

MORGAN STANLEY  
Form FWP  
December 27, 2018

**December 2018**

Preliminary Terms No. 1,368

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Dated December 26, 2018

Filed pursuant to Rule 433

Morgan Stanley Finance LLC

Structured Investments

Opportunities in U.S. Equities

Jump Securities with Auto-Callable Feature due December 30, 2021

**All Payments on the Securities Based on the Worst Performing of the S&P 500<sup>®</sup> Index and the Russell 2000<sup>®</sup> Index**

**Fully and Unconditionally Guaranteed by Morgan Stanley**

**Principal at Risk Securities**

The securities offered are unsecured obligations of Morgan Stanley Finance LLC (“MSFL”), fully and unconditionally guaranteed by Morgan Stanley, and have the terms described in the accompanying product supplement, index supplement and prospectus, as supplemented or modified by this document. The securities do not guarantee the repayment of principal and do not provide for the regular payment of interest. The securities will be automatically redeemed if the index closing value of **each** of the S&P 500<sup>®</sup> Index and the Russell 2000<sup>®</sup> Index, which we refer to as the underlying indices, on any of the annual determination dates is greater than or equal to its respective redemption threshold level, for an early redemption payment that will increase over the term of the securities, as described below. No further payments will be made on the securities once they have been redeemed. At maturity, if the securities have not previously been redeemed and the final index value of each underlying index is **greater than or equal to 90%** of its respective initial index value, investors will receive a payment at maturity of \$1,240 per \$1,000 security. If the securities have not previously been redeemed and the final index value of **either underlying index is less than 90%** of its respective initial index value but the final index value of **each underlying index is greater than or equal to 50%** of its respective initial index value, which we refer to as the respective downside threshold level, investors will receive a payment at maturity of \$1,000 per \$1,000 security. However, if the securities are not redeemed prior to maturity and the final index value of **either underlying index is less than its respective downside threshold level**, investors will be exposed to the decline in the worst performing underlying index on a 1-to-1 basis, and will receive a payment at maturity that is less than 50% of the stated principal amount of the securities and could be zero.

**Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment.** The securities are for investors who are willing to forego current income and participation in the appreciation of either underlying index in exchange for the possibility of receiving an early redemption payment or payment at maturity greater than the stated principal amount if each underlying index closes at or above its redemption threshold level on an annual determination date or at or above 90% of its initial index value on the final determination date. Because all payments on the securities are based on the worst performing of the underlying

indices, a decline beyond the respective downside threshold level of either underlying index will result in a significant loss of your investment, even if the other underlying index has appreciated or has not declined as much. Investors will not participate in any appreciation of either underlying index. The securities 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 securities 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

<b>Issuer:</b>	Morgan Stanley Finance LLC
<b>Guarantor:</b>	Morgan Stanley
<b>Underlying indices:</b>	S&P 500 <sup>®</sup> Index (the "SPX Index") and Russell 2000 Index (the "RTY Index")
<b>Aggregate principal amount:</b>	\$
<b>Stated principal amount:</b>	\$1,000 per security
<b>Issue price:</b>	\$1,000 per security
<b>Pricing date:</b>	December 26, 2018
<b>Original issue date:</b>	December 31, 2018 (3 business days after the pricing date)
<b>Maturity date:</b>	December 30, 2021
<b>Early redemption:</b>	<p>If, on any annual determination date, beginning on December 26, 2019, the index closing value of <b>each</b> underlying index is <b>greater than or equal to</b> its respective redemption threshold level, the securities will be automatically redeemed for the applicable early redemption payment on the related early redemption date.</p> <p><b>The securities will not be redeemed early on any early redemption date if the index closing value of either underlying index is below its respective redemption threshold level on the related determination date.</b></p> <p>The early redemption payment will be an amount in cash per stated principal amount (corresponding to a return of approximately 8.00% <i>per annum</i>) for each annual determination date, as set forth under "Determination Dates and Early Redemption Payments" below.</p>
<b>Early redemption payment:</b>	<p>No further payments will be made on the securities once they have been redeemed.</p> <p>With respect to the SPX Index, , which is 95% of its initial index value</p>
<b>Redemption threshold levels:</b>	<p>With respect to the RTY Index, , which is 95% of its initial index value</p> <p>Annually. See "Determination Dates and Early Redemption Payments" below.</p>
<b>Determination dates:</b>	<p>The determination dates are subject to postponement for non-index business days and certain market disruption events.</p>

