

MORGAN STANLEY  
Form FWP  
November 01, 2018

November 2018

Preliminary Terms No. 1,170  
Registration Statement Nos. 333-221595; 333-221595-01  
Dated October 31, 2018  
Filed pursuant to Rule 433

Morgan Stanley Finance LLC

STRUCTURED INVESTMENTS

Opportunities in U.S. Equities

Contingent Income Auto-Callable Securities due March 3, 2020

**All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®**

**Fully and Unconditionally Guaranteed by Morgan Stanley**

**Principal at Risk Securities**

The securities offered are unsecured obligations of Morgan Stanley Finance LLC (“MSFL”) and are fully and unconditionally guaranteed by Morgan Stanley. The securities have the terms described in the accompanying product supplement, index supplement and prospectus, as supplemented or modified by this document. The securities do not guarantee the repayment of principal and do not provide for the regular payment of interest. Instead, the securities will pay a contingent quarterly coupon **but only if** the index closing value of **each of** the Russell 2000® Index **and** the NASDAQ-100 Index® is **at or above** its coupon barrier level of 70% of its respective initial index value on the related observation date. If, however, the index closing value of **either** underlying index is less than its coupon barrier level on any observation date, we will pay no interest for the related quarterly period. In addition, the securities will be automatically redeemed if the index closing value **of each** underlying index is greater than or equal to its respective initial index value on any of the four quarterly redemption determination dates for the early redemption payment equal to the sum of the stated principal amount plus the related contingent quarterly coupon. At maturity, if the securities have not previously been redeemed and the index closing value of each underlying index has remained greater than or equal to 70% of the respective initial index value, which we refer to as the downside threshold level, on **each index business day** during the term of the securities, the payment at maturity will be the stated principal amount and the related contingent quarterly coupon. If, however, the index closing value of **either** underlying index is less than its respective downside threshold level on **any index business day** during the term of the securities, a trigger event will have occurred and investors will be fully exposed to the decline in the worst performing underlying index on a 1-to-1 basis and, if the final index value of **either** underlying index is less than its initial index value, investors will receive a payment at maturity that is less than the stated principal amount of the securities and could be zero. **Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment and also the risk of not receiving any contingent quarterly coupons throughout the 1.25-year term of the securities.** Because all payments on the securities are based on the worst performing of the underlying indices, a decline beyond the respective coupon barrier level or respective downside threshold level, as applicable, of either underlying index will

result in few or no contingent coupon payments and a potentially significant loss of your investment, even if the other underlying index has appreciated or has not declined as much. The securities are for investors who are willing to risk their principal and seek an opportunity to earn interest at a potentially above-market rate in exchange for the risk of receiving no quarterly coupons over the entire 1.25-year term. Investors will not participate in any appreciation of either underlying index. The securities are notes issued as part of MSFL's Series A Global Medium-Term Notes program.

**All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These securities are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.**

## SUMMARY TERMS

**Issuer:** Morgan Stanley Finance LLC  
**Guarantor:** Morgan Stanley  
**Underlying indices:** Russell 2000® Index (the "RTY Index") and NASDAQ-100 Index (the "NDX Index")  
**Aggregate principal amount:** \$  
**Stated principal amount:** \$1,000 per security  
**Issue price:** \$1,000 per security  
**Pricing date:** November 27, 2018  
**Original issue date:** November 30, 2018 (3 business days after the pricing date)  
**Maturity date:** March 3, 2020

**Early redemption:** If, on any of the four redemption determination dates, the index closing value of each underlying index is **greater than or equal to** its respective initial index value, the securities will be automatically redeemed for an early redemption payment on the related early redemption date. No further payments will be made on the securities once they have been redeemed.

**Early redemption payment:** **The securities will not be redeemed early on any early redemption date if the index closing value of either underlying index is below the respective initial index value for such underlying index on the related redemption determination date.** The early redemption payment will be an amount equal to (i) the stated principal amount for each security you hold plus (ii) the contingent quarterly coupon with respect to the related observation date.

**Contingent quarterly coupon:** A *contingent* coupon at an annual rate of 8.00% to 10.00% (corresponding to approximately \$20.00 to \$25.00 per quarter per security, to be determined on the pricing date) will be paid on the securities on each coupon payment date **but only if** the closing value of **each underlying index** is at or above its respective coupon barrier level on the related observation date.

