

## The Pelican Bay Group Wealth Management



### MARKETS, THE FUTURE OF WEALTH MANAGEMENT AND AXE THROWING

Jennifer Hartmann, CIMA®

As we move swiftly toward the end of the year, two topics are front and center for our team. The first is always, the markets. Every day, we think about the world around us and how to help make money for clients while managing risk and tax efficient investment decisions.

The second topic is the future of the wealth management as a business. What do we need to do today to position ourselves and our clients for the future. No one can accuse us of small thinking !

First, the markets. In our opinion, the US is in the midst of a spending boom supported by innovation and accommodative policies. Innovation is being driven by advances in AI and demand for all the things that support AI. Data centers, energy, power, cloud storage, on and on. Trade policies are incentivizing the on-shoring of these efforts as companies try to lessen the impact of tariffs by manufacturing in the US. We believe this immense trend will have momentum far into the future. We look for the evidence. We just came through 3Q25 earnings and the amount of companies that outpaced quarterly guidance and raised expectations for growth in future quarters was the highest in four years. (source: FactSet)

However, (and you knew this was coming) growth often comes with landmines and speedbumps. Perhaps some can be avoided or at least lessened by being aware of the risks you can see and thoughtful about those you cannot.

We have been through boom cycles before and we can say with high conviction that risks don't matter, until they do. Meaning, momentum and excitement can paper over a lack of earnings for only so long - until some pillar comes crashing down. So even with pom-poms out, we look for the evidence to support our optimism and stay keenly aware for threats. There is nothing worse than making money only to give it all back when something appears that should have been obvious all along.

What could derail a coming growth cycle? The main items we are paying attention to are tariffs, interest rates, jobs and stock valuations. High tariffs could reduce consumer spending and drive-up inflation, stalling the next interest rate decrease.



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AI could impact a weakening labor market, making job growth slow. US equity valuations are high and could be ready for a correction. Water finds its own level.

It is our belief that certain industries can grow through recessions or economic weakness. We have seen this before too. Themes like cyber security, AI technology, cloud storage, energy infrastructure, electronic payments are good examples. The world does not move backwards. People are not going to give up their AI search app, buy encyclopedias and send their kids to the card catalog for the answers. Nope, not happening – progress moves the world forward.

So, where does that leave us? We believe we are in the midst of a growth cycle and expect volatility.

We like to use volatility to try to average into a target allocation at more favorable entry points. Our team's dedication is covered call writing portfolio management strategies\*. Ask us for more info on that as well and growth opportunities we see.

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In October we had our Pelican Bay Group team offsite in Nashville, where we tackled questions like: What is the future of wealth management and what do we need to do now to position for the future - for our team and our clients? A few things we think you will find interesting and thoughts on what the future might hold:

Our team is often included in pilots for various technology and processes that Morgan Stanley is developing or rolling out. We all enjoy being involved and engaged with what is next and don't miss a chance to give input and provide feedback that can help steer a favorable outcome. Our team was part of an initial group of advisors to use AI to record client meetings. (With client permission, of course.) This allows us to be focused on the conversation as opposed to taking notes. The tool creates an organized list of next steps - both for us and for our client. Huge time saver and a terrific client experience. Ask us about it.

One of the equity strategies managed by our team was the first of its kind to use customized trading technology that helps us automate trading and tax management for our clients. (Click [here](#) for the article.)

So, to wrap this all together, we can start to see shapes in our crystal ball. We see a clear path for AI to add efficiency in our business. Our team and our clients are already experiencing the benefits. Clients will likely come to expect assets to be managed such that gains and losses are suggested or automatically taken. Imagine if wealth management advice and access for clients included private companies. This could open a whole new channel.

Finally, no matter what your opinion of crypto currency - the technology to tokenize assets will likely change the way we think about investing and advise on what is possible. It doesn't mean we make abrupt changes, but it does mean we are ready for it all and put ourselves in the best possible place to guide and advise. We value the relationships we have with clients above all and appreciate the opportunity to work together into the future.

Finally, axe throwing. As mentioned above, we held our team offsite in Nashville as it was a direct flight for most and a good rate at the hotel. After a full day of meetings, where else can you find an establishment that plays music, serves beverages AND gives a lesson on axe throwing to a group of twenty? Next time you speak with your PBG FA, ask them how they did!

