution measures determine the rate of dilution based on the amount of money and price per share previously raised compared to the amount of money and price per share raised during future financing rounds. While they do not eliminate dilution, they reduce the rate of dilution that would otherwise occur.

What are Some Common Sources of Equity Dilution?

While the most common source of equity dilution is fundraising, there are several other scenarios where equity may get diluted. For instance, if employees are awarded restricted stock units (RSUs) as part of their equity compensation, existing shareholders will see their equity diluted when those RSUs vest. Similarly, if a company issues convertible debt, current shareholders will be diluted if those notes are converted into new shares. The same is true if stock option holders exercise their options and become shareholders.

How is Equity Dilution Calculated?

A basic formula for calculating equity dilution is to divide a current shareholder's total number of existing shares by the sum of the total number of outstanding shares + the total number of new shares, as shown in the example above.

In practice, however, multiple factors go into the calculation of equity dilution, such as:

- New shares from equity investment
- Shifts in company valuation
- Conversions of convertible notes with warrants, valuation caps, and/or discounts
- Issuance of new options before and/or after the fundraising round
- Repurchase of stock as part of the new round

Given these complexities, some companies may rely on equity administration software to help model various fundraising scenarios and calculate dilution. Find out how Morgan Stanley at Work can help you calculate share dilution so that you can maintain an accurate cap table.

Meet Our Team – The Pelican Bay Group at Morgan Stanley

The Pelican Bay Group assists high-net-worth individuals and institutional clients in meeting their financial objectives by offering customized portfolio management strategies.

The Pelican Bay Group, a team of Morgan Stanley Financial Advisors, has four experienced portfolio managers covering an array of disciplines and offering a variety of strategies designed to optimize risk to help meet their clients' investment objectives. These investment styles are offered as fully discretionary strategies with a comprehensive fee based on the asset value being managed.

The team currently manages \$4.6 billion in client assets as of December 31, 2025.



Garrett Hill was born and raised in Berkeley, California before moving to Denver, Colorado where he currently resides. Prior to moving to Colorado, Garrett attended the University of California, Berkeley where he majored in economics.

Beginning his career in the financial services industry at Charles Schwab working as a broker assisting clients with trading, account maintenance, and education of different financial products. Garrett joined the Pelican Bay Group at Morgan Stanley in May 2025. He holds his Series 7, Series 63, and Series 66 licenses.

Garrett is a Registered Client Service Associate and handles the daily operational and administrative functions of the Pelican Bay Group's Denver and Wyoming offices. Working closely with Financial Advisors Jeanette Cox, Marcy Bonnet, Shelley Ford, and Brock Boedecker. Garrett is dedicated to constantly learning and expanding his knowledge and skills related to wealth management and financial Planning.

In his personal time Garrett enjoys cooking, snowboarding, restoring classic cars, and spending quality time with friends and family.



Keila Bevins is a Florida native, born and raised in Central Florida. She began her career in the financial services industry in 1998 at United Southern Bank where she held multiple roles over 16 years, which include Client Service Relations, Senior Residential Lending Assistant and Senior Commercial Lending Assistant. After her 16 years in the banking industry, Keila joined Merrill Lynch in 2014 as a Wealth Management Client Service Associate where she obtained her Series 7 and Series 66. In late 2021, she decided to take a "mini retirement" for one year so she could travel. That's when Keila took a countrywide road trip in her campervan and explored many National Parks. In September 2022, she returned home, joined Morgan Stanley, as a Senior Registered Associate and couldn't be happier to work with such a wonderful team and company.

Keila's primary responsibilities include administrative and operational duties while working closely with the team and clients to help ensure all their needs are met. Keila prides herself on providing an extraordinary level of service and being able to administrative solutions in a timely manner.

Outside of work Keila enjoys spending time with her 3 children and grandchildren. Keila loves being outdoors whether it's by the pool, beach, camping or hiking. She loves to travel, try new restaurants and going to happy hour with friends.

THE PELICAN BAY GROUP WEALTH MANAGEMENT

Our team of financial professionals is national in scope, with Financial Advisors stationed in strategic locations across the country. As part of Morgan Stanley, one of the world's most respected financial services firms, we offer access to extensive resources that can prove instrumental in helping you meet even your most complex financial challenges. Our team members include:

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This material contains forward looking statements and there can be no guarantees they will come to pass. The information and statistical data contained herein have been obtained from sources believed to be reliable but in no way are guaranteed by Morgan Stanley as to accuracy or completeness. There is no guarantee that any investments mentioned will be in each client's portfolio.

Growth investing does not guarantee a profit or eliminate risk. The stock of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

Small- and mid-capitalization companies may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of small- and mid-capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.

Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies. The companies identified within are shown for illustrative purposes only and should not be deemed a recommendation to purchase or sell the companies mentioned.

Technical analysis is the study of past price and volume trends of a security in an attempt to predict the security's future price and volume trends. Its limitations include but are not limited to: the lack of fundamental analysis of a security's financial condition, lack of analysis of macro-economic trend forecasts, the bias of the technician's view and that possibility that past participants were not entirely rational in their past purchases or sales of the security being analyzed. Investors using technical analysis should consider these limitations prior to making an investment decision.

Tax-loss harvesting. IRS rules stipulate that if a security is sold by an investor at a tax loss, the tax loss will not be currently usable if the investor has acquired (or has entered into a contract or option on) the same or substantially identical securities 30 days before or after the sale that generated the loss. This so-called "wash sale" rule is applied with respect to all of the investor's transactions across all accounts.

The value of all types of securities, including index mutual funds and exchange-traded funds, may increase or decrease over varying periods.

