



Philip J. Purcell, Chairman and Chief Executive Officer  
Stephen S. Crawford, Co-President  
Zoe Cruz, Co-President  
David H. Sidwell, Chief Financial Officer

May 10, 2005

# Notice

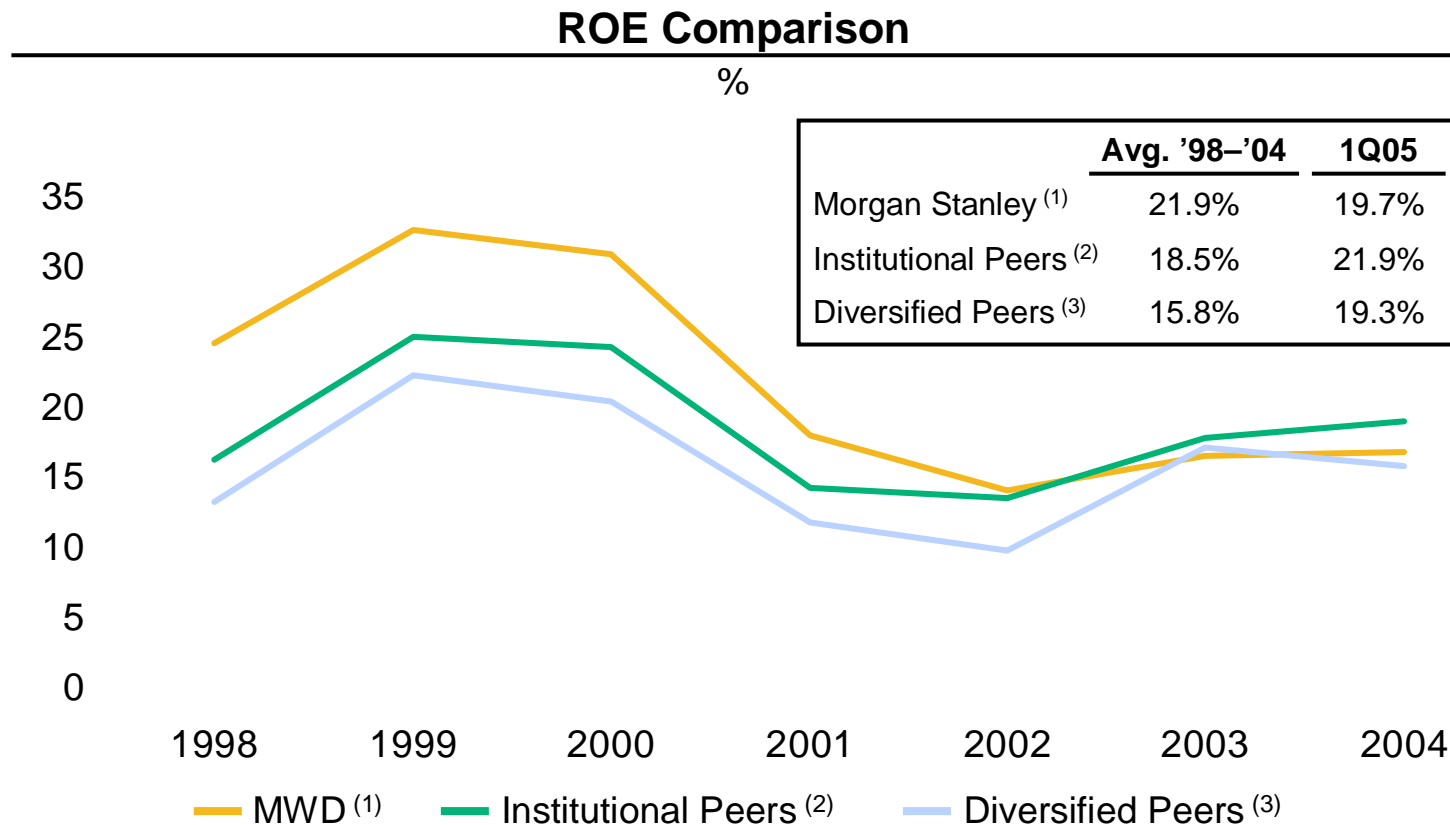
The information provided herein may include certain non-GAAP financial measures. The reconciliation of such measures to the comparable GAAP figures are included in the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on 8-K, including any amendments thereto, which are available on [www.morganstanley.com](http://www.morganstanley.com).

# Agenda

- Introduction
- Securities Strategy
- Capital and Risk Management
- Environment and Priorities

# Introduction

# Strong Performance Through the Cycle



Source: Peer company filings and Morgan Stanley SEC filings and 1Q05 Financial Supplement

Notes: (1) Morgan Stanley consolidated basis (includes Discover).

(2) Institutional peers: BSC, GS, LEH.

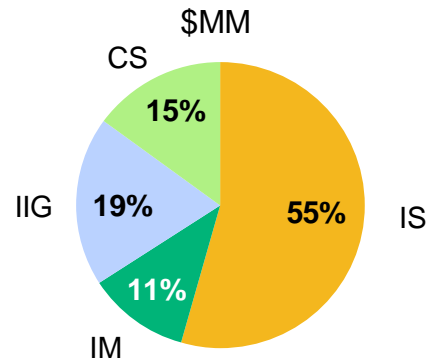
(3) Diversified peers: MER, C, JPM, UBS.

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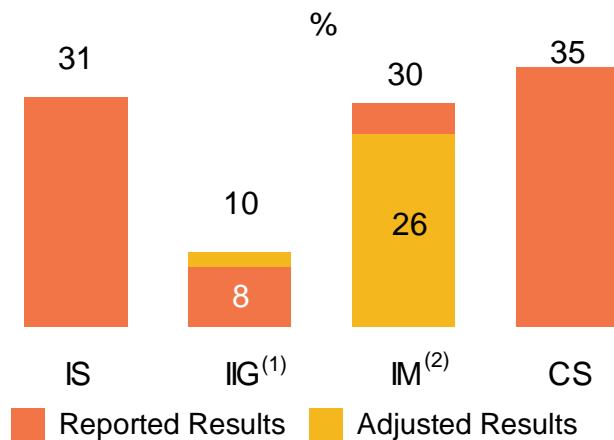
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# 2004 Challenges

## 2004 Net Revenues by Segment



## 2004 PBT Margins



## 2004 Challenges

- Legal and Regulatory Expenses
- Airplanes
- Sales and Trading
- Individual Investor Group Margins

Source: Morgan Stanley SEC filings and 1Q05 Financial Supplement

Notes: (1) Adjusted PBT excludes a reduction to PBT of \$80MM related to changes in the method of accounting for certain asset management and account fees.

(2) Adjusted PBT excludes Private Equity.

