

Date: 11/3/2012

Analyst Name: Scott R. Mertens

CIF Stock Recommendation Report (Fall 2012)

Company Name and Ticker: Morgan Stanley (MS)

Section (A) Summary

| | | | |
|---|---|---|---|
| Recommendation Buy: No | | Target Price: \$22.60 | Stop-Loss Price: \$15.11 |
| Sector: Financial | Industry: Capital Markets | Market Cap (in Billions): \$35.28 Billion | # of Shrs. O/S (in Millions): 1,981.44 |
| Current Price: \$17.78 | 52 WK Hi: \$21.19 | 52 WK Low: \$12.26 | EBO Valuation: 2012: \$0.75 2013: \$14.91 |
| Morningstar (MS) Fair Value Est.: \$24.00 | MS FV Uncertainty: Above Average | MS Consider Buying: \$14.40 | MS Consider Selling: \$37.20 |
| EPS (TTM): -0.46 | EPS (FY1): 0.09 | EPS (FY2): 2.02 | MS Star Rating: Four Stars |
| Next Fiscal Yr. End "Year": 2012 "Month": 12 | Last Fiscal Qtr. End: Less Than 8 WK: Yes – 10/18/2012 | If Less Than 8 WK, next Earnings Ann. Date: No – 1/14/2013 | Analyst Consensus Recommendation: Hold |
| Forward P/E: 8.50 | Mean LT Growth: 15.20% | PEG: 0.40 | Beta: 1.57 |
| % Inst. Ownership: 59.74% | Inst. Ownership- Net Buy: Y N | Short Interest Ratio: 1.20 | Short as % of Float: 1.70% |
| <u>Ratio Analysis</u> | <u>Company</u> | <u>Industry</u> | <u>Sector</u> |
| P/E (TTM) | 14.50 | 29.50 | 33.48 |
| P/S (TTM) | 1.14 | 3.00 | 5.32 |
| P/B (MRQ) | 0.60 | 0.93 | 1.60 |
| P/CF (TTM) | 1.20 | 22.21 | 12.71 |
| Dividend Yield | 1.12 | 2.71 | 1.98 |
| Total Debt/Equity (MRQ) | 528.49 | 532.97 | 186.70 |
| Net Profit Margin (TTM) | -0.84 | 4.83 | 17.40 |
| ROA (TTM) | N/A | 0.67 | 1.13 |
| ROE (TTM) | N/A | 2.19 | 6.95 |

| | |
|--|---|
| <p><u>Investment Thesis</u></p> <ul style="list-style-type: none"> • Morgan Stanley is one of the largest financial holding companies in the world, and incredibly sensitive to global economic events. • Morgan Stanley has tarnished its brand in the current year through unsuccessful underwriting of both Facebook and Zynga. • Morgan Stanley earns a large portion of its revenues through IPO underwriting and Mergers & Acquisitions. These things are beginning to slow down due to economic uncertainty, resulting in decreased demand and increased competition. • The current election may have a large impact on Morgan Stanley, investment banks support a Republican President. • In the past three months, Morgan Stanley has significantly outperformed the S&P 500 and financial sector. The window of profitability appears to be gone. • In the past year, Morgan Stanley has exponentially underperformed both the financial sector and S&P 500. • Overall, it is probable Morgan Stanley will post a net loss for the year of 2012. Things may be improved by Q3 and Q4 of 2013. <p><u>Conclusion: Do Not Buy.</u></p> | <p><u>Summary:</u> Morgan Stanley is a strong investment firm, with little hope of large returns in upcoming quarters. The window for profitability has passed in recent months and will not return until 2013.</p> <p><u>Company Profile:</u> Morgan Stanley is a large financial holdings company within the 'Capital Markets' industry of the financial sector. It provides financial products to corporations, governments, financial institutions and individuals. Over half of its revenue comes internationally. Main competitors include: Goldman Sachs, BlackRock, Charles Schwab, and Citigroup.</p> <p><u>Fundamental Valuation:</u> Considering a 12 year calculation of implied prices, Morgan Stanley has little upside potential. Implied prices are comparable to the current price.</p> <p><u>Relative Valuation:</u> Morgan Stanley is valued relatively similar to its competitors such as Goldman Sachs and Citigroup. Price to Sales provides an accurate valuation in recent quarters (because profits have not been generated).</p> <p><u>Revenue and Earnings Estimates:</u> Though Morgan Stanley has been generating revenue consistently over the past several quarters, the company has an overall net loss in 2012. Estimates are bullish in the long-term, but uncertain in the near-term.</p> <p><u>Analyst Recommendations:</u> Most analysts agree on a current HOLD rating for Morgan Stanley. This is also comparable to the rating given by Morningstar. The current price is above the suggested purchase price.</p> <p><u>Institutional Ownership:</u> Institutional ownership in Morgan Stanley is generally decreasing. It is also alarming that three different holding companies own nearly 30% of shares outstanding.</p> <p><u>Short Interest:</u> Trading volume has significantly decreased from one year ago, and also decreased in the past 10 days (when compared to the past three months).</p> <p><u>Stock Price Chart:</u> Morgan Stanley has yielded a 25% return in the past three months. This is significantly greater than both the financial sector and S&P 500.</p> |
|--|---|

Section (B) Company Profile (two pages maximum)

Company Summary

Morgan Stanley is a global investment bank with a market capitalization of \$35 billion, and a total of over 61,000 full-time employees. It is headquartered in New York City and also has principal offices in all major financial centers around the world. It exists within the 'Capital Markets' industry of the financial sector and has over 80 years of history. It is a financial holdings company which provides products and services to corporations, governments, financial institutions, and individuals around the world. The Company has generated negative earnings per share (EPS) in three of the previous six quarters. Morgan Stanley is heavily involved with mergers & acquisitions as well as IPO underwriting. Some of the more notable 2012 IPO's led by Morgan Stanley include: Facebook, Zynga, and Kayak. Overall, Morgan Stanley is a reputable investment bank which is highly sensitive to changing economic conditions with over half of its revenue coming from outside of the United States. Performance in recent quarters is a good reflection of this.

