

Your Wealth Management Toolkit

Map the Journey Toward Your Financial Goals

Investing is complex. Period. That's because building wealth is an ongoing journey, and the landscape keeps changing with every milestone. Whether you're just starting out or you've been on the road for a while, you might have questions about defining your financial goals, types of investment accounts and strategies for managing your money:

How do I balance spending today and saving for the future? When do I start investing in the stock market? What happens when my pay includes equity compensation? What do I need to know about taxes when investing? How do I save for retirement or adjust my plan based on life changes? When should I start estate planning?

Wherever you are on your journey, staying on top of the fundamentals of managing your money and building wealth starts with this toolkit. As you read on, you'll get a quick overview of the basics and key ideas to keep in mind when planning for your own financial goals. Then, you can partner with the Financial Advisors at Morgan Stanley Virtual Advisor. They can answer your questions, provide guidance on investing and help you get moving on your journey toward wealth.*

Connect with our Financial Advisors

8:00 a.m. – 7:30 p.m. ET, Monday – Friday

Not yet a client?

[Schedule an Introductory Call](#)

Call us to get started: 866-743-5700

Already a client?

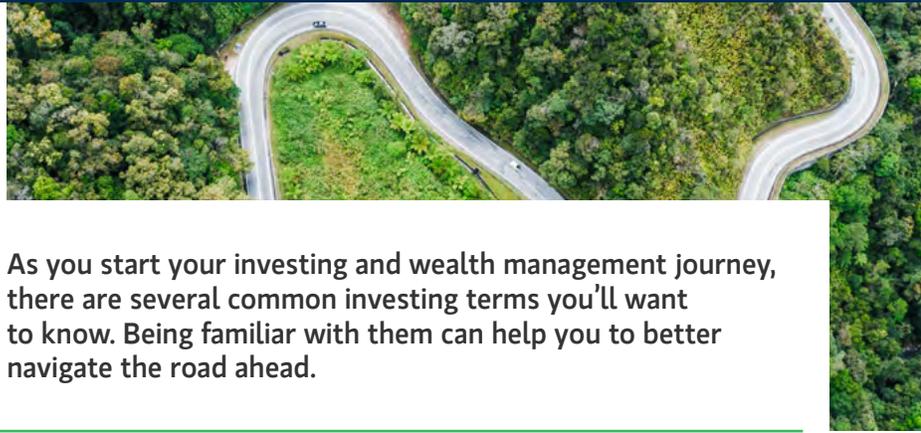
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Call our team: 888-454-0555

Explore This Toolkit:

- > **The Road to Your Financial Future**
- > **Vehicles That Can Move You Forward**
- > **Ways to Make the Journey Smoother**
- > **Connect With a Virtual Advisor**

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The Road to Your Financial Future

Investing Terms to Know

As you start your investing and wealth management journey, there are several common investing terms you'll want to know. Being familiar with them can help you to better navigate the road ahead.

Get to Know the Market

Simply put, a financial market consists of people buying and selling (trading) something that has value. There are different types of markets, such as a farmers market, the used car market, commodities markets for gold, and the stock market.

Exchange

A central location where buyers and sellers can trade securities in a regulated environment.

Stock market

Made up of several exchanges where stocks are traded, including the New York Stock Exchange (NYSE) and the NASDAQ.

Securities

Financial assets that have a measurable monetary value, such as stocks and bonds, and can be traded on a market.

Broker-dealer

A financial institution that is licensed to facilitate the buying and selling of financial securities.

Understand the Different Asset Classes

Within the markets, there are four asset classes. Each asset class is made up of a different type of investment. Asset classes are the basic components of your portfolio, and a diversified portfolio consists of a mix of asset classes, selected (or allocated) to manage risk and support your individual financial goals.

- 1. Cash and cash alternatives**
 Cash holdings, like savings and checking accounts, and cash alternatives such as money market accounts, certificates of deposit (CDs) and U.S. Treasury bills. Cash alternatives may grow by earning interest, which means they're not subject to market fluctuations and are generally low risk.
- 2. Bonds (fixed income)**
 Similar to an I.O.U. When you buy a bond, you lend money to companies or governments for a certain amount of time. In return, the borrower will pay you interest payments (or coupons) until they return the full amount of money borrowed (the principal) at a set date in the future (the maturity date).
- 3. Stocks (also known as equities)**
 Represent a share of ownership in a company. Investors mainly hope to make money from a stock when the price rises, although there is a level of risk because the price may drop. Some stocks also provide income in the form of dividends, which are periodic distributions of the company's profits.
- 4. Alternative investments**
 Any investment that is not a stock, bond or cash. Examples include real estate, commodities such as gold and oil, and hedge funds. Although they're generally not a primary component when building a portfolio, alternatives can offer additional ways to help diversify your investments.



It's also important to know about managed funds, which may be composed of multiple asset classes. They allow investors to buy a share of a fund made up of a large mix of securities, instead of purchasing hundreds of individual stocks and bonds. Index funds, on the other hand, allow investors to buy a share of a fund that tracks a specific index.

Managed funds

Investment vehicles such as mutual funds and exchange-traded funds (ETFs). They are run by a knowledgeable, experienced manager (portfolio manager) who creates a diversified portfolio that you can buy into as an individual investor.

Index funds

Managed investment funds that track a particular index (like the S&P 500) or benchmark with the goal of mimicking their performance over time.