**Early redemption dates:** The third business day after the relevant determination date  
 With respect to the SPX Index, , which is 50% of its initial index value

**Downside threshold level:** With respect to the RTY Index, , which is 50% of its initial index value  
 If the securities have not previously been redeemed, you will receive at maturity a cash payment per security as follows:

- If the final index value of **each underlying index is greater than or equal to 90%** of its respective initial index value:

\$1,240

**Payment at maturity:** · If the final index value of **either underlying index is less than 90%** of its respective initial index value but the final index value of **each underlying index is greater than or equal to** its respective downside threshold level:

\$1,000

- If the final index value of **either underlying index is less than** its respective downside threshold level:

\$1,000 × index performance factor of the worst performing underlying index

**Under these circumstances, you will lose more than 30%, and possibly all, of your investment.**

*Terms continued on the following page*

**Agent:** Morgan Stanley & Co. LLC (“MS & Co.”), an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley. See “Supplemental information regarding plan of distribution; conflicts of interest.”

**Estimated value on the pricing date:** Approximately \$969.10 per security, or within \$15.00 of that estimate. See “Investment Summary” beginning on page 3.

<b>Commissions and issue price:</b>	<b>Price to public</b>	<b>Agent’s commissions<sup>(1)</sup></b>	<b>Proceeds to us<sup>(2)</sup></b>
<b>Per security</b>	\$1,000	\$	\$
<b>Total</b>	\$	\$	\$

(1) *Selected dealers and their financial advisors will collectively receive from the agent, Morgan Stanley & Co. LLC, a fixed sales commission of \$ for each security 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 21.*

**The securities involve risks not associated with an investment in ordinary debt securities. See “Risk Factors” beginning on page 9.**

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

**The securities 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, index supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see “Additional Terms of the Securities” and “Additional Information About the Securities” 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 Auto-Callable Securities dated November 16, 2017](#)**

**[Index Supplement dated November 16, 2017](#) [Prospectus dated November 16, 2017](#)**

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due December 30, 2021

**All Payments on the Securities Based on the Worst Performing of the S&P 500® Index and the Russell 2000® Index**

**Principal at Risk Securities**

*Terms continued from previous page:*

**Initial index value:** With respect to the SPX Index, , which is its index closing value on the pricing date

**Final index value:** With respect to the RTY Index, , which is its index closing value on the pricing date

**Worst performing underlying index:** With respect to each underlying index, the respective index closing value on the final determination date

**Index performance factor:** The underlying index with the larger percentage decrease from the respective initial index value to the respective final index value

**CUSIP / ISIN:** With respect to each underlying index, the final index value *divided by* the initial index value

**Listing:** 61768DVQ5 / US61768DVQ59

The securities will not be listed on any securities exchange.

Determination Dates and Early Redemption Payments

Determination Dates	Early Redemption Payments (per \$1,000 Security)
1 <sup>st</sup> determination date: December 26, 2019	\$1,080
2 <sup>nd</sup> determination date: December 28, 2020	\$1,160
Final determination date: December 27, 2021	See “Payment at maturity” above.