MS 10-K Report:

<http://www.sec.gov/Archives/edgar/data/895421/000119312512081807/d262950d10k.htm>

Business Model, Competition, Environment and Strategy

Morgan Stanley operates under a number of different business segments. The three main business segments include: institutional securities, global wealth management, and asset management. Investment banking and corporate lending activities include: capital raising, financial advisory services, corporate lending, sales and trading activities, equity trading, fixed income and commodities, and investment research. Overall, Morgan Stanley competes within a competitive financial climate. The firm is highly sensitive to interest rate changes as well as overall global economic events. Half of the firm's revenue is generated outside of the United States. Main competitors of Morgan Stanley include: Goldman Sachs (GS), Citigroup (C), Merrill Lynch (BAC), BlackRock Inc. (BLK), and Charles Schwab Corporation (SCHW). These competitors participate in identical industries. This results in a number of substitute companies for Morgan Stanley, and increased economic competition.

MS 10-K Report:

<http://www.sec.gov/Archives/edgar/data/895421/000119312512081807/d262950d10k.htm>

Revenue and Earnings History

Discuss any pattern in revenue and earnings (e.g., increasing year over year; seasonal; etc.)

REVENUE

| Periods | 2010 | 2011 | 2012 |
|-----------|---------|---------|--------|
| March | 10440.0 | 9427.0 | 8536.0 |
| June | 9569.0 | 11236.0 | 8437.0 |
| September | 8528.0 | 11418.0 | 6825.0 |
| December | 9435.0 | 7095.0 | |

Note: Units in Millions of U.S. Dollars

EARNINGS PER SHARE

| Periods | 2010 | 2011 | 2012 |
|-----------|---------|----------|----------|
| March | 1.02508 | 0.51074 | -0.05541 |
| June | 0.82484 | -0.36331 | 0.28038 |
| September | 0.05197 | 1.14072 | -0.54579 |
| December | 0.43785 | -0.1373 | |

Note: Units in U.S. Dollars

CONSENSUS ESTIMATES ANALYSIS

| # of Estimates | Mean | High | Low | 1 Year Ago |
|----------------|------|------|-----|------------|
|----------------|------|------|-----|------------|

SALES (in millions)

| | | | | | |
|-----------------------|----|-----------|-----------|-----------|-----------|
| Quarter Ending Dec-12 | 20 | 7,516.59 | 8,306.00 | 6,842.60 | 8,695.92 |
| Quarter Ending Mar-13 | 10 | 8,615.41 | 9,456.76 | 7,817.00 | 9,094.00 |
| Year Ending Dec-12 | 18 | 27,395.30 | 33,417.90 | 26,437.60 | 33,655.00 |
| Year Ending Dec-13 | 24 | 32,509.50 | 35,869.70 | 29,677.00 | 35,276.30 |

EARNINGS (per share)

| | | | | | |
|-----------------------|----|-------|-------|-------|-------|
| Quarter Ending Dec-12 | 24 | 0.36 | 0.48 | 0.26 | 0.57 |
| Quarter Ending Mar-13 | 14 | 0.58 | 0.77 | 0.38 | 0.63 |
| Year Ending Dec-12 | 19 | 0.09 | 0.90 | -0.03 | 2.13 |
| Year Ending Dec-13 | 29 | 2.02 | 2.40 | 1.40 | 2.49 |
| LT Growth Rate (%) | 5 | 15.20 | 26.90 | 10.00 | 11.82 |

Earnings History for Past Nine Quarters:

Recent Recap

[About StarMine SmartEstimate](#)

Last Report: Q3 Earnings on 10/18/12

Reported Earnings: \$-0.55 per share

Next Expected Report Date: 01/14/13

MS **missed** the First Call Consensus of \$0.24 and **missed** the StarMine SmartEstimate of \$0.22 for this quarter.

Actuals vs. Estimates by Fiscal Quarter

[View as table](#)



Response: Morgan Stanley appears to be struggling financially during recent years. In the most recent quarter, analysts expected a total of \$0.24 and \$0.22 of EPS. Actual EPS reported was a negative -\$0.55 per share. In three of the past six quarters Morgan Stanley has reported negative EPS. Revenue has also been falling in each of the past five quarters. Revenue fell about 20% from Q2 to Q3 of 2012. This is a substantial loss and has resulted in reduced net income. Morgan Stanley reported a Q1 net loss of \$94 million. This was followed by a \$591 net income in Q2 and a \$1.023 billion net loss in Q3. Overall, Morgan Stanley has reported a net loss of \$526 million to date in 2012. This provides evidence that the firm is struggling through current tough economic times. During 2010, Morgan Stanley reported a net income of \$3.594. This was followed by a net income of \$2.067 in 2011. Morgan Stanley is projected to report an overall net loss during the year of 2012. This has led to decreased investor confidence and an interesting valuation method.

Section (C) Fundamental Valuation (EBO)

Include the following here:

Copy/paste completed Fundamental Valuation (EBO) Spreadsheet

| MS | PARAMETERS | FY1 | FY2 | Ltg | | | | | | | | | | |
|------------------------|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--|
| | EPS Forecasts | 0.09 | 2.02 | 15.20% | | | | | | | | | | |
| | Book value/share (last fye) | 31.42 | | | | | | | | | | | | |
| | Discount Rate | 13.49% | | | | | | | | | | | | |
| | Dividend Payout Ratio (POR) | 100.00% | | | | | | | | | | | | |
| | Next Fisc Year end | 2012 | | | | | | | | | | | | |
| | Current Fisc Mth (1 to 12) | 11 | | | | | | | | | | | | |
| | Target ROE (industry avg.) | 1.17% | | | | | | | | | | | | |
| | Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | |
| | Long-term EPS Growth Rate (Ltg) | | | 0.1520 | 0.1520 | 0.1520 | 0.1520 | 0.1520 | | | | | | |
| | Forecasted EPS | 0.09 | 2.02 | 2.33 | 2.68 | 3.09 | 3.56 | 4.10 | | | | | | |
| | Beg. of year BV/Shr | 31.420 | 31.420 | 31.420 | 31.420 | 31.420 | 31.420 | 31.420 | | | | | | |
| | Implied ROE | | 0.064 | 0.074 | 0.085 | 0.098 | 0.113 | 0.130 | | | | | | |
| ROE | (Beg. ROE, from EPS forecasts) | 0.003 | 0.064 | 0.074 | 0.085 | 0.098 | 0.113 | 0.130 | 0.107 | 0.083 | 0.059 | 0.035 | 0.012 | |
| Abnormal ROE | (ROE-k) | -0.132 | -0.071 | -0.061 | -0.050 | -0.037 | -0.022 | -0.004 | -0.028 | -0.052 | -0.076 | -0.099 | -0.123 | |
| growth rate for B | (1-POR)*(ROE+1) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | |
| Compounded growth | | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | |
| growth*AROE | | -0.132 | -0.071 | -0.061 | -0.050 | -0.037 | -0.022 | -0.004 | -0.028 | -0.052 | -0.076 | -0.099 | -0.123 | |
| required rate (k) | | 0.135 | 0.135 | 0.135 | 0.135 | 0.135 | 0.135 | 0.135 | 0.135 | 0.135 | 0.135 | 0.135 | 0.135 | |
| Compound discount rate | | 1.135 | 1.288 | 1.462 | 1.659 | 1.883 | 2.137 | 2.425 | 2.752 | 3.123 | 3.545 | 4.023 | 4.566 | |
| div. payout rate (k) | | 1.000 | | | | | | | | | | | | |
| Add to P/B | PV(growth*AROE) | -0.12 | -0.05 | -0.04 | -0.03 | -0.02 | -0.01 | 0.00 | -0.01 | -0.02 | -0.02 | -0.02 | -0.03 | |
| Cum P/B | | 0.88 | 0.83 | 0.79 | 0.76 | 0.74 | 0.73 | 0.73 | 0.72 | 0.70 | 0.68 | 0.65 | 0.63 | |
| Add: Perpetuity | | | | | | | | | | | | | | |
| beyond current yr | (Assume this yr's AROE forever) | -0.86 | -0.41 | -0.31 | -0.22 | -0.14 | -0.08 | -0.01 | -0.08 | -0.12 | -0.16 | -0.18 | -0.20 | |
| Total P/B | (P/B if we stop est. this period) | 0.02 | 0.42 | 0.48 | 0.54 | 0.59 | 0.65 | 0.71 | 0.64 | 0.58 | 0.52 | 0.47 | 0.43 | |
| Implied price | | 0.75 | 14.91 | 16.90 | 18.92 | 20.96 | 23.04 | 25.15 | 22.58 | 20.33 | 18.34 | 16.58 | 15.04 | |

