

# Understanding Your Brokerage and Investment Advisory Relationships

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Depending on your needs and your investment objectives, Morgan Stanley may assist you with brokerage services, investment advisory services, or both. There are important differences highlighted below between brokerage and advisory accounts, including their costs, the services we provide and the rules that govern them. You should carefully consider these differences when deciding which type, or combination of types, of services and accounts are right for you.

Morgan Stanley is registered as both a broker-dealer and as an investment advisor under federal and state securities laws, and we provide services in both capacities. In accordance with the rules of the Financial Industry Regulatory Authority (FINRA), whether acting in a brokerage or advisory capacity, Morgan Stanley must observe high standards of commercial honor and just and equitable principles of trade.

## **What are Brokerage Accounts and Services?**

When we act as a broker-dealer in connection with your brokerage account, we will facilitate the execution of transactions based on your instructions. In addition, when we act as a broker, we also offer investor education, research, financial tools and personalized information about financial products and services, including recommendations about whether to buy, sell or hold securities. We do not charge a separate fee for these services because these services are part of, and should be considered incidental to, our brokerage services.

When we act as your broker-dealer, we will not have discretion to buy and sell securities for you (except in some very limited circumstances). This means that you will provide approval for each trade before it is executed and that you, not we, will make individual buy, sell and hold decisions.

For taxable brokerage accounts, when recommending that you purchase, sell, hold or exchange a security, we must have a reasonable basis for believing that the recommendation is suitable for you. However, when we act in a brokerage capacity for taxable accounts, we do not have a fiduciary or investment advisory

relationship with you, and our obligations to disclose information regarding our business, conflicts between our interests and yours, and other matters are more limited than if we did.<sup>1</sup>

For example, we may buy securities from you, or sell securities to you, for our own accounts acting as principal, or we may buy or sell securities acting as agent. Further, when we act as a broker-dealer, we are paid by you and, sometimes, by third parties who compensate us based on what you buy.

For brokerage retirement accounts,<sup>2</sup> when servicing your retirement account and

its assets, we act in your best interests but will not necessarily be considered a fiduciary under the Employee Retirement Income Security Act of 1974 (ERISA) and/or under section 4975 of the Internal Revenue Code (“Code”).

### **What is Morgan Stanley’s Role When Handling a Brokerage Account?**

When handling a taxable brokerage account, Morgan Stanley must have a reasonable basis for believing that any recommendation is suitable for you, but will not have a fiduciary or investment advisory relationship with you.

### **What are Investment Advisory Accounts and Services?**

In addition to brokerage services, Morgan Stanley offers a variety of investment advisory programs and services to our clients, including comprehensive financial planning, nondiscretionary and discretionary asset management, and advice on the selection of professional asset managers and securities offered through our investment advisory programs.

We act as your investment advisor only when we have entered into a written agreement with you that describes our advisory relationship and our obligations to you. You also will receive a disclosure document about our advisory services that describes, among other things, our business, the services we provide, our advisory fees, our personnel, and potential conflicts between our interests and yours.

Investment Advisors are governed by the Investment Advisers Act of 1940 and applicable state securities laws. When acting as your investment advisor, we are considered to have a fiduciary relationship with you. Please note that the fact that we owe fiduciary duties to you as an investment advisor does not mean we are or have accepted responsibility as a fiduciary under ERISA or the Code.

For advisory retirement accounts, where we regularly provide recommendations for a fee to you with respect to such

retirement account and its assets, we are acting as a fiduciary under ERISA and/or the Code and will always make recommendations that are in your best interest.<sup>3</sup>

In an advisory relationship we are obligated to:

- Disclose or avoid material conflicts of interest.
- Obtain your consent prior to purchasing securities from you, or selling securities to you, for our own accounts (acting as principal).
- Conduct proper due diligence on investment choices and review clients’ investment objectives and risk tolerance (as provided by the client) to make suitable and appropriate investment recommendations or decisions on behalf of clients.
- Act in your best interests by providing investment advice that is based on your stated overall financial situation and investment objectives.