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**All Payments on the Securities Based on the Worst Performing of the S&P 500® Index and the Russell 2000® Index**

**Principal at Risk Securities**

Investment Summary

**Jump Securities with Auto-Callable Feature**

**Principal at Risk Securities**

The Jump Securities with Auto-Callable Feature due December 30, 2021 All Payments on the Securities Based on the Worst Performing of the S&P 500® Index and the Russell 2000® Index (the “securities”) do not provide for the regular payment of interest. Instead, the securities will be automatically redeemed if the index closing value of **each of the S&P 500® Index and the Russell 2000® Index** on any annual determination date is greater than or equal to its respective redemption threshold level, for an early redemption payment that will increase over the term of the securities, as described below. No further payments will be made on the securities once they have been redeemed. At maturity, if the securities have not previously been redeemed and the final index value of each underlying index is **greater than or equal to 90% of** its respective initial index value, investors will receive a payment at maturity of \$1,240 per \$1,000 security. If the securities have not previously been redeemed and the final index value of **either** underlying index is **less than 90%** of its respective initial index value but the final index value of **each** underlying index is **greater than or equal to** its respective downside threshold level, investors will receive a payment of maturity of \$1,000 per \$1,000 security. However, if the securities are not redeemed prior to maturity and the final index value of **either underlying index is** less than its respective downside threshold level, investors will be exposed to the decline in the worst performing underlying index on a 1-to-1 basis, and will receive a payment at maturity that is less than 50% of the stated principal amount of the securities and could be zero. **Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment.** Investors will not participate in any appreciation in either underlying index.

Maturity: Approximately 3 years

Automatic early redemption: If, on any annual determination date, the index closing value of each underlying index is greater than or equal to its respective redemption threshold level, the securities will be automatically redeemed for the applicable early redemption payment on the related early redemption date.

Redemption threshold levels: With respect to the SPX Index: 95% of its initial index value

With respect to the RTY Index: 95% of its initial index value

The early redemption payment will be an amount in cash per stated principal amount (corresponding to a return of approximately 8.00% *per annum*) for each annual determination date, as follows:

Early redemption  
payment:

- 1<sup>st</sup> determination date: \$1,080
- 2<sup>nd</sup> determination date: \$1,160

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

Payment at  
maturity:

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

- If the final index value of **each** underlying index is **greater than or equal to 90%** of its respective initial index value:

\$1,240

- If the final index value of **either** underlying index is **less than 90%** of its respective initial index value but the final index value of **each** underlying index is **greater than or equal to** its respective downside threshold level:

\$1,000

- If the final index value of **either** underlying index is **less than** its respective downside threshold level:

\$1,000 × index performance factor of the worst performing underlying index

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**Principal at Risk Securities**

**Under these circumstances, investors will lose a significant portion or all of their investment. Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment.**

The original issue price of each security is \$1,000. This price includes costs associated with issuing, selling, structuring and hedging the securities, which are borne by you, and, consequently, the estimated value of the securities on the pricing date will be less than \$1,000. We estimate that the value of each security on the pricing date will be approximately \$969.10, or within \$15.00 of that estimate. Our estimate of the value of the securities 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 securities on the pricing date, we take into account that the securities comprise both a debt component and a performance-based component linked to the underlying indices. The estimated value of the securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the underlying indices, instruments based on the underlying indices, 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 securities?*

In determining the economic terms of the securities, including the early redemption payment amounts, the redemption threshold levels and the downside 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 securities 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 securities?*

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The price at which MS & Co. purchases the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, 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 securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, 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 securities, and, if it once chooses to make a market, may cease doing so at any time.

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**All Payments on the Securities Based on the Worst Performing of the S&P 500® Index and the Russell 2000® Index**

**Principal at Risk Securities**

**Key Investment Rationale**

The securities do not provide for the regular payment of interest. Instead, the securities will be automatically redeemed if the index closing value of **each of** the S&P 500® Index and the Russell 2000® Index on any annual determination date is **greater than or equal** to its respective redemption threshold level.

The following scenarios are for illustrative purposes only to demonstrate how an automatic early redemption payment or the payment at maturity (if the securities have not previously been redeemed) are calculated, and do not attempt to demonstrate every situation that may occur. Accordingly, the securities may or may not be redeemed prior to maturity and the payment at maturity may be less than 50% of the stated principal amount of the securities and may be zero.