Inputs (provide below input values used in your analysis)

EPS forecasts (FY1 & FY2): 0.09 & 2.02

Long-term growth rate: 15.20%

Book value /share (along with book value and number of shares outstanding):

Book value: 60,541

of shares outstanding: _____ 1,926.99 _____
 Book value / share: _____ 31.42 _____
 Dividend payout ratio: _____ 100% _____
 Next fiscal year end: _____ December 31st, 2012 _____
 Current fiscal month: _____ (11) November _____
 Target ROE: _____ 1.17 _____

Output

Above normal growth period chosen: _____ 1 _____
 EBO valuation (Implied price from the spreadsheet): __ 2012: \$0.75 __ 2013: \$14.91 _____

Sensitivity Analysis

EBO valuation would be (you can include more than one scenario in each of the following):
 _____ \$16.90 _____ if changing above normal growth period to __ 2 _____
 __ \$0.75 __ if changing growth rate from mean (consensus) to the highest estimate
 _____ 26.90% _____
 __ \$0.75 __ if changing growth rate from mean (consensus) to the lowest estimate
 _____ 10% _____
 _____ \$1.88 _____ if changing discount rate to _____ 5% _____
 _____ \$18.92 _____ if changing target ROE to _____ 20% _____

Section (D) Relative Valuation

Copy/paste your completed relative valuation spreadsheet here

| Cougar Investment Fund Relative Valuation Template | | | | | | | | | | | | | | | |
|--|------|----------------|---------------|---|----------------|------------------------|---------|--------------|-----------------|----------------|------------|-------------|-------|--|--|
| MS | | | | | | | | | | | | | | | |
| Mean FY2 | | | | | | | | | | | | | | | |
| Ticker | Name | Mkt Cap | Current Price | Earnings Estimate (next fiscal year) | Forward P/E | Mean LT Growth Rate | PEG | P/B (MRQ) | ROE 5 yr ave | Value Ratio | P/S TTM | P/CF TTM | | | |
| 1 | GS | Goldman Sachs | \$ 59,088.09 | \$ 123.25 | \$ 12.82 | 9.61 | 18.61% | 0.52 | 0.88 | 4.20% | 0.21 | 1.53 | 8.22 | | |
| 2 | BLK | BlackRock Inc. | \$ 32,793.13 | \$ 189.52 | \$ 14.98 | 12.65 | 12.50% | 1.01 | 1.33 | 7.53% | 0.18 | 3.63 | 12.47 | | |
| 3 | SCHW | Charles Schwab | \$ 17,506.22 | \$ 13.74 | \$ 0.73 | 18.82 | 7.60% | 2.48 | 2.20 | 17.50% | 0.13 | 3.66 | 16.72 | | |
| 4 | C | Citigroup | \$ 110,262.00 | \$ 37.60 | \$ 4.60 | 8.17 | 10.50% | 0.78 | 0.72 | 2.86% | 0.25 | 1.42 | 11.49 | | |
| | MS | Morgan Stanley | \$ 35,165.89 | \$ 17.78 | \$ 2.02 | 8.80 | 15.20% | 0.58 | 0.60 | 3.90% | 0.15 | 1.59 | 1.2 | | |
| Implied Price based on: | | | | | P/E | PEG | P/B | Value | P/S | P/CF | | | | | |
| 1 | GS | Goldman Sachs | | | \$19.42 | | \$15.86 | \$26.08 | \$24.21 | \$17.11 | \$121.79 | | | | |
| 2 | BLK | BlackRock Inc. | | | \$25.56 | | \$31.08 | \$39.41 | \$20.41 | \$40.59 | \$184.76 | | | | |
| 3 | SCHW | Charles Schwab | | | \$38.02 | | \$76.04 | \$65.19 | \$14.53 | \$40.93 | \$247.73 | | | | |
| 4 | C | Citigroup | | | \$16.51 | | \$23.90 | \$21.34 | \$29.09 | \$15.88 | \$170.24 | | | | |
| | | High | | | \$38.02 | | \$76.04 | \$65.19 | \$29.09 | \$40.93 | \$247.73 | | | | |
| | | Low | | | \$16.51 | | \$15.86 | \$21.34 | \$14.53 | \$15.88 | \$121.79 | | | | |
| | | Median | | | \$22.49 | | \$27.49 | \$32.74 | \$22.31 | \$28.85 | \$177.50 | | | | |

From the top panel

Discuss whether your stock and its competitors have very different multiples. Point out if any of the five stocks have multiple that is far off from the others. Make an attempt to explain why (you would want to read analyst research report in *Morningstar Direct*; you should also look for comments from other financial sites). **The discussions should address all of the following valuation metrics: forward P/E, PEG, P/B (MRQ), P/S (TTM), and P/CF (TTM).**

Compare the implied prices derived from various valuation metrics. Also compare those implied price to the stock's current price, and 52-week high and low.

