The Wilson Group at Morgan Stanley

Eric S. Wilson, CIMC®, Family Wealth Director

"Do you own actual stores of value, or just a derivative of that value?"

By Eric S. Wilson

Elroy Dimson, of the London Business School, once defined risk as meaning that more things can happen than will happen. This couldn't have been more true than after the Great Recession, when prudent investors faced a vexing dilemma: On the one hand, they were in need of earnings to recover from their financial losses; on the other hand, they felt lost and did not have a clear understanding of how risk had betrayed them. Indeed, while markets have recovered robustly, investors still vividly recall the dark days and declines of 2008. Much like those who were alive during and after the crash of 1929, this emotional shadow will follow this generation for decades to come. In the years since those dramatic market declines, investors have attempted to do a better job in balancing their fears of losing money and missing out on making money. Yet over the past five years, many investors initially and understandably took too little risk as the recovery began and have been playing catch-up ever since.

Following market dislocations in years past, many investors sought out simple solutions, which typically posed no great threat. However, with the onset of the Great Recession, investors flocked to investment vehicles that provided the simple solution of owning the debt of corporations and nations, though the amount of those entities' outstanding debt had increased to unprecedented levels. Despite current popular opinion, this simple solution is not a remedy for our new environment; and these investors, once again, have compounded their exposure to risk.

I am referring to the store of value quality that many investors look to their fixed income (bonds) to provide.

Historically, when investors purchased a bond, they would receive an interest payment with some regularity until the bond was either called or it matured. Investors knew ahead of time the risks they were taking and simply had to wait until maturity for the risks to disappear, because they would get their money back. **But now, many investors have chosen to own bonds through a product that has packaged many bonds together—instead of owning the individual bonds.**

With no call date and no maturity date, investors have traded the store of value their bonds had to offer in exchange for three benefits: higher yields, the appearance of more diversification and the convenience of having a single line on the statement reflecting the portfolio of bonds, rather than an itemized listing of those bonds. **Some of these packaged products have even taken on leverage in owning fixed-income instruments, making the yields even more tempting for investors to own.** However, investors may have forgotten that it makes no sense to expect enhanced yields without increasing the possible range of outcomes and raising the risk of loss.

It seems to me that a prudent exercise for investors would be to survey their investment holdings and see just how many actual stores of value they own, versus a derivative of that value. Do you own the bond itself or a vehicle holding bonds? Do you own the stock of a company or a vehicle holding those companies? Fractional ownership and representative ownership can mean very different outcomes than *actual ownership*. Be sure you are comfortable with those differences, going into the next investment and interest rate cycle.

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—Eric S. Wilson

How to reach Eric S. Wilson

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

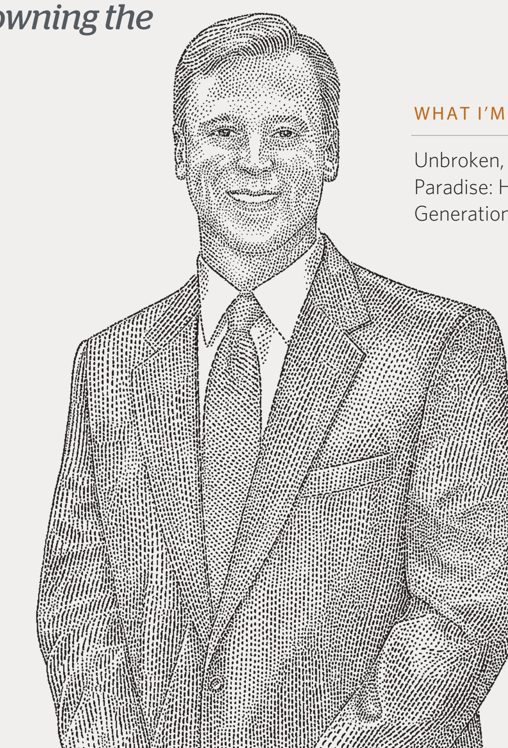

ILLUSTRATION BY KEVIN SPROULS

WHAT I'M READING NOW...

Unbroken, *by Laura Hillenbrand and* Strangers in Paradise: How Families Adapt to Wealth Across Generations, *by James Grubman*

WHAT MAKES A GOOD CLIENT...

A first- or second-generation family of wealth that desires to improve the odds of the successful transition of their wealth to subsequent generations

MY HOBBIES ARE...

Being a husband and a father, playing tennis, upland hunting and reading

About Eric S. Wilson

Eric S. Wilson is a wealth advisor and senior vice president at Morgan Stanley, and for the past 20 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 customized 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 Consultant℠ (CIMC®), an Accredited Investment Fiduciary Analyst (AIFA®) and is a member of the Association of Professional Investment Consultants. He serves on the advisory boards of the Community Foundation of Central Georgia and Children's Hospital of Central Georgia. He and his wife, Cindy, are proud parents of four sons, ages 13, 13, 13 and 6.

Assets Under Management	$2 trillion (Morgan Stanley Wealth Management, as of 8/31/14)
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 7/31/14)
Financial Services Experience	20 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)
Website	www.morganstanleyfa.com/thewilsongroup
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