**Scenario 1: The securities are redeemed prior to maturity**

When each underlying index closes at or above its respective redemption threshold level on any annual determination date, the securities will be automatically redeemed for the applicable early redemption payment on the related early redemption date. Investors do not participate in any appreciation in either underlying index.

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

This scenario assumes that at least one underlying index closes below its respective redemption threshold level on each of the annual determination dates. Consequently, the securities are not redeemed prior to maturity. On the final determination date, each underlying index closes at or above 90% of its respective initial index value. At maturity, investors will receive a cash payment equal to \$1,240 per stated principal amount. Investors do not participate in any appreciation in either underlying index.

**Scenario 3: The securities are not redeemed prior to maturity, and investors receive the return of principal at maturity**

This scenario assumes that at least one underlying index closes below its respective redemption threshold level on each of the annual determination dates. Consequently, the securities are not redeemed prior to maturity. On the final determination date, at least one underlying index closes below 90% of its respective initial index value, but the final index value of each underlying index is greater than or equal to its respective downside threshold level. At maturity, investors will receive a cash payment equal to \$1,000 per \$1,000 security.

**Scenario 4: The securities are not redeemed prior to maturity, and investors**

This scenario assumes that at least one underlying index closes below its respective redemption threshold level on each of the annual determination dates. Consequently, the securities are not redeemed prior to maturity. On the final determination date, at least one underlying index closes below its respective downside threshold level. At maturity,

**suffer a substantial loss  
of principal at maturity**

investors will receive an amount equal to the stated principal amount multiplied by the index performance factor of the worst performing underlying index. Under these circumstances, the payment at maturity will be significantly less than the stated principal amount and could be zero.

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**Principal at Risk Securities**

Hypothetical Examples

The following hypothetical examples are for illustrative purposes only. Whether the securities are redeemed prior to maturity will be determined by reference to the index closing value of each underlying index on each of the annual determination dates, and the payment at maturity, if any, will be determined by reference to the index closing value of each underlying index on the final determination date. The actual initial index values, redemption threshold levels and downside 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 securities are subject to our credit risk. The below examples are based on the following terms:

The early redemption payment will be an amount in cash per stated principal amount (corresponding to a return of approximately 8.00% *per annum*) for each annual determination date, as follows:

- Early Redemption Payment:
- 1<sup>st</sup> determination date: \$1,080
  - 2<sup>nd</sup> determination date: \$1,160

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

Payment at Maturity If the securities have not previously been redeemed, you will receive at maturity a cash payment per security as follows:

- If the final index value of **each** underlying index is **greater than or equal to 90%** of its respective initial index value:

\$1,240

· If the final index value of **either** underlying index is **less than 90%** of its respective initial index value but the final index value of **each** underlying index is **greater than or equal to** its respective downside threshold level:

\$1,000

· If the final index value of **either** underlying index is **less than** its respective downside threshold level:

$\$1,000 \times$  index performance factor of the worst performing underlying index.

**Under these circumstances, you will lose a significant portion or all of your investment.**

Stated Principal Amount:

\$1,000

With respect to the SPX Index: 2,500

Hypothetical Initial Index Value:

With respect to the RTY Index: 1,250

With respect to the SPX Index: 2,375, which is 95% of its hypothetical initial index value

Hypothetical Redemption Threshold Levels:

With respect to the RTY Index: 1,187.50, which is 95% of its hypothetical initial index value

With respect to the SPX Index: 2,250

90% of the Hypothetical Initial Index Value:

With respect to the RTY Index: 1,125

Hypothetical Downside Threshold Level:

With respect to the SPX Index: 1,250, which is 50% of its hypothetical initial index value

With respect to the RTY Index: 625, which is 50% of its hypothetical initial index value

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**All Payments on the Securities Based on the Worst Performing of the S&P 500® Index and the Russell 2000® Index****Principal at Risk Securities****Automatic Call:****Example 1 — the securities are redeemed following the second determination date**