Response: Morgan Stanley has relatively similar multiples to its competitors. The multiples of Morgan Stanley are very sporadic right now due to an overall net loss for the year of 2012. Morgan Stanley has not generated net income for over one year, while many of its competitors have. Morgan Stanley has a relatively similar market capitalization to its competitors. A projected long-term growth rate of 15.2% is within range of main competitors. The forward P/E ratio of 8.80 is also within range of its competitors. Morgan Stanley has a P/B ratio of 0.60, which means its equity is valued at less than the current market value of its total assets. Morgan Stanley also has a much lower Price to C/F than all of its competitors. From this valuation metric, Morgan Stanley appears to be very cheap.

From the bottom panel

Discuss the various implied prices of your stock derived from competitors' ("comparables") multiples. How different are the prices derived from the various valuation metrics? Note any valuation metrics that seem to yield outlier prices and explain why (**HINT:** is that because that particular valuation metrics is not very relevant for the industry? Do you best to provide convincing arguments).

For each valuation metrics, Compare the current price and 52-week high /low of your stock to the High-low range derived from multiples of its competitors.

Response: These valuation metrics suggest a potential value of near \$30 per share. Morgan Stanley is currently trading at \$17.78 per share, and its 52 week high is \$21.14 per share. Nearly every implied valuation metric suggests that Morgan Stanley should be trading at a much higher price than it currently is. Most of these implied prices also greatly exceed the 52 week high of \$21.14. I believe the implied P/S valuation is most accurate. This is because it falls closely within the range of Morgan Stanley's 52 week low and high. With the median P/S valuation being \$22.31, it suggests Morgan Stanley is currently undervalued at a price of \$17.78. The P/B valuation metric appears to be yielding outlier prices. This is because Morgan Stanley and two of its main competitors (Citigroup and Goldman Sachs) are currently valued at substantially less than overall book value. This comes as a result of the sub-prime mortgage

collapse in 2008, and recent economic recession. Many of these investment banks are also being affected by the Euro-crisis, and fluctuating interest rates. Using a P/E valuation metric is also very inaccurate for Morgan Stanley. This is because it is not produced a profit in the current year, and as a result cannot be accurately valued by its immediate earnings. It is important to consider earnings over the past decade in a situation like this. More historic information can provide higher accuracy of overall P/E.

Section (E) Revenue and Earnings Estimates

Copy/Paste the “Historical Surprises” Table from *Reuters.com*, “Analysts” tab (include both revenue and earnings; make note that revenues might be in “millions”)

Review recent trends in company’s reported revenue and earnings, and discuss whether (1) the company has a pattern of “surprising” the market with numbers different from analysts’ estimates; (2) Were they positive(actual greater than estimate) or negative (actual less than estimate) surprises? (3) Were surprises more notable for revenue or earnings? (4) Look up the stock chart to see how the stock price reacted to the “surprises. **NOTE:** Reuters does not put the sign on the surprise. **You need to put a “negative” sign when it is a negative surprise.**

HISTORICAL SURPRISES

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

| Estimates vs Actual | Estimate | Actual | Difference | Surprise % |
|-----------------------------|----------|----------|------------|------------|
| SALES (in millions) | | | | |
| Quarter Ending Sep-12 | 6,634.24 | 5,289.00 | 1,345.24 | -20.28 |
| Quarter Ending Jun-12 | 7,696.47 | 6,953.00 | 743.47 | -9.66 |
| Quarter Ending Mar-12 | 7,311.20 | 8,913.00 | 1,601.80 | 21.91 |
| Quarter Ending Dec-11 | 5,565.15 | 5,709.00 | 143.85 | 2.58 |
| Quarter Ending Sep-11 | 7,424.47 | 9,892.00 | 2,467.53 | 33.24 |
| Earnings (per share) | | | | |
| Quarter Ending Sep-12 | 0.24 | 0.28 | 0.04 | 19.00 |
| Quarter Ending Jun-12 | 0.43 | 0.29 | 0.14 | -33.03 |

| | | | | |
|-----------------------|-------|-------|------|--------|
| Quarter Ending Mar-12 | 0.46 | 0.76 | 0.30 | 66.08 |
| Quarter Ending Dec-11 | -0.57 | -0.14 | 0.43 | -75.30 |
| Quarter Ending Sep-11 | 0.30 | 1.14 | 0.84 | 280.63 |

Response: In Q3 of the current year, Morgan Stanley missed analyst revenue estimates and generated a negative surprise of 20.28%. During Q2 of the current year, Morgan Stanley missed analyst revenue estimates and created a negative surprise of 9.66%. During Q1 of the current year, Morgan Stanley beat analyst estimates and created a positive surprise of 21.91%. I feel that the surprises from analyst estimates are much more notable for earnings than revenues. During Q4 of 2011, a positive surprise of over 280% was announced. The current year has also generated a number of volatile earnings surprises for analysts following Morgan Stanley. A positive earnings surprise of 66.08% was recognized in Q1, followed by a negative earnings surprise of 33.03% in Q2. This proves the stock is very volatile, and justifies a beta of 1.57

Copy/paste the “Consensus Estimates Analysis” Table from Reuters.com, “Analysts” tab (include both revenue and earnings)

Review the range and the consensus of analysts’ estimates. (1) Calculate the % difference of the “high” estimate from the consensus (mean); (2) Calculate the % (negative) difference of the “low” estimate from the consensus; (3) Are the divergent more notable for the current or out-quarter, FY1 or FY2, revenue or earnings? (4) Note the number of analysts providing LT growth rate estimate. It that roughly the same as the number of analysts providing revenue and earnings estimates?

