



## The Benedict-McLoughlin Report 2015 Investment Outlook

By Christopher Benedict, CFA

- Global central banks, including the U.S. Federal Reserve, remain very accommodative
- We may experience a broader participation in risk assets globally in 2015
- The combination of low inflation expectations and ample global liquidity may keep interest rates lower for longer

### THE BENEDICT-MCLOUGHLIN GROUP

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#### The Benedict-McLoughlin Group

**Chris Benedict, CFA®**

First Vice President – Wealth Management  
Senior Portfolio Manager  
chris.benedict@morganstanley.com

#### Brian McLoughlin

Vice President – Wealth Management  
Financial Advisor  
brian.mcloughlin@morganstanley.com  
10960 Wilshire Boulevard  
Los Angeles, CA 90024  
Tel 310-443-0555  
Fax 310-443-0566

2014 provided positive returns broadly for both equity and fixed income. The equity returns, however, were largely concentrated in the U.S. with the S&P 500 up around 13% while the rest of the world, as represented by the MSCI World Index ex-U.S., was actually down around 4% in \$U.S. terms.<sup>1</sup> Investors have been focusing on a fairly stable U.S. recovery which has been helped by the historical monetary policy stimulus provided by the U.S. Federal Reserve. While interest rates have also been relatively low in most of the rest of the world, the economic and earnings recovery has been less robust as compared to the U.S. On the fixed income front, the U.S. Treasury market fooled most pundits in 2014 as most saw a rising rate environment instead of the declining one that prevailed. This theme was prevalent in most of the rest of the world as signs of inflation are almost non-existent. In fact, deflation has been becoming more of a concern and the recent 50%+ decline in the price of oil has only exacerbated this worry. The recent moves in many other major commodities have also been signaling that inflation is not a concern, at least in the short-term.

Looking to the year ahead, the overall investment outlook is fairly positive as the U.S., still the largest single economy on the

planet, remains in a positive trend. However, several questions remain for investors. Will U.S. equities continue to outperform the rest of the world or has its recent outperformance stretched relative valuations far enough? Will quantitative easing (QE) increase economic activity in Japan and Europe? Will intermediate/long-term U.S. interest rates finally increase or will they continue to take their cue from Europe and Japan and remain low...or even decline further? Other questions that are seemingly important, at least according to the media, such as who won the Greek elections or why did the Swiss let their currency float again, will ultimately not be that important in the intermediate/long-term. Overall, I expect 2015 to be more about cash flow and less about consternation and this should result in broad based positive returns across most global risk assets.

## Passing the Baton

The U.S. is now several years into an economic recovery, albeit a relatively subdued one. Improvement is clearly evident in the areas that were hardest hit in the Great Recession, namely, housing, financial services and the labor market. Housing starts have increased to around one million units per annum at the end of 2014 from a low of around 500,000 in 2009. A better housing market not only helps consumer confidence due to the wealth effect but, also increases home building activity which has flow-through effects to the labor market and ancillary industries. Furthermore, many of the loans outstanding at banks and other financial institutions have been supported by the increasing values of the underlying assets. The general increase in loan volume also helps. Finally, the labor market in general has improved significantly since 2009 with the unemployment rate having declined to 5.6% in December from a high of 10.1%.<sup>2</sup>

Importantly, I believe a great deal of the improvement just outlined was a direct result of the massive monetary stimulus by the U.S. Federal Reserve (zero interest rate policy, ZIRP, and quantitative easing, QE). So, does that mean that a change in this policy will de-rail the U.S. and global economic recovery...I believe the answer is no. While the Fed has ended its outright bond buying program and is also expected to begin raising short-term rates in 2015, its balance sheet will remain large and their pace of rate increases is likely to be very deliberate. Further, and perhaps more importantly, the new QE programs in Japan and now Europe should keep the world awash in liquidity. The Japanese and Europeans now appear fully committed to improving their respective economies. If successful, the global economy will feel the positive benefits as well. Furthermore, the significant decline in the price of oil acts like a tax cut for consumers and could add 0.4% to U.S. GDP alone, according to Gluskin Sheff.<sup>3</sup>