**If, on any observation date, the closing value of either underlying index is less than the respective coupon barrier level for such underlying index, we will pay no coupon for the applicable quarterly period. It is possible that one or both underlying indices will remain below their respective coupon barrier levels for extended periods of time or even throughout the entire 1.25-year term of the securities so that you will**

**receive few or no contingent quarterly coupons.**

**Trigger event:**

A trigger event occurs if, on any index business day from but excluding the pricing date to and including the final observation date, the closing level of **either** underlying index is less than its respective downside threshold level. If a trigger event occurs on **any index business day** during the term of the securities, you will be exposed to the downside performance of the worst performing underlying index at maturity.

At maturity, investors will receive, in addition to the final contingent quarterly coupon payment, if payable, a payment at maturity determined as follows:

**If a trigger event HAS NOT occurred on any index business day from but excluding the pricing date to and including the final observation date:** the stated principal amount

**Payment at maturity:**

**If a trigger event HAS occurred on any index business day from but excluding the pricing date to and including the final observation date:** (i) the stated principal amount *multiplied by* (ii) the index performance factor of the worst performing underlying index, subject to a maximum payment at maturity of the stated principal amount.

If a trigger event occurs and the final index value of **either** underlying index is less than its initial index value, the payment at maturity will be less than the stated principal amount of the securities and could be zero.

Under no circumstances will investors participate in any appreciation of either underlying index.

***Terms continued on the following page***

**Agent:**

Morgan Stanley & Co. LLC (“MS & Co.”), an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley. See “Supplemental information regarding plan of distribution; conflicts of interest.”

**Estimated value on the pricing date:**

Approximately \$970.30 per security, or within \$15.00 of that estimate. See “Investment Summary” beginning on page 3.

**Commissions and issue price:**

**Per security**  
**Total**

<b>Price to public</b>	<b>Agent’s commissions and fees<sup>(1)</sup></b>	<b>Proceeds to us<sup>(2)</sup></b>
\$1,000	\$	\$
\$	\$	\$

(1) Selected dealers and their financial advisors will collectively receive from the agent, MS & Co., a fixed sales commission of \$ for each security they sell. See “Supplemental information regarding plan of distribution; conflicts of interest.” For additional information, see “Plan of Distribution (Conflicts of Interest)” in the accompanying product supplement.

(2) See “Use of proceeds and hedging” on page 28.

**The securities involve risks not associated with an investment in ordinary debt securities. See “Risk Factors” beginning on page 14.**

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this document or the accompanying product supplement, index supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The securities are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

**You should read this document together with the related product supplement, index supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see “Additional Information About the Securities” at the end of this document.**

As used in this document, “we,” “us” and “our” refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

**[Product Supplement for Auto-Callable Securities dated November 16, 2017](#)    [Index Supplement dated November 16, 2017](#)    [Prospectus dated November 16, 2017](#)**

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**Terms continued from previous page:**

<b>Redemption determination dates:</b>	Quarterly, as set forth under “Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates” below, subject to postponement for non-index business days and certain market disruption events.
<b>Early redemption dates:</b>	Quarterly. See “Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates” below. If any such day is not a business day, that early redemption payment will be made on the next succeeding business day and no adjustment will be made to any early redemption payment made on that succeeding business day
<b>Coupon barrier level:</b>	With respect to the RTY Index: , which is 70% of its initial index value
<b>Downside threshold level:</b>	With respect to the NDX Index: , which is 70% of its initial index value With respect to the RTY Index: , which is 70% of its initial index value
<b>Initial index value:</b>	With respect to the NDX Index: , which is its index closing value on the pricing date
<b>Final index value:</b>	With respect to the NDX Index: , which is its index closing value on the pricing date
<b>Worst performing underlying Index performance factor:</b>	With respect to each index, the respective index closing value on the final observation date
<b>Coupon payment dates:</b>	The underlying index with the larger percentage decrease from the respective initial index value to the respective final index value
<b>Observation dates:</b>	Final index value <i>divided by</i> the initial index value
<b>CUSIP / ISIN:</b>	Quarterly, as set forth under “Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates” below; <i>provided</i> that if any such day is not a business day, that contingent quarterly coupon, if any, will be paid on the next succeeding business day and no adjustment will be made to any coupon payment made on that succeeding business day; <i>provided further</i> that the contingent quarterly coupon, if any, with respect to the final observation date will be paid on the maturity date
<b>Listing:</b>	Quarterly, as set forth under “Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates” below, subject to postponement for non-index business days and certain market disruption events. We also refer to February 27, 2020 as the final observation date.
	61768DPW9 / US61768DPW91
	The securities will not be listed on any securities exchange.

Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates

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Observation Dates / Redemption Determination Dates	Coupon Payment Dates / Early Redemption Dates
February 27, 2019	March 6, 2019
May 28, 2019	June 4, 2019
August 27, 2019	September 4, 2019
November 27, 2019	December 5, 2019
February 27, 2020 (final observation date)	March 3, 2020 (maturity date)

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Principal at Risk Securities

Investment Summary

## Contingent Income Auto-Callable Securities

### Principal at Risk Securities

Contingent Income Auto-Callable Securities due March 3, 2020 All Payments on the Securities Based on the Worst Performing of the Russell 2000<sup>®</sup> Index and the NASDAQ-100 Index<sup>®</sup> (the “securities”) do not provide for the regular payment of interest. Instead, the securities will pay a contingent quarterly coupon **but only if** the index closing value of **each** underlying index is **at or above** 70% of its initial index value, which we refer to as the respective coupon barrier level, on the related observation date. If the index closing value of **either underlying index** is less than the respective coupon barrier level on any observation date, we will pay no coupon for the related quarterly period. It is possible that the index closing value of either underlying index could remain below the respective coupon barrier level for extended periods of time or even throughout the entire 1.25-year term of the securities so that you will receive few or no contingent quarterly coupons during the term of the securities. We refer to these coupons as contingent, because there is no guarantee that you will receive a coupon payment on any coupon payment date. Even if both underlying indices were to be at or above their respective coupon barrier levels on some quarterly observation dates, one or both underlying indices may fluctuate below the respective coupon barrier level(s) on others. In addition, if the securities have not been automatically called prior to maturity and the index closing value of **either** underlying index is less than 70% of the respective initial index value, which we refer to as the downside threshold level, on **any index business day** during the term of the securities, a trigger event will have occurred and investors will be fully exposed to the decline in the worst performing underlying index on a 1-to-1 basis and, if the final index value of **either** underlying index is less than its initial index value, investors will receive a payment at maturity that is less than the stated principal amount of the securities and could be zero. Investors will not participate in any appreciation of either underlying index. **Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment and also the risk of not receiving any contingent quarterly coupons throughout the entire 1.25-year term of the securities.**

Maturity: Approximately 1.25 years  
Contingent quarterly coupon: A *contingent quarterly coupon* at an annual rate of 8.00% to 10.00% (corresponding to approximately \$20.00 to \$25.00 per quarter per security, to be determined on the pricing date) will be paid on the securities on each coupon payment date **but only if** the closing value of **each** underlying index is at or above the respective coupon barrier level on the related observation date. **If on any observation date, the closing value of either underlying index is less than the respective coupon barrier level, we**

Automatic early redemption

**will pay no coupon for the applicable quarterly period.**

If the index closing value of **each** underlying index is greater than or equal to its initial index value on any of the four quarterly redemption determination dates, the securities will be automatically redeemed for an early redemption payment equal to the stated principal amount plus the contingent quarterly coupon with respect to the related observation date.

**Trigger event:**

A trigger event occurs if, on any index business day from but excluding the pricing date to and including the final observation date, the closing level of **either** underlying index is less than its respective downside threshold level. If a trigger event occurs on **any index business day** during the term of the securities, investors will be exposed to the downside performance of the worst performing underlying index at maturity.

At maturity, investors will receive, in addition to the final contingent quarterly coupon payment, if payable, a payment at maturity determined as follows:

Payment at maturity:

**If a trigger event HAS NOT occurred on any index business day from but excluding the pricing date to and including the final observation date**, investors will receive at maturity the stated principal amount.