## THE ROTH IRA

Heather Churchill, CFP®, CIMA®, CPWA®, RMA®, CRPS®, CLTC®, CEPA

Today, I detail the overlooked Roth. As simple as Roth IRAs seem to be, it is one of the tools that I look to use as often as possible. For our Team, Roth IRAs remain a cornerstone for sophisticated retirement planning. As advisors to high-net-worth clients, we continually seek strategies that not only defer but actively minimize lifetime tax liabilities while preserving flexibility. Let's discuss the nuanced advantages of Roth IRAs, the tactical deployment of Roth conversions, and their role in averting IRMAA surcharges—complete with lesser-known facets that can elevate your client relationships. Integrate these into plans, using the Roth Conversion feature in LifeView. Nine times out of ten, Roth conversions increase the likelihood of success in our financial plans. Let's talk about it...

\*The Pelican Bay Portfolio Management Strategies are For Use with the Morgan Stanley Investment Advisory Programs. Please see important disclaimers at the end of the material.

## THE PELICAN BAY GROUP WEALTH MANAGEMENT

Roth IRAs provide tax-free compounding and distributions, and those anticipating bracket creep or legislative tax shifts. This is good for ultra-high earners phasing out of direct contributions—recall this year's contribution limits: \$7,000 for those under 50, \$8,000 for 50+, subject to MAGI (Modified Adjusted Gross Income) thresholds of under \$150,000 single or \$236,000 joint for full eligibility.

A key differentiator: No lifetime RMDs, allowing deferral and strategic drawdowns to manage taxable income streams. For clients with substantial tax-deferred assets, this can help “tax bracket filling” in low-income years, such as post-retirement but pre-Social Security.

We routinely counsel clients to delay social security so that we have more room in the brackets for conversions. Hard to argue, especially with an extension of the TTC. Moreover, Roths serve as a buffer against sequence-of-returns risk, enabling tax-free access during market downturns without inflating AGI. In estate planning, Roths deliver tax-free inheritances; non-spouse beneficiaries may be eligible to stretch distributions over 10 years under SECURE 2.0.

Roth conversions—transferring pre-tax assets to Roth status—enable clients to front-load taxes at today's rates, even more attractive with the tax cut extensions. This may be especially potent for clients in temporary low-bracket scenarios, like career transitions or early retirement gaps. No annual conversion caps allow for ladder approaches: Convert just enough to top off current brackets, helping to minimize the immediate hit while eroding future RMD burdens.

Quantitatively, conversions can reduce a client's effective lifetime tax rate by 10-20% in modeled scenarios, particularly when paired with charitable strategies or QCDs from remaining traditional IRA accounts. If your client is philanthropically inclined, you can pair an MSGIFT contribution with a Roth Conversion. For heirs, converted assets potentially transform taxable distributions into tax-free income ones, helping to amplify intergenerational wealth transfer efficiency. Be vigilant with the pro-rata rule for non-deductible contributions and the five-year clock on earnings to avoid unintended tax consequences. With rates still compressed, prioritize conversions for clients under age 73 to help preempt RMD spikes. Model via Monte Carlo in Lifeview simulations to illustrate breakeven points, factoring in opportunity costs of upfront taxes.

IRMAA surcharges—levied on Medicare Parts B and D—escalate premiums based on MAGI from two years prior, starting at \$106,000 single or \$212,000 joint in 2025, with tiers climbing to over \$600 monthly per part for top brackets. Traditional RMDs can often trigger these, potentially inflating costs by thousands annually. Enter Roth conversions: By shifting assets pre-retirement, you can help reduce future RMD-driven MAGI, keeping clients below thresholds. Qualified distributions from Roth IRAs, being income tax-free, don't count toward MAGI, offering stealth income for healthcare funding. A phased conversion strategy—for example, \$50,000 annually in the 22% bracket—could save \$5,000+ yearly in IRMAA for a couple in the first surcharge tier.

Here are some little known facets about Roth's:

- Contributions eligibility based on having Earned Income (subject to phaseout based on MAGI): No age ceiling—clients in their 80s with consulting gigs can continue funding.
- First-Time Homebuyer Exception on Earnings: Up to \$10,000 of earnings (post-five-year rule) withdrawable penalty-free for home purchases, applicable per lifetime and extendable to family members—a boon for multi-generational planning.
- Tax-Free Recharacterization Loophole Closed, , but high earners, who are ineligible to make annual contributions, may be eligible to convert traditional retirement assets to a Roth: While recharacterizations ended in 2018, Eligible clients should consider with their tax advisors whether this approach is appropriate for them.
- Integration with HSAs: For clients maxing HSAs, Roth IRAs may serve as a complement by providing another tax-free bucket for medical expenses.

