

MORGAN STANLEY
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January 03, 2019

January 2019

Preliminary Pricing Supplement No. 1,412

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Dated January 3, 2019

Filed pursuant to Rule 424(b)(2)

Morgan Stanley Finance LLC

Structured Investments

Opportunities in U.S. Equities

Jump Notes with Auto-Callable Feature due July 31, 2026

Based on the Value of the S&P 500[®] Daily Risk Control 10% USD Excess Return Index

Fully and Unconditionally Guaranteed by Morgan Stanley

The notes are unsecured obligations of Morgan Stanley Finance LLC (“MSFL”) and are fully and unconditionally guaranteed by Morgan Stanley. The notes will pay no interest and will have the terms described in the accompanying product supplement and prospectus, as supplemented and modified by this document. The notes will be automatically redeemed if the index closing value on any annual determination date is greater than or equal to the then-applicable redemption threshold level (which will increase over the term of the notes), for an early redemption payment that will increase over the term of the notes and that will correspond to a return of approximately 6.00% *per annum*, as described below. No further payments will be made on the notes once they have been redeemed, and the investor will not participate in any appreciation of the underlying index if the notes are redeemed early. At maturity, if the notes have not previously been redeemed and the final index value is greater than the initial index value, investors will receive the state principal amount *plus* 1-to-1 upside performance of the underlying index. However, if the notes are not automatically redeemed prior to maturity and the final index value is less than or equal to the initial index value, investors will receive only the stated principal amount of their investment, without any positive return on the notes.

These long-dated notes are for investors who are concerned about principal risk but seek an equity index-based return, who are willing to accept that the underlying index’s volatility target feature may reduce upside performance in bullish markets, and who are willing to forgo current income in exchange for the possibility of receiving an early redemption payment or payment at maturity greater than the stated principal amount if the underlying index closes at or above the applicable redemption threshold level or above the initial index value, as applicable, on an annual determination date. The notes are notes issued as part of MSFL’s Series A Global Medium-Term Notes program.

All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These notes are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

SUMMARY TERMS

Issuer: Morgan Stanley Finance LLC
Guarantor: Morgan Stanley
Issue price: \$1,000 per note (see “Commissions and issue price” below)
Stated principal amount: \$1,000 per note
Aggregate principal amount: \$
Pricing date: January 28, 2019
Original issue date: January 31, 2019 (3 business days after the pricing date)
Maturity date: July 31, 2026
Interest: None
Underlying index: S&P 500® Daily Risk Control 10% USD Excess Return Index

If, on any annual determination date (other than the final determination date), the index closing value of the underlying index is **greater than or equal to** the then-applicable redemption threshold level, the notes will be automatically redeemed for the applicable early redemption payment on the related early redemption date. No further payments will be made on the notes once they have been redeemed.

Early redemption: The early redemption payment will be an amount in cash per stated principal amount (corresponding to a return of approximately 6.00% per annum) for each annual determination date, as follows:

Early redemption payment:

1st determination date: \$1,060	5th determination date: \$1,300
2nd determination date: \$1,120	6th determination date: \$1,360
3rd determination date: \$1,180	7th determination date: \$1,420
4th determination date: \$1,240	

No further payments will be made on the notes once they have been redeemed.

Redemption threshold levels:

1 st determination date:	103.00% of the initial index value	5 th determination date:	115.00% of the initial index value
2 nd determination date:	106.00% of the initial index value	6 th determination date:	118.00% of the initial index value
3 rd determination date:	109.00% of the initial index value	7 th determination date:	121.00% of the initial index value
4 th determination date:	112.00% of the initial index value		

If the notes have not previously been redeemed, you will receive at maturity a cash payment as follows:

- If the final index value is **greater than** the initial index value:

Payment at maturity: \$1,000 + (\$1,000 x index percent change)

- If the final index value is **less than or equal to** the initial index value:

\$1,000

Estimated value on the pricing date: Approximately \$945.10 per note, or within \$30.00 of that estimate. See “Investment Summary” beginning on page 3.

Commissions and issue price:	Price to public	Agent's commissions⁽¹⁾	Proceeds to us⁽²⁾
Per note	\$1,000	\$	\$
Total	\$	\$	\$

Selected dealers and their financial advisors will collectively receive from the agent, MS & Co., a fixed sales commission of \$ for each note they sell. See "Supplemental information regarding plan of distribution; conflicts of interest." For additional information, see "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement.

(2) See "Use of proceeds and hedging" on page 19.