Investment index

A snapshot of the performance and value of a certain selection of stocks. It's usually computed based on a weighted average of individual stock prices. Investors use indices as a benchmark to compare performance across categories and industries. Examples include the Dow Jones Industrial Average, Standard & Poor's (S&P) 500 and NASDAQ Index.

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THE ROAD TO YOUR FINANCIAL FUTURE | INVESTING TERMS TO KNOW

Set Your Goals and Build a Strategy

By becoming clear on their personal goals in life, investors can begin to build a goals-based plan for their investment journey. Defining what you'll need money for, how much is required and when you'll need access to the funds is the basis for balancing your financial goals with how much risk you can handle.

“The planning process is customizable and tailored to each client’s needs, considering time horizons, risk tolerance and the unique makeup of their assets.”

Anthea N. Tjuanakis Cox,
Head of Financial Planning

Investment goal

A specific financial target or objective that an individual aims to achieve through investing their money. Investment goals are often determined by what an investor needs their money to accomplish, the amount of funds they'll need and how long they can keep the fund invested.

Time horizon

The length of time an investor plans to hold onto an investment before they need to access the funds. Typically, longer time horizons provide opportunities to take on greater risk because investors have more time to try to recover from any losses or setbacks.

Risk tolerance

How comfortable an investor is with the ups and downs of the market (volatility), and the possibility of losses. Personal risk tolerance may change as your life circumstances and financial needs shift over time.

Volatility

How quickly the value of an investment changes, and by how much. Daily and long-term fluctuations are very normal in the stock market and can be caused by political, economic or even weather events. Investors typically consider securities that are subject to greater volatility (more risk) for longer-term investments.

Liquidity

The ease of converting an asset or security into cash without negatively affecting its market price. Cash is the most liquid asset, followed by stocks, which can usually be sold quickly, then tangible assets (like a house), which are less liquid. Generally, investors select more liquid assets for shorter-term goals and less liquid assets for longer-term goals.

Diversification

Spreading your investments across multiple asset classes to manage risk. The idea is that over time, a portfolio that includes different asset classes may be less risky because when certain investments perform poorly, your downside can be balanced out by assets that perform well.

How to Define Your Financial Goals

Money is a tool for helping you achieve your goals in life. That's why it's important to reflect on the things you need money to accomplish today and in the future.

Ask yourself:

- 1 What do I want?
- 2 What do I have right now?
- 3 How will I get what I want?

- Start by defining your unique goals in general terms, then refine them by adding specific time frames and dollar amounts.
- Do you want to save for a vacation, a down payment on a house or comfortable retirement? How much will you need, when and what does comfortable mean to you?
- Getting specific and writing down your goals makes a difference. It can direct your personal journey toward wealth and help you build a realistic goals-based plan to hit important milestones.

Have questions about defining your goals or building a goals-based plan for your investment journey?

The Financial Advisors at [Morgan Stanley Virtual Advisor](#) can help no matter where you are on your wealth journey.

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Consider Your Equity Compensation

Equity compensation usually is a non-cash benefit that some employers in select industries may provide, which gives employees partial ownership of the company. It's usually discussed during the job interview process and is considered part of your overall compensation and benefits. Equity compensation comes in different forms, and all can play a vital role in helping you move toward your financial goals.

Stock options

The right, but not the obligation, to purchase a company's stock at a fixed price during a fixed period of time. When the company's stock price rises above the grant price (the price at which you can purchase the stock), the award is "in the money," and when it falls below the grant price it's "underwater" and may not be worth exercising (purchasing).

Restricted stock unit

A promise to deliver shares of company stock to the holder on a specified event or date. Generally, an award of restricted stock units entitles you to stock or cash (with a value equal to the number of units awarded) upon vesting (when you can receive your award).

Employee stock purchase plan

Allows you to purchase shares of your company's stock through payroll deductions, usually at a discounted rate. Typically, companies collect payroll contributions to purchase shares on a specific date, after which they are then deposited into an account.

Revisit Your Goals-Based Plan Regularly

Goal setting is an interactive and iterative process, so it's a good idea to revisit your plan and review your progress annually or when your life shifts. In addition, taking a look at your full financial picture regularly can help you identify when to make any necessary adjustments to help stay on track toward your goals.

Capital gains (and losses)

The money you make on an investment when you sell it, which, in most cases, is subject to a capital gains tax. Conversely, if your investment loses money, you are said to have capital losses.

Compounding interest

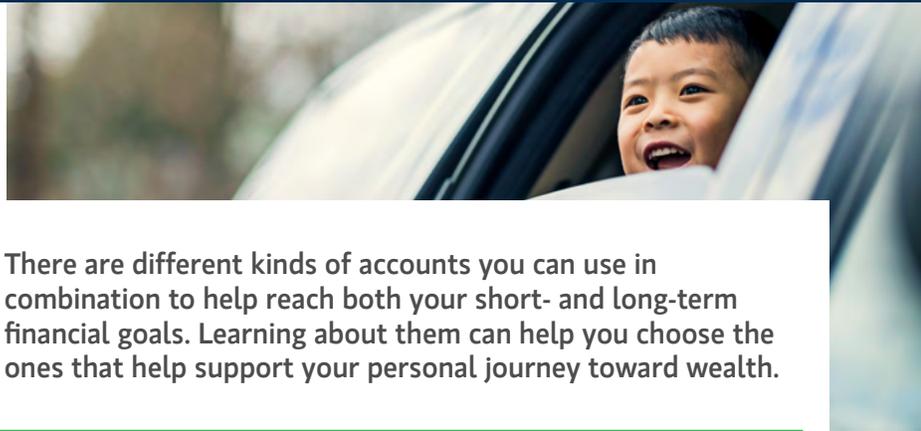
The process of earning interest on your interest. While its benefits might not be apparent at first, compound interest can add up significantly over time. To see the power of compound interest and learn more now, [go to page 9](#).