The individuals mentioned as the Portfolio Management Team are Financial Advisors with Morgan Stanley participating in the Morgan Stanley Portfolio Management program. The Portfolio Management program is an investment advisory program in which the client's Financial Advisor invests the client's assets on a discretionary basis in a range of securities. The Portfolio Management program is described in the applicable Morgan Stanley ADV Part 2, available at www.morganstanley.com/ADV or from your Financial Advisor.

To obtain Tax-Management Services, a client must complete the Tax-Management Form and deliver the signed form to Morgan Stanley. For more information on Tax-Management Services, including its features and limitations, please ask your Financial Advisor for the Tax Management Form. Review the form carefully with your tax advisor. Tax-Management Services: (a) apply only to equity investments in separate account sleeves of client accounts; (b) are not available for all accounts or clients; and (c) may adversely impact account performance. Tax-management services do not constitute tax advice or a complete tax-sensitive investment management program. There is no guarantee that tax-management services will produce the desired tax results.

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The Financial Advisors listed may only transact business, follow-up with individualized responses, or render personalized investment advice for compensation, in states where they are registered or excluded or exempted from registration, <https://advisor.morganstanley.com/the-pelican-bay-group> or FINRA Broker Check <http://brokercheck.finra.org/Search/Search.aspx>.

THE PELICAN BAY GROUP WEALTH MANAGEMENT

Options carry a high level of risk and are not appropriate for all investors.

Certain requirements must be met to trade options through Morgan Stanley. Investing involves risks, including loss of principal. Hedging and protective strategies do not assure a profit or guarantee against loss. With long options, investors may lose 100% of funds invested. Covered calls provide cash flow, downside protection only to the extent of the premium received, and limit upside potential to the strike price plus premium received. Spread trading must be done in a margin account.

Before engaging in the purchase or sale of options, clients should understand the nature and extent of their rights and obligations and be aware of the risks involved, including, without limitation, the risks pertaining to the business and financial condition of the issuer of the underlying security/instrument. If a client is considering engaging in options trading, the Financial Advisor and Private Wealth Advisor are required to provide the client with the "Characteristics and Risks of Standardized Options" (ODD) booklet from the Options Clearing Corporation. Clients should not enter into options transactions until they have read and understood the Disclosure Document and discussed transaction costs with the Financial Advisor or Private Wealth Advisor. A copy of the ODD is also available online at: <http://www.theocc.com/about/publications/publication-listing.jsp>

The sale of the stock through an option assignment or the closing/expiration of an option position may be a taxable event produce a tax consequence. Certain in-the-money non-qualified, written covered call options may also be subject to adverse writes are deemed 'unqualified' and carry certain tax consequences. Prior to entering into any proposed transaction, recipients should determine, in consultation with their own investment, legal, tax, regulatory and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences, of the transaction. Morgan Stanley Smith Barney LLC and its affiliates do not provide tax or legal advice. To the extent that this material or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Supporting documentation for any claims (including any claims made on behalf of options programs or the options expertise of salespersons), comparisons, recommendations, statistics, or other technical data, will be supplied upon request.

There are many factors that an investor should be aware of when trading options including but not limited to interest rates, volatility, stock splits, stock dividends, stock distributions, currency exchange rates, etc.

Annualized returns will not be calculated for holding periods less than 60 days.

If a secondary market in options becomes unavailable and prevents a closing transaction, the options writer's obligation would remain until expiration or assignment. NOTE: This statement is not intended to enumerate all of the risks entailed in trading options. It is expected that you will read the booklet entitled "Characteristics and Risks of Standardized Options" (see www.theocc.com/components/doc/riskstoc.pdf). Please direct your attention to Chapter X, "Principal Risks of Options Positions."

Morgan Stanley Wealth Management would like to inform investors of the inherent risks of trading the following strategies.

- Bullish strategies generally have greater risk of loss in falling markets.
- Neutral strategies generally have greater risk of loss in volatile markets.
- Bearish strategies generally have greater risk of loss in rising markets.

Special Statement for Covered Call Traders

Options are not appropriate for all investors; covered call strategy may not be appropriate for all investors. Some of the risks of covered call writing may include:

- An option writer may be assigned at any time during the life of the option, including the day written, regardless of the in-or out-of-the-money status of the position.
- Of the short call is assigned, the writer must deliver the underlying security.
- The writer of a covered call forgoes the opportunity to benefit from an increase in the value of the underlying security above the option strike price, but continues to bear the risk of a decline in the value of the underlying security.

Option prices are driven by several factors, one of which is the price of the underlying security. If the price of the stock underlying an option increases or decreases, the value of the option contract may change. An increase or decrease in market and/or stock volatility is also likely to affect the price of an option contract.

- The outlook for the broader market or the underlying security may change.
- Buying back a call to close an existing position and writing another call with a different strike price and/or expiration, also known as rolling, can have an adverse impact on the profitability of the account. Rolling may result in added transaction costs which will reduce returns or add to any losses. Note: It may not be prudent to continually roll positions at a loss.

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Alternative investments are often speculative and include a high degree of risk. Investors can lose all or a substantial amount of their investment. They may be highly illiquid, can engage in leverage, short-selling and other speculative practices that may increase volatility and the risk of loss, and may be subject to large investment minimums and initial lock-ups. They may involve complex tax structures, tax inefficient investing and delays in distributing important tax information. They may have higher fees and expenses that traditional investments, and such fees and expenses can lower the returns achieved by investors.

Foreign currencies may have significant price movements, even within the same day, and any currency held in an account may lose value against other currencies. Foreign currency exchanges depend on the relative values of two different currencies and are therefore subject to the risk of fluctuations caused by a variety of economic and political factors in each of the two relevant countries, as well as global pressures. These risks include national debt levels, trade deficits and balance of payments, domestic and foreign interest rates and inflation, global, regional or national political and economic events, monetary policies of governments and possible government intervention in the currency markets, or other markets.