Of course, there are some worry spots as well. While the unemployment rate has declined significantly over the past five years, the labor market is still not fully healed as evidenced by the labor participation rate which was 62.9% in 2014, the lowest since 1979. Further, the same rate for prime aged men between 25 – 54 was only

88.2%, which is the lowest since records began in 1948.<sup>4</sup> And, while the housing market has improved, housing starts have been relatively sluggish and are still about 50% below previous peaks. Additionally, while the decline in oil is unquestionably beneficial for consumers, it is not good for capital spending in the energy industry. However, energy's share of overall fixed investment is lower than in the past and may not have such a large effect on overall capital spending. In fact, according to Haver Analytics, the last time we saw a 50% supply-induced decline in the price of oil (1986), energy capital spending made up 9% of overall cap-ex vs. 6% today.<sup>5</sup> (see graph on p.8) Overall, the "worry spots" in the labor market and housing bear watching but, they may actually keep the Fed dovish for longer and investors have done well historically by sitting on the same side of the table as the large central banks...and they are sitting on the "pro-growth" side.

## Asset Allocation<sup>6</sup>

Of course, before any investor begins to analyze specific markets or securities, a proper asset allocation strategy should be established. Unfortunately, asset allocation often takes a back seat to specific securities or sectors in investment research reports and the financial media. This is a bit counterintuitive as the asset allocation decision is often described as one of the most important decisions an investor has to make. Every investor has unique objectives and risk tolerances and constructing an allocation strategy based on these unique characteristics can help minimize unnecessary risk given a certain return objective or, similarly, help maximize the expected return given a certain risk level. The fact that different asset classes and sub-asset classes are not perfectly correlated enables what amounts to be the closest thing to a "free lunch" in the investment world as overall portfolio risk may be reduced by combining asset classes that are uncorrelated. Therefore, it is my contention that a proper asset allocation strategy implemented and managed in a disciplined fashion by a qualified investment professional can add significant value. However, it is important to note that even proper diversification does not guarantee a profit or protect against a loss, as 2008 and early 2009 so vividly demonstrated.

I essentially address asset allocation strategy at three levels; long-term (strategic) target allocation ranges, short/intermediate-term (tactical) adjustments within target ranges, and periodic re-balancing. For example, considering a hypothetical investor with a strategic target allocation of 50% stocks and 50% bonds (for the sake of simplicity, ignore other asset classes for the moment), I would target strategic ranges of 35 – 65% for stocks and 35 – 65% for fixed income as opposed to actual fixed-point targets of 50% each. Once a strategic range is established, I then tactically determine where in the range we should be. The more attractive I believe equities are, for example, the higher the allocation within the range. Of course, these ranges also apply to sub-asset classes like small versus large capitalization equities, for example (see table on p.4). Finally, a re-balancing review is done at least annually or following significant market moves.

The philosophical underpinning of my approach to asset allocation is rooted in the belief that the core of an investment portfolio should be strategically positioned for the long-term, given the specific objectives and risk tolerance of the investor. To be sure, wholesale market-timing calls (i.e., shifting entire allocation into all stocks or all cash, for example) have historically proven difficult to execute consistently. However, by allowing subtle, tactical shifts within the strategic ranges, skilled portfolio managers are generally able to take advantage of relative value discrepancies while still leaving room for error. For example, in early 2003, I moved my equity exposure to the high end of strategic ranges because I believed the relative risk/return tradeoff between stocks and investment-grade fixed income significantly favored stocks. Although that turned out to be correct, if equities had continued their downward slide following the Internet bubble and 9/11, an investor's long-term plan should not have been significantly impaired. Compare that to a market timer who may have thought the market bottomed and moved 100% into equities in 2001/early 2002 or in 2008 (pre-Lehman Brothers

bankruptcy), only to suffer through significant declines which take many years to make up. Similarly, investors that moved to 100% cash may run the risk of getting back in the stock market too late over the next months or years in order to achieve their long-term return objectives.