CONSENSUS ESTIMATES ANALYSIS

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

| | # of Estimates | Mean | High | Low | 1 Year Ago |
|----------------------------|----------------|----------|----------|----------|------------|
| SALES (in millions) | | | | | |
| Quarter Ending Dec-12 | 20 | 7,516.59 | 8,306.00 | 6,842.60 | 8,695.92 |
| Quarter Ending Mar-13 | 10 | 8,615.41 | 9,456.76 | 7,817.00 | 9,094.00 |

| | | | | | |
|--------------------|----|-----------|-----------|-----------|-----------|
| Year Ending Dec-12 | 18 | 27,395.30 | 33,417.90 | 26,437.60 | 33,655.00 |
| Year Ending Dec-13 | 24 | 32,509.50 | 35,869.70 | 29,677.00 | 35,276.30 |

Earnings (per share)

| | | | | | |
|-----------------------|----|-------|-------|-------|-------|
| Quarter Ending Dec-12 | 24 | 0.36 | 0.48 | 0.26 | 0.57 |
| Quarter Ending Mar-13 | 14 | 0.58 | 0.77 | 0.38 | 0.63 |
| Year Ending Dec-12 | 19 | 0.09 | 0.90 | -0.03 | 2.13 |
| Year Ending Dec-13 | 29 | 2.02 | 2.40 | 1.40 | 2.49 |
| LT Growth Rate (%) | 5 | 15.20 | 26.90 | 10.00 | 11.82 |

Revenue

Estimates:

| | High: | Diff: | Mean: | Diff: | Low: |
|-----------|-------|-------|-------|-------|-------|
| Q4 - 2012 | 8.31 | 111% | 7.52 | -110% | 6.84 |
| Q1 - 2013 | 9.46 | 110% | 8.62 | -110% | 7.82 |
| 2012 | 33.42 | 122% | 27.40 | -104% | 26.44 |
| 2013 | 35.87 | 110% | 32.51 | -110% | 29.68 |

Earnings

Estimates:

| | High: | Diff: | Mean: | Diff: | Low: |
|-----------|-------|-------|-------|-------|--------|
| Q4 - 2012 | 0.48 | 133% | 0.36 | -138% | 0.26 |
| Q1 - 2013 | 0.77 | 133% | 0.58 | -153% | 0.38 |
| 2012 | 0.90 | 1000% | 0.09 | -300% | (0.03) |
| 2013 | 2.40 | 119% | 2.02 | -144% | 1.40 |

Response: Earnings expectations for the year of 2013 are substantially greater than earnings estimates for the year of 2012. The range of high estimates compared to the range of low estimates is nearly identical from the mean estimates. This can be seen in the above calculations. A mean EPS 1.93 larger is projected for the year 2013. This shows analysts are expecting a massive recovery for Morgan Stanley. Far fewer analysts are providing long-term growth estimates for Morgan Stanley. This potentially gives a lower amount of credibility/accuracy to the long-term growth rating provided by the site.

Copy/paste the “Consensus Estimates Trend” Table from *Reuters.com*, “Analysts” tab (include both revenue and earnings)

Review recent trend of analysts’ consensus (mean) estimates on revenue and earnings. (1) Are the consensus estimates trending up, down, or stay the same? (2) Is the trend more notable for the near- or out- quarter, FY1 or FY2, revenue or earnings?

CONSENSUS ESTIMATES TREND

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

| | Current | 1 Week Ago | 1 Month Ago | 2 Month Ago | 1 Year Ago |
|-----------------------------|-----------|------------|-------------|-------------|------------|
| SALES (in millions) | | | | | |
| Quarter Ending Dec-12 | 7,516.59 | 7,516.59 | 7,301.72 | 7,264.56 | 8,695.92 |
| Quarter Ending Mar-13 | 8,615.41 | 8,615.41 | 8,421.84 | 8,433.84 | 9,094.00 |
| Year Ending Dec-12 | 27,395.30 | 27,395.30 | 28,084.90 | 28,397.00 | 33,655.00 |
| Year Ending Dec-13 | 32,509.50 | 32,509.50 | 32,013.60 | 32,080.30 | 35,276.30 |
| Earnings (per share) | | | | | |
| Quarter Ending Dec-12 | 0.36 | 0.36 | 0.34 | 0.34 | 0.57 |
| Quarter Ending Mar-13 | 0.58 | 0.58 | 0.57 | 0.58 | 0.63 |
| Quarter Ending Dec-12 | 0.09 | 0.09 | 0.83 | 0.81 | 2.13 |
| Quarter Ending Dec-13 | 2.02 | 2.02 | 1.95 | 1.94 | 2.49 |

Response: Estimates are staying fairly similar in recent months. Overall, all estimates are greatly down from one year ago.

Copy/paste the “Estimates Revisions Summary” Table from *Reuters.com*, “Analysts” tab (include both revenue and earnings)

Review the number of analysts revising up or down their estimates (both revenue and earnings) **in the last and last four weeks**. (1) Note whether there are more up or down revisions; (2) are the revisions predominantly one directional? (3) Any notable difference last week versus last four weeks, revenue versus earnings?

ESTIMATES REVISIONS SUMMARY

| Number Of Revisions: | Last Week | | Last 4 Weeks | |
|-----------------------|-----------|------|--------------|------|
| | Up | Down | Up | Down |
| Revenue | | | | |
| Quarter Ending Dec-12 | 0 | 0 | 13 | 4 |
| Quarter Ending Mar-13 | 0 | 0 | 7 | 1 |
| Year Ending Dec-12 | 0 | 0 | 5 | 10 |
| Year Ending Dec-13 | 0 | 0 | 16 | 3 |
| Earnings | | | | |
| Quarter Ending Dec-12 | 0 | 0 | 13 | 7 |
| Quarter Ending Mar-13 | 0 | 0 | 7 | 4 |
| Year Ending Dec-12 | 0 | 0 | 0 | 8 |
| Year Ending Dec-13 | 0 | 0 | 12 | 3 |

Response: Within the past four week analyst estimates have been predominately up. Over the last week no analysts have changed their estimates. Estimates for 2013 earnings have been revised greatly up within the past 4 weeks. In comparison, analyst estimates regarding Morgan Stanley’s 2012 earnings have been revised greatly down within the past four weeks. This shows analysts are very bearish in the near- term, and bullish in the long-term. I believe this aligns with analyst estimates listed above regarding EPS. Analyst’s estimates for Q4 of 2012 have also been revised mostly upward within the past four weeks. Overall, analysts appear to be hopeful Morgan Stanley stock will increase.

You will need to incorporate what you see here with Morningstar’s analyst research report (you can access **Morningstar Direct at the Financial Markets Lab.**) and other readings/analysis you found from various on-line financial sites. Discuss whether you think the company has a good chance of making or beating analyst consensus estimate, and why. Based on how the stock has been trading lately, do you think market has already anticipated strong or lackluster financial outlook from the company?