Rebalancing

Selling some assets in your portfolio and buying others to help maintain your target asset allocation. Investors often employ rebalancing when shifts in the market (gains and losses) cause their portfolios to drift away from their target asset allocation.



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Vehicles That Can Help Move You Forward

Types of Financial Accounts

There are different kinds of accounts you can use in combination to help reach both your short- and long-term financial goals. Learning about them can help you choose the ones that help support your personal journey toward wealth.



Cash Accounts for Spending and Saving

Generally, the money you hold in cash accounts is intended to be the liquid part of your total portfolio. This means that you have immediate access to the funds to pay for everyday expenses, cover emergencies and support short-term goals like a vacation or down payment on a car. In addition, you can build savings in cash accounts.

Typically, cash accounts earn interest at a very low rate and are considered low risk. Most are insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC is an independent agency of the U.S. government that protects depositors of insured banks against the loss of their deposits if the banks fail. Coverage is dollar for dollar, up to \$250,000 per depositor, per insured bank, for each account ownership category.

Checking and savings accounts are basic cash accounts that may or may not earn interest.

High-yield savings accounts earn more interest than a typical savings account, allowing you to potentially grow savings more quickly. They are a good place for an emergency fund when you don't know when or if you'll need it. Note that the interest rate on these types of accounts may fluctuate.

Money market accounts are another option for an emergency fund. They often pay higher interest rates than savings accounts while also allowing you to write checks. Although your money is easily accessible, most money market accounts require a minimum deposit.

Certificates of deposit (CDs) can also be a useful savings tool. But you must deposit your money for a predetermined period of time ranging from three months to 10+ years. Generally, the longer you lock up your money, the higher the rate will be, making them an option for predictable longer-term expenses such as buying a house.

Treasury bills (T-bills), while not insured by the FDIC, are another option for saving cash. They are a kind of short-term debt obligation issued and guaranteed by the U.S. government, so are typically a lower-risk investment. You can buy T-bills that mature (when you're paid back) in anywhere from four to 52 weeks, typically offering higher interest rates for longer maturities. T-bills are usually sold at a discount to their face value (the amount paid back at maturity); the difference between the purchase price and the face value is the interest earned.



Brokerage Accounts for Investing

In plain terms, a brokerage account is a type of standard investment account held at a licensed brokerage firm, which allows you to hold securities such as stocks, bonds, mutual funds, ETFs and more. You can deposit funds into the account, and then, depending on the particular brokerage account type, either make investment decisions and trades individually or utilize a broker or money manager to help with your investment decisions or grant them permission to make and execute trades on your behalf.

Think of a **brokerage account** as the hub for your investments, with the flexibility to support a variety of financial goals. There's no limit to the amount you can deposit into the account, how much you invest or the number of stocks or investment funds you can hold. Plus, there are generally no penalties for withdrawals, so you can allocate your funds to investments with different time horizons.

It's important to note that there's risk when you invest in securities and managed funds. The objective is to grow your money, but there's always the chance of losses. Holding investments over a longer time period can potentially provide more time to offset any losses, as well as lead to growth for goals such as a comfortable retirement. Keep in mind, however, that the gains from your investments are subject to taxes, and incorporating tax-smart investing strategies can help you prepare for this (see the Take Advantage of Tax Management section [on page 13](#) for more details).

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VEHICLES THAT CAN HELP MOVE YOU FORWARD | TYPES OF FINANCIAL ACCOUNTS

Brokerage Account Strategies

Depending on whether you prefer having more control over your individual investments or receiving guidance from financial advisors, there are different types of brokerage accounts you can choose.



When it comes to brokerage accounts, there are different approaches for investing your money. They can be helpful if you have a large amount of money available to invest, such as a bonus, a payout from selling a business or concentrated stock position, or an inheritance. At these moments you may want to consider investing all the funds at once or over time.

Self-directed investing allows you to choose and manage your own investments without the help of an advisor. Typically, the investor does their own research, decides when and how to invest their money and monitors their portfolio.

Advised brokerage accounts may include guidance and recommendations from a financial advisor, but you still control and make your own investment decisions.

Managed brokerage accounts provide more assistance than an advised account. The money in your account is managed by a team of experienced portfolio managers who make investment decisions on your behalf based on your agreed-upon investment strategy. While you set your risk tolerance and goals, you're not responsible for the day-to-day management of your portfolio.

Dollar-cost averaging is the strategy of investing a fixed amount of money at regular intervals (such as monthly or quarterly) over a period of time regardless of market conditions. The idea is that by spreading your investments out over time, you can potentially reduce the impact of market volatility. This approach of setting a disciplined, recurring investing strategy that takes some of the emotion out of investing choices can be helpful for investors who find the ups and downs of the markets stressful. In addition, it can help investors get started if they're uncertain about or overwhelmed by choosing the right moment to invest in the markets.