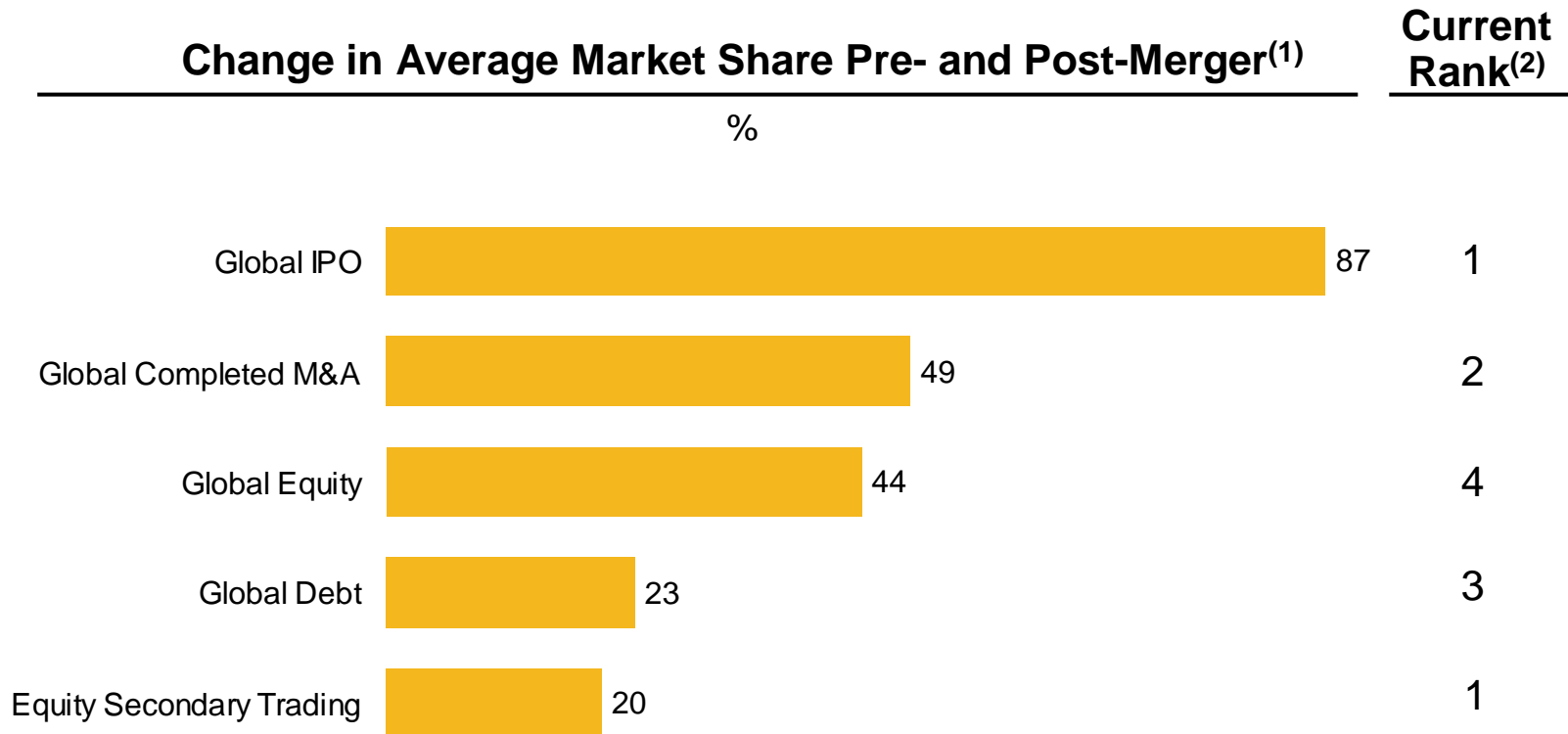
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# Strategy and Execution Agenda

- Pursue a Global Securities-Focused Strategy
- Integrate Our Securities Businesses
- Align Management Structure with our Integrated Securities Model
- Pursue Credit Services Business – Discover – Spin-off
- Regain a Premium Return on Equity

# Franchise Momentum



Source: Thomson, Independent Survey

Notes: (1) Compares average annual market share for the period 1989 – 1996 to the average weighted market share for the period 1997-CYTD 4/30/05 for Thomson data. Compares average annual market share for the period 1994 – 1996 to the average annual market share for the period 1997 – 2004 for the Independent Survey data.

(2) Current Thomson rankings for the period 1/1/05-4/30/05. Independent survey ranking as of end of calendar year 2004.



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# Management Aligned with Strategy

## Securities Business

**Steve Crawford and Zoe Cruz**  
Co-Presidents

**Investment  
Banking**

**Fixed Income**

**Institutional  
Equity**

**Investment  
Management**

**Individual  
Investor Group**

## Common Platform

Finance  
Operations  
Technology

Risk Management  
Law  
Compliance

# Where Are We Now?

- Governance Changes
  - Created Lead Director Position
  - Adding Two Additional Outside Directors
  - Accelerated De-staggering of Board
  - Removed Requirement of Supermajority Vote
  - Reaffirmed Retirement Age of 72
  - Added to Compensation Committee Charter Management Development and Succession
- Three Key Constituencies
  - Employees
  - Clients
  - Investors
- Moving Forward

# Securities Strategy



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# Securities Strategy: Connecting People, Capital and Ideas

- Premier Global Securities Firm Focused on Growth, Improving Margins and Premium Returns
  - Provide Clients with Innovative Solutions Leveraging the Power of the Integrated Firm
  - Attract and Develop Unique Talents and Skills
  - Optimize Risk Management and Capital Usage

# A Premier Franchise

## Institutional Securities

### Investment Banking

- #1 Announced Global M&A
- #1 Global IPOs
- #3 Global Debt
- Overall Debt, Equity and M&A Deals of the Year

### Fixed Income

- #1 Overall in 2004 *Global Investor* FX Survey
- Best in class commodities business
- Global Credit Derivatives House of the Year
- Best in class securitization business

### Institutional Equity

- #1 Equity secondary trading
- #1 in Greenwich Trading Quality Index
- Best in class prime brokerage

Source/Notes: Investment Banking: Thomson Financial data 1/1/05-4/30/05; Corporate Finance Magazine 2004

Fixed Income: Global Investor 2004 FX Survey; Euromoney's 2004 Awards for Excellence

Institutional Equities: Independent survey from 1/1/04-12/31/04; Greenwich Associates 2005 Survey; 2004 Global Custodian "Prime Brokerage Survey"

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# A Premier Franchise (cont.)