Response: I believe the company has a great chance of either meeting or exceeding analyst estimates for Q4 of the current year. This is because Morgan Stanley was very unprofitable in recent quarters and I believe management will be taking steps toward a large correction. Many analysts I have seen on different sites are also bullish about the stock. It really depends on current economic conditions, and the outcome of the election. Most large investment firms such as Morgan Stanley are hoping for a republican president. The stock has significantly increased over the past couple months, so this leaves me doubtful that the share price will greatly increase, even if estimates are exceeded.

Section (F) Analysts’ Recommendations

Copy/paste the “Analyst Recommendations and Revisions” Table from *Reuters.com*, “Analysts” tab. NOTE: Make sure you copy the entire table including the “Mean Rating” at the bottom of the table.

CONSENSUS RECOMMENDATIONS

| Consensus Recommendation | Next Earnings (approx.) | Company Fiscal Year End Month | Last Updated |
|--------------------------|-------------------------|-------------------------------|--------------|
| Hold | 0.36 | December | 4 Nov 2012 |

ANALYST RECOMMENDATIONS AND REVISIONS

| 1-5 Linear Scale | Current | 1 Month Ago | 2 Month Ago | 3 Month Ago |
|------------------|---------|-------------|-------------|-------------|
| (1) BUY | 6 | 6 | 7 | 8 |
| (2) OUTPERFORM | 7 | 7 | 5 | 4 |
| (3) HOLD | 14 | 14 | 14 | 14 |
| (4) UNDERPERFORM | 1 | 1 | 1 | 1 |

| | | | | |
|-------------|------|------|------|------|
| (5) SELL | 2 | 2 | 2 | 2 |
| No Opinion | 0 | 0 | 0 | 0 |
| Mean Rating | 2.53 | 2.53 | 2.52 | 2.48 |

Review the trend of analyst recommendations over the last three months. Is there a notable change of analyst opinions, turning more bullish or bearish? How many different ratings out of the five possible ones did the company receive currently, one, two, and three months ago? Is there a notable trend of opinion convergence or divergence? Is what you see here consistent to comments in Morningstar analyst’s research report as well as various online financial sites you had researched on?

NOTE: On a Five-point scale, Reuters assigns “1” to “Buy”, the most bullish recommendation, and “5” to “Sell”, the most bearish recommendation. **Some other online sites have opposite scale**, with their “1” being the most bearish and “5” being the most bullish recommendations.

Response: Analysts appear to be very torn over recommendations on Morgan Stanley stock. This provides evidence of a hold rating. The current average is directly in between a BUY and SELL rating. The one, two and three month mean rating is relatively unchanged. Each of these ratings is directly between a BUY and SELL rating. Generally there is a large number of HOLD, OUTPERFORM, and BUY ratings at the current time. This is also consistent with Morningstar’s HOLD rating. A total of 14 analysts have remained with a HOLD rating during the last four periods. All analysts appear to be very consistent with one another.

Section (G) Institutional Ownership

Copy/paste the completed *"CIF Institutional Ownership" spreadsheet* here.

| Cougar Investment Fund Institutional Ownership Template | | | | |
|---|----------------------|--------------------|---------------|-----------------|
| MS | | | | |
| Ownership Activity | # of Holders | Beg. Holde | Shares | % Shares |
| Shares Outstanding | | | 1,975,201,667 | 100.00% |
| # of Holders/Tot Shares Held | 811 | 99.63% | 1,179,985,476 | 59.74% |
| # New Positions | 15 | 1.84% | | |
| # Closed Positions | 18 | 2.21% | | |
| # Increased Positions | 95 | 11.67% | | |
| # Decreased Positions | 108 | 13.27% | | |
| Beg. Total Inst. Positions | 814 | 100.00% | 1,191,554,915 | 60.33% |
| # Net Buyers/3 Mo. Net Chg | -13 | 46.80% | -11,569,439 | -0.59% |
| Ownership Information | % Outstanding | | | |
| Top 10 Institutions % Owners | 45.00% | | | |
| Mutual Fund % Ownership | 0.66% | | | |
| Float % | 99.22% | | | |
| > 5% Ownership | | | | |
| Holder Name | % Outstanding | Report Date | | |
| Mitsubishi UFJ Financial Group Inc. | 21.9 | 6/30/2012 | | |
| State Street Global Advisors (US) | 9.4 | 6/30/2012 | | |
| China Investment Corporation | 7.6 | 12/31/2011 | | |

Combine information provided in all three sections to discuss whether (1) institutions, on net basis, have been increasing or decreasing ownership and how significant, (2) the stock has sizable institution interests and support, (3) the extent of the (> 5%) owners, and (4) this could be a bullish or bearish indication of future stock price movement.

Response: Generally institutional holding has been decreasing at a gradual rate. There are far more decreased positions when compared to increased positions. Morgan Stanley has a total of three different holders which own over 5% of the company. This could lead to excessive instability and overall risk. The three largest holdings control 38.9% of Morgan Stanley. If any one of these three holding companies were to increase or liquidate their positions, the stock price would display volatility. These companies appear to be bullish on Morgan Stanley in the current period.

Section (H) Short Interest (two pages)

MS Short Interest (Morgan Stanley)

| Settlement Date | Short Interest | Avg Daily Share Volume | Days To Cover |
|-----------------|----------------|------------------------|---------------|
| 10/15/2012 | 23,841,616 | 18,254,748 | 1.306050 |
| 9/28/2012 | 25,454,621 | 22,503,743 | 1.131128 |
| 9/14/2012 | 38,751,065 | 31,732,901 | 1.221164 |
| 8/31/2012 | 25,386,920 | 17,304,856 | 1.467040 |
| 8/15/2012 | 26,370,250 | 16,453,340 | 1.602729 |
| 7/31/2012 | 29,064,311 | 27,014,656 | 1.075872 |
| 7/13/2012 | 28,650,934 | 21,264,685 | 1.347348 |
| 6/29/2012 | 26,743,101 | 29,659,024 | 1.000000 |
| 6/15/2012 | 31,873,411 | 27,827,374 | 1.145398 |
| 5/31/2012 | 29,864,361 | 31,486,279 | 1.000000 |
| 5/15/2012 | 25,360,927 | 32,156,547 | 1.000000 |
| 4/30/2012 | 32,900,604 | 28,910,726 | 1.138007 |
| 4/13/2012 | 31,597,658 | 23,394,156 | 1.350665 |
| 3/30/2012 | 27,576,465 | 27,086,534 | 1.018088 |
| 3/15/2012 | 20,195,116 | 27,693,774 | 1.000000 |
| 2/29/2012 | 16,125,481 | 19,844,625 | 1.000000 |
| 2/15/2012 | 19,067,222 | 26,869,665 | 1.000000 |
| 1/31/2012 | 22,057,463 | 28,155,629 | 1.000000 |
| 1/13/2012 | 24,655,556 | 23,236,360 | 1.061077 |

| | | | |
|------------|------------|------------|----------|
| 12/30/2011 | 20,079,749 | 21,978,150 | 1.000000 |
| 12/15/2011 | 22,532,528 | 38,818,709 | 1.000000 |
| 11/30/2011 | 27,407,473 | 36,080,466 | 1.000000 |
| 11/15/2011 | 22,340,112 | 31,674,405 | 1.000000 |