**If a trigger event HAS occurred on any index business day from but excluding the pricing date to and including the final observation date**, investors will receive a payment at maturity equal to: (i) the stated principal amount *multiplied by* (ii) the index



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performance factor of the worst performing underlying index, subject to a maximum payment at maturity of the stated principal amount.

If a trigger event occurs and the final index value of **either** underlying index is less than its initial index value, the payment at maturity will be less than the stated principal amount of the securities and could be zero.

**Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment. Investors will not participate in any appreciation of either underlying index.**

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The original issue price of each security is \$1,000. This price includes costs associated with issuing, selling, structuring and hedging the securities, which are borne by you, and, consequently, the estimated value of the securities on the pricing date will be less than \$1,000. We estimate that the value of each security on the pricing date will be approximately \$970.30, or within \$15.00 of that estimate. Our estimate of the value of the securities as determined on the pricing date will be set forth in the final pricing supplement.

*What goes into the estimated value on the pricing date?*

In valuing the securities on the pricing date, we take into account that the securities comprise both a debt component and a performance-based component linked to the underlying indices. The estimated value of the securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the underlying indices, instruments based on the underlying indices, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

*What determines the economic terms of the securities?*

In determining the economic terms of the securities, including the contingent quarterly coupon rate, the coupon barrier levels and the downside threshold levels, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the securities would be more favorable to you.

*What is the relationship between the estimated value on the pricing date and the secondary market price of the securities?*

The price at which MS & Co. purchases the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, may vary from, and be lower than, the estimated value on the pricing date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 4 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. may, but is not obligated to, make a market in the securities and, if it once chooses to make a market, may cease doing so at any time.

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### Key Investment Rationale

The securities do not provide for the regular payment of interest. Instead, the securities will pay a contingent quarterly coupon **but only if** the index closing value of each underlying index is **at or above** its respective coupon barrier level on the related observation date. The securities have been designed for investors who are willing to forgo market floating interest rates and accept the risk of receiving no coupon payments for the entire 1.25-year term of the securities in exchange for an opportunity to earn interest at a potentially above market rate if each underlying index closes at or above its respective coupon barrier level on each quarterly observation date until the securities are redeemed early or reach maturity. The following scenarios are for illustrative purposes only to demonstrate how the coupon and the payment at maturity (if the securities have not previously been redeemed) are calculated, and do not attempt to demonstrate every situation that may occur. Accordingly, the securities may or may not be redeemed, the contingent coupon may be payable in none of, or some but not all of, the quarterly periods during the 1.25-year term of the securities and the payment at maturity may be less than the stated principal amount of the securities and may be zero.

Scenario 1: The securities are redeemed prior to maturity

This scenario assumes that, prior to early redemption, each underlying index closes at or above its coupon barrier level on some quarterly observation dates, but one or both underlying indices close below the respective coupon barrier level(s) on the others. Investors receive the contingent quarterly coupon for the quarterly periods for which each index closing value is at or above the coupon respective barrier level on the related observation date, but not for the quarterly periods for which either index closing value is below the respective coupon barrier level on the related observation date.

Starting on March 6, 2019, when each underlying index closes at or above its initial index value on a quarterly redemption determination date, the securities will be automatically redeemed for the stated principal amount *plus* the contingent quarterly coupon with respect to the related observation date.

Scenario 2: The securities are not redeemed prior to maturity and investors receive principal back at maturity

This scenario assumes that a trigger event has not occurred, as each underlying index has closed at or above the respective downside threshold level on each index business day during the term of the securities. In addition, each underlying index closes below the respective initial index value on every quarterly redemption determination date. Consequently, the securities are not automatically redeemed, and investors receive the contingent quarterly coupon for each quarterly period, as each index closing value was at or above the respective coupon barrier level on each observation date. Because a trigger event has not occurred on any index business day during the

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term of the securities, at maturity, investors will receive the stated principal amount and the contingent quarterly coupon with respect to the final observation date.