Lump-sum investing calls for investing your entire amount of money at the same time. The goal of this strategy is to put your money to work immediately to potentially capture market growth. Keep in mind that while a larger initial investment can be concerning due to the possibility of short-term losses, this approach often proves to be advantageous over longer periods of time.¹ Depending on your goals, timeline and risk tolerance, a lump-sum approach may provide a simple, straightforward way to invest your money.

¹Source: Morgan Stanley Wealth Management, Dollar-Cost Averaging Versus Lump-Sum Investing: Behavioral Considerations and Potential Outcomes. Original report published October 13, 2020, updated August 17, 2023.

Why Long-Term Thinking Matters

It can be troubling to see your investment portfolio or the 401(k) plan you've been building for years suddenly drop in value. But selling your investments to stop the losses can be the single most damaging thing an investor can do.

Why? Selling into a falling market ensures that you lock in your losses. If you wait years to get back in, you may never recover.

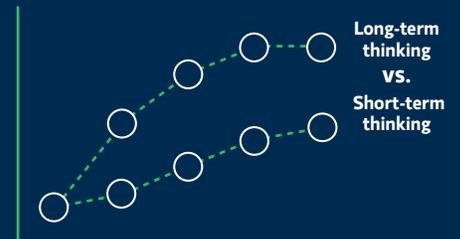
Here's a historic example:

Long-term thinking:

- Someone who stayed invested from 1980 to the end of March 2024 would have a **12% annual return**.
- If they contributed \$5,000 a year, this would grow to **\$5.3 million**.

Short-term thinking:

- Someone who started investing in 1980, sold after downturns and stayed out of the market until two consecutive years of positive returns would have a **10% annual return**.
- If they contributed \$5,000 a year, this would grow to only **\$3.1 million**.



Taking the long view can help you avoid costly mistakes. In times of market turbulence, **staying invested and sticking with your goals-based financial plan can lead to better outcomes.**

Source: Morgan Stanley Wealth Management, Top Five Mistakes Investors Make in Volatile Markets, May 24, 2024.

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VEHICLES THAT CAN HELP MOVE YOU FORWARD | TYPES OF FINANCIAL ACCOUNTS



Retirement Accounts for Future Needs

It's never too early to start planning for retirement. Time really is money because the sooner you start saving, the more time your money has to potentially grow in line with the markets.² Plus, you can make use of tax-advantaged accounts to help move you toward your retirement goals.

Keep in mind that different types of tax-advantaged accounts have different rules about who is eligible, how much you can contribute, when the money is taxed and at what age you can access the funds. Typically, because most of these accounts are structured to help you save for retirement, you may be subject to a tax penalty if you withdraw money before reaching age 59 ½ or if your early withdrawal does not qualify for another exception.

401(k) plans, sponsored by employers, allow employees to make pre-tax contributions into a tax-qualified account and choose where to place those funds among the plan's investment options. If your company offers a 401(k) plan, you can choose to automatically deposit a portion of your pre-tax salary into your 401(k). Some employers also match their employees' contributions up to a certain percentage. If your company offers a match, it can be beneficial to contribute the maximum amount allowed in order to take full advantage of the opportunity.

Traditional IRAs (Individual Retirement Accounts) are offered by financial institutions, not employers. They have a lower pre-tax contribution limit than a 401(k) and don't offer employer matching, but your IRA contributions may be tax-deductible. For example, if your salary is \$60,000 and you contribute \$5,500 to a traditional IRA, you may only need to pay income taxes on \$54,500. However, your distributions from a traditional IRA will be taxable in the year they are withdrawn. These accounts are often set up and funded independently, so they tend to offer more flexibility and a wider range of investment options.

If you earn below a certain income threshold, you may qualify for a **Roth IRA**. This type of account differs from a traditional IRA in that contributions made to a Roth IRA are not income tax-deductible (you don't get a tax deduction on your income tax return for your contributions). But, because contributions are made with after-tax dollars, distributions from your Roth IRA are not subject to income tax if certain conditions are met. What's more, you won't have to pay taxes on the interest you earn over time.

Roth 401(k) accounts combine the features of a traditional 401(k) and a Roth IRA. Roth 401(k) accounts are offered by employers, and employees can opt to automatically deposit a portion of their after-tax salary into this type of account. You pay taxes on the contributions to your Roth 401(k) in the year you make them. Then, when you take distributions from your Roth IRA, the withdrawals are tax free as long as certain conditions are met. It's also important to note that contribution limits for a Roth 401(k) are higher than those of a Roth IRA, and employers may offer matching contributions up to a certain percentage.

Take Note

With tax-deferred accounts, your **contributions** (the money you put in) can grow faster because taxes are deferred to a future date and you can continue to earn interest on interest. Generally, you'll only be taxed when you make a **distribution** (withdraw money).

²Past performance is not indicative of future results.



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Accounts to Support Specific Goals

There are also investment accounts designed to support saving for particular situations, including covering children's **school tuition** and paying for your own **medical expenses**. In addition to helping you achieve your financial goals, they can provide tax benefits.

A 529 plan, also known as a qualified tuition plan, is a flexible account that can help you save for a child's education in a tax-advantaged way. There are no age or income restrictions on who can contribute, and contribution limits are generally high enough to allow you to save enough to fully cover tuition. Plus, you can change the beneficiary on the plan (the person whose education is paid for using the account). 529 plans can offer significant tax savings because withdrawals are not subject to federal tax when used for qualified expenses. That means your funds can grow over time and you won't be taxed on your gains.