Finally, careful monitoring and rebalancing are considered essential components of a disciplined approach. A major benefit of rebalancing, of course, is the potential reduction of overall portfolio volatility. For example, if stocks outperform bonds for a period of time, eventually an investor's allocation to stocks will likely grow to a percentage above the high end of the strategic range. In this case, rebalancing would require trimming stocks and adding to fixed income. Recent examples of this would have been during the stock market run-up in the late 1990s and 2006 - 2007 where trimming stocks and adding to fixed income served investors well while the opposite move in late 2002/early 2003 and late 2008/early 2009 was the appropriate adjustment. After the recent run-up, I believe investors should consider taking advantage of the current time period to do the same thing. By incorporating rebalancing in an asset allocation strategy, an investor is essentially "forced" to sell relatively dear assets while buying relatively cheap assets. Buying low and selling high has never served an investor wrong. The last fifteen years has proven to be a good time period to follow the re-balance discipline as global markets have generally traded in a fairly wide trading range. It will be important for investors to continue to monitor their portfolios as relative performance of certain sub-asset classes (i.e., US equities relative to international equities) may have stretched relative valuations too far and will eventually succumb to the "reversion to the mean" phenomenon that tends to repeat itself in financial markets.

### Hypothetical Allocation Ranges with a Balanced Allocation\*

Asset Class	Minimum (%)	Target (%)	Maximum (%)
Domestic Large Cap Equities	10%	20%	40%
Global Small/Mid Cap Equities	0%	5%	15%
International/EM Equities	5%	<u>15%</u>	30%
<b>Total Equities</b>	25%	<b>40%</b>	55%
Tax-Exempt Fixed Income	5%	20%	35%
Global Taxable Fixed Income	0%	10%	25%
High Yield/Floating Rate Fixed Income	0%	<u>10%</u>	20%
<b>Total Fixed Income</b>	25%	<b>40%</b>	55%
Specialty/Alternative/Opportunistic**	5%	20%	35%
<b>Total</b>		100%	

\* For illustrative purposes only and should not be construed as a specific recommendation.

\*\* Specialty/Alternative/Opportunistic may include hedge funds, private equity, real estate as well as tactical investments that are shorter term in nature.

*Please note that alternative investments, such as hedge funds and funds of hedge funds are made available only to qualified investors and involve varying degrees of risk.*

Importantly, many new investment vehicles are making this process easier for the knowledgeable investor. Not only should investors broaden their horizons geographically speaking, I believe they also need to broaden their horizons in terms of investment vehicles as well. Gone are the days where an investor just had to consider stocks, bonds and mutual funds. Today, we have Separately Managed Accounts (SMAs), Exchange Traded Funds (ETFs), closed-end funds, asset-linked Certificates of Deposit and, of course, an increasing number of alternative strategies (for qualified investors). Furthermore, over 2000 international companies are tradable in the U.S. via American Depositary Receipts (ADRs). These choices, while potentially daunting, enable private investors as well as smaller institutions to invest on the same playing field as the largest and most sophisticated institutional investors. From my perspective, these choices enable tremendous flexibility to match specific client objectives with the appropriate investment allocation, the appropriate investment vehicle, and the ability to manage the entire process in the most effective manner.