The notes involve risks not associated with an investment in ordinary debt securities. See "Risk Factors" beginning on page 10

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these notes, or determined if this document or the accompanying product supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The notes are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

You should read this document together with the related product supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see "Additional Terms of the Notes" and Additional Information About the Notes" at the end of this document.

As used in this document, "we," "us" and "our" refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

Product Supplement for Equity-Linked Notes dated November 16, 2017

Prospectus dated November 16,

2017

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Based on the Value of the S&P 500® Daily Risk Control 10% USD Excess Return Index

Terms continued from previous page:

Index percent change: (final index value – initial index value) / initial index value

Initial index value: , which is the index closing value on the pricing date

Final index value: The index closing value on the final determination date

1st determination date: January 28, 2020

2nd determination date: January 28, 2021

3rd determination date: January 28, 2022

Determination dates: 4th determination date: January 30, 2023

5th determination date: January 29, 2024

6th determination date: January 28, 2025

7th determination date: January 28, 2026

Final determination date: July 28, 2026

The determination dates are subject to postponement for non-index business days and certain market disruption events.

Early redemption dates: The third business day following the relevant determination date

CUSIP: 61768DXG5

ISIN: US61768DXG59

Listing: The notes will not be listed on any securities exchange.

Morgan Stanley & Co. LLC (“MS & Co.”), an affiliate of MSFL and a wholly owned subsidiary of

Agent: Morgan Stanley. See “Supplemental information regarding plan of distribution; conflicts of interest.”

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Based on the Value of the S&P 500® Daily Risk Control 10% USD Excess Return Index

Investment Summary

Jump Notes with Auto-Callable Feature

The Jump Notes with Auto-Callable Feature due July 31, 2026 Based on the Value of the S&P 500® Daily Risk Control 10% USD Excess Return Index (the “notes”) provide investors:

§ an opportunity to gain exposure to the S&P 500® Daily Risk Control 10% USD Excess Return Index

§ the repayment of principal at maturity, subject to our credit risk

the possibility of receiving an early redemption payment or payment at maturity greater than the stated principal § amount if the underlying index closes at or above the applicable redemption threshold level or above the initial index value, as applicable, on an annual determination date

§ no exposure to any decline of the underlying index if the notes are held to maturity

At maturity, if the notes have not previously been redeemed and the underlying index has depreciated or has not appreciated at all, you will receive the stated principal amount of \$1,000 per note, without any positive return on your investment.

All payments on the notes, including any early redemption payment and the repayment of principal at maturity, are subject to our credit risk.

Maturity: 7.5 years

Interest: None

Automatic early redemption annually, beginning after one year:

If, on any annual determination date, the index closing value of the underlying index is greater than or equal to the applicable redemption threshold level, the notes will be automatically redeemed for the early redemption payment on the related early redemption date. No further payments will be made on the notes once they have been redeemed.

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·Ist determination date: January 28, 2020

·Jnd determination date: January 28, 2021

·Krd determination date: January 28, 2022

·Lth determination date: January 30, 2023

·Mth determination date: January 29, 2024

·Nth determination date: January 28, 2025

·Oth determination date: January 28, 2026

Final determination date: July 28, 2026

Redemption

threshold levels:

1 st determination date:	103.00% of the initial index value	5 th determination date:	115.00% of the initial index value
2 nd determination date:	106.00% of the initial index value	6 th determination date:	118.00% of the initial index value
3 rd determination date:	109.00% of the initial index value	7 th determination date:	121.00% of the initial index value
4 th determination date:	112.00% of the initial index value		

Early redemption payment:

The early redemption payment will be an amount in cash per stated principal amount (corresponding to a return of approximately 6.00% *per annum*) for each annual determination date, as follows:

·Ist determination date: \$1,060

·Jnd determination date: \$1,120

·Krd determination date: \$1,180

·Lth determination date: \$1,240

·Mth determination date: \$1,300

·Nth determination date: \$1,360

·Oth determination date: \$1,420

If the notes have not previously been redeemed, you will receive at maturity a cash payment as follows:

Payment at maturity:

· If the final index value is **greater than** the initial index value:

$\$1,000 + (\$1,000 \times \text{index percent change})$

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- If the final index value is **less than or equal to** the initial index value:

\$1,000

The original issue price of each note is \$1,000. This price includes costs associated with issuing, selling, structuring and hedging the notes, which are borne by you, and, consequently, the estimated value of the notes on the pricing date will be less than \$1,000. We estimate that the value of each note on the pricing date will be approximately \$945.10, or within \$30.00 of that estimate. Our estimate of the value of the notes as determined on the pricing date will be set forth in the final pricing supplement.