### **What is Your Sales Representative’s Role when Handling an Investment Advisory Account?**

As described above, when handling an investment advisory account, your Sales Representative will act as a fiduciary to you and in providing services depending on the advisory program that you choose. For example, in our Portfolio Management program, your Sales Representative will have the discretionary authority to execute investment decisions on your behalf. In our Consulting Group Advisor program, your Sales Representative will work with you and make investment recommendations, but you will maintain discretion over all the investment decisions made in your account.

### **How You are Charged for Brokerage and Investment Advisory Accounts**

#### **BROKERAGE ACCOUNTS**

In a brokerage account, you generally compensate Morgan Stanley and your Sales Representative through fees incurred with each transaction. For example, you generally pay

Morgan Stanley a commission for each equity transaction, a mark-up/mark-down for bond transactions and a sales charge for mutual fund transactions. Therefore, in a brokerage account your total costs will generally increase or decrease as a result of the frequency of transactions in the account and the type of securities you purchase. Other costs will also apply to your account.

#### **INVESTMENT ADVISORY ACCOUNTS**

In an investment advisory account, you generally do not pay fees for each transaction, but instead compensate Morgan Stanley and your Sales Representative through an annual fee, payable quarterly in advance based on the total value of the assets in your investment advisory account at the end of the previous quarter. The fee typically covers both the advisory and the brokerage services provided by Morgan Stanley that are described in the investment advisory agreement. In certain advisory programs that offer professional third-party money management, the fee also includes the professional money manager’s fee. Generally, the mutual fund share classes that are offered to clients in our advisory programs do not charge a front-end sales charge. In an investment advisory account, your total costs will generally not increase or decrease as a result of the frequency of transactions in the account.

#### **BOTH BROKERAGE AND ADVISORY ACCOUNTS**

In both brokerage and investment advisory accounts that include mutual funds or exchange traded funds, you will incur additional expenses, including investment management fees of the fund as well as operating expenses that are reflected in the funds’ share price. These expenses are not included in Morgan Stanley’s fees.

Other fees and expenses in addition to those outlined above, or different fee arrangements, may apply in both brokerage and investment advisory accounts as described in our agreements with you.

### **When We Act as Both Your Broker-Dealer and Your Investment Advisor**

We may act as investment advisor and as broker-dealer to you at the same time, and the fact that we do so does not mean that our brokerage relationships are advisory ones. For example, you may maintain multiple accounts (some of which are brokerage accounts and some of which are investment advisory accounts) with Morgan Stanley at the same time. Also, although we may consider your brokerage account assets

in preparing guidelines or determining suitability for your investment advisory services, your brokerage relationship continues on your brokerage assets.

### **For More Information**

We encourage you to carefully consider the differences between brokerage and investment advisory services, particularly in terms of our obligations to you, the services provided, and the costs of these services. You should consider your existing and anticipated level of

trading activity in connection with any determination of which account type is right for you. The disclosure documents for our investment advisory services, which are available upon request, provide additional information, including disclosure of conflicts.

If you have additional questions, please contact a member of your Morgan Stanley team.

<sup>1</sup> Please note, however, that we may be considered a fiduciary for certain recommendations made to State of Nevada brokerage clients. Please contact your Financial Advisor or Private Wealth Advisor for more information.

<sup>2</sup> Retirement accounts include Individual Retirement Account (IRA), Roth IRA, Health Savings Account, Coverdell Education Savings Account, Archer Medical Savings Account, a Plan covered by Title I of the Employee Retirement Income Security Act of 1974, as amended (ERISA), or a plan described in section 4975(e)(1)(A) of the Internal Revenue Code ("Code").

<sup>3</sup> A recommendation meeting the "Best Interest" standard is a recommendation that reflects the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, based on your investment objectives, risk tolerance, financial circumstances, and needs, without regard to the financial or other interests of us or the Advisor or any affiliate, related entity, or other party.