Morgan Stanley

MORGAN STANLEY RESEARCH

Equity Research
Europe

European Strategy

3 November 2008

Full House Buy Signal – Don't Be Short

Teun Draaisma
Ronan Carr, CFA & Graham Secker
Edmund Ng & Charlotte Swing
Matthew Garman

Morgan Stanley does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of Morgan Stanley in the U.S. can receive independent, third-party research on the company covered in this report, at no cost to them, where such research is available. Customers can access this independent research at www.morganstanley.com/equityresearch or can call 800-624-2063 to request a copy of this research.

For analyst certification and other important disclosures, refer to the Disclosures Section.

Full House Buy Signal – Don't Be Short

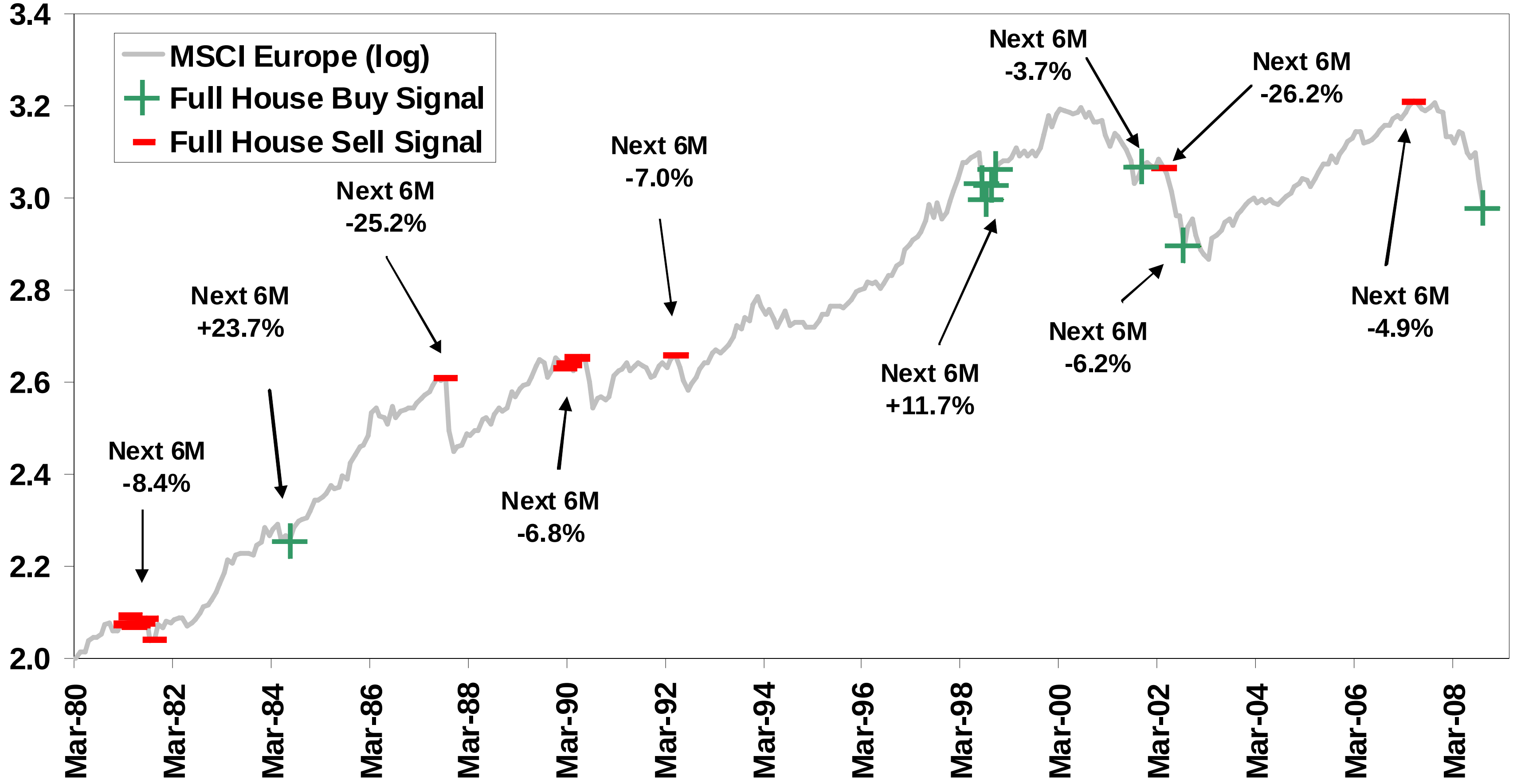
- **From our full house sell signal in June of 2007, to a full house buy signal now, as of 31 October 2008.** We published our *Full House Sell Signal* on 4 June 2007. We have now come full circle: our market timing indicators are giving us a full house buy signal, i.e. each of the 4 indicators (Valuation, Capitulation, Risk, Fundamentals) tells us to buy. The latest elements that pushed us there have been a capitulation among retail investors, purchasing managers and sell-side analysts, as measured by record mutual fund outflows, ISM new orders below 40 and analysts revisions collapsing. The idea is that when these three groups know about the bad news, equity prices are probably already reflecting it.