Date	SPX Index Closing Value	RTY Index Closing Value	Payment (per Security)
1 <sup>st</sup> Determination Date	3,000 ( <b>at or above</b> the redemption threshold level)	1,000 ( <b>below</b> the redemption threshold level, securities are not redeemed)	--
2 <sup>nd</sup> Determination Date	3,300 ( <b>at or above</b> the redemption threshold level)	1,200 ( <b>at or above</b> the redemption threshold level, securities are automatically redeemed)	\$1,160

In this example, on the first determination date, the index closing value of one of the underlying indices is at or above its respective redemption threshold level, but the index closing value of the other underlying index is below its respective redemption threshold level. Therefore, the securities are not redeemed. On the second determination date, the index closing value of each underlying index is at or above the respective redemption threshold level. Therefore, the securities are automatically redeemed on the second early redemption date. Investors will receive a payment of \$1,160 per security on the related early redemption date. No further payments will be made on the securities once they have been redeemed, and investors do not participate in the appreciation in either underlying index.

How to calculate the payment at maturity:

In the following examples, one or both of the underlying indices close below the respective redemption threshold level(s) on each of the annual determination dates, and, consequently, the securities are not automatically redeemed prior to, and remain outstanding until, maturity.

SPX Index Final Index Value

RTY Index Final Index Value

Payment at  
Maturity (per



			Security)
Example 1:	3,000 ( <b>at or above 90%</b> of its initial index value)	1,400 ( <b>at or above 90%</b> of its initial index value)	\$1,240
Example 2:	2,000 ( <b>below 90%</b> of its initial index value but <b>at or above</b> its downside threshold level)	1,500 ( <b>at or above 90%</b> of its initial index value and <b>at or above</b> its downside threshold level)	\$1,000
Example 3:	3,125 ( <b>at or above 90%</b> of its initial index value and <b>at or above</b> its downside threshold level)	500 ( <b>below</b> its downside threshold level)	$\$1,000 \times (500 / 1,250) = \$400$
Example 4:	500 ( <b>below</b> its downside threshold level)	1,000 ( <b>below 90%</b> of its initial index value but <b>at or above</b> its downside threshold level)	$\$1,000 \times (500 / 2,500) = \$200$
Example 5:	500 ( <b>below</b> its downside threshold level)	500 ( <b>below</b> its downside threshold level)	$\$1,000 \times (500 / 2,500) = \$200$

In example 1, the final index value of each underlying index is at or above 90% of its respective initial index value. Therefore, investors receive \$1,240 per security at maturity. Investors do not participate in any appreciation in either underlying index.

In example 2, the final index value of one of the underlying indices is at or above 90% of its initial index value and at or above its downside threshold level, but the final index value of the other underlying index is below 90% of its initial index value and at or above its downside threshold level. The RTY Index has increased 20% from its initial index value to its final index value and the SPX Index has declined 20% from its initial index value to its final index value. Therefore, investors receive \$1,000 per security at maturity. Investors do not participate in any appreciation in either underlying index.

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In example 3, the final index value of one of the underlying indices is at or above 90% of its initial index value and at or above its downside threshold level, but the final index value of the other underlying index is below its respective downside threshold level. Therefore, investors are exposed to the downside performance of the worst performing underlying index at maturity. The SPX Index has increased 25% from its initial index value to its final index value and the RTY Index has declined 60% from its initial index value to its final index value. Therefore, investors receive at maturity an amount equal to the stated principal amount times the index performance factor of the RTY Index, which is the worst performing underlying index in this example.

In example 4, the final index value of one of the underlying indices is below 90% of its initial index value but at or above its downside threshold level, while the final index value of the other underlying index is below its respective downside threshold level. Therefore, investors are exposed to the downside performance of the worst performing underlying index at maturity. The RTY Index has declined 20% from its initial index value to its final index value and the SPX Index has declined 80% from its initial index value to its final index value. Therefore, investors receive at maturity an amount equal to the stated principal amount times the index performance factor of the SPX Index, which is the worst performing underlying index in this example.