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Principal at Risk Securities

Scenario 3: The securities are not redeemed prior to maturity, a trigger event occurs on any index business day during the term of the securities and investors suffer a loss of principal at maturity

This scenario assumes that each underlying index closes at or above its respective coupon barrier level on some quarterly observation dates, but one or both underlying indices close below the respective coupon barrier level(s) on the others, and each underlying index closes below the respective initial index value on every quarterly redemption determination date. Consequently, the securities are not automatically redeemed and a trigger event will have occurred. Investors receive the contingent quarterly coupon for the quarterly periods for which each index closing value is at or above the respective coupon barrier level on the related observation date, but not for the quarterly periods for which either index closing value is below the respective coupon barrier level on the related observation date. On the final observation date, one or both underlying indices close below the respective initial index value(s). At maturity, investors will receive an amount equal to the stated principal amount multiplied by the index performance factor of the worst performing underlying index. Under these circumstances, the payment at maturity will be less than the stated principal amount and could be zero.

If a trigger event occurs on **any** index business day during the term of the securities, investors will have full downside exposure to the worst performing underlying index at maturity. Under these circumstances, if the final index value of **either** underlying index is less than its respective initial index value, investors will lose some or all of their investment in the securities.

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Principal at Risk Securities

How the Securities Work

The following diagrams illustrate the potential outcomes for the securities depending on (1) the index closing values on each quarterly observation date, (2) the index closing values on each quarterly redemption determination date and (3) the final index values. Please see “Hypothetical Examples” beginning on page 10 for illustration of hypothetical payouts on the securities.

Diagram #1: Contingent Quarterly Coupons (Beginning on the First Coupon Payment Date until Early Redemption or Maturity)

Diagram #2: Automatic Early Redemption

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Diagram #3: Payment at Maturity if No Automatic Early Redemption Occurs

*For more information about the payout upon an early redemption or at maturity in different hypothetical scenarios, see “Hypothetical Examples” starting on page 10.*

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Principal at Risk Securities

Hypothetical Examples

The following hypothetical examples illustrate how to determine whether a contingent quarterly coupon is paid with respect to an observation date and how to calculate the payment at maturity if the securities have not been automatically redeemed early. The following examples are for illustrative purposes only. Whether you receive a contingent quarterly coupon will be determined by reference to the index closing value of each underlying index on each quarterly observation date, and the amount you will receive at maturity, if any, will be determined by reference to the index closing value of each underlying index throughout the term of the securities. The actual initial index value, coupon barrier level and downside threshold level for each underlying index will be determined on the pricing date. All payments on the securities, if any, are subject to our credit risk. The numbers in the hypothetical examples below may have been rounded for the ease of analysis. The below examples are based on the following terms:

9.00% per annum (corresponding to approximately \$22.50 per quarter per security, the midpoint of the range set forth on the cover of this document)\*

Hypothetical Contingent  
Quarterly Coupon:

**With respect to each coupon payment date, a contingent quarterly coupon is paid but only if the index closing value of each underlying is at or above its respective coupon barrier level on the related observation date.**

Automatic Early  
Redemption:

If the index closing value of **each** underlying index is greater than or equal to its initial index value on any of the four quarterly redemption determination dates, the securities will be automatically redeemed for an early redemption payment equal to the stated principal amount plus the contingent quarterly coupon with respect to the related observation date.

Trigger event:

A trigger event occurs if, on any index business day from but excluding the pricing date to and including the final observation date, the closing level of **either** underlying index is less than its respective downside threshold level. If a trigger event occurs on **any index business day** during the term of the securities, investors will be exposed to the downside performance of the worst performing underlying index at maturity.

Payment at Maturity (if the securities have not been automatically redeemed early):

At maturity, investors will receive, in addition to the final contingent quarterly coupon payment, if payable, a payment at maturity determined as follows:

**If a trigger event HAS NOT occurred on any index business day from but excluding the pricing date to and including the final observation date:** the stated principal amount

**If a trigger event HAS occurred on any index business day from but excluding the pricing date to and including the final observation date:** (i) the stated principal amount *multiplied by* (ii) the index performance factor of the worst performing underlying index, subject to a maximum payment at maturity of the stated principal amount.

If a trigger event occurs and the final index value of **either** underlying index is less than its initial index value, the payment at maturity will be less than the stated principal amount of the securities and could be zero.

Under no circumstances will investors participate in any appreciation of either underlying index.