Health savings accounts (HSAs) are savings vehicles that offer substantial tax benefits and can help you cover healthcare costs. You may qualify for an HSA if you have a high-deductible health insurance plan (one with relatively low premiums and higher out-of-pocket expenses). Both the contributions you make to an HSA and your withdrawals are generally tax-free. In addition, HSA funds remain in your account from year to year, so you can choose to either hold them for growth until retirement or make withdrawals sooner to cover qualified health expenses.



Debts and Loans for Financing Needs

There can be times when you need access to money to help realize your dreams and goals, whether that's buying a house, doing home improvements, consolidating debts, starting a business or covering unexpected expenses.

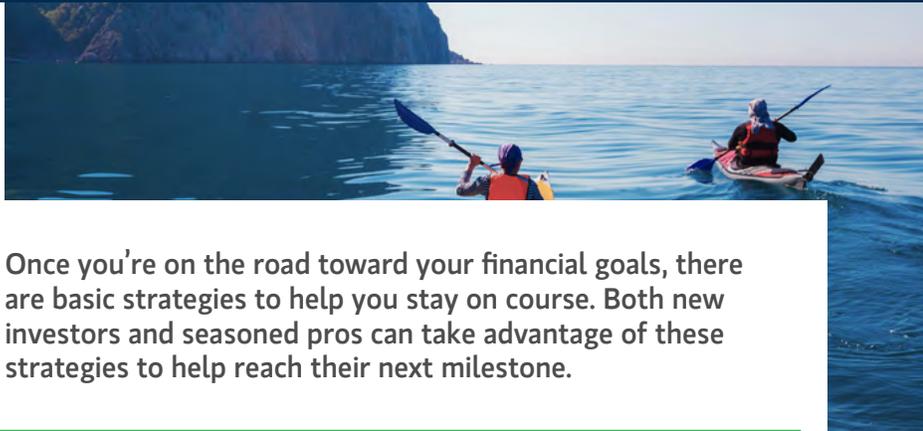
In these types of situations, you can take advantage of different loans that provide access to capital (money) by **using your investments or other assets as collateral** (to secure your debt or loan obligation). The benefit is that you can use this capital to help finance your house purchase or other transaction and potentially leave your current investments intact, allowing your investments to continue participating in the market, and stay on course toward your long-term financial goals.

Securities-based lending is a form of debt that leverages the power of an investment portfolio. Essentially, you can borrow funds using the value of your eligible securities as collateral. With flexible options for a line of credit or one-time event available, these loans can be used for a variety of needs. For example, if you have other debt obligations, this type of loan may provide you with convenient and competitively priced access to funds you can use to consolidate multiple loans into a single line of credit with flexible repayment options. Securities-based lending may provide additional benefits but may not be appropriate for everyone. Managing it requires a strategic approach, and it is important to understand potential risks.

A mortgage is a loan that's secured by real estate. In other words, it's a loan that allows you to buy a house or land while only paying for a percentage of the total value up front (the down payment). When you take out a mortgage, you agree on the length of time (the term) for paying off the loan amount (the principal) and the amount paid in interest each month. Factors that impact your interest rate include your credit, the amount you are borrowing versus paying up front, the type of mortgage you choose and the term length. Your options include fixed-rate mortgages (you pay fixed interest payments) and adjustable-rate mortgages (ARMs), where you pay a set interest rate for a pre-determined number of years, after which the rate is adjusted based on market conditions.



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Ways to Help Make the Journey Smoother

Wealth Management Strategies

Once you're on the road toward your financial goals, there are basic strategies to help you stay on course. Both new investors and seasoned pros can take advantage of these strategies to help reach their next milestone.

Focus on Budgeting and Saving

While it may sound obvious, budgeting and saving is an important wealth management strategy. That's because it can help reduce stress from your current and future financial situations.



It's essential to get into the habit of saving early, often and automatically when possible. A good rule of thumb is to set a monthly savings goal and put this money aside before you pay other discretionary expenses. In addition, consider automating your savings activity by sending a portion of your paycheck to a specific account through direct deposit or scheduling a regular transfer from your primary account to a savings account.



It's also prudent to save for an emergency fund before you save for other short- or medium-term goals. Having an emergency fund with enough to cover three to six months of expenses can provide a cushion to help keep you on track after unforeseen events.



Finally, remember to revise your budget with each life change or milestone, such as when you have a salary increase, experience a job loss or move to a new city. This can help you stay on track to reach your goals.

How to Determine Your Budget

Start by building your budget based on your current lifestyle and cash flow. Take a close look at money coming in (paychecks and other earnings) and going out (daily spending and debt payments) in a month's time. The difference between income and expenses is your **personal cash flow**.