In example 5, the final index value of each underlying index is below its respective downside threshold level, and investors receive at maturity an amount equal to the stated principal amount *times* the index performance factor of the worst performing underlying index. The SPX Index has declined 80% from its initial index value to its final index value and the RTY Index has declined 60% from its initial index value to its final index value. Therefore, the payment at maturity equals the stated principal amount *times* the index performance factor of the SPX Index, which is the worst performing underlying index in this example.

**If the securities are not redeemed prior to maturity and the final index value of either underlying index is below its respective downside threshold level, you will be exposed to the downside performance of the worst performing underlying index at maturity, and your payment at maturity will be less than 50% of the stated principal amount per security and could be zero.**

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Risk Factors

*The following is a list of certain key risk factors for investors in the securities. For further discussion of these and other risks, you should read the section entitled “Risk Factors” in the accompanying product supplement, index supplement and prospectus. We also urge you to consult with your investment, legal, tax, accounting and other advisers in connection with your investment in the securities.*

**The securities do not pay interest or guarantee the return of any principal.** The terms of the securities differ from those of ordinary debt securities in that they do not pay interest or guarantee the return of any of the principal amount at maturity. If the securities have not been automatically redeemed prior to maturity and the final index value of **either underlying index** is less than its respective downside threshold level of 50% of its initial index value, you § will be exposed to the decline in the value of the worst performing underlying index, as compared to its initial index value, on a 1-to-1 basis, and you will receive for each security that you hold at maturity an amount equal to the stated principal amount *times* the index performance factor of the worst performing underlying index. In this case, the payment at maturity will be less than 50% of the stated principal amount and could be zero.

**The appreciation potential of the securities is limited by the fixed early redemption payment or payment at maturity specified for each determination date.** The appreciation potential of the securities is limited to the fixed early redemption payment specified for each determination date if each underlying index closes at or above its § respective redemption threshold level on any annual determination date, or to the fixed upside payment at maturity if the securities have not been redeemed and the final index value of each underlying index is at or above 90% of its initial index value. In all cases, you will not participate in any appreciation of either underlying index, which could be significant.

§ **You are exposed to the price risk of each underlying index.** Your return on the securities is not linked to a basket consisting of each underlying index. Rather, it will be contingent upon the independent performance of each underlying index. Unlike an instrument with a return linked to a basket of underlying assets, in which risk is mitigated and diversified among all the components of the basket, you will be exposed to the risks related to each underlying index. Poor performance by **either underlying index** over the term of the securities may negatively affect your return and will not be offset or mitigated by any positive performance by the other underlying index. To receive an early redemption payment, **each underlying index** must close at or above its respective redemption threshold level on the applicable determination date. In addition, if the securities have not been redeemed and **at least one underlying index** has declined to below its respective downside threshold level as of the final determination date, you will be **fully exposed** to the decline in the worst performing underlying index over the term of the securities on a 1-to-1 basis, even if the other underlying index has appreciated or has not declined as much.

Under this scenario, the value of any such payment at maturity will be less than 50% of the stated principal amount and could be zero. Accordingly, your investment is subject to the price risk of each underlying index.

**The market price will be influenced by many unpredictable factors.** Several factors, many of which are beyond our control, will influence the value of the securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the securities in the secondary market. We expect that generally the level of interest rates available in the market and the value of each underlying index on any day, including in relation to its respective initial index value, redemption threshold levels and downside threshold level, will affect the value of the securities more than any other factors. Other factors that may influence the value of the securities include:

- o the volatility (frequency and magnitude of changes in value) of the underlying indices,

geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the component stocks of the underlying indices or securities markets generally and which may affect the value of each underlying index,

- o dividend rates on the securities underlying the underlying indices,

- o the time remaining until the securities mature,

- o interest and yield rates in the market,

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- o the availability of comparable instruments,
- o the composition of the underlying indices and changes in the constituent stocks of such indices, and
- o any actual or anticipated changes in our credit ratings or credit spreads.

Some or all of these factors will influence the price that you will receive if you sell your securities prior to maturity. For example, you may have to sell your securities at a substantial discount from the stated principal amount of \$1,000 per security if the price of either underlying index at the time of sale is near or below its downside threshold level or if market interest rates rise.