Stated Principal Amount: \$1,000

Hypothetical Initial Index Value: With respect to the RTY Index: 1,200

With respect to the NDX Index: 7,650

With respect to the RTY Index: 840, which is 70% of the hypothetical initial index value for such index

Hypothetical Coupon

Barrier Level:

With respect to the NDX Index: 5,355, which is 70% of the hypothetical initial index value for such index

Hypothetical Downside

Threshold Level:

With respect to the RTY Index: 840, which is 70% of the hypothetical initial index value for such index

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With respect to the NDX Index: 5,355, which is 70% of the hypothetical initial index value for such index

\* The actual contingent quarterly coupon will be an amount determined by the calculation agent based on the actual contingent quarterly coupon rate and the number of days in the applicable payment period, calculated on a 30/360 basis. The hypothetical contingent quarterly coupon of \$22.50 is used in these examples for ease of analysis.

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How to determine whether a contingent quarterly coupon is payable with respect to an observation date:

	Closing Level		Contingent Quarterly Coupon
	RTY Index	NDX Index	
Hypothetical Observation Date 1	950 ( <b>at or above</b> coupon barrier level)	6,000 ( <b>at or above</b> coupon barrier level)	\$22.50
Hypothetical Observation Date 2	600 ( <b>below</b> coupon barrier level)	8,200 ( <b>at or above</b> coupon barrier level)	\$0
Hypothetical Observation Date 3	1,200 ( <b>at or above</b> coupon barrier level)	5,200 ( <b>below</b> coupon barrier level)	\$0
Hypothetical Observation Date 4	500 ( <b>below</b> coupon barrier level)	5,000 ( <b>below</b> coupon barrier level)	\$0

On hypothetical observation date 1, both the RTY Index and NDX Index close at or above their respective coupon barrier levels. Therefore a contingent quarterly coupon of \$22.50 is paid on the relevant coupon payment date.

On each of the hypothetical observation dates 2 and 3, one underlying index closes at or above its coupon barrier level, but the other underlying index closes below its coupon barrier level. Therefore, no contingent quarterly coupon is paid on the relevant coupon payment date.

On hypothetical observation date 4, each underlying index closes below its respective coupon barrier level, and, accordingly, no contingent quarterly coupon is paid on the relevant coupon payment date.

**You will not receive a contingent quarterly coupon on any coupon payment date if the closing level of either underlying index is below its respective coupon barrier level on the related observation date.**

How to calculate the payment at maturity (if the securities have not been automatically redeemed early):

**Example 1: A trigger event HAS NOT occurred.**

Final Index Value     RTY Index: 1,800  
                                  NDX Index: 7,900  
Payment at Maturity = \$1,000.00 + \$22.50 (contingent quarterly coupon for the final quarterly period)  
                                  = \$1,022.50

In example 1, the index closing values of both the RTY Index and NDX Index are at or above their respective downside threshold levels on **each index business day** during the term of the securities. Therefore, a trigger event has not occurred and investors receive at maturity the stated principal amount of the securities and the contingent quarterly coupon with respect to the final observation date. However, investors do not participate in any appreciation of either underlying index.

**Example 2: A trigger event HAS occurred.**

Final Index            RTY Index: 960  
Value  
                                  NDX Index: 7,800  
Payment at             \$22.50 (contingent quarterly coupon for the final quarterly period) + [\$1,000 x index performance  
Maturity               = factor of the worst performing underlying index, subject to a maximum of the stated principal  
                                  amount]

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$$\begin{aligned}
 &= \$22.50 + [\$1,000 \times (960 / 1,200)] \\
 &= \$822.50
 \end{aligned}$$

In example 2, the index closing value of one underlying index is at or above its downside threshold level on each index business day during the term of the securities, but the index closing value of the other underlying index is below its downside threshold level on one or more index business days during the term of the securities. The final index values of both the RTY Index and the NDX Index are at or above the respective coupon barrier levels on the final observation date. However, because a trigger event has occurred, investors are exposed to the downside performance of the worst performing underlying index at maturity, even though one of the underlying indices has appreciated. Because the final index value of each underlying index is greater than its respective coupon barrier level, investors receive the contingent quarterly coupon with respect to the final observation date. The payment at maturity is an amount equal to the contingent quarterly coupon with respect to the final observation date *plus* (i) the stated principal amount *times* (ii) the index performance factor of the worst performing underlying index.