## Individual Investor Group

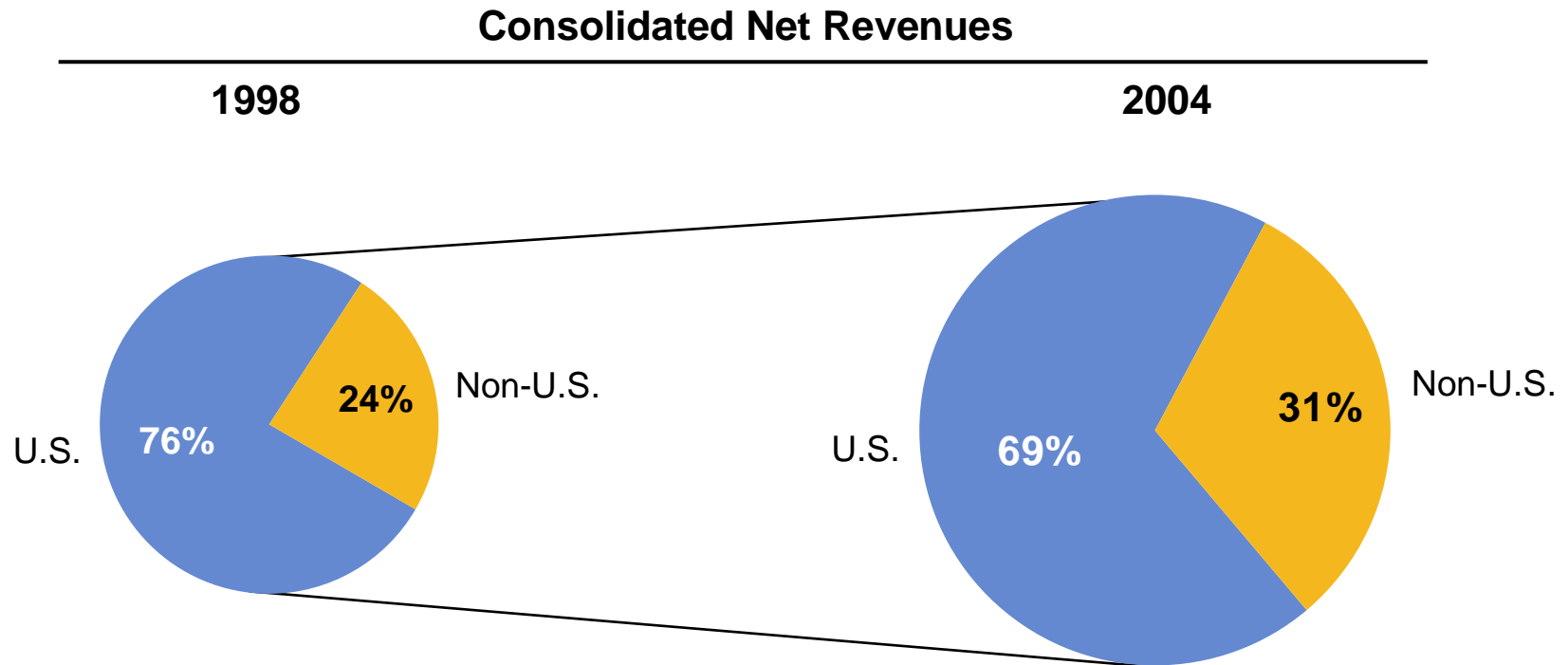
- Substantial scale: 10,471 Global Representatives
- #3 Brokerage house by revenues and number of financial advisors
- #3 Managed account sponsor by assets
- Total client assets of \$618Bn, 27% in fee based accounts

## Investment Management

- 46% of funds ranked 4/5 Star by Morningstar (up from 41% at end-2003)
- 72-81% of funds in Lipper top half rankings (up from 56-75% at end-2003)
- Seven funds included in *WSJ* "Category Kings" for 2004
- AUM of \$427Bn (up from \$357Bn at end-2003)

Source/Notes: Individual Investor Group: Morgan Stanley SEC filings and 1Q05 Financial Supplement; Peer company 10-K filings and 1Q05 earnings releases; Cerrulli Associates Report 2004  
Investment Management: Morningstar (Current data as of 3/31/05); Lipper (Current data as of 3/31/05), 1/3/5/10 year performance shown; Wall Street Journal 2004 "Category Kings"; Morgan Stanley SEC filings and 1Q05 Financial Supplement

# Global Growth Focus



1998-2004 Non-U.S. Revenue Compound Annual Growth is 2x Firmwide Net Revenue<sup>(1)</sup> Compound Annual Growth

Source: Morgan Stanley SEC filings

Note: (1) Total net revenue includes intersegment eliminations.

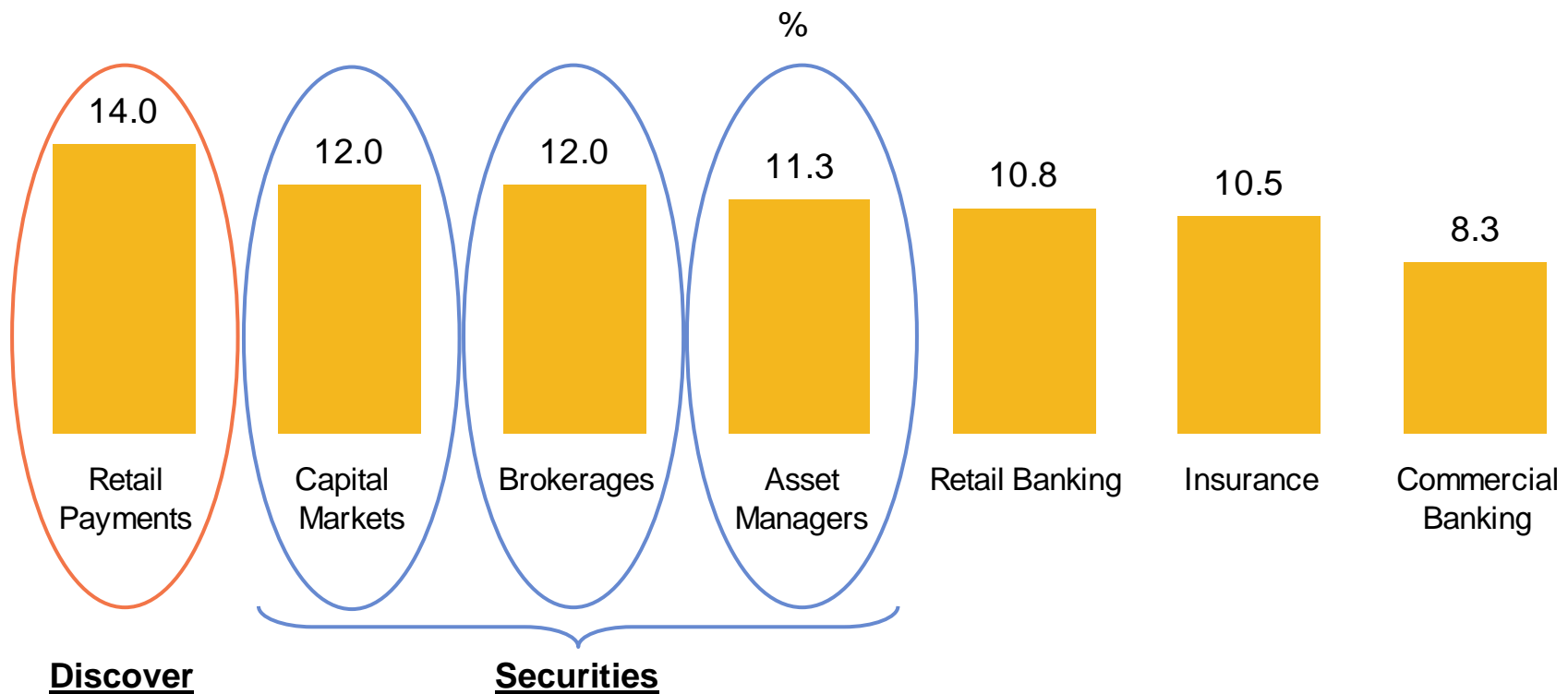
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# Growth Focus of Business Mix

