You should reassess your asset allocation periodically. To do so, follow these steps:

1. **Review your desired asset allocation percentages.** Over time, how much you want to allocate to different asset classes will probably change as your personal circumstances change. In general, you should consider a more conservative allocation if you are older, have short-term needs for your funds, have low earnings, or are uncomfortable with investing.

2. **Determine your portfolio’s current allocation.** You should consider all your investments, including taxable accounts, individual retirement accounts, and retirement plans at work.

3. **Determine how much variation you are willing to tolerate in your asset allocation.** It’s unlikely that your actual asset allocation will equal your desired asset allocation, due to varying market values and rates of return. Since it is difficult to maintain precise asset allocation percentages, decide how much variation you will tolerate.

4. **Decide how to move your portfolio closer to your desired asset allocation.** If you have not reassessed your asset allocation for awhile, you may find that significant changes are needed to get your allocation back in line. However, you may not want to make drastic changes all at once. Instead, you might want to take a more gradual approach to shifting your asset allocation.

Please call if you’d like help evaluating your asset allocation.

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**Myth 2: Lower Returns Mean Investing in Bonds Isn’t Worth It**

Bonds may not be as glamorous as stocks and other investments, but that doesn’t mean they don’t have a place in your investment portfolio.

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Myths about Bonds

continued from page 1

Bonds are a way to add diversification to your portfolio; a stock-heavy portfolio can earn great returns, but it can also lose a lot of money fast if the market drops. Your stocks may eventually regain their losses; but if you need the money in the interim, you’ll need to find other resources.

Bonds can also provide a steady source of income, which may be appealing if you’re at a point when you want to live off investment income. They are also a way to preserve your capital while still earning some returns.

In addition, certain types of bonds offer tax advantages — income earned on municipal bonds is free of federal income tax and sometimes state and/or local income taxes, for example.

Myth 3: Bonds and Bond Funds Are Essentially the Same

Not exactly. In some ways, the difference between individual bonds and bond funds is similar to the difference between individual stocks and stock mutual funds. Like a stock mutual fund, with a bond fund, you give your money to a professional investment manager, who chooses a range of bond investments on your behalf.

With an individual bond, you have an investment in a single bond, which you hold until the bond’s maturity date. Individual bonds have fixed payments, often semiannually or quarterly; and if you hold the bond to maturity, you’ll get your original investment back.

Bond funds, on the other hand, have fluctuating income based on how well the underlying bond investments perform. Bond funds are more liquid than individual bonds, however, which means it’s easier to sell your investment if you need the cash.

You’ll also need to invest in a greater array of individual bonds to diversify the bond portion of your portfolio. Which bonds are right for you depends on your goals, comfort level with investing, and other factors.

Myth 4: All Bonds Are Safe Investments

First, it’s important to understand there are no guarantees when it comes to investing — there’s always risk. While bonds are generally considered less risky than stocks, that doesn’t mean there’s no risk, and some bonds are riskier than others.

Bonds issued by the U.S. federal government carry minimal risk (for example, savings bonds or Treasury bonds). But similar bonds issued by a less-stable country or government could carry much more risk. State and local bonds (called munis) come with a greater risk of default than bonds issued by the U.S. federal government. Corporate bonds can be risky too, especially so-called junk bonds.

Please call to discuss bonds in more detail.

Should You Defer Income Taxes?

Should you pay income taxes now so you can withdraw funds after retirement tax free? Or are you better off delaying income taxes until after retirement? This is the basic decision when choosing between a traditional deductible individual retirement account (IRA) or a Roth IRA, or between a 401(k) or a Roth 401(k) plan. With the Roth options, you are paying taxes now so you can take qualified distributions income-tax free. With the traditional IRA and 401(k) plan, you are delaying taxes until distributions are taken.

The standard advice is to consider whether your tax bracket will be higher or lower in retirement. If you are likely to be in a higher tax bracket, you’ll usually benefit from the Roth options. If you’re likely to be in a lower tax bracket, you may benefit more from a traditional IRA or 401(k) plan.

Most people naturally assume their tax rate will be lower in retirement, since their income will typically be lower. That assumes income tax rates will stay constant over that time period, even though they are at historically low levels. No one knows how those rates will be adjusted by Congress over the years.

Thus, it may be prudent to use tax diversification for your portfolio. This strategy attempts to protect your portfolio against tax rate fluctuations. It is a concept similar to asset allocation, in which you protect your portfolio against price fluctuations. With tax diversification, you invest in a number of investment vehicles with different tax ramifications. For instance, you might invest in a Roth IRA, from which qualified distributions can be taken with no tax consequences; a 401(k) plan, saving you taxes now and later paying ordinary income taxes on qualified distributions; and taxable accounts, where the capital gains taxes must be paid on sales of appreciated investments. During retirement, you can then monitor your tax situation and withdraw money from assets that make the most sense during any particular year.
Bonds at Every Stage of Life

Bonds are an important component of a well-balanced portfolio throughout every stage of an investor’s life. Regardless of your life stage, you should consider having bonds in your investment portfolio.