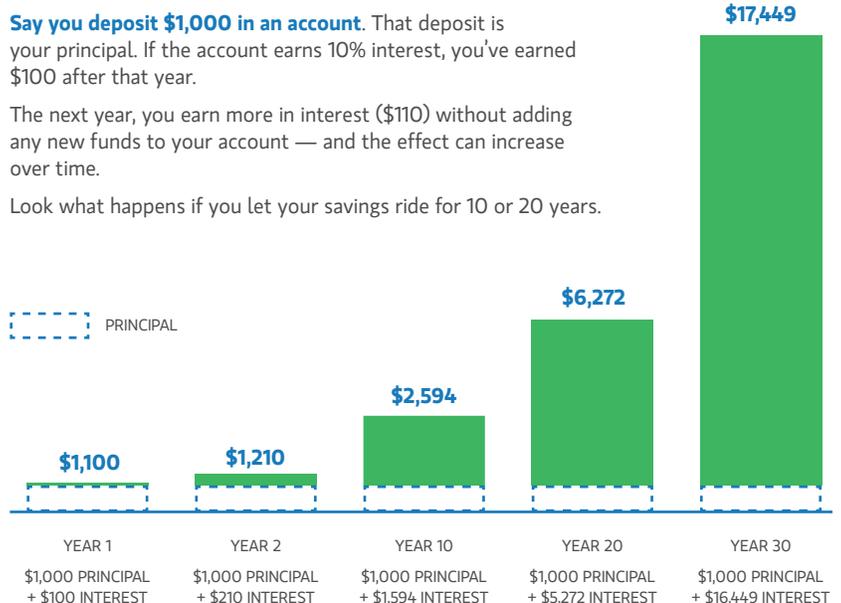
Then create a cash flow summary. Write down all your **fixed costs** (such as housing and insurance) and **variable expenses** (like entertainment, utilities and groceries) for the last several months. This can help you better understand your average spending habits and know how much you typically allocate for spending, saving and investing. It can also help you identify areas where you may want to reallocate your funds to better support your goals.

Invest as Early as Possible

When it comes to investing, a vital strategy is to get started as early as possible. That is because of the power of **compound interest**, which can allow your money to potentially multiply at an exponential rate.

How Compound Interest Works

Compounding occurs when the money your investment earns is reinvested, producing additional earnings (also known as interest on interest). The effect of compounding can help a small investment grow larger because you have more money working for you over time.



Source: E*TRADE from Morgan Stanley, How Compound Interest Can Supercharge Your Saving, October 2, 2024. **This is a hypothetical illustration; actual results may vary.**

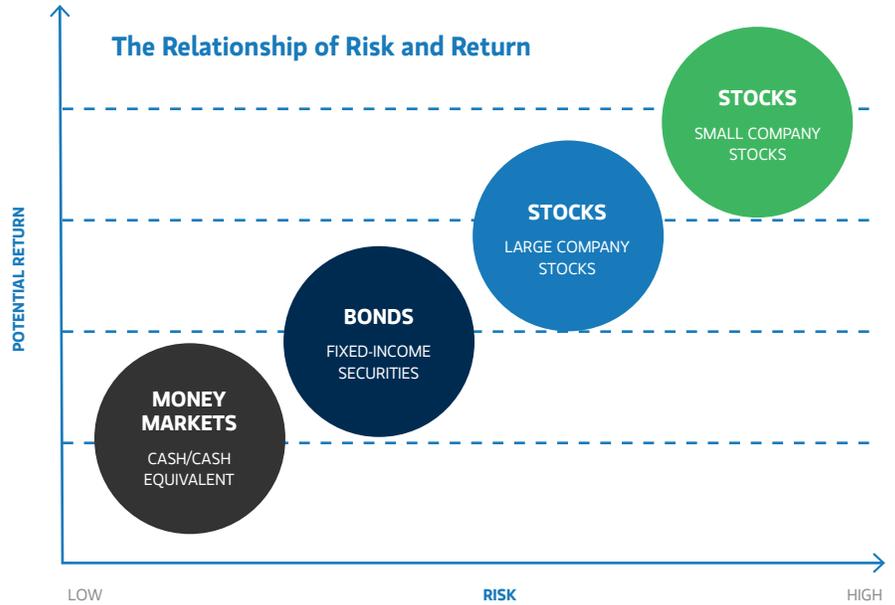
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Balance Risk and Reward

You'll want to consider the balance of risk and reward as you make investment decisions. Every investor takes on some level of risk or uncertainty in order to make a return when investing. However, with no guarantee, the key is to create a portfolio of investments that balances your risk and potential return.

Keep in mind that, generally, greater risk is required for higher returns, and lower risk typically means lower returns. In addition, each asset class has a different risk-return profile.



Source: Morgan Stanley, Saving and Investing Seminar 2015.

Diversify Your Portfolio

Another essential investing strategy is **diversification**. This is the process of spreading your investments across multiple types of assets, which may help reduce risk. The idea is to not put all your eggs in one basket.

Key Questions for Investors

When considering investing decisions, including how to allocate and diversify your portfolio, ask yourself these questions:

- 1 **Investment Goals:**
What do I want to use this money for?
- 2 **Time Horizon:**
How long can I keep this money invested before I need to use it?
- 3 **Risk Tolerance:**
Am I willing to lose money to seek a bigger reward?

Your answers can help you make more informed investment decisions and build strategies to help move you toward your financial goals.

If some of your investments perform poorly, your losses can potentially be offset by gains in your assets that perform well.

For example, if your stock investments lose value, your downside might be balanced by gains in your bond investments. (Keep in mind that diversification does not guarantee a profit or protect against loss in a declining financial market.)

You achieve diversification with a process called **asset allocation**. This simply means deciding how much of each asset type you want to hold in your overall investment portfolio.

Some investors may allocate a large portion of their capital to a small number of investments or have a **concentrated holding** of equity compensation from an employer. In these situations, the goal is to maximize returns by focusing on select investments that the investor believes will perform well. However, this type of strategy has high risk because it lacks diversification.