## Estimated Long-Term Growth Rates <sup>(1)</sup>



Source: FactSet, IBES

Note: (1) Average of IBES median EPS long term growth estimates for firms in each category. Retail Payments: First Data Corp., Total System Services, Global Payments Inc., Alliance Data Systems, Certegy Inc., I-Payments, ADP, American Express, Capital One and MBNA. Capital Markets: Lehman, Goldman Sachs and Bear Stearns. Commercial Banking: Comerica, JP Morgan Chase, Citigroup and Deutsche Bank. Retail Banking: Wells Fargo, U.S. Bancorp, Fifth Third Bancorp and Wachovia. Insurance: Allstate, Progressive, Safeco, Mercury General, AIG, ACE, XL Capital and St. Paul Travelers. Asset Managers: Alliance Capital Management, Federated Investors, Nuveen, Janus, Franklin and T. Rowe Price. Brokerages: AG Edwards and Raymond James Financial. Estimates as of 4/28/05.

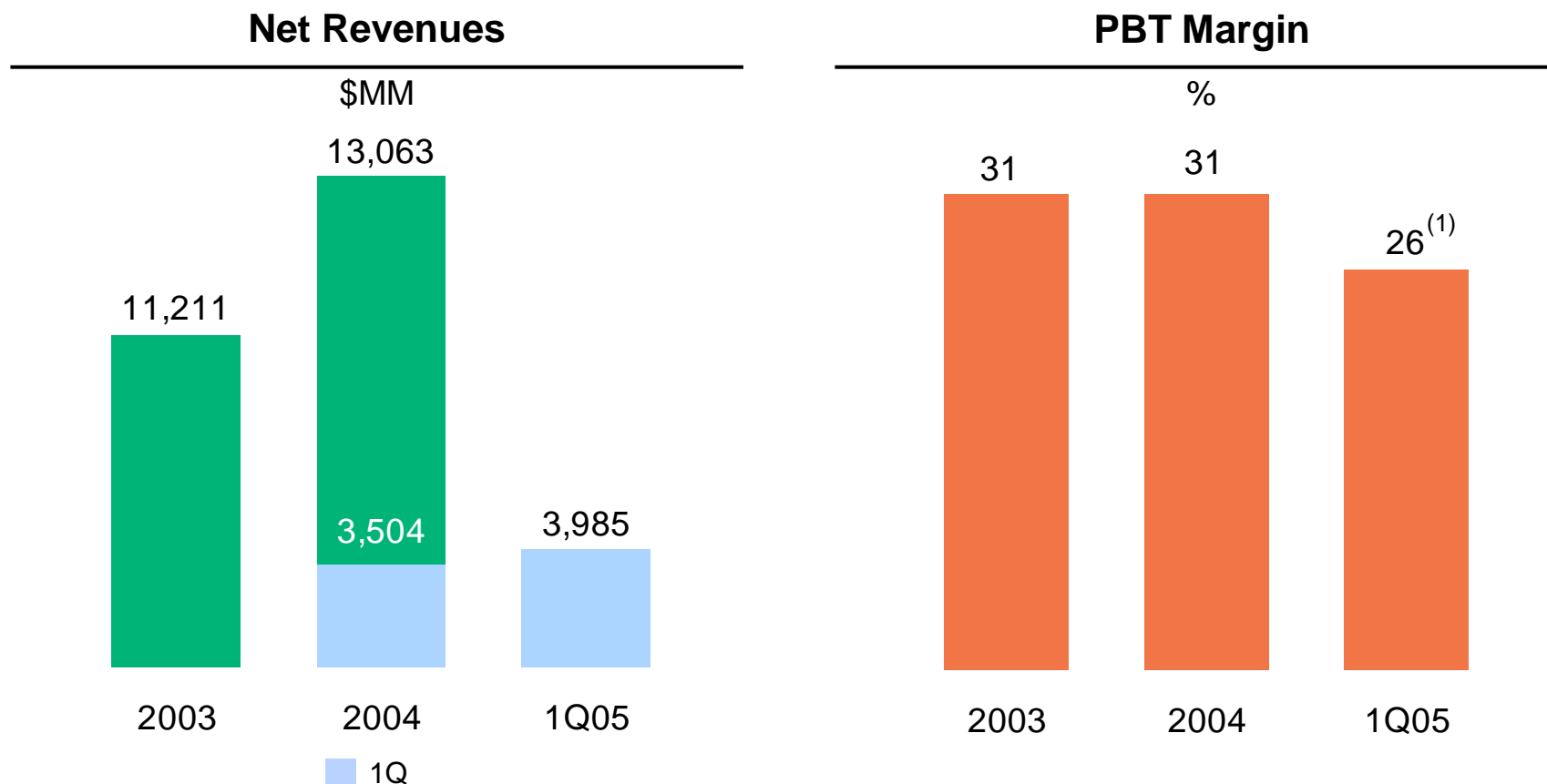
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# Competitive Opportunity

- Recognize that there is an opportunity gap to best in class across all our businesses
  - Metrics differ by business
- No single player is #1 in all our businesses
- Business mix and market environment matter
  - Equities vs. fixed income emphasis
  - Organic growth vs. acquisitions
  - Risk profile and liquidity choices

# Institutional Securities: Financial Highlights



Source: Morgan Stanley SEC filings and 1Q05 Financial Supplement

Note: (1) Includes the impact of the lease adjustment (-\$71MM) and the legal expenses related to the Coleman litigation matter (-\$360MM).

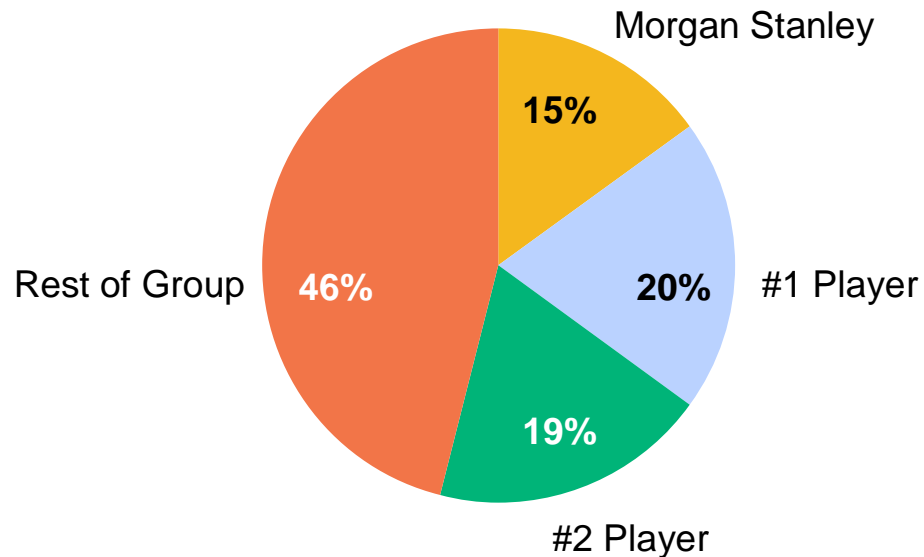


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# Institutional Securities: Opportunity for Growth

## % of Revenue Among Top Peers <sup>(1)</sup>

2004 – 1Q05



Source: Peer company filings and Morgan Stanley SEC filings and 1Q05 Financial Supplement

Note: (1) Peers: Bear Stearns, Citigroup, Goldman Sachs, JP Morgan, Lehman Brothers, and Merrill Lynch. Only Morgan Stanley and the firms with the number 1 and number 2 revenue share positions shown as separate from rest of group.