What goes into the estimated value on the pricing date?

In valuing the notes on the pricing date, we take into account that the notes comprise both a debt component and a performance-based component linked to the underlying index. The estimated value of the notes is determined using our own pricing and valuation models, market inputs and assumptions relating to the underlying index, instruments based on the underlying index, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the notes?

In determining the economic terms of the notes, including the early redemption payment amounts and the applicable redemption threshold levels, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the notes would be more favorable to you.

What is the relationship between the estimated value on the pricing date and the secondary market price of the notes?

The price at which MS & Co. purchases the notes in the secondary market, absent changes in market conditions, including those related to the underlying index, may vary from, and be lower than, the estimated value on the pricing date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the notes are not fully deducted upon issuance, for a period of up to 12 months following the issue date, to the extent that MS & Co. may buy or sell the notes in the secondary market, absent changes in market conditions, including those related to the underlying index, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. may, but is not obligated to, make a market in the notes, and, if it once chooses to make a market, may cease doing so at any time.

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Based on the Value of the S&P 500[®] Daily Risk Control 10% USD Excess Return Index

Key Investment Rationale

Jump Notes with Auto-Callable Feature offer investors potential returns based on the performance of equities or equity indices and provide for the repayment of principal at maturity. They are for investors who are concerned about principal risk but seek an equity index-based return, and who are willing to forgo current income in exchange for the possibility of receiving an early redemption payment or payment at maturity greater than the stated principal amount if the underlying index closes at or above the applicable redemption threshold level or above the initial index value, as applicable, on an annual determination date.

The following scenarios are for illustrative purposes only to demonstrate how an automatic early redemption payment or the payment at maturity (if the notes have not previously been redeemed) are calculated, and do not attempt to demonstrate every situation that may occur.

Scenario 1: The notes are redeemed prior to maturity

Starting on January 28, 2020, when the underlying index closes at or above the applicable redemption threshold level on any annual determination date, the notes will be automatically redeemed for the applicable early redemption payment on the related early redemption date, corresponding to a return of approximately 6.00% *per annum*. Investors do not participate in any appreciation of the underlying index.

Scenario 2: The notes are not redeemed prior to maturity, and investors receive a positive return at maturity

This scenario assumes that the underlying index closes below the applicable redemption threshold level on each annual determination date. Consequently, the notes are not redeemed prior to maturity. On the final determination date, the underlying index closes above the initial index value. At maturity, investors will receive the stated principal amount *plus* 1-to-1 upside performance of the underlying index.

Scenario 3: The notes are not redeemed prior to maturity, and investors receive the stated principal amount at maturity

This scenario assumes that the underlying index closes below the applicable redemption threshold level on each annual determination date. Consequently, the notes are not redeemed prior to maturity. On the final determination date, the underlying index closes at or below the initial index value. At maturity, investors will receive a cash payment equal to the stated principal amount of \$1,000, without any positive return on the notes.

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Hypothetical Examples

The following hypothetical examples are for illustrative purposes only. Whether the notes are redeemed prior to maturity will be determined by reference to the index closing value of the underlying index on each annual determination date, and the payment at maturity, if the notes are not redeemed early, will be determined by reference to the index closing value on the final determination date. The actual initial index value and redemption threshold levels will be determined on the pricing date. Some numbers appearing in the examples below have been rounded for ease of analysis. All payments on the notes are subject to our credit risk. The below examples are based on the following terms:

Stated Principal Amount:	\$1,000
Hypothetical Initial Index Value:	200
	·I st determination date: 206.00, which is 103% of the hypothetical initial index value
	·J nd determination date: 212.00, which is 106% of the hypothetical initial index value
	·K rd determination date: 218.00, which is 109% of the hypothetical initial index value
Hypothetical Redemption Threshold Levels:	·L th determination date: 224.00, which is 112% of the hypothetical initial index value
	·M th determination date: 230.00, which is 115% of the hypothetical initial index value
	·N th determination date: 236.00, which is 118% of the hypothetical initial index value
	·O th determination date: 242.00, which is 121% of the initial index value
Early Redemption Payment:	The early redemption payment will be an amount in cash per stated principal amount (corresponding to a return of approximately 6.00% <i>per annum</i>) for each annual determination date, as follows:
	·I st determination date: \$1,060 ·M th determination date: \$1,300
	·J nd determination date: \$1,120 ·N th determination date: \$1,360
	·K rd determination date: \$1,180 ·O th determination date: \$1,420

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·Lth determination date: \$1,240

No further payments will be made on the notes once they have been redeemed.