## Current Strategy

I expect global risk assets to do well in 2015 with broad global participation. Global monetary policy is expected to remain accommodative and global equity valuations are not stretched. At a price to earnings (P/E) ratio of approximately 16 on expected 2015 earnings of \$127, the S&P 500 is not particularly cheap but, the continued economic momentum should continue to drive increased earnings, albeit at a slower rate.<sup>7</sup> The perceived quality of the U.S. should also continue to support a premium multiple enabling the U.S. market to have a decent 2015. Overseas, equities are more attractively valued, significantly so, in some cases. Europe, for example, is trading at a relative cyclically adjusted price-earnings ratio (CAPE) of 0.54 vs. a 30+ year average of 0.88.<sup>8</sup> (see graph on p.8) Of course, cheap valuations are not a catalyst for impending positive relative performance but, taken with the potential catalyst of QE, there is some promise. A case could also be made for Japan and certain emerging markets; however, when looking abroad, investors should focus on the most attractive sectors and individual companies and also take into account any potential currency weakness. Related to the CAPE analysis just mentioned, U.S. profit margins are at all-time highs due to post-crisis restructuring and record low interest rates. We may be near a cyclical peak in these margins which means any earnings growth will need to be driven by good old-fashioned economic growth...it also means the next recession may produce a larger than average decline in overall profits in the U.S. (see graph on p.9)

Digging in a bit deeper, a number of sectors and sub-sectors look very attractive in the U.S. Consumers in general are benefitting from a stronger labor market and low energy prices which should help with discretionary spending. Automobiles, leisure, retailers and home builders should benefit with the latter group also benefitting from low mortgage rates and some potential changes in regulation making it easier for first time home buyers to qualify. Interestingly, December consumer sentiment came in at 98.2, the highest reading in ten years.<sup>9</sup> Also, some large, money center banks and certain regional banks that were particularly hard hit during the Great Recession look attractive as several

trade below book value and their valuations do not yet reflect substantially improved balance sheets and operating metrics. Finally, the technology sector is enjoying a great deal of innovation in mobile computing, social/digital media and global internet infrastructure. It appears that many new products are improving overall productivity and consumer satisfaction...and the stocks in this sector, in general, are not expensive.

On the fixed income side, investors basically just need to decide on whether to take interest rate risk or credit risk. Importantly, the Fed remains involved for the foreseeable future and I expect the yield on the 10-Year to remain range bound between, say, 1.5% - 2.50% for most of 2015 with the still incredibly low rates in Japan and Europe likely keeping a lid on U.S. intermediate and long-term rates. We continue to keep our portfolio durations relatively short and diverse. Underweighting U.S. Treasuries and other "high quality" bonds still makes sense, in my opinion. "Spread" securities such as high yield and senior bank loans, while not exactly cheap at this stage, are still attractive on a relative basis, in my opinion. "Non-traditional" sources of income like dividend paying equities, mortgage REITs and certain MLPs should also be considered. Given the recent turmoil in emerging market currencies, EM bonds may offer some opportunistic buying opportunities in 2015.

Where appropriate, non-traditional investments such as total and absolute return strategies are also an important part of a well balance portfolio, in my opinion. These strategies attempt to achieve a decent return regardless of how equity markets are performing and may help to reduce overall portfolio risk due to their low correlation to traditional equities and fixed income. Please see the tables on p.6 and p.10 for a summary of my overweights and underweights.

## Tactical Allocation Recommendations

Equities	+1	Fixed Income	-1	Alternative Investments	Equal
U.S.	-1	Treasuries	-2		
Int'l/Em. Mkts	+1	Inv. Grade Corp./Muni's	+1		
Growth	Equal	High Yield	+1		
Value	Equal	REITS	-2		
Large Cap	+2	Floating Rates	+2		
Small/Mid Cap	-2				

Legend	
+2	20% Overweight
+1	10% Overweight
Equal	Equal Weight
-1	10% Underweight
-2	20% Underweight

*For illustrative purposes only and should not be construed as a specific recommendation. Alternative investments are made available only to qualified investors and involve varying degrees of risk.*