You cannot predict the future performance of either underlying index based on its historical performance. The value(s) of one or both of the underlying indices may decrease so that you will receive no return on your investment and receive a payment at maturity that is less than 50% of the stated principal amount. See “S&P 500® Index Overview” and “Russell 2000® Index Overview” below.

**The securities 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 securities.** You are dependent on our ability to pay all amounts due on the securities upon an early redemption or at maturity and therefore you are subject to our credit risk. If we default on our obligations under the securities, your investment would be at risk and you could lose some § or all of your investment. As a result, the market value of the securities 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 securities.

**§ 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 securities are linked to the Russell 2000® Index and are subject to risks associated with small-capitalization companies.** As the Russell 2000® Index is one of the underlying indices, and the Russell 2000® Index consists of stocks issued by companies with relatively small market capitalization, the securities are linked to the value of small-capitalization companies. These companies often have greater stock price volatility, lower trading volume and less liquidity than large-capitalization companies and therefore the Russell 2000® Index may be more volatile than indices that consist of stocks issued by large-capitalization companies. Stock prices of § small-capitalization companies are also more vulnerable than those of large-capitalization companies to adverse business and economic developments, and the stocks of small-capitalization companies may be thinly traded. In addition, small capitalization companies are typically less well-established and less stable financially than large-capitalization companies and may depend on a small number of key personnel, making them more vulnerable to loss of personnel. Such companies tend to have smaller revenues, less diverse product lines, smaller shares of their product or service markets, fewer financial resources and less competitive strengths than large-capitalization companies and are more susceptible to adverse developments related to their products.

**Not equivalent to investing in the underlying indices.** Investing in the securities is not equivalent to investing in either underlying index or the component stocks of either underlying index. Investors in the securities will not § participate in any positive performance of either underlying index, and will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to stocks that constitute either underlying index.

**Reinvestment risk.** The term of your investment in the securities may be shortened due to the automatic early § redemption feature of the securities. If the securities are redeemed prior to maturity, you will receive no further

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payments on the securities and may be forced to invest in a lower interest rate environment and may not be able to reinvest at comparable terms or returns.

**The securities will not be listed on any securities exchange and secondary trading may be limited, and accordingly, you should be willing to hold your securities for the entire 3-year term of the securities.** The securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the securities. MS & Co. may, but is not obligated to, make a market in the securities and, if it once chooses to make a market, may cease doing so at any time. When it does make a market, it will generally do so for transactions of routine secondary market size at prices based on its estimate of the current value of the securities, taking into account its bid/offer spread, our credit spreads, market volatility, the notional size of the proposed sale, the cost of unwinding § any related hedging positions, the time remaining to maturity and the likelihood that it will be able to resell the securities. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the securities easily. Since other broker-dealers may not participate significantly in the secondary market for the securities, the price at which you may be able to trade your securities is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the securities, it is likely that there would be no secondary market for the securities. Accordingly, you should be willing to hold your securities to maturity.

**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 securities in the original issue price reduce the economic terms of the securities, cause the estimated value of the securities 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 securities 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 securities in the original issue price and the lower rate we are willing to pay as issuer make the economic terms of the securities less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, 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 securities 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 market-standard way to value these types of securities, our models may yield a higher estimated value of the securities than those § generated by others, including other dealers in the market, if they attempted to value the securities. In addition, the estimated value on the pricing date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your securities in the secondary market (if any exists) at any time. The value of your securities at any time after the date of this document will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also “The market price will be influenced by many unpredictable factors” above.