**Example 3: A trigger event HAS occurred.**

Final Index Value	RTY Index: 600
	NDX Index: 3,060
Payment at Maturity	= \$1,000 x index performance factor of the worst performing underlying index
	= \$1,000 x (3,060 / 7,650) = \$400
	= \$400

In example 3, the index closing values of both the RTY Index and NDX Index are below the respective downside threshold levels on one or more index business days during the term of the securities. Therefore, a trigger event has occurred, and investors are exposed to the downside performance of the worst performing underlying index at maturity. Because the final index value of one or both underlying indices are below the respective coupon barrier levels, investors do not receive the contingent quarterly coupon with respect to the final observation date. The payment at maturity is an amount equal to the stated principal amount *times* the index performance factor of the worst performing underlying index.

**If a trigger event occurs on any index business day during the term of the securities, investors will have full downside exposure to the worst performing underlying index at maturity. Under these circumstances, if the final index value of either underlying index is less than its respective initial index value, investors will lose some or all of their investment in the securities.**



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Risk Factors

*The following is a list of certain key risk factors for investors in the securities. For further discussion of these and other risks, you should read the section entitled "Risk Factors" in the accompanying product supplement, index supplement and prospectus. We also urge you to consult with your investment, legal, tax, accounting and other advisers in connection with your investment in the securities.*

**The securities do not guarantee the return of any principal.** The terms of the securities differ from those of ordinary debt securities in that they do not guarantee the repayment of any principal. If the securities have not been automatically redeemed prior to maturity and the index closing value of **either** underlying index is less than its respective downside threshold level on **any index business day** during the term of the securities, a trigger event will have occurred and you will be exposed to the decline in the closing value of the worst performing underlying index, as compared to its initial index value, on a 1-to-1 basis at maturity. If a trigger event occurs on any index business § day during the term of the securities, investors will have full downside exposure to the worst performing underlying index at maturity. Under these circumstances, if the final index value of either underlying index is less than its respective initial index value, investors will lose some or all of their investment in the securities. In this case, you will receive for each security that you hold at maturity an amount equal to the stated principal amount *times* the index performance factor of the worst performing underlying index, subject to a maximum payment at maturity of the stated principal amount. **In this case, the payment at maturity will be less than the stated principal amount and could be zero.**

**The securities do not provide for the regular payment of interest.** The terms of the securities differ from those of ordinary debt securities in that they do not provide for the regular payment of interest. Instead, the securities will pay a contingent quarterly coupon **but only if** the index closing value of **each** underlying index is **at or above 70%** of its respective initial index value, which we refer to as the coupon barrier level, on the related observation date. If, on the other hand, the index closing value of **either** underlying index is lower than the coupon barrier level for such underlying index on the relevant observation date for any interest period, we will pay no coupon on the applicable § coupon payment date. Moreover, in such a case, a trigger event will necessarily have occurred, and you will have full downside exposure to the worst performing underlying index at maturity. It is possible that the index closing value of one or both underlying indices will remain below the respective coupon barrier level(s) for extended periods of time or even throughout the entire 1.25-year term of the securities so that you will receive few or no contingent quarterly coupons. If you do not earn sufficient contingent quarterly coupons over the term of the securities, the overall return on the securities may be less than the amount that would be paid on a conventional debt security of ours of comparable maturity.

§



**You are exposed to the price risk of both underlying indices, with respect to both the contingent quarterly coupons, if any, and the payment at maturity, if any.** Your return on the securities is not linked to a basket consisting of both underlying indices. Rather, it will be contingent upon the independent performance of each underlying index. Unlike an instrument with a return linked to a basket of underlying assets in which risk is mitigated and diversified among all the components of the basket, you will be exposed to the risks related to both underlying indices. Poor performance by **either** underlying index over the term of the securities will negatively affect your return and will not be offset or mitigated by any positive performance by the other underlying index. To receive **any** contingent quarterly coupons, **each** underlying index must close at or above its respective coupon barrier level on the applicable observation date. In addition, if the securities have not been automatically redeemed early and the index closing value of **either** underlying index is less than its respective downside threshold level on any index business day during the term of the securities, a trigger event will have occurred and you will be **fully exposed** to the decline in the worst performing underlying index over the term of the securities on a 1-to-1 basis, even if the other underlying index has appreciated or has not declined as much, and even if the worst performing underlying index is not the underlying index that originally caused the occurrence of the trigger event. Under this scenario, the value of any such payment will be less than the stated principal amount and could be zero. Accordingly, your investment is subject to the price risk of both underlying indices.

