

Seeing the Whole Picture: How to think like the 1%

The investment world is complex and filled with noise. Making decisions on how to spend money or where to make investments can feel overwhelming. Especially in times of uncertainty, it can be useful to consider how to make these decisions as objectively as possible.

See the Whole Picture

The most important element of any financial decision is to see how it fits into your overall financial picture. If you have a financial plan, it is important to see how the current decision could affect that plan.

However, a potential trap many people fall into is that of only considering how the monthly cash flow would be affected by the decision. Rather, we need to understand the total costs involved.

A car purchase could be a useful example. When looking at such a purchase, you might be asked what your monthly budget is for car payment. Such an approach tends to ignore the actual price being paid for the car and what the total cost of the purchase is including financing costs. Extending the length of loan can decrease the monthly payment. However, the total interest paid on the car could very much be higher. In this situation, you might choose to make such a deal, but it is critical to have made the evaluation with full information.

Money is a Tool

Money is one of the topics that can evoke a lot of emotion. However, it is important to first recognize that money is a tool that can help achieve goals. When certain emotions arise around financial topics, emotions of fear and anxiety are not uncommon. By coming back to the idea that money is a tool, you can evaluate how you can use it to help align with your goals.

When making financial decisions, it is also important to keep in mind that there might be other options. Many professional investors include opportunity costs in their evaluation. They routinely ask, "What else could we do with our assets?" Such an approach can help ensure that important decisions are not made in a vacuum.

Strategically Manage Debt and Taxes

Debt can be an important tool when used wisely. It can help manage cash flows and it can help avoid selling financial assets at inopportune times. However, we have to remember not falling into a trap of getting over leveraged. We have to come back to the idea that loans can be tailored to fit a monthly budget at a potential cost of increasing the total cost of a purchase.

Managing the potential tax consequences of financial decisions is also important. While complex tax decisions require the assistance of tax professionals, tax consequences clearly exist with investment decisions. While we generally don't want to sell investments when they are down, doing so tactically can make sense when we can create a tax loss benefit to be used to offset taxable gains incurred with other investments.

Consider Liquidity as an Asset Class

One final area of consideration is that of liquidity. The term liquidity fundamentally refers to how quickly you can sell your assets and turn them into spendable cash. Many people put much more emphasis on accessibility of their assets than professional investors do. It is always important to match the timing of assets and liabilities to help avoid mismatches that might lead to poor decision making. However, for truly long-term purposes, leaning too heavily on accessibility to your investments can limit potential investment opportunity.

In an increasingly complex financial world with increasing uncertainty, it is important to review the strategies and tactics employed by professionals. We might not always be able to employ these ideas, but being aware of them can help you make better decisions to help remain on track.

Ted Berry

Senior Vice President, Financial Advisor
Senior Portfolio Manager
NMLS# 1261936

The Ternion Planning Team at Morgan Stanley

1747 Pennsylvania Avenue NW #900
Washington, DC 20006
Direct 202.778.1588
eFax 202.470.5763

When Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors (collectively, "Morgan Stanley") provide "investment advice" regarding a retirement or welfare benefit plan account, an individual retirement account or a Coverdell education savings account ("Retirement Account"), Morgan Stanley is a "fiduciary" as those terms are defined under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and/or the Internal Revenue Code of 1986 (the "Code"), as applicable. When Morgan Stanley provides investment education, takes orders on an unsolicited basis or otherwise does not provide "investment advice", Morgan Stanley will not be considered a "fiduciary" under ERISA and/or the Code. For more information regarding Morgan Stanley's role with respect to a Retirement Account, please visit www.morganstanley.com/disclosures/dol. Tax laws are complex and subject to change. Morgan Stanley does not provide tax or legal advice. Individuals are encouraged to consult their tax and legal advisors (a) before establishing a Retirement Account, and (b) regarding any potential tax, ERISA and related consequences of any investments or other transactions made with respect to a Retirement Account.

Diversification and asset allocation strategies do not guarantee a profit or protect against loss in a declining financial market.

The views expressed herein are those of the author and do not necessarily reflect the views of Morgan Stanley Wealth Management or its affiliates. All opinions are subject to change without notice. Neither the information provided, nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Past performance is no guarantee of future results.

This material has been prepared for informational purposes only. It does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Morgan Stanley Smith Barney LLC ("Morgan Stanley") recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Morgan Stanley Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Past performance is no guarantee of future results. 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.

Morgan Stanley Smith Barney LLC offers a wide array of brokerage and advisory services to its clients, each of which may create a different type of relationship with different obligations to you. Please visit us at <http://www.morganstanleyindividual.com> or consult with your Financial Advisor to understand these differences.

Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors or Private Wealth Advisors do not provide tax or legal advice. Individuals should consult their tax advisor for matters involving taxation and tax planning and their attorney for matters involving trusts, estate planning, charitable giving, philanthropic planning or other legal matters.

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.

Morgan Stanley Smith Barney LLC is a registered Broker/Dealer, Member SIPC, and not a bank. Where appropriate, Morgan Stanley Smith Barney LLC has entered into arrangements with banks and other third parties to assist in offering certain banking related products and services.

Investment, insurance and annuity products offered through Morgan Stanley Smith Barney LLC are: NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED | NOT A BANK DEPOSIT | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

Morgan Stanley Smith Barney LLC. Member SIPC. CRC 4874790 10/25