At the Beginning

As a beginning investor in your 20s or 30s, you have a long time to maximize capital and are probably in the best position to assume risks for larger returns. Even at this early stage of investing, you should develop a portfolio that also balances risk and market volatility. While higher-yield investments are important, you will still want to balance them with some lower-risk investments, including bonds. At this stage, you can:

- Grow capital with bonds that offer higher yields if you assume higher risk. You should make sure you understand the terms and conditions, including the bond’s rating, call features, and if it is insured.
- Protect your savings for a large purchase, such as a car, wedding, or house. Lower-risk bonds can be a better investment than a traditional savings account to save for large purchases. You may want to consider Treasury or corporate bonds with maturity dates that align with your time frame.
- Diversify your employer-sponsored retirement plan, such as a 401(k) plan. Your plan most likely offers a variety of mutual funds, and bond funds are a good way to diversify your portfolio and spread risk. The stock and bond markets do not typically move in the same direction, so bonds can stabilize and help with your overall returns.

In the Middle

Your mid-30s to late 40s should be a time of accumulating wealth and investing for retirement and other long-term goals. At this point in your life, you should rebalance your portfolio on a regular basis to ensure your allocation is keeping pace with your goals. Bonds should become a larger portion of your asset allocation, because they will offer more predictable income and continue to balance higher-risk equities.

- Tax-advantaged bond investing is a good way to help offset taxes if you’re in a higher tax bracket. Municipal bonds, which are issued by state and local governments, are an attractive investment in your income-earning years because they are exempt from federal income taxes. And if you live in the same state as the issuer, they are free from state and local taxes as well.
- Zero-coupon bonds can be a good, cost-effective investment for specific goals, such as college or retirement. They are sold at a steep discount from their face value, and when they mature, the face value will include both the principal and any accumulated interest.

Approaching Retirement

Now that you’re getting closer to retirement, many experts recommend that at this point, you should begin increasing the bond portion of your portfolio to 50% or more to lower your risk. Some issues to consider when evaluating bonds for your portfolio:

- Managing interest rate risk is important because when interest rates rise, bond prices fall, and vice versa. One way to manage this risk is with a bond ladder. This strategy allows you to invest in a port-
Why Should You Consider Bonds?

Why Should You Consider Bonds?

Bonds add diversification to your portfolio. One strategy to help counter the effects of stock market volatility is to add investments to your portfolio that aren’t highly correlated with the stock market. Historically, stocks have a low positive correlation with corporate and government bonds.

Bonds offer fixed, periodic interest payments and the return of your principal at maturity. Thus, even in the event of a significant market decline, you receive some return in the form of interest payments, and you’ll receive your principal at maturity.

Bonds are often better suited to short- and medium-term financial goals. If you need your money in a few years, you may not want to keep those funds in stocks, since a major stock market decline could occur when you need your money.

Most investors will hold stocks, bonds, and cash in their investment portfolios. How much you should allocate to the bond portion will depend on your circumstances, but over time that percentage is likely to change. For instance, young investors are likely to be more concerned with growth, so bonds may only make up a small percentage of their portfolio. On the other hand, those who are retired or close to retirement are likely to own a higher percentage of bonds, as safety of principal and a steady income stream become more important. In general, the percentage of bonds you own should increase as you become more averse to putting your capital at risk.

Stock Indices

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<tr>
<th>Stock Indices</th>
<th>September 2013 to August 2018</th>
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<tbody>
<tr>
<td>Dow Jones Ind. Ave.</td>
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<tr>
<td>Nasdaq Comp.</td>
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<td>Standard &amp; Poor’s 500</td>
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Interest Rates

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<thead>
<tr>
<th>Interest Rates</th>
<th>September 2013 to August 2018</th>
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</thead>
<tbody>
<tr>
<td>Prime rate</td>
<td>5.0% 4.5% 4.25%</td>
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<tr>
<td>Money market rate</td>
<td>0.45% 0.33% 0.26%</td>
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<tr>
<td>3-month T-bill rate</td>
<td>2.08% 1.45% 1.02%</td>
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<tr>
<td>20-year T-bond rate</td>
<td>2.91% 2.66% 2.57%</td>
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<tr>
<td>Dow Jones Corp.</td>
<td>3.84% 3.13% 2.95%</td>
</tr>
<tr>
<td>Bond Buyer Muni</td>
<td>4.02% 3.88% 4.00%</td>
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