GS Short Interest (Goldman Sachs)

| Settlement Date | Short Interest | Avg Daily Share Volume | Days To Cover |
|-----------------|----------------|------------------------|---------------|
| 10/15/2012 | 6,249,492 | 3,923,564 | 1.592810 |
| 9/28/2012 | 6,598,357 | 4,508,220 | 1.463628 |
| 9/14/2012 | 9,387,756 | 5,121,445 | 1.833029 |
| 8/31/2012 | 7,892,773 | 3,166,406 | 2.492660 |
| 8/15/2012 | 7,385,783 | 2,992,223 | 2.468326 |
| 7/31/2012 | 7,113,847 | 5,300,818 | 1.342028 |
| 7/13/2012 | 5,969,762 | 3,657,254 | 1.632307 |
| 6/29/2012 | 5,925,186 | 4,933,151 | 1.201096 |
| 6/15/2012 | 8,640,437 | 5,018,642 | 1.721668 |
| 5/31/2012 | 7,590,646 | 5,394,776 | 1.407036 |
| 5/15/2012 | 7,706,913 | 5,618,311 | 1.371749 |
| 4/30/2012 | 6,781,460 | 6,416,469 | 1.056883 |
| 4/13/2012 | 5,010,238 | 5,257,758 | 1.000000 |
| 3/30/2012 | 5,287,725 | 5,816,795 | 1.000000 |
| 3/15/2012 | 5,735,700 | 7,703,850 | 1.000000 |

| | | | |
|------------|-----------|-----------|----------|
| 2/29/2012 | 6,573,336 | 5,483,924 | 1.198656 |
| 2/15/2012 | 7,132,187 | 5,921,181 | 1.204521 |
| 1/31/2012 | 7,679,390 | 8,657,069 | 1.000000 |
| 1/13/2012 | 7,264,836 | 7,170,100 | 1.013213 |
| 12/30/2011 | 7,068,608 | 6,291,066 | 1.123595 |
| 12/15/2011 | 8,534,707 | 8,704,555 | 1.000000 |
| 11/30/2011 | 9,774,728 | 7,478,756 | 1.306999 |
| 11/15/2011 | 7,910,515 | 6,859,206 | 1.153270 |

BLK Short Interest (BlackRock Inc.)

| Settlement Date | Short Interest | Avg Daily Share Volume | Days To Cover |
|------------------------|-----------------------|-------------------------------|----------------------|
| 10/15/2012 | 1,737,967 | 988,177 | 1.758761 |
| 9/28/2012 | 1,627,373 | 594,937 | 2.735370 |
| 9/14/2012 | 1,562,298 | 626,800 | 2.492498 |
| 8/31/2012 | 1,442,251 | 386,088 | 3.735550 |
| 8/15/2012 | 1,385,125 | 490,375 | 2.824624 |
| 7/31/2012 | 1,211,707 | 781,553 | 1.550384 |
| 7/13/2012 | 1,154,385 | 746,073 | 1.547282 |
| 6/29/2012 | 1,156,710 | 1,161,795 | 1.000000 |
| 6/15/2012 | 1,450,878 | 1,045,399 | 1.387870 |
| 5/31/2012 | 2,099,877 | 3,668,443 | 1.000000 |
| 5/15/2012 | 1,585,085 | 729,312 | 2.173398 |

| | | | |
|------------|-----------|---------|----------|
| 4/30/2012 | 1,749,050 | 848,911 | 2.060346 |
| 4/13/2012 | 1,711,402 | 656,338 | 2.607501 |
| 3/30/2012 | 1,477,158 | 489,435 | 3.018088 |
| 3/15/2012 | 1,441,608 | 630,223 | 2.287457 |
| 2/29/2012 | 1,260,868 | 683,439 | 1.844887 |
| 2/15/2012 | 1,077,928 | 740,993 | 1.454707 |
| 1/31/2012 | 1,746,086 | 801,348 | 2.178936 |
| 1/13/2012 | 2,000,034 | 623,627 | 3.207100 |
| 12/30/2011 | 1,932,269 | 492,595 | 3.922632 |
| 12/15/2011 | 1,871,302 | 637,916 | 2.933461 |
| 11/30/2011 | 1,672,728 | 804,819 | 2.078390 |
| 11/15/2011 | 1,314,102 | 960,996 | 1.367438 |

| Avg Vol (3 month) | Avg Vol (10 day) | Shares Outstanding | Float |
|--|---|--|---|
| 21,300,000 | 19,536,900 | 1.98 Billion | 1.39 Billion |
| Shares Short (Most recent date) | Short Ratio (Most recent date) | Short % of Float (Most recent date) | Shares Short (2 weeks prior) |
| 23.84 Million | 1.20 | 1.70% | 23.84 Million |