**Because the securities are linked to the performance of the worst performing underlying index, you are exposed to greater risks of receiving no contingent quarterly coupons and sustaining a significant loss on your investment than if the securities were linked to just one index.** The risk that you will not receive any contingent quarterly coupons, or that you will suffer a loss on your investment, is greater if you invest in the securities as opposed

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to substantially similar securities that are linked to the performance of just one underlying index. With two underlying indices, it is more likely that either underlying index will close below its coupon barrier level on any observation date, or below its downside threshold level on any index business day during the term of the securities, which would constitute a trigger event, than if the securities were linked to only one underlying index. Therefore, it is more likely that you will not receive any contingent quarterly coupons and that you will suffer a loss on your investment. In addition, because each underlying index must close above its initial index value on a quarterly determination date in order for the securities to be called prior to maturity, the securities are less likely to be called on any redemption determination date than if the securities were linked to just one underlying index.

**The contingent quarterly coupon, if any, is based on the value of each underlying index on only the related quarterly observation date at the end of the related interest period.** Whether the contingent quarterly coupon will be paid on any coupon payment date will be determined at the end of the relevant interest period based on the closing value of each underlying index on the relevant quarterly observation date. As a result, you will not know whether you will receive the contingent quarterly coupon on any coupon payment date until near the end of the § relevant interest period. Moreover, because the contingent quarterly coupon is based solely on the value of each underlying index on quarterly observation dates, if the closing value of either underlying index on any observation date is below the coupon barrier level for such index, you will receive no coupon for the related interest period, even if the level of such underlying index was at or above its respective coupon barrier level on other days during that interest period and even if the closing value of the other underlying index is at or above the coupon barrier level for such index.

§ **Investors will not participate in any appreciation in either underlying index.** Regardless of whether or not a trigger event occurs, investors will not participate in any appreciation in either underlying index from the initial index value for such index, and the return on the securities will be limited to the contingent quarterly coupons, if any, that are paid with respect to each observation date on which the index closing value of each underlying index is greater than or equal to its respective coupon barrier level.

§ **The market price will be influenced by many unpredictable factors.** Several factors, many of which are beyond our control, will influence the value of the securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the securities in the secondary market. We expect that generally the level of interest rates available in the market and the value of each underlying index on any index business day, including in relation to its respective coupon barrier level and downside threshold level, will affect the value of the securities more than any other factors. Other factors that may influence the value of the securities include:

- o the volatility (frequency and magnitude of changes in value) of the underlying indices,

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- o whether a trigger event has occurred on any index business day during the term of the securities,
  
- o whether the index closing value of either underlying index has been below its respective coupon barrier level on any observation date,
  
- geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the component ostocks of the underlying indices or securities markets generally and which may affect the value of each underlying index,
  
- o dividend rates on the securities underlying the underlying indices,
  
- o the time remaining until the securities mature,
  
- o interest and yield rates in the market,
  
- o the availability of comparable instruments,
  
- o the composition of the underlying indices and changes in the constituent stocks of such indices, and
  
- o any actual or anticipated changes in our credit ratings or credit spreads.

Some or all of these factors will influence the price that you will receive if you sell your securities prior to maturity. In particular, if either underlying index has closed near or below its coupon barrier level and downside threshold level, the

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market value of the securities is expected to decrease substantially, and you may have to sell your securities at a substantial discount from the stated principal amount of \$1,000 per security.

You cannot predict the future performance of either underlying index based on its historical performance. The value of either underlying index may decrease and be below the coupon barrier level for such index on each observation date so that you will receive no return on your investment, and one or both underlying indices may close below the respective downside threshold level(s) on any index business day during the term of the securities so that you are exposed to the negative performance of the worst performing underlying index at maturity. There can be no assurance that the index closing value of each underlying index will be at or above the respective coupon barrier level on any observation date so that you will receive a coupon payment on the securities for the applicable interest period, or that it will be at or above its respective downside threshold level on each index business day during the term of the securities so that you do not suffer a loss on your initial investment in the securities.