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## Things to Watch

- **U.S. Deficit/U.S. Dollar:** Although improving, we continue to run large deficits and it appears that this will improve only modestly over the next year or two. Recent strength in the dollar as a result of interest rate differentials may hurt the profits of U.S. multinationals and, while the strength may continue in the short-term, I am more neutral on the dollar, broadly speaking, over the next year or two. Weakness in the Yen and the Euro can cause regional trade issues and not everybody's currency can weaken at the same time. That said, the clearest case for continued dollar strength remains vs. the Yen, in my opinion.
- **The "Welfare State":** Social safety nets play an important role in a modern economy; however, they can also dis-incentivize people from becoming productive members of society. There is an optimal point and any country/economy that goes beyond this point risks developing a culture where risk-taking is less prevalent, which could reduce economic dynamism at the margin.
- **Stimulus - Monetary and Fiscal:** I believe we have already passed the point of maximum accommodation in the U.S. The Federal Reserve is just about out of bullets and they will likely begin raising the federal funds rate in 2015. The continued budget problems at all levels of government (including entitlements) in the U.S. really limits any chance of massive fiscal stimulus, in my opinion, although the improvement in recent years may give the U.S. some flexibility to evaluate some positive ROI projects, particularly on the transportation infrastructure front.
- **Unemployment:** The unemployment rate in the U.S. peaked at 10.1% in 2009 but, has improved to 5.6% (as of 1/1/15) almost six years into a recovery. However, this figure has been supported by a decreasing labor participation rate. Economists expect unemployment to remain relatively high throughout the recovery. In fact, a broader measure of the unemployment rate, U-6, paints a less optimistic employment situation. However, the Fed will remain accommodative until the statistics improve.
- **Europe:** Europe finally appears poised to move from being a potential source of the next crisis to potentially becoming a positive catalyst that could help move the global economy to the next stage of recovery. While the membership of the European Union may, in fact, be different three years from now, the original reasons for the European Union (efficiency, increased global competitiveness, etc.) are as relevant as ever, in my opinion. Investors should hope for a relatively orderly evolution.
- **U.S. Housing Market:** The statistics appear to be consistent with a healing housing market. Prices have been rising in the past couple of years and housing starts have improved from unsustainably low levels. Overall, I expect the measured recovery for housing to continue for a few more years. After ten years of artificial forces effectively distorting housing both to the upside and downside, I expect a return to a "normal" market to be a stabilizing force for the economy.
- **Protectionism:** The severe global recession and its aftermath has factions in many countries pushing for policies that would "protect" their respective economies. Of course, we have learned that protectionist policies during the Great Depression exacerbated that economic downturn and we have proven the economic benefits of free trade in both theory and practice. I mean, come on, is this not why we educate ourselves?
- **Terrorism:** Clearly, a perennial risk these days and terrorists continue to be active globally. Worst case would result from a terrorist strike using Weapons of Mass Destruction (WMD), either nuclear or biological. A large enough event has the potential to negatively affect globalization and even population growth.

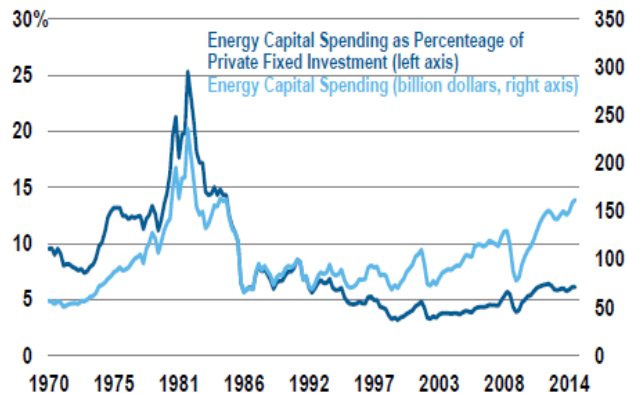
## GRAPHS OF INTEREST

### U.S. Energy Cap Ex as a % of GDP (1970 – 2014)

THE GIC WEEKLY

#### Chart of the Week: Cuts in Energy Capital Spending Should Not Kill the Cycle

With West Texas Intermediate oil breaking below \$50, investors have expressed concern about capital spending cuts. In 1986, the last time oil had a 50% decline in less than six months, capital spending in the energy sector fell 60% and overall capital spending declined. We do not think the 1986 analogy applies as energy's share of the total US fixed investment is much smaller, 6% today versus 9% then, and the fact that fracking wells are much more flexible, many have been price-hedged and are shorter lived, reducing the duration of negative cash drag. Current consensus estimates are for 35% to 40% in spending cuts this year, which would shave \$60 billion to \$70 billion from GDP. That's a manageable number considering lower gasoline and heating bills should save the economy close to \$200 billion in the next year.