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Make a Plan for Retirement

Whatever lifestyle you envision for retirement, it's important to plan ahead to help build an adequate nest egg that will last. It's never too early or too late to put a strategy in place. But, typically, the earlier the better so you can take advantage of compounding interest.

If you're just beginning your wealth management journey, thinking about setting money aside for retirement can be tough. The important thing is to start saving and growing your savings, even if you can only set aside a small amount each month.

Ways to Save for Retirement



Start saving in your workplace retirement plan as soon as you're eligible. If your employer offers a matching contribution, try to contribute enough to reach the match limit. And try to increase your contribution levels at regular intervals each year.



Create a Health Savings Account (HSA) to put money away for future healthcare costs, if you have a high-deductible health plan.



If you have maxed out your workplace plan, consider additional savings vehicles, like Individual Retirement Accounts, and think about mixing and matching traditional and Roth tax strategies as applicable.



Periodically rebalance your investments to ensure they're aligned with your goals and risk tolerance, to help stay on course for the milestones ahead.

The Power of Compound Interest Over Time

Don't underestimate the power of compounding interest when it comes to saving for retirement. The bottom line is that the earlier you get started, the faster you can reach your saving goals. Here's an example illustrating the concept:

Laura starts early (at age 22)

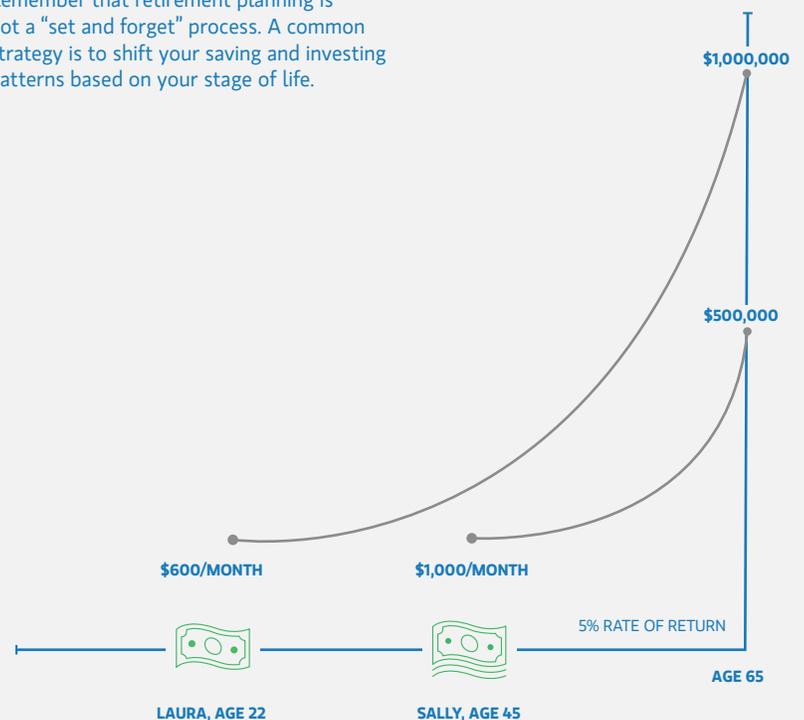
- She makes **\$60,000 a year**, she contributes **10% of her pre-tax salary into her 401(k)**, and her employer matches up to **2% of that amount**.
- Assuming a combined contribution of **12% (\$600 a month)** is consistently made to her retirement account and a **5% rate of return**, she'll end up with approximately **\$1,081,030 at retirement at age 65**.

Sally begins later (at age 45)

- She contributes **\$1,000 a month** to her retirement account, in an effort to catch up, and receives the same **2% employer match**.
- Assuming a **5% rate of return** (the same as Laura), **at age 65 she'll end up with approximately \$458,294** (less than half of what Laura saved).

Over time, the magic of compound interest can kick in and make a significant difference.

Remember that retirement planning is not a "set and forget" process. A common strategy is to shift your saving and investing patterns based on your stage of life.



Source: Morgan Stanley, Compound Interest May Turn Millennial Investors into Millionaire Retirees, 2015.

Note: Hypothetical results are for illustrative purposes only and are not intended to represent future performance of any particular investment. Your actual results may differ. The principal value and investment return of an investment will fluctuate with changes in market conditions, and may be worth more or less than the original cost. Taxes may be due upon withdrawal. Fees associated with investing are not factored in.

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Saving and Investing Goals Often Shift Before and During Retirement

In the **accumulation stage**, the period of time you're actively saving and investing your money for retirement, it's a good rule of thumb to make regular contributions to your retirement accounts and take advantage of longer time horizons to accommodate growth-focused investments. During this stage you may also be actively saving and spending for other significant non-retirement goals, so it's helpful to regularly revisit your short- and long-term goals to help allocate your money toward each.

In the **distribution stage**, which generally begins after you've retired and started drawing on your savings to fund your retirement lifestyle, the strategy typically changes to helping ensure that your savings last. This may include taking regular withdrawals from different accounts to cover your expenses, refocusing your investments for less risk and adjusting your lifestyle based on your financial goals.