**Hedging and trading activity by our affiliates could potentially affect the value of the securities.** One or more of our affiliates and/or third-party dealers expect to carry out hedging activities related to the securities (and to other § instruments linked to the underlying indices or their component stocks), including trading in the stocks that constitute the underlying indices as well as in other instruments related to the underlying indices. As a result, these entities may be



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unwinding or adjusting hedge positions during the term of the securities, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the final determination date approaches. Some of our affiliates also trade the stocks that constitute the underlying indices and other financial instruments related to the underlying indices on a regular basis as part of their general broker-dealer and other businesses. Any of these hedging or trading activities on or prior to the pricing date could potentially increase the initial index value of an underlying index, and, therefore, could increase (i) the respective values at or above which such underlying index must close on the respective determination dates so that the securities are redeemed prior to maturity for the early redemption payment (depending also on the performance of the other underlying index) and (ii) the downside threshold level for such underlying index, which is the value at or above which such underlying index must close on the final determination date so that you are not exposed to the negative performance of the worst performing underlying index at maturity (depending also on the performance of the other underlying index). Additionally, such hedging or trading activities during the term of the securities could potentially affect the value of either underlying index on the determination dates, and, accordingly, whether we redeem the securities prior to maturity and the amount of cash you will receive at maturity, if any.

**The calculation agent, which is a subsidiary of Morgan Stanley and an affiliate of MSFL, will make determinations with respect to the securities.** As calculation agent, MS & Co. will determine the initial index values, the redemption threshold levels, the downside threshold levels, the final index values, whether the securities will be redeemed on any early redemption date and the payment at maturity, if any. Moreover, certain determinations made by MS & Co., in its capacity as calculation agent, may require it to exercise discretion and make subjective judgments, such as with respect to the occurrence or non-occurrence of market disruption events and the selection of § a successor index or calculation of an index closing value in the event of a market disruption event or discontinuance of an underlying index. These potentially subjective determinations may affect the payout to you upon an early redemption or at maturity, if any. For further information regarding these types of determinations, see “Description of Auto-Callable Securities—Postponement of Determination Dates,” “—Alternate Exchange Calculation in Case of an Event of Default,” “—Discontinuance of Any Underlying Index; Alternation of Method of Calculation” and “—Calculation Agent and Calculations” in the accompanying product supplement. In addition, MS & Co. has determined the estimated value of the securities on the pricing date.

§ **The U.S. federal income tax consequences of an investment in the securities are uncertain.** Please read the discussion under “Additional Information – Tax considerations” in this document and the discussion under “United States Federal Taxation” in the accompanying product supplement for auto-callable securities (together, the “Tax Disclosure Sections”) concerning the U.S. federal income tax consequences of an investment in the securities. If the Internal Revenue Service (the “IRS”) were successful in asserting an alternative treatment for the securities, the timing and character of income on the securities might differ significantly from the tax treatment described in the Tax Disclosure Sections. For example, under one possible treatment, the IRS could seek to recharacterize the securities as debt instruments. In that event, U.S. Holders would be required to accrue into income original issue discount on the securities every year at a “comparable yield” determined at the time of issuance and recognize all income and gain

in respect of the securities as ordinary income. Additionally, as discussed under “United States Federal Taxation—FATCA” in the accompanying product supplement for auto-callable securities, the withholding rules commonly referred to as “FATCA” would apply to the securities if they were recharacterized as debt instruments. However, recently proposed regulations (the preamble to which specifies that taxpayers are permitted to rely on them pending finalization) eliminate the withholding requirement on payments of gross proceeds of a taxable disposition. The risk that financial instruments providing for buffers, triggers or similar downside protection features, such as the securities, would be recharacterized as debt is greater than the risk of recharacterization for comparable financial instruments that do not have such features. We do not plan to request a ruling from the IRS regarding the tax treatment of the securities, and the IRS or a court may not agree with the tax treatment described in the Tax Disclosure Sections.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status

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of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the “constructive ownership” rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, possibly with retroactive effect. Both U.S. and Non-U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the securities, including possible alternative treatments, the issues presented by this notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

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S&P 500<sup>®</sup> Index Overview

The S&P 500<sup>®</sup> Index, which is calculated, maintained and published by S&P Dow Jones Indices LLC (“S&P”), consists of stocks of 500 component companies selected to provide a performance benchmark for the U.S. equity markets. The calculation of the S&P 500<sup>®</sup> Index is based on the relative valu