As you can see, as I often tell clients, Traditional IRAs and 401(k)'s simply defer tax by kicking the tax obligation down the road. Roth IRA's/401(k)'s can essentially draw the line in sand. No more tax on the deferral and distribution if certain conditions are met. It comes down to a cost benefit analysis, assessing whether it makes more sense to pay income taxes today (in exchange for income tax-free qualified distributions) verse pay income taxes in the future (in exchange for current income tax exclusion or deductions, as applicable), taking into account the downstream impacts of each (e.g., impact on Medicare Premiums, RMDs, etc.).

## SMALL CAP VS PRIVATE MARKETS

Brandon Bolock, CFP®

In decades past, the public markets, particularly small-cap equities, were the most accessible way to capture the growth of emerging companies. But the market landscape has evolved. Today, many of the most dynamic businesses remain private far longer than they once did, reshaping where and how growth opportunities appear. This presents both a challenge and an opportunity: how to rethink portfolio construction in a world where public small-cap exposure no longer tells the full growth story.

Historically, small-cap stocks — companies typically valued between \$300 million and \$2 billion — offered investors exposure to businesses in their early expansion phase. They were the public market's version of private enterprise growth: smaller, nimble, and often leaders in emerging industries. However, over the past 20 years, the number of publicly listed U.S. companies has declined by nearly half. Fewer companies are going public, and those that do are waiting until they are far more mature. The median age of a company at IPO has roughly doubled compared to the late 1990s. Firms can remain private longer because the depth and availability of private capital enables growth outside public markets. Staying private also avoids many of the regulatory requirements and disclosures that public companies abide by - just think of the ability for these companies to avoid the scrutinization of their quarterly earnings reports.

For these reasons, it is no surprise the public small-cap universe has thinned, while private equity markets have expanded dramatically. Companies are increasingly turning to private funding rounds to fuel growth, driven by abundant capital, flexible ownership structures, and reduced disclosure requirements. This shift has allowed private investors to capture a larger portion of the corporate growth cycle — the value creation that used to occur post-IPO now often happens pre-IPO. For investors, this means the potential for attractive returns is increasingly found in private markets. Therefore, investors need to broaden their toolkit beyond traditional equity sleeves to include institutional-quality private equity and private credit solutions, provided it is a fit with one's liquidity, time horizon, and risk tolerance.

As investors become more aware of private market opportunities, we are expected to guide them through the nuances — structure, liquidity, manager selection are some of the few considerations. Providing access to vetted private market solutions can help investors enhance their portfolios from a risk-return standpoint. However, education is essential: investors need to understand that the trade-off for higher return potential is reduced liquidity and longer investment horizons.

All of this doesn't mean abandoning small caps, as they can remain an important component of diversified equity exposure. But recognizing that the growth cycle now starts and matures largely outside the public markets is key. By understanding how private markets and small-cap equities fit together, we can design portfolios that reflect today's reality: a world where innovation happens earlier, privately, and often out of view of the public exchanges

## THE STAGES OF FINANCIAL PLANNING

Chris Reynolds

Financial planning is often thought to be a tool used for those on the cusp of retirement. I think it's important to reconsider this outdated methodology. If you break down an individual's working career into three different subsets, there is a case to be made that planning should not be thought of as a "can I retire now?" tool, but rather a tool that should be used throughout your entire life.

### Early Working Career

The first subset of individuals includes those who have just started their career and are now afforded the opportunity to invest in a 401(k) or IRA. This is the best time to start this process as it clearly demonstrates the value of time in the market using the power of compounding. Illustrating the importance of savings and all the options available to help achieve long-term goals can be invaluable.

### Midpoint of Career

A significant amount of planning starts at this point. This is a great time to engage and run through different retirement scenarios clients may have. If there are certain aspirational goals to model, advisors can give feedback and help form a plan on how best to make these goals achievable. If plan scenarios project shortfalls, there is still time to address these and make the necessary adjustments to get these scenarios back on track.