If the notes have not previously been redeemed, you will receive at maturity a cash payment as follows:

· If the final index value is **greater than** the initial index value:

Payment at Maturity:

$\$1,000 + (\$1,000 \times \text{index percent change})$

· If the final index value is **less than or equal to** the initial index value:

\$1,000

Automatic Call:

Example 1 — the notes are redeemed following the second determination date (which occurs in January 2021)

Date	Index Closing Value	Payment (per note)
1 st Determination Date	200 (below the applicable redemption threshold level, notes are not redeemed)--	
2 nd Determination Date	280 (at or above the applicable redemption threshold level, notes are automatically redeemed)	\$1,120.00

In this example, the index closing value on the first determination date is below the applicable redemption threshold level, and the index closing value on the second determination date is at or above the applicable redemption threshold level. Therefore the notes are automatically redeemed on the second early redemption date. Investors will receive \$1,120.00 per note on the related early redemption date, corresponding to an annual return of approximately 6.00%.

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No further payments will be made on the notes once they have been redeemed, and investors do not participate in the appreciation of the underlying index.

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Based on the Value of the S&P 500[®] Daily Risk Control 10% USD Excess Return Index**Payment at Maturity**

In the following examples, the index closing value on each annual determination date is less than the applicable redemption threshold level, and, consequently, the notes are not automatically redeemed prior to, and remain outstanding until, maturity.

Example 1 — the final index value is above the initial index value

Date	Index Closing Value	Payment (per note)
1 st Determination Date	190 (below the applicable redemption threshold level, notes are not redeemed)	--
2 nd Determination Date	200 (below the applicable redemption threshold level, notes are not redeemed)	--
3 rd Determination Date	195 (below the applicable redemption threshold level, notes are not redeemed)	--
4 th Determination Date	204 (below the applicable redemption threshold level, notes are not redeemed)	--
5 th Determination Date	198 (below the applicable redemption threshold level, notes are not redeemed)	--
6 th Determination Date	203 (below the applicable redemption threshold level, notes are not redeemed)	--
7 th Determination Date	204 (below the applicable redemption threshold level, notes are not redeemed)	--
		= \$1,000 + (\$1,000 x index percent change)
Final Determination Date	220 (above the initial index value)	= \$1,000 + \$100 = \$1,100

Payment at maturity = \$1,100

In this example, the index closing value is below the applicable redemption threshold level on each of the determination dates before the final determination date, and therefore the notes are not redeemed prior to maturity. On the final determination date, the underlying index has appreciated 10% from the hypothetical initial index value. At maturity, investors receive the stated principal amount *plus* the product of the stated principal amount *times* the index

percent change. Because the underlying index has appreciated 10% from the hypothetical index value, the payment at maturity is \$1,100 per note.

Example 2 — the final index value is at or below the initial index value

Date	Index Closing Value	Payment (per note)
1 st Determination Date	190 (below the applicable redemption threshold level, notes are not redeemed)	--
2 nd Determination Date	200 (below the applicable redemption threshold level, notes are not redeemed)	--
3 rd Determination Date	195 (below the applicable redemption threshold level, notes are not redeemed)	--
4 th Determination Date	205 (below the applicable redemption	--

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	threshold level, notes are not redeemed)	
5 th Determination Date	198 (below the applicable redemption threshold level, notes are not redeemed)	--
6 th Determination Date	200 (below the applicable redemption threshold level, notes are not redeemed)	--
7 th Determination Date	205 (below the applicable redemption threshold level, notes are not redeemed)	--
Final Determination Date	180 (at or below the initial index value)	Payment at maturity = \$1,000

In this example, the index closing value is below the applicable redemption threshold level on each of the determination dates before the final determination date, and therefore the notes are not redeemed prior to maturity. On the final determination date, the final index value is at or below the initial index value, and accordingly, investors receive a payment at maturity equal to the stated principal amount of \$1,000 per note, without any positive return on the notes.

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Risk Factors

The following is a non-exhaustive list of certain key risk factors for investors in the notes. For further discussion of these and other risks you should read the section entitled "Risk Factors" in the accompanying product supplement and the accompanying prospectus. You should also consult with your investment, legal, tax, accounting and other advisers in connection with your investment in the notes.