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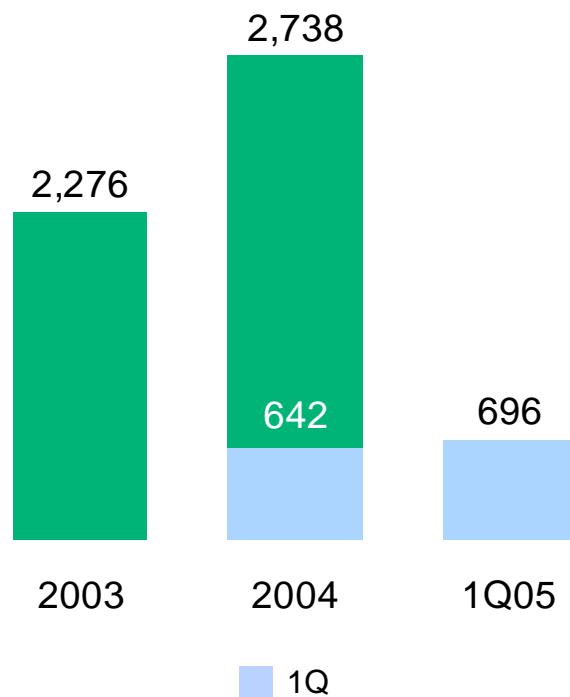
# Institutional Securities: Priorities

- Continued client momentum
- Attract and retain talent
- Improve returns on long-term investments in client footprint and product excellence
- Continued investment in growth opportunities
  - Asia, UK, Eastern Europe
  - Commodities
  - Credit products and mortgage business
  - Equity derivatives
  - Multi-asset class prime brokerage
  - Mergers and acquisitions
- Improve capital and risk efficiency

# Investment Management: Financial Highlights

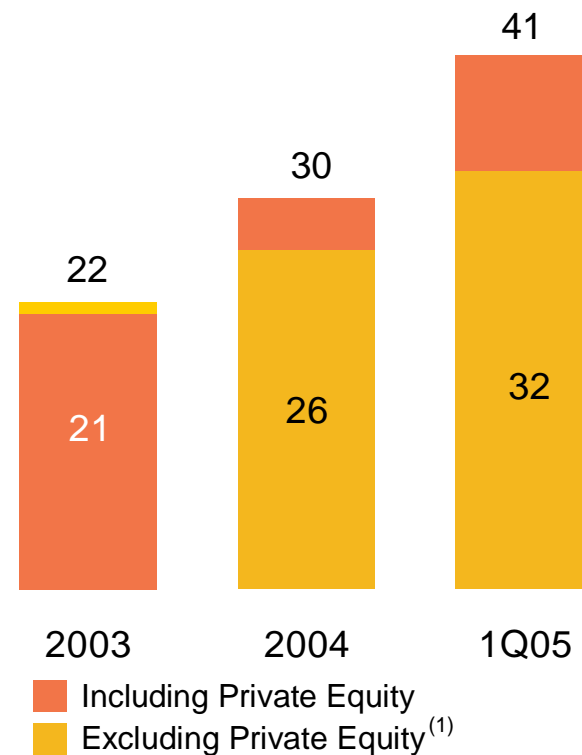
## Net Revenues

\$MM



## PBT Margin

%



Source: Morgan Stanley SEC filings and 1Q05 Financial Supplement

Note: (1) For 1Q05 IM's PBT Margin of 32% excludes private equity and (+\$43MM) for the World Trade Center settlements.

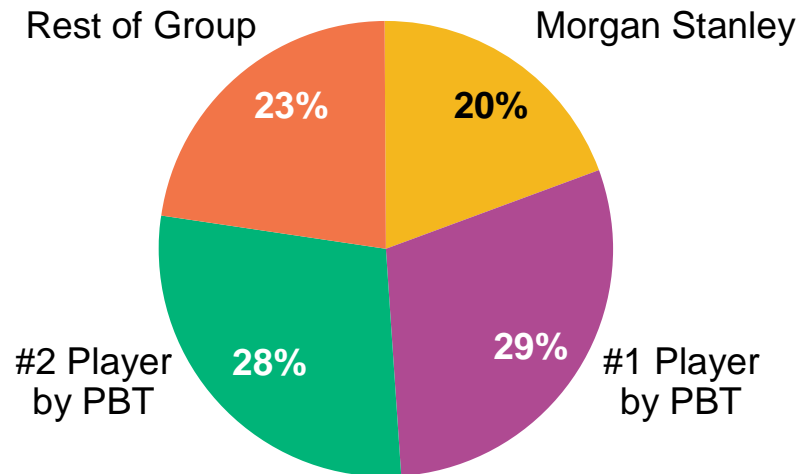
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# Investment Management: Opportunity for Growth <sup>(1)</sup>

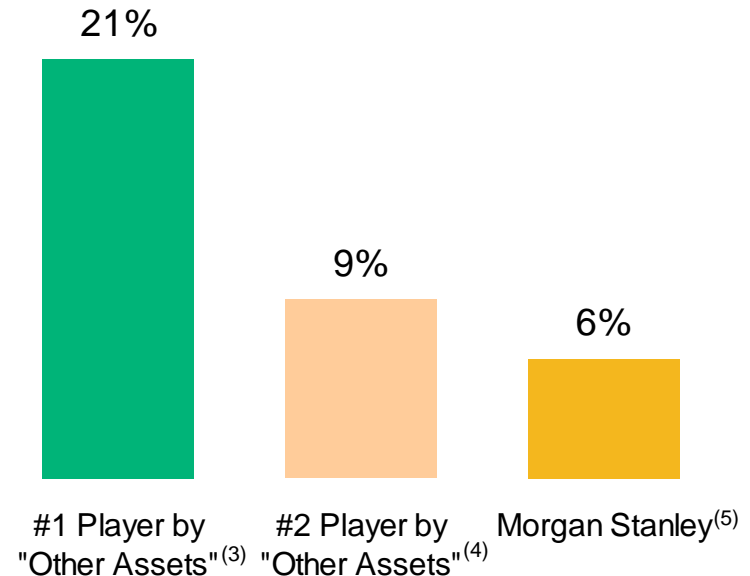
## % of PBT Among Top Peers <sup>(1)</sup>

1Q05



## “Other Assets” Including Alternative Investments as a % of Total AUM <sup>(2)</sup>

1Q05



Source: Peer company filings and Morgan Stanley SEC filings and 1Q05 Financial Supplement

- Notes:
- (1) Peers: JP Morgan, Goldman Sachs, Lehman Brothers, Merrill Lynch, Citigroup and Bear Stearns. Only Morgan Stanley and the firms with the number 1 and number 2 PBT share positions shown as separate from rest of group.
  - (2) Peers: JP Morgan, Goldman Sachs, Lehman Brothers, and Bear Stearns. Citigroup is not included as a peer in the “Other Assets” category because it does not report “Other Assets” within its Asset Management business; Merrill Lynch does not disclose alternative investments within Merrill Lynch Investment Managers.
  - (3) “Other Assets” for #1 player include quantitative and/or non-traditional investment strategies (e.g., hedge funds), merchant banking funds and vehicles where the firm contracts with subadvisors for clients.
  - (4) “Other Assets” for #2 player composed of alternative investments.
  - (5) “Other Assets” includes alternative investments.