Note: Energy capital spending data is seasonally adjusted and shown in 2009 dollars.

Source: Harver Analytics as of Sept. 30, 2014

### U.S. – Europe Relative Valuation (1979 – 2014)

CAPE Ratio<sup>1</sup>: MSCI Europe Relative To S&P 500  
As of December 31, 2014



CAPE Ratio Vs. MSCI Europe  
As of December 31, 2014



Source: FactSet, Morgan Stanley Wealth Management GIC



## U.S. Corporate Profit Margins as a % of GNP (1947 – 2013)



Source: [www.seekingalpha.com](http://www.seekingalpha.com)

1. Bloomberg Markets, 1/1/15.
2. Economic Beat, Barron's, 1/12/15.
3. Breakfast with Dave, Gluskin Sheff research, 1/5/15.
4. Economic Beat, Barron's, 1/12/15.
5. The Global Investment Committee (GIC) Weekly, Morgan Stanley, 1/12/15.
6. Much of this section is from my 2004 Investment Outlook, Oppenheimer & Co. Inc., 2/16/04.
7. The GIC Weekly, Morgan Stanley, 1/5/15.
8. The GIC: Client Presentation Materials, Morgan Stanley, December 2014
9. Economic Beat, Barron's, 1/26/15.
10. LSTA, [www.lsta.org](http://www.lsta.org), 1/25/15.

## Summary of Overweights and Underweights

Asset Class/ Industry/Sector	Reason
<b>OVERWEIGHTS</b>	
Absolute/Total Return Strategies	In what I believe will be a relatively modest return environment across asset classes, strategies that are designed to achieve high single digit returns may be additive to overall portfolio returns. These strategies typically have a low correlation to traditional assets, which may help reduce overall portfolio risk.
Large Cap Multi-Nationals	Still cheaper than small caps on many metrics. Large cap multi-nationals are generally in stronger financial shape and are more exposed to global growth, particularly from emerging markets. U.S. based multinationals would get added benefit from a weakening U.S. dollar over time.
High Dividend Yield Equities	Over the long run, dividends have accounted for a significant portion of the total return in equities. I believe this will be the case over the short and intermediate term as well.
China/Emerging Markets (Consumer Focused)	I believe we are in a significant shift of economic “power” from a U.S./Europe driven economic model to one where emerging market consumers decide that they would like a similar lifestyle which they increasingly see Westerners enjoy on the TV/Internet. There is still a very wide per-capita income gap between the emerging and developing markets that I expect will continue to narrow over time. Importantly, this dynamic should create a positive feedback loop for the global economy.
Europe	Europe’s financial system is approximately three years behind the U.S. in regards to de-leveraging and cleaning up their balance sheets. The ECB has re-upped its commitment to keep rates low a la the U.S. Federal Reserve, which is positive. Valuations in Europe are cheap on a relative and absolute basis.
Below Book Value Financial Companies	The ghosts of the financial crisis still lurk in certain sub-sectors and companies, particularly in how the market is valuing them. The companies that I am interested in have been improving their operations and I expect will continue to do so. Ultimately, I expect the market to begin to recognize this which should drive their valuations higher...and I expect this to happen in 2015.
Consumer Discretionary	Consumers have been helped by low interest rates for years and have increasingly been helped by the improving labor market. The drop in oil prices is further help. This combination should help the housing, retail and consumer technology sectors, among others. Any wage improvement would be a boost.
Corporate/High Yield Fixed Income	In the context of an overall underweight in fixed income, I am overweighting this sub-asset class. Yield spreads have narrowed dramatically since the crisis but still offer some value in short and intermediate maturities. The recent widening of spreads due to the oil price decline provides select opportunities.
Floating Rate Loans/Bonds	In the context of an overall underweight in fixed income, I am overweighting this sub-asset class. The floating rate nature of these securities essentially eliminates any duration risk while still yielding almost 4 percentage points above LIBOR. <sup>10</sup> Many of the existing securities outstanding are trading below par so there is the added potential of capital appreciation as credit markets normalize.
<b>UNDERWEIGHTS</b>	
Long-term Fixed Income	Rates remain low. Real rate of return below historical average. Aggressive rate cuts by the Federal Reserve may stoke higher future inflation. Higher quality bonds relatively expensive versus equities.
U.S. Treasury Securities	Low yields, potential future inflation and increasing supply to fund record deficits pretty much sums it up.
Small Cap Equities	The global nature of large caps (i.e., larger companies derive a greater percentage of their revenues from faster growing emerging markets) and relative valuation continues to favor large caps.
Developed Market Consumer Staples Stocks	Seen as a “safe haven” in the early years of the recovery, they are now expensively valued as a result. Further, other sectors have become more “palatable” as the global economy stabilizes.
Real Estate Investments Trusts (REITs)	The U.S. commercial real estate has stabilized after the meltdown of 2008/2009. However, the recovery continues to be slow and dividend yields are still unattractive, particularly as overall interest rates rise.