## Approaching Retirement/ Retired

It's always a great idea to run a plan prior to retirement to see if your anticipated spending level can be supported by the assets you have accumulated. Since spending is such an important piece of retirement, it is crucial to put together concrete numbers and stress test your finances. Based on the feedback, steps can be taken to help ensure assets are producing the necessary cash flow needs while positioning portfolios to help outpace withdrawals and inflation.

While in retirement, a plan is a good financial wellness check-in. Additionally, it can serve as a preliminary outline for estate planning. Advisors can use the plan to cautiously project estate values to see if there may be a need to engage an estate attorney. If so, necessary next steps would be taken on any more complex planning needs to help preserve assets for the current generation and plan for the next generation of investors.

No matter the age, there is a use case to run a financial plan. As with investing, there are benefits to starting early, but as outlined above there is always valuable information to be gained and ideas that can be implemented.

## MOVING ABROAD AND THE POTENTIAL IMPACT ON YOUR INVESTMENT

Jeanette Cox

How much thought have you put into your finances/investments when considering moving abroad? Did you know that most financial firms and banks have limitations as to whom they can do business with depending on jurisdiction? Did you know that being a US citizen isn't enough to not be impacted by potential restrictions in some jurisdictions?

When a person decides to move abroad, their financial life undergoes a significant transformation. One of the most complex aspects to manage is a person's investment portfolio. The tax and legal frameworks for investing can vary dramatically from one country to another, and a lack of understanding can lead to unexpected tax liabilities, penalties, or even loss of access to accounts.

Let's explore the key considerations and potential impacts on your investments when you move abroad, with a focus on how different jurisdictions can affect your financial strategy.

Many US brokerage firms have restrictions on serving non-US residents due to compliance with foreign regulations. This can make it challenging for expats to maintain their US investment accounts and access the US financial markets. It is crucial to find an expat friendly brokerage that allows US citizen to invest while living abroad.

Some strategies to consider for a smooth transition:

- Seek professional advice – this is one of the most critical steps. A qualified and experienced cross-border financial advisor and tax specialist can help you navigate the complexities of international tax laws, reporting requirements and investment strategies
- Understand the Tax Treaty – if a tax treaty exists between your home country and your new country of residence, study it carefully. This can provide relief from double taxation and clarify how different types of income and gains are treated.
- Simplify your portfolio – to minimize complications, consider simplifying your investment portfolio before you move. This might involve consolidating accounts or selling off assets that would be subject to punitive taxation in your new jurisdiction.
- Match currency with future expenses – if you plan to retire in your new country, it may be prudent to invest in assets denominated in the local currency. Conversely if you plan to return home, maintaining a portfolio in your home currency may be a better strategy

Moving abroad is an exciting life change, but it requires meticulous financial planning. The impact on your investments can be profound and varies significantly based on the jurisdiction involved. By understanding the potential challenges and working with knowledgeable professionals you can protect your assets and build a successful financial future, no matter where in the world you chose to live.



## HUMANOID ROBOTICS

Jeanine Delgadillo, CFP®

I recently came across a humorous exchange between two of my colleagues. One asked, "Do you use please and thank you when you ask your AI chatbot a question?"

The response: "Always, we have to be on the good list when they revolt."

Coincidentally, my next email was an update from a fund investing in companies with exposure to humanoids. My mind always goes to stories like Westworld or I, Robot and the fear of what could come next if technology goes wrong. However, thinking through this space can lead to uncovering new investment opportunities for a rapidly shifting future.

Just as the internet reshaped communication and AI transformed data, a new revolution is quietly forming: humanoid robotics.

Advances in artificial intelligence, machine learning, and sensor technologies are giving rise to robots capable of mimicking human movement, perception, and interaction – ushering in a new industrial and service paradigm. Investment managers site this as a large opportunity in the AI space. A shift away from software only advancements.

You may recall the news clip earlier this year of a humanoid that ran a half marathon in China. There was also recent news of a home robot coming to market that can do your household chores like folding laundry, watering plants, and it will also converse with you through its built-in large language model.

I was surprised to learn that the humanoid robotic market could surpass \$5 trillion with an estimated over 1 billion robots in use to resemble and act like humans by 2050\*.

Early prototypes are already performing logistics, manufacturing, and healthcare assistance roles. Consider a factory worker humanoid that can work around the clock in warehouses. I was a personal witness to a robot taking on a human's role when my son underwent heart surgery as a baby. We had a surgeon who I would classify as a superhero but, when explaining the procedure, I was surprised to learn that part of the process was largely executed by a robot. Fortunately, everything went smoothly for us, but it was wild to initially wrap my head around the work not being performed by a human anymore.