The notes do not pay interest and may not pay more than the stated principal amount at maturity. If the notes are not redeemed prior to maturity and the index percent change is less than or equal to 0%, you will receive only the stated principal amount of \$1,000 for each note you hold at maturity. As the notes do not pay any interest, if the notes have not been automatically redeemed prior to maturity and the underlying index does not appreciate § sufficiently over the term of the notes, the overall return on the notes (the effective yield to maturity) may be less than the amount that would be paid on a conventional debt security of ours of comparable maturity. The notes have been designed for investors who are willing to forgo market floating interest rates in exchange for the possibility of receiving an early redemption payment or payment at maturity greater than the stated principal amount, based on the performance of the underlying index.

If the notes are automatically redeemed prior to maturity, the appreciation potential of the notes is limited by the fixed early redemption payment specified for each of the first seven annual determination dates. If the notes are automatically redeemed following any annual determination date, the appreciation potential of the notes is § limited to the fixed early redemption payment specified for each such determination date. No further payments will be made on the notes once they have been redeemed, and you will not participate in any appreciation of the underlying index if the notes are redeemed early.

The automatic early redemption feature may limit the term of your investment to as short as approximately one year. If the notes are redeemed early, you may not be able to reinvest at comparable terms or returns. The § term of your investment in the notes may be limited to as short as approximately one year by the automatic early redemption feature of the notes. If the notes are redeemed prior to maturity, you may be forced to invest in a lower interest rate environment and may not be able to reinvest at comparable terms or returns.

The redemption threshold level increases progressively over the term of the notes. The notes will be redeemed only if the index closing value of the underlying index increases from the initial index value to be greater than or equal to the then-applicable redemption threshold level on one of the first four annual determination dates. Even if § the value of the underlying index appreciates over the term of the notes, it may not appreciate sufficiently for the notes to be redeemed early (including because the redemption threshold level increases progressively over the term of the notes).

The market price of the notes will be influenced by many unpredictable factors. Several factors will influence the value of the notes in the secondary market and the price at which MS & Co. may be willing to purchase or sell the notes in the secondary market, including the value of the underlying index at any time, the volatility (frequency and magnitude of changes in value) of the underlying index, dividend rate on the stocks underlying the index, interest and yield rates in the market, time remaining until the notes mature, geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the underlying index or equities markets generally and which may affect the final index value of the underlying index and any actual or anticipated changes in our credit ratings or credit spreads. Generally, the longer the time remaining to maturity, the more the market price of the notes will be affected by the other factors described above. The value of the underlying index may be, and has recently been, volatile, and we can give you no assurance that the volatility will lessen. See “Hypothetical Retrospective and Historical Information” below. You may receive less, and possibly significantly less, than the stated principal amount per note if you try to sell your notes prior to maturity.

§ There are risks associated with the underlying index.

There may be overexposure to the S&P 500® Total Return Index in bear markets or underexposure in bull markets.
§ The underlying index is designed to achieve a target volatility of 10% regardless of the direction of

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price movements in the market. Therefore, in bull markets, if realized volatility is higher than target volatility, the underlying index will be exposed to less than the full gains in the S&P 500[®] Total Return Index and the underlying index will experience lower returns than the S&P 500[®] Total Return Index. In contrast, if realized volatility is less than target volatility in a bear market, the underlying index will be exposed to more than 100% of the losses in the S&P 500[®] Total Return Index and the underlying index will experience lower returns than the S&P 500[®] Total Return Index. In fact, the underlying index has historically underperformed the S&P 500[®] Total Return Index in bull markets. See “S&P 500[®] Daily Risk Control 10% USD Excess Return Index Overview” beginning on page 15.

Low volatility in the underlying index is not synonymous with low risk in an investment linked to the underlying index. For example, even if the volatility of the underlying index over the term of the notes was in line with the § target volatility of 10%, the underlying index may decrease over time, which would result in a zero return on the notes at maturity.

The underlying index may not outperform the S&P 500[®] Total Return Index. The underlying index employs a mathematical algorithm intended to control the level of risk taken with respect to the S&P 500[®] Total Return Index § by allocating its exposure to the S&P 500[®] Total Return Index in a manner designed to maintain the target volatility of 10%. No assurance can be given that this strategy will be successful or that the underlying index will outperform the S&P 500[®] Total Return Index.

