



The Wilson Group at Morgan Stanley

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“How should I prepare for the coming rise in interest rates?”

By Eric S. Wilson

Toward the end of the second quarter of 2013, the fixed-income markets provided a glimpse at what might happen once interest rates begin to rise. Analysts, pundits and everyday citizens have begun to talk about what to do as the 32-year bull market in interest rates comes to an end. Instead of a traditional article this month, I am simply going to list the top 10 things we are speaking to clients about that relate to rising interest rates.

1. Avoid renewing certificates of deposit for longer than one year at a time. By renewing for periods longer than this, you run the risk of not receiving market rates of interest that are higher than your current rate.

2. Review all fixed-income holdings to assess potential problems. Many firms now have software that can “stress-test” portfolios for various scenarios. (You can use the 1994-1995 period as an example of what happens when rates rise unpredictably with no pattern, and you can use the 2004-2006 period as an example of what happens when rates rise in a measured and

consistent way.¹⁻⁸ It should be helpful to see how Treasury bonds have behaved differently from municipal bonds and how they both have behaved differently from corporate bonds, etc.

3. Consider refinancing any fixed-rate debt, especially mortgages, to lock in current low rates as far into the future as you are comfortable. Also, pay special attention to adjustable rate mortgages.

4. Review equity investments to determine which holdings may be challenged in a rising interest-rate environment. There are several industries whose cost of capital is about to rise.

5. If your net worth is sizable enough, consider whether low-interest-rate dependent planning instruments should be implemented, such as charitable lead annuity trusts (CLATs) and grantor retained annuity trusts (GRATs). (See my December/January 2013 issue column in *Worth*.)

6. If you are one of the many investors who have pledged your assets to secure a loan from your financial institution to purchase other assets

(aircraft, artwork, real estate, etc.) without having to sell financial assets, and that loan is a LIBOR-based loan, then considering the purchase of an interest rate cap is prudent.

7. Make any intra-family loans and document the interest rate used and the term of the loan.

8. Consider non-U.S. fixed-income investments, as much of the world is still cutting interest rates (however, when doing so, you must factor in currency risk).

9. Begin discussions with investment and tax advisors to identify which assets to contribute to planning vehicles whose tax benefits increase with interest rates, such as charitable remainder unitrusts (CRUTs).

10. Have a direct discussion with your advisor about how your investment costs may be affected by portfolio or allocation shifts from fixed income.

This list is by no means exhaustive but should provide you with a good place to begin as you contemplate rising interest rates. ☺

Past performance is no guarantee of future results. Source: Barclays, BofA Merrill Lynch, Credit Suisse, and Morningstar. ¹The BofA Merrill Lynch U.S. Treasury Current 30-Year Index. ²The BofA Merrill Lynch U.S. Treasury Current 10-Year Index. ³The BofA Merrill Lynch U.S. 3-Month Treasury Bill Index. ⁴The Barclays U.S. Aggregate Agencies Index. ⁵The Barclays U.S. Aggregate Bond Index. ⁶The Barclays Corporate Investment Grade Bond Index. ⁷The BofA Merrill Lynch High Yield Master II Constrained Index. ⁸The Credit Suisse Leveraged Loan Index.

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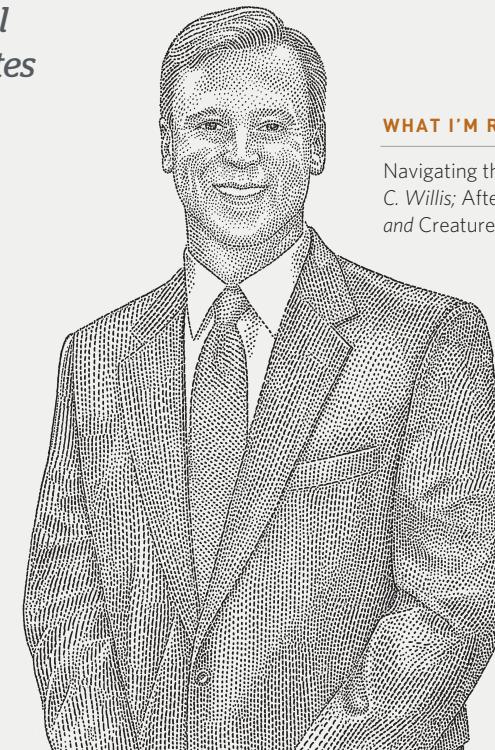
ILLUSTRATION BY KEVIN SPROULS

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—Eric S. Wilson

WHAT MAKES A GOOD CLIENT...

A family that knows where it wants to go and is looking for someone to help them steward the product of their life's work.



How to reach Eric S. Wilson

Interested families may reach me with questions or with interest at 877.442.5445 or eric.s.wilson@morganstanley.com.

WHAT I'M READING NOW...

Navigating the Dark Side of Wealth, by Thayer C. Willis; After the Music Stopped, by Alan Blinder; and Creature of the Word, by Matt Chandler

MY HOBBIES ARE...

Playing tennis, reading, gardening and investing myself in my sons

About Eric S. Wilson

Eric S. Wilson is a wealth advisor and senior vice president at Morgan Stanley, and for the past 19 years he has served the varied needs of families whose wealth has the potential to change the essential nature of their descendants' lives. Mr. Wilson began his career at Merrill Lynch in 1994, where he served until joining Morgan Stanley in 2010. For his work with affluent and high net worth families throughout the southeastern United States, he has been specially designated at Morgan Stanley as a family wealth director. Achieving this prestigious designation meant adhering to stringent quantitative and qualitative requirements set forth by Morgan Stanley and now provides him with specialized and dedicated resources from around the firm, which benefits his clients by providing them with many of the same services offered by family offices. Mr. Wilson is a Certified Investment Management ConsultantSM (CIMC[®]) and an Accredited Investment Fiduciary Analyst (AIFA[®]). He proudly serves on the advisory boards of the Community Foundation of Central Georgia and Children's Hospital of Central Georgia and is a member of the Macon Estate Planning Council. He and his wife, Cindy, are proud parents of four sons, ages 12, 12, 12 and 5.

Assets Under Management
\$1.8 trillion (Morgan Stanley Wealth Management, as of 3/31/13)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
\$5 million (planning services); \$2 million in investable assets (investment services)

Largest Client Net Worth
\$25 million+ (as of 12/31/12)

Financial Services Experience
19 years

Compensation Method
Asset-based fees and commissions (investment and insurance products)

Primary Custodian for Investor Assets
Morgan Stanley Smith Barney LLC

Professional Services Provided
Planning, investment advisory and money management services, advanced wealth transfer planning and liability management

Association Memberships
IMCA, Fiduciary 360 (www.fi360.com)

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