Career Stage	Common Financial Goals	Retirement Stage
Early and Mid-Career	<ul style="list-style-type: none"> Build an emergency fund Manage budgets Buy a home Have a child Manage equity Plan for travel 	Accumulation
Late Career	<ul style="list-style-type: none"> Buy a larger home Send children to college Assist aging parents Plan for future healthcare Reduce tax burden Prepare for transition to retirement 	Accumulation
Retired	<ul style="list-style-type: none"> Maintain lifestyle and sufficient income Meet healthcare/unforeseen expenses Buy a vacation home Plan your legacy Give to charity Travel 	Distribution



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Take Advantage of Tax Management

When building your wealth, an investment strategy is about more than just maximizing what you earn. It's also about limiting expenses, which can include taxes. And there are a variety of tax management strategies that can be beneficial for both new and seasoned investors.



First, it's important to be aware that earnings from investments are taxed in different ways and at different rates (or sometimes not at all), depending on the account type and investment itself.

Generally, **interest income** is taxed at normal income rates, just like wages. In contrast, income treated as **capital gains** (when you sell an investment such as a stock for a profit) may be taxed at lower rates. Contributions to retirement plans such as Traditional 401(k)s or Traditional IRAs are tax-deferred.

You can take advantage of these tax differences when allocating assets or selecting the types of accounts that can help you reach your financial goals.

For example, an investor may:

- Defer taxes by contributing to a Traditional 401(k) or Traditional IRA.
- Prioritize tax-free growth and tax-free withdrawals by contributing to a Roth IRA if eligible (contributions are taxable in the year they are made).
- In taxable accounts, hold investments that generate fewer taxable events.

Investors may also employ **tax-loss harvesting** to potentially reduce their current tax liability. The idea is to strategically sell an investment that is “underwater” (valued at less than you paid) to generate tax losses that may offset other tax gains.

Finally, keep in mind that equity compensation can have complex tax implications. Generally, you may incur taxes when exercising stock options (depending on the type of option) or on any gains when selling the stock received. Restricted stock units may trigger taxes at vesting and when the stock received is sold. And, when you purchase stock through a qualified employee stock purchase plan, you may only be taxed when you sell it.

Think About Estate Planning

Discussing the end of life and what happens to your assets is never easy to think about. But creating an estate plan can help protect your wealth, potentially avoid estate-related legal complications and ensure that your wishes are honored. In addition, it can help provide loved ones with guidance during a difficult time.

How to Think About Your Legacy



Keep a **list of your assets** to help you take stock of exactly what you have to pass on to heirs and document key information so your family has a record of accounts and property.



Create a **will and power of attorney documents** with the help of an attorney. A last will and testament names an executor who will carry out your wishes and distribute your assets. And a durable power of attorney designates a family member, friend or trusted advisor to act on your behalf in specified legal, medical and financial matters. In addition, consider creating a living will, which outlines your healthcare wishes in certain situations when you're unable to make treatment decisions.



Choose **beneficiaries** and record how you want your estate to be distributed among them to prevent legal battles. You can also designate charitable organizations as the beneficiaries of your estate.



Plan for **estate taxes**, which may apply upon your death. To help lessen the estate tax burden, you can consider gifting assets while you're still alive to potentially reduce the size of your eventual estate, or other estate planning strategies. Philanthropy is another option, whereby your assets can be donated to the charitable causes that matter to you.

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Partner With a Financial Advisor

We're Here to Support Your Journey Toward Wealth

You don't have to be an expert to invest your money and build your wealth. No matter where you are on the journey toward your financial goals, Morgan Stanley Virtual Advisor can help you navigate the road.

We hope this toolkit helps you understand the fundamentals of managing your money and building wealth, and gives you the confidence to ask questions about your own financial goals. The next step is to partner with the Financial Advisors at Morgan Stanley. They can collaborate with you to help map the route to your personal milestones and build investing strategies to help get you there.

Remember, wealth isn't just for the wealthy — and neither is wealth management. Morgan Stanley Virtual Advisor can empower you with technology-enabled, knowledge-crafted investment strategies to help put you in the driver's seat on your personal journey toward wealth.*

“Our experience has shown us that most clients want financial advice that is holistic and personalized. This means taking into consideration a host of factors that include dynamics and choices around your job, family responsibilities, debt and borrowing needs, tax status and philanthropic interests. At the heart of the advisory relationship is the concept of education and personalization that ultimately allows you to make the choices about your financial health that are right for you.”

Lisa Shalett, Managing Director,
Head of Investment and Portfolio Strategies,
Morgan Stanley Wealth Management

Connect with our Financial Advisors

8:00 a.m. – 7:30 p.m. ET, Monday – Friday

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*Personalized advice may require the opening of a Morgan Stanley Smith Barney LLC account with a Financial Advisor and may require minimum asset levels.

Disclosures

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Any type of continuous or periodic investment plan does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his/her financial ability to continue his/her purchases through periods of low price levels.

Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are appropriate only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing.

Past performance is not a guarantee of future results.

Fixed Income investing entails credit risks and interest rate risks. When interest rates rise, bond prices generally fall.

The 529 Plan Program Disclosure contains more information on investment options, investment objectives, risk factors, fees and expenses, and potential tax consequences. Investors can obtain a 529 Plan Program Disclosure from their Financial Advisor and should read it carefully before investing.

Investors should carefully consider the investment objectives, risks, charges and expenses of a mutual fund or ETF before investing. The prospectus contains this and other information about the mutual fund or ETF. To obtain a prospectus, contact your Financial Advisor. Please read the prospectus carefully before investing.

Borrowing against securities may not be appropriate for everyone. Clients must be aware that there are risks associated with a securities based loan, including possible maintenance calls on short notice, and that market conditions can magnify any potential for loss. For details, please see the important disclosures below.

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