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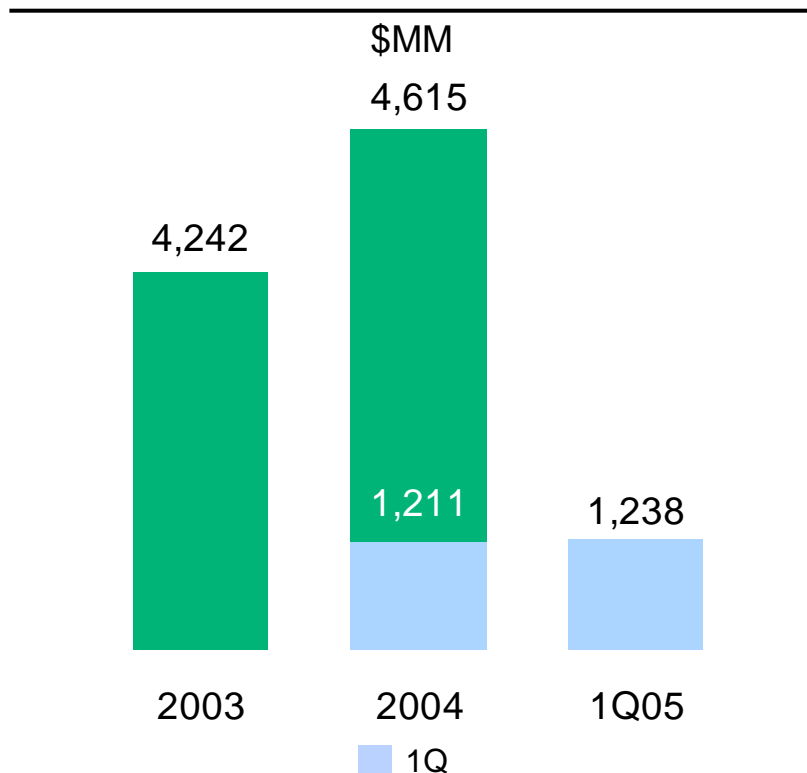
# Investment Management: Priorities

- Investment performance
- Build out product growth areas
  - Separately managed accounts
  - Alternative investment products
  - Enhanced index products for institutional business
  - Europe, Asia
- Capture more flows
  - Leverage Van Kampen brand

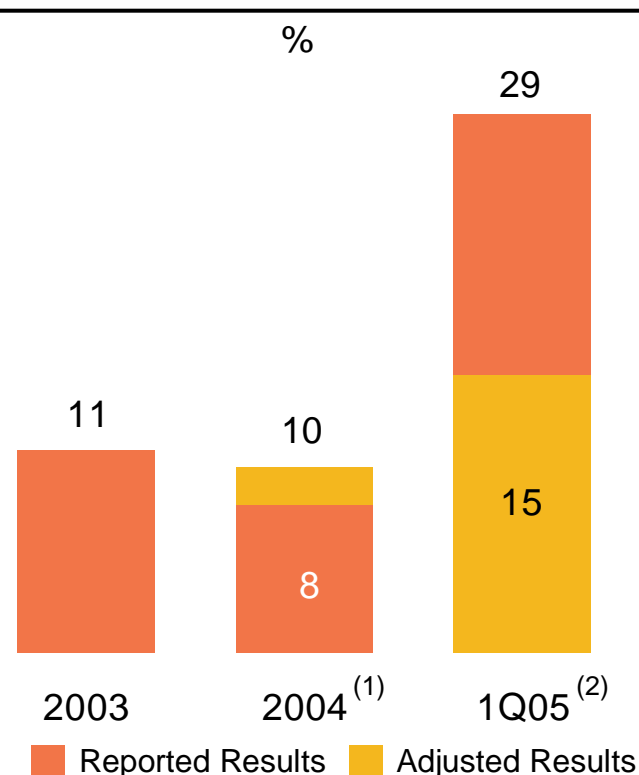


# Individual Investor Group: Financial Highlights

## Net Revenues



## PBT Margin



Source: Morgan Stanley SEC filings and 1Q05 Financial Supplement

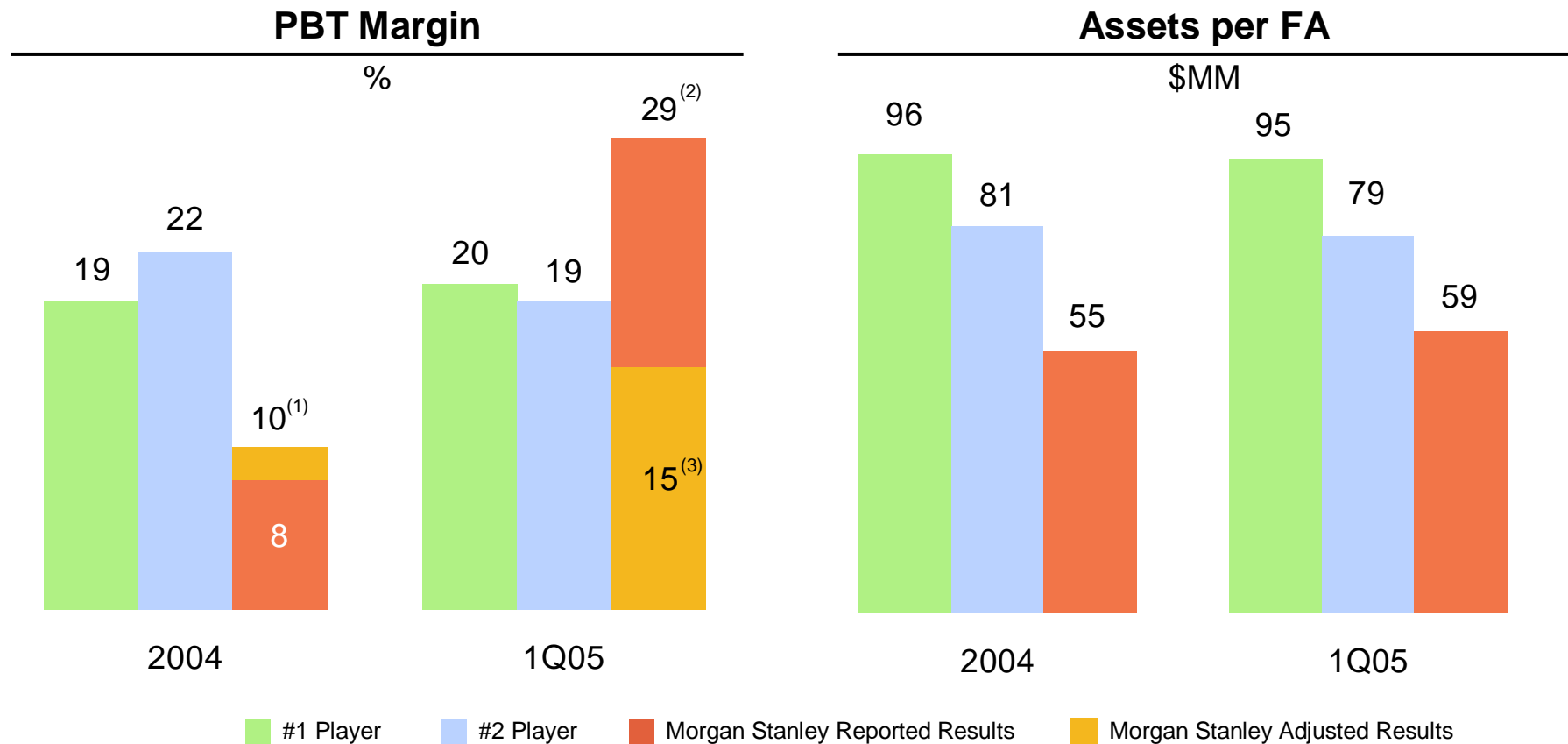
Notes: (1) 2004 Adjusted PBT excludes a reduction to PBT of \$80MM related to changes in the method of accounting for certain asset management and account fees.