*For illustrative purposes only and should not be construed as a specific recommendation. A review of each investors financial situation and risk tolerances must be performed to determine suitability of any investments. \* indicates new recommended overweight or underweight.*

# The Benedict-McLoughlin Group at Morgan Stanley

10960 Wilshire Boulevard  
Los Angeles, CA 90024

Phone: 310.443.0555  
Fax: 310.443.0566

[chris.benedict@morganstanley.com](mailto:chris.benedict@morganstanley.com)  
[brian.mcloughlin@morganstanley.com](mailto:brian.mcloughlin@morganstanley.com)

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Investors should be willing and able to assume the risks of equity investing. The value of a client's portfolio changes daily and can be affected by changes in interest rates, general market conditions and other political, social and economic developments, as well as specific matters relating to the companies in which securities the portfolio holds.

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Equity securities may fluctuate in response to news on companies, industries, market conditions and the general economic environment. Companies cannot assure or guarantee a certain rate of return or dividend yield; they can increase, decrease or totally eliminate their dividends without notice.

The initial interest rate on an inflation-linked security may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in CPI. However, there can be no assurance that these increases in CPI will occur. Some inflation-linked securities may be subject to call risk.

International investing may not be suitable for every investor and is subject to additional risks, including currency fluctuations, political factors, withholding, lack of liquidity, the absence of adequate financial information, and exchange control restrictions impacting foreign issuers. These risks may be magnified in emerging markets.

The value of fixed income securities will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

Master Limited Partnerships (MLPs) are (rolled-up) limited partnerships or limited liability companies that are taxed as partnerships and whose interests (limited partnership units or limited liability company units) are traded on securities exchanges like shares of common stock. Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. Because of their narrow focus, MLPs maintain exposure to price volatility of commodities and/or underlying assets and tend to be more

volatile than investments that diversify across many sectors and companies. MLPs are also subject to additional risks including: investors having limited control and rights to vote on matters affecting the MLP, limited access to capital, cash flow risk, lack of liquidity, dilution risk, conflict of interests, and limited call rights related to acquisitions.

REITs are subject to special risk considerations similar to those associated with the direct ownership of real estate. Real estate valuations may be subject to factors such as changing general and local economic, financial, competitive, and environmental conditions. REITs may not be suitable for every investor.

Dividend income from REITs will generally not be treated as qualified dividend income and therefore will not be eligible for reduced rates of taxation.

***S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.***

The **MSCI World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of May 30 2011, the **MSCI World Index** consists of the following 24 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. An investment cannot be made directly in a market index.

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Date of first use: 1/25/15