Bringing this back to the investment landscape, it represents an opportunity to participate in the infrastructure of the future workforce – where capital, automation and artificial intelligence converge. Thinking through the opportunities will be complex and there are many avenues to consider (companies directly producing the technology, hardware components, or exposure to real estate that houses data centers etc.). Many of these early adopter companies are private and still developing.

Humanoids are no longer science fiction – they are becoming an investable frontier. We can see parallels to the computing boom of the 1980s and the internet era of the 1990s where technology in our life begins to take on a whole new role.

[\\*Humanoid Robot Market Expected to Reach \\$5 Trillion by 2050 | Morgan Stanley](#)

## 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 \$4.4 billion in client assets as of June 30, 2025.



Sherie Connorton embodies many admirable traits that both clients and co-workers want in a portfolio associate. She is dependable and amicable. Naturally good-hearted, she strives every day to exceed expectations with every task she assumes.

Additionally, she is exceedingly loyal, to clients for sure – “I have their best interests in mind at all times,” she says -- but also to Morgan Stanley. Hired in April 1991, she has worked at the firm and predecessor companies for her entire financial services career.

Sherie handles a wide array of administrative and operational responsibilities for the Pelican Bay Group's Rochester, N.Y. office. She worked in operations for 10 years before becoming a Senior Registered Associate and is now a Portfolio Associate.

“My overriding goal is to make life easier for clients and financial advisors,” she says. “That could mean everything from onboarding new clients, fielding their calls, to placing trades and performing research tasks to help solve a problem.”

Given her long tenure at Morgan Stanley, Sherie is very familiar with the colleagues she needs to contact to help clients and complements the work of financial advisors at the Pelican Bay Group who want to leverage the firm's global capabilities and vast resources to a client's benefit.

Sherie has successfully completed the Series 7 and Series 63 examinations. She also holds her NYS Life Accident & Health License and is a Notary Public.

Sherie studied at Morrisville College and lives in Rochester; she enjoys camping, cooking, hiking, traveling and spending time with her family and friends.



Nicholas Primavera epitomizes what it means to be a trusted client service associate because he works hard to exceed each client's expectations in every way, every business day. Nicholas accomplishes this goal by taking the time to listen carefully to his clients and helping satisfy their needs in a timely and efficient manner.

“I strive to be the type of professional investors can rely on, regardless of the situation,” he says. “That starts by welcoming their phone call, making them feel comfortable and delivering a level of service and support they won't find anywhere else.”

Given his solid work ethic, Nicholas has managed to build an excellent rapport with many clients since joining Morgan Stanley in 2021.

Specifically, Nicholas handles the daily operational and administrative functions of the Pelican Bay Group's New York City office. His responsibilities range from opening and managing client accounts to placing trades at the request of clients.

In addition to serving investors, Nicholas works closely with the Pelican Bay Group's experienced financial advisors to support their efforts in meeting each client's needs. He holds the Series 7 and Series 66 licenses.

Born on Long Island and raised in Stony Brook, New York, Nicholas has a bachelor's degree in Business Management and Marketing from the University of Hartford in Connecticut. In his free time, he enjoys working out, traveling, golfing, spending time with friends and family and rooting for his favorite sports teams, the Yankees, Jets and Knicks.

## 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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Indices are unmanaged. An investor cannot invest directly in an index.

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For index, indicator and survey definitions referenced in this report please visit the following: <https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions>

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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.

Please add additional disclaimers:

A 10% penalty tax will apply on funds converted to a Roth if those funds are withdrawn before five years have elapsed unless the owner is age 59 ½ or another exception applies.

A Roth Conversion may not be right for everyone. There are a number of factors taxpayers should consider before converting, including (but not limited to) whether or not the cost of paying taxes today outweighs the benefit of income tax-free Qualified Distributions in the future. Before converting, taxpayers should consult their tax and legal advisors based on their specific facts and circumstances.

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](http://www.morganstanley.com/ADV) or from your Financial Advisor.

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Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment. Companies paying dividends can reduce or stop payouts at any time.

Fixed Income investing entails credit risks and interest rate risks. When interest rates rise, bond prices generally fall.

Past performance is not a guarantee of future results.

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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](http://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 than 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.