(2) Including the net impact of the 9/11 insurance settlement (+\$198MM) and lease adjustment (-\$29MM), the Individual Investor Group PBT margin was 29%. Excluding these items, the Individual Investor Group PBT margin was 15%.

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# Individual Investor Group: Opportunity for Growth



Source: Peer company filings and Morgan Stanley SEC filings and 1Q05 Financial Supplement

- Notes:
- (1) Morgan Stanley adjusted 2004 PBT excludes a reduction to PBT of \$80MM related to changes in the method of accounting for certain asset management and account fees.
  - (2) Including the net impact of the 9/11 insurance settlement (+\$198MM) and lease adjustment (-\$29MM), the Individual Investor Group PBT margin was 29%.
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# Individual Investor Group: Priorities

- Improve effectiveness of scale to grow high quality earnings streams
  - Retention of productive Global Representatives
  - High quality asset gathering
  - Continue to target HNW clients
- Utilize client segmentation efforts to make suitable product offerings which meet client needs
- Expand best in class product offerings leveraging integrated Firm opportunities
  - Liability banking products
    - Mortgages
    - Deposits
  - Asset liability management
  - Retirement products and services
  - Structured and quantitative products
- Invest in infrastructure to support improvements
- Improve margins

# Retail Products Representation

Competitor Product Offerings	Player A	Player B	Morgan Stanley	Player C	Player D
Single stock yield enhancement	✓	✓	✓	✓	✓
Principal protected equity	✓	✓	✓	✓	✓
Min-yield coupons linked to equity	✓	✓	✓		✓
Delta-one tax efficient	✓				
Asset-linked money market security	✓				
CPPI managed product	✓	✓			
Synthetic converts	✓		✓		
Securitized long/shorts	✓				
Leveraged index exposures	✓		✓	✓	
Asset allocation securities					
Alternative investments	✓	✓			
Currency-linked	✓			✓	
Commodity-linked (gold, oil)	✓			✓	
Inflation-linked	✓		✓		
Warrants – equity	✓				
Warrants – non-equity	✓				
Warrants – rates	✓	✓			
Structured Credit/CDOs				✓	

