The Wilson Group at Morgan Stanley

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"How can I plan for rising interest rates?"

By Eric S. Wilson

With the Federal Reserve predicted to raise interest rates at any time, analysts, pundits and everyday citizens have begun to talk about what to do when the 35-year bull market in interest rates comes to an end.

Instead of a traditional article this issue, I am simply going to list the top 10 things we are speaking to clients about as they relate to expected rising rates.

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

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. The 2004–2006 period can demonstrate what happens when rates rise in a measured and consistent way.) It may also be helpful to you to see how Treasury bonds behave differently than municipal bonds and how during the aforementioned time periods, they both behaved differently than corporate bonds.

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 go up, as well.

5. If your net worth is sizable enough, consider whether low-interest-rate dependent planning instruments should be implemented. Examples include a charitable lead annuity trust (CLAT) and a grantor retained annuity trust (GRAT).

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, 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. An example is a charitable remainder unitrust (CRUT).

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. 1; The BofA Merrill Lynch U.S. Treasury Current 30-Year Index. 5; The Barclays U.S. Aggregate Bond Index. 2; The BofA Merrill Lynch U.S. Treasury Current 10-Year Index. 6; The Barclays Corporate Investment Grade Bond Index. 3; The BofA Merrill Lynch U.S. 3-Month Treasury Bill Index. 7; The BofA Merrill Lynch High Yield Master II Constrained Index. 4; The Barclays U.S. Aggregate Agencies Index. 8; The Credit Suisse Leveraged Loan Index. The views expressed herein are those of the author and do not necessarily reflect the views of Morgan Stanley Wealth Management or its affiliates. All opinions are subject to change without notice. Neither the information provided nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Interest in municipal bonds is generally exempt from federal income tax. However, some bonds may be subject to the alternative minimum tax (AMT). Typically, a state tax-exemption applies if securities are issued within one's state of residence, and local tax exemptions typically apply if securities are issued within one's city of residence.

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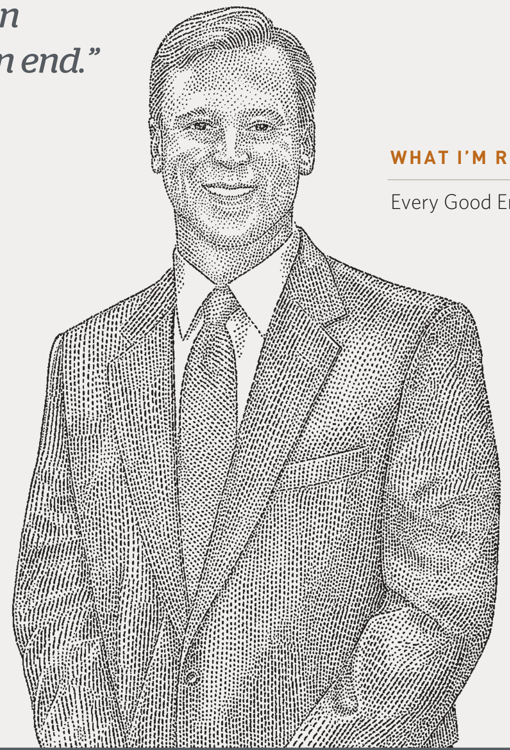

How to reach Eric S. Wilson

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

WHAT I'M READING NOW…

Every Good Endeavor, *by Timothy Keller*

WHAT MAKES A GOOD CLIENT…

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

MY HOBBIES ARE…

Tennis, upland hunting and reading, but what I enjoy most is being a husband and father

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 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 10/31/15)

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 10/31/15)

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)

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