The underlying index will not have an actual volatility of 10%. Volatility is measured on a historical basis and adjustments to the exposure in the S&P 500[®] Total Return Index are made on a daily basis, principally based upon recent realized volatility of the S&P 500[®] Total Return Index, with a two-day lag between the leverage factor’s calculation and its implementation (a leverage factor adjustment applied to the underlying index at the close of business on the second day will effectively be applied at the opening of the next day). Due to this lag and because § volatility can fluctuate significantly during this period, and even during a single day, the underlying index will not reflect the most current volatility of the S&P 500[®] Total Return Index and so will not have an actual volatility of 10% at any given time. In addition, the exposure of the underlying index to the S&P 500[®] Total Return Index is subject to a leverage factor cap of 150%, which may limit the ability of the underlying index to fully participate in the appreciation of the S&P 500[®] Total Return Index during times of low volatility when achieving a target volatility of 10% would require a leverage factor in excess of 150%. Therefore, the underlying index will not achieve actual volatility of 10% at any time.

Controlled volatility does not mean the underlying index will have lower volatility than the S&P 500[®] Total Return Index. The underlying index does not necessarily have lower volatility than the S&P 500[®] Total Return Index. The § realized volatility of the S&P 500[®] Total Return Index may be less than the target volatility of 10% over extended periods of time, in which case the exposure of the underlying index will be adjusted upwards in an attempt to raise its volatility to 10%. In this case, the result would be that the underlying index is more volatile than the S&P 500[®] Total Return Index.

The returns will be reduced by borrowing costs. As an “excess return” index, the underlying index represents returns made entirely with borrowed money. The index returns are therefore reduced by the cost of borrowing, the effect of which increases as leverage increases and/or if interest rates increase. The cost of borrowing is ignored when § determining how much money to borrow, even if a prudent investor would choose not to borrow money to invest in the S&P 500® Total Return Index at such time. The cost of borrowing will reduce the underlying index returns in all cases, whether the underlying index appreciates or depreciates.

Historical performance of the underlying index and the S&P 500® Total Return Index should not be taken as an indication of the future performance of the underlying index or the S&P 500® Total Return Index. The future performance of the underlying index and the S&P 500® Total Return Index may bear little relation to the historical § performance of the underlying index and the S&P 500® Total Return Index. The trading prices of the common stocks underlying the S&P 500® Total Return Index and the dividends paid on those common stocks will determine the level of the S&P 500® Total Return Index, and thus the volatility of the S&P 500® Total Return Index. The level and volatility of the S&P 500® Total Return Index and U.S.

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overnight LIBOR will determine the level of the underlying index. As a result, it is impossible to predict whether the level of the underlying index or the S&P 500[®] Total Return Index will rise or fall.

The underlying index has a limited operating history and may perform in unanticipated ways. The underlying index has a limited operating history, and so the retrospective historical performance prior to the establishment of the § underlying index must be considered illustrative only. For this and other reasons, the historical comparison of the underlying index to the S&P 500[®] Total Return Index may not reflect future performance, and no assurance can be given as to the level of the underlying index at any time.

The notes are subject to our credit risk, and any actual or anticipated changes to our credit ratings or credit spreads may adversely affect the market value of the notes. You are dependent on our ability to pay all amounts due on the notes at maturity and therefore you are subject to our credit risk. The notes are not guaranteed by any other entity. If we default on our obligations under the notes, your investment would be at risk and you could lose § some or all of your investment. As a result, the market value of the notes prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the notes.

As a finance subsidiary, MSFL has no independent operations and will have no independent assets. As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank § *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

The rate we are willing to pay for securities of this type, maturity and issuance size is likely to be lower than the rate implied by our secondary market credit spreads and advantageous to us. Both the lower rate and the inclusion of costs associated with issuing, selling, structuring and hedging the notes in the original issue price reduce the economic terms of the notes, cause the estimated value of the notes to be less than the original issue price and will adversely affect secondary market prices. Assuming no change in market conditions or any other § relevant factors, the prices, if any, at which dealers, including MS & Co., may be willing to purchase the notes in secondary market transactions will likely be significantly lower than the original issue price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the original issue price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the notes in the original issue price and the lower rate we are willing to pay as issuer make the economic terms of the notes less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the notes are not fully deducted upon issuance, for a period of up to 12 months following the issue date, to the extent that MS & Co. may buy or sell the notes in the secondary market, absent changes in market conditions, including those related to the underlying index, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

The estimated value of the notes is determined by reference to our pricing and valuation models, which may differ from those of other dealers and is not a maximum or minimum secondary market price. These pricing § and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no

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