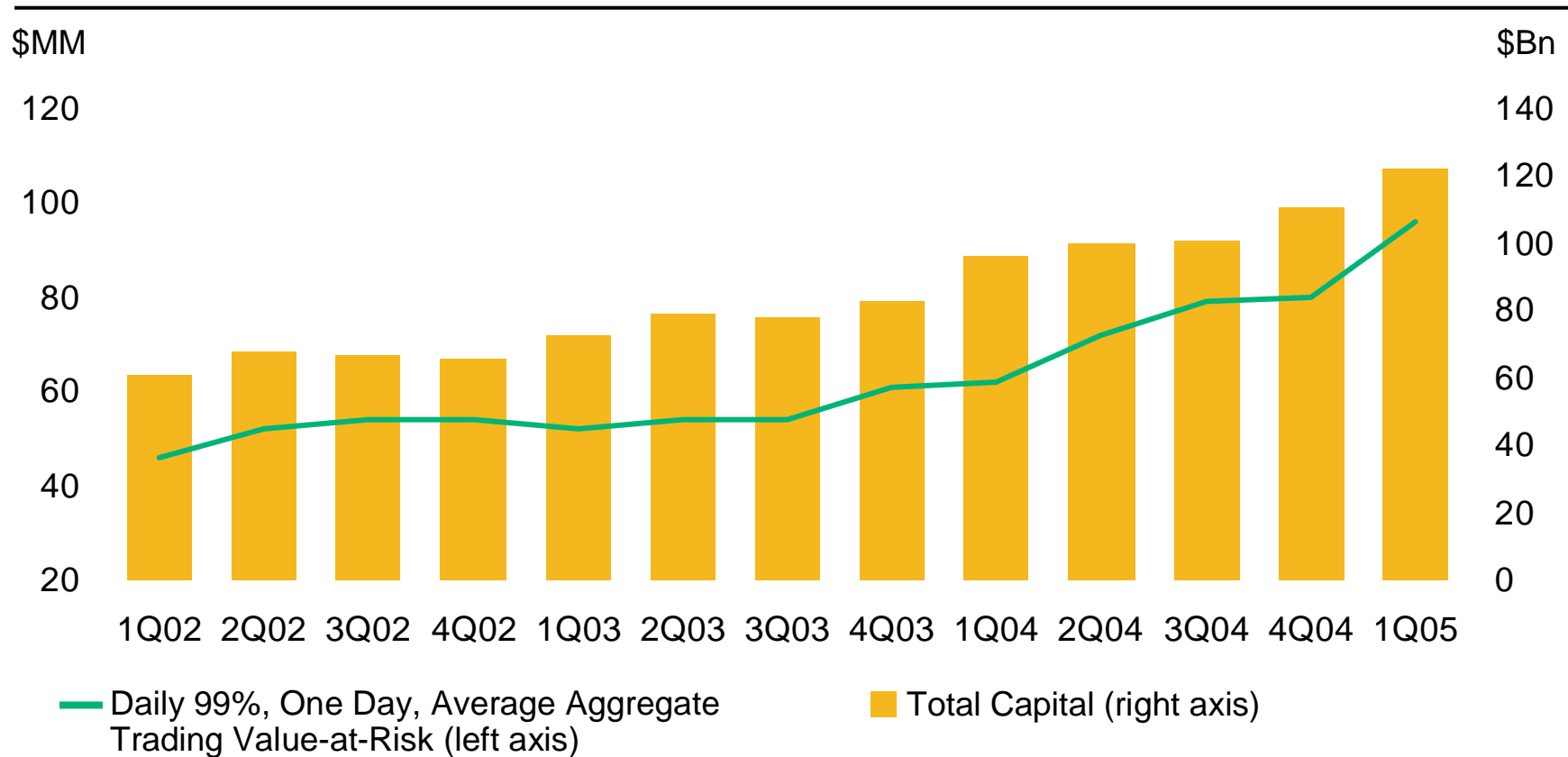
# A Shared Growth Agenda

	IBD	FID	IED	IIG	IM
<b>Products and Solutions</b>					
Alternatives	✓	✓	✓	✓	✓
Asset Liability Management	✓	✓	✓	✓	
Structured and Quantitative Products		✓	✓	✓	✓
Mortgages		✓		✓	
Deposits		✓		✓	
Separate Accounts				✓	✓
Multi-Asset Class Prime Brokerage		✓	✓		
Middle Markets	✓	✓	✓	✓	✓
<b>Collaboration and Common Platform</b>	✓	✓	✓	✓	✓

# Capital and Risk Management

# Capital and Risk Management

**Total Capital vs. VaR**



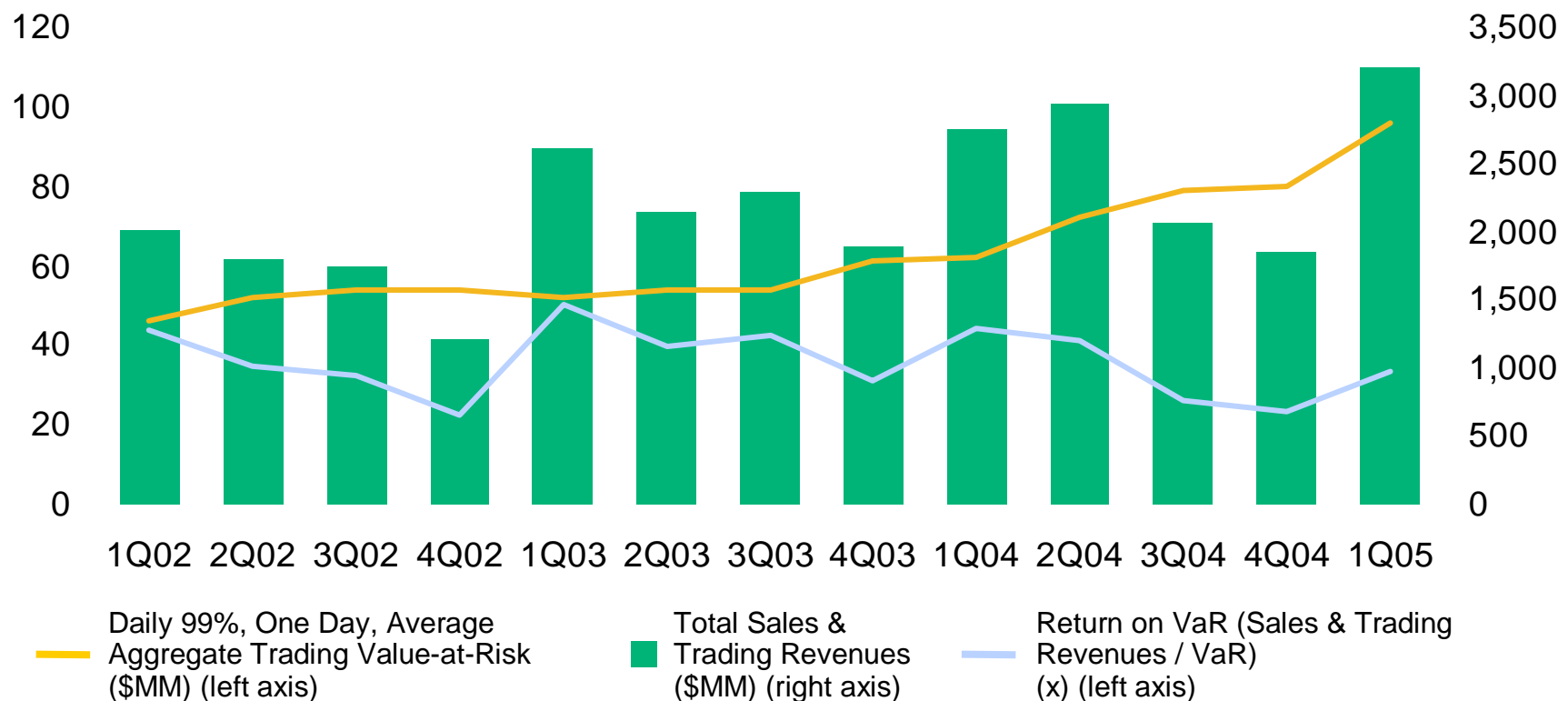
Source: Morgan Stanley SEC filings and 1Q05 Financial Supplement



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# Room to Improve Risk/Return

## Quarterly Sales and Trading Net Revenues vs. VaR



Source: Morgan Stanley SEC filings and 1Q05 Financial Supplement



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# Environment and Priorities

# Current Market Environment

	% Change
<b>Advisory:</b>	
Global Announced M&A (\$Bn) <sup>(1)</sup>	(28%)
Global Completed M&A (\$Bn) <sup>(1)</sup>	(12%)
<b>Equities:</b>	
Global Equity Underwriting (\$Bn)	(21%)
S&P 500 Index Level	(2%)
Nasdaq Index Level	(7%)
NYSE Weighted Daily Dollar Value (\$MM)	15%
Nasdaq Weighted Daily Dollar Value (\$MM)	(8%)
Equity Fund Flows (\$Bn) <sup>(2)</sup>	(26%)
Daily Average Revenue Trades (DARTs) <sup>(3)</sup>	(5%)
<b>Fixed Income:</b>	
High Yield Debt Underwriting (\$Bn)	(38%)
US BBB-Rated 5–7yrs Asset Swap Spread (bps)	33%

Percentage change = Fiscal 2Q05 first two months (March-Apr05) versus Fiscal 1Q05 first two months (Dec04-Jan05), unless otherwise noted.

Source: Thomson Financial, Bloomberg, NYSE, Nasdaq, ICI, online brokerage DART reports and MSCI

Notes: (1) Announced & Completed M&A data is for deals of \$100MM or more.

(2) Data is March 2005 versus sum total of December 2004-January 2005.

(3) Data is March 2005 versus average of December 2004-January 2005.

# Strategic and Financial Priorities

- Leverage Growth Opportunities Across Firm
- Deliver Benefits of Integrated Firm to Clients and Shareholders
- Improve Margins Across All Securities Businesses
- Focus on Risk Adjusted Return, Optimizing Risk Management and Capital Usage
- Spin-off Discover Successfully
- Regain a Premium Return on Equity



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Stephen S. Crawford, Co-President  
Zoe Cruz, Co-President  
David H. Sidwell, Chief Financial Officer

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