- **Obviously, our market timing indicators do not always work ...** Our disciplined quantitative approach to tactical asset allocation is obviously not a 100% guarantee to success. For instance, we did not get a sell signal after July of this year, ahead of the freefall in equities in the last two months. These models tend to work some 80-90% of the time, and in the 10-20% that they don't work the move the other way can be spectacular. We are aware of the limitations of these models, but our approach is to play the odds and never contradict the signal, and use our judgment as to what extent we should follow the signal.

- **… but full house signals have a near-perfect track record.** The full house *sell* signals have a perfect 6 month track record, as equities have always been down the next 6 months, with signals ahead of the 87, 90, 92, 02 and 07 corrections. Full house *buy* signals have been very good at indicating the vicinity of a major turning point, but have sometimes been early, with signals in July 84, August 98, and September 2002. The only wrong full house buy signal was November 2001, but this was flagged as soon as April 2002 by a full house sell signal.

- **Implication: despite the bad fundamental outlook, prudent investors should not be short equities, and long-term investors should average in.** We believe we are in the worst earnings recession of the last 40 years, expecting a 43% earnings recession ending at the end of 2009. Our end of 2009 earnings estimate is 43% below IBES consensus. But we do believe at 8 times trailing earnings, or 14 times our estimate of end of 2009 trough earnings, the bad news is in the price, and we do not wish to be short equities. We see 15% upside to our 12 month target for MSCI Europe, and we are 5% OW equities, neutral cash, 5% underweight bonds. This is consistent with our idea that the severe part of the bear market is over, that there is value, but probably no hurry, as there are many short-term risks related to EM, FX and deleveraging. The more prudent investor may wish to stay in cash and not be overweight equities, but our advice is not to be short or underweight anymore. Our advice is also for long-term investors to keep on averaging in at these and lower levels. See also *Time To Buy A Little Bit More*, 13 October 2008 and *Back to Basics: The Earnings Recession*, 27 October 2008.

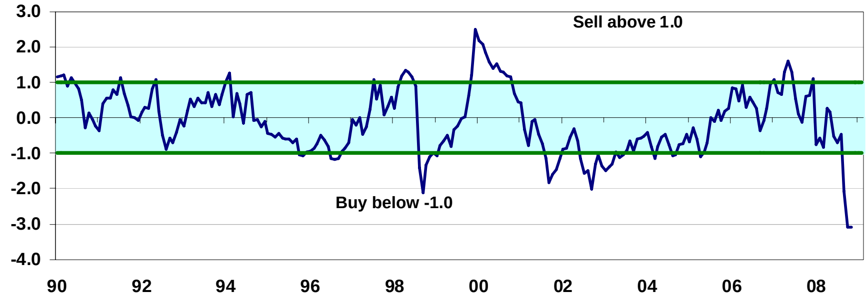
History of Full House Buy & Sell Signals: Near-Perfect Track Record



Source: MSCI, Morgan Stanley Research