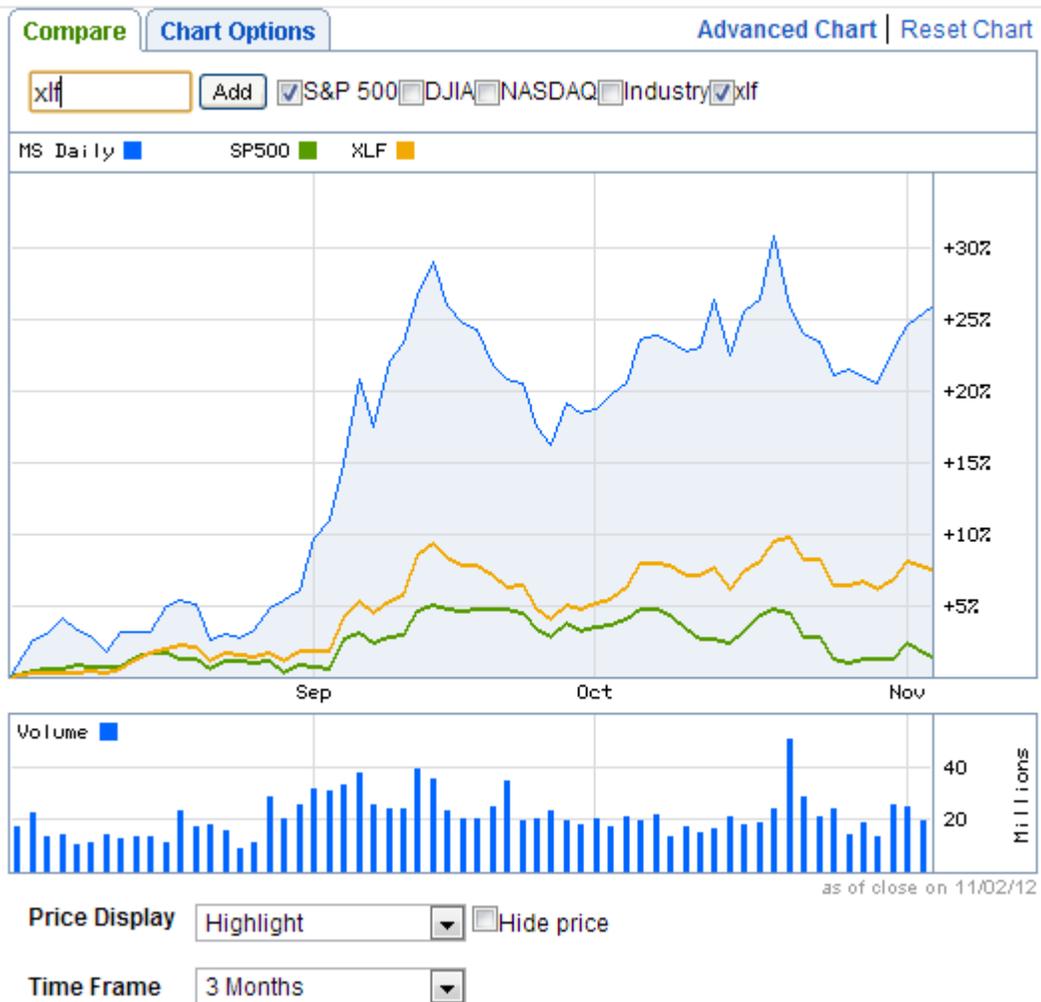
Based on the short interest statistics and its recent trend, how is the market sentiment on the stock? Has the sentiment turned more bullish or bearish over the last year? How about in more recent month and why?

Response: A recent trend of lower volume is taking place for Morgan Stanley. When compared to one year ago, Morgan Stanley has substantially less volume trading. This provides evidence that investors see little potential in Morgan Stanley. The average 10-day volume is also much less than the average 3-month volume (about 9% less). Both Goldman Sachs and BlackRock have also seen reduced volume in recent weeks. This appears to be bearish and industry related.

Section (I) Stock Charts

A three months price chart

Copy/paste the "3 Mos." stock chart here



A one year price chart

Copy/paste the "1 Yr" stock chart here



A five year price chart

Copy/paste the "5 Yrs." stock chart here



Additional price chart

If you have other stock charts, feel free to copy/paste here

| Name | MORGAN STANLEY | GOLDMAN SACHS GROUP INC (THE) | BLACKROCK INC | SCHWAB (CHARLES) CORP |
|-------------------------------------|---|---|--|---|
| Last Trade | \$17.78 4:00 pm 11/02/2012 | \$123.25 4:00 pm 11/02/2012 | \$189.52 4:01 pm 11/02/2012 | \$13.74 4:01 pm 11/02/2012 |
| Today's Change | 0.17 (0.97%) 4:00 pm 11/02/2012 | -1.60 (-1.28%) 4:00 pm 11/02/2012 | -0.55 (-0.29%) 4:01 pm 11/02/2012 | 0.10 (0.73%) 4:01 pm 11/02/2012 |
| Price (52 Weeks) |  |  |  |  |
| Price Performance (52 Wk) | +6.09% 4:00 pm 11/02/2012 | +16.13% 4:00 pm 11/02/2012 | +21.86% 4:01 pm 11/02/2012 | +11.80% 4:01 pm 11/02/2012 |
| Volume (Today) | 0.0 4:00 pm 11/02/2012 | 0.0 4:00 pm 11/02/2012 | 0.0 4:01 pm 11/02/2012 | 0.0 4:01 pm 11/02/2012 |
| Volume (90 day Average) | 21.7M 4:00 pm 11/02/2012 | 4.1M 4:00 pm 11/02/2012 | 682.7K 4:01 pm 11/02/2012 | 8.9M 4:01 pm 11/02/2012 |
| Options | Yes (Option Chain) | Yes (Option Chain) | Yes (Option Chain) | Yes (Option Chain) |
| Equity Summary Score Methodology | Bullish (7.7) (10 Firms†) | Neutral (6.4) (10 Firms†) | Neutral (3.6) (9 Firms†) | Neutral (3.6) (10 Firms†) |
| Sector | Financials | Financials | Financials | Financials |
| Industry | Capital Markets | Capital Markets | Capital Markets | Capital Markets |
| Market Capitalization | \$35.1B | \$59.1B | \$32.8B | \$17.5B |
| % of Institutional Ownership | 63.74% | 62.03% | 76.39% | 71.47% |
| Dividend Yield (Annualized) | 1.13% 11/02/2012 | 1.62% 11/02/2012 | 3.17% 11/02/2012 | 1.75% 11/02/2012 |
| Earnings per Share (TTM) | \$-0.46 09/30/2012 | \$10.41 09/30/2012 | \$12.92 09/30/2012 | \$0.67 09/30/2012 |
| Total Revenue (TTM) | \$32.6B 09/30/2012 | \$38.6B 09/30/2012 | \$9.0B 09/30/2012 | \$4.9B 09/30/2012 |

Response: Overall there is a large amount of uncertainty regarding the immediate future of Morgan Stanley. In the long-term, most analysts appear to be bullish. It appears the recent window of opportunity to profit from Morgan Stanley has passed. This is because the share price has increased over 25% in the past three months. In comparison, the financial sector has increased about 8% and the S&P 500 has increased about 3% in past three months. There is also a large amount of uncertainty about Q4 earnings, and whether or not Morgan Stanley will post a profit. The chart above shows that analysts are bullish in comparison to competitors, but we are very skeptical of this. Morgan Stanley has also greatly underperformed the S&P 500 over the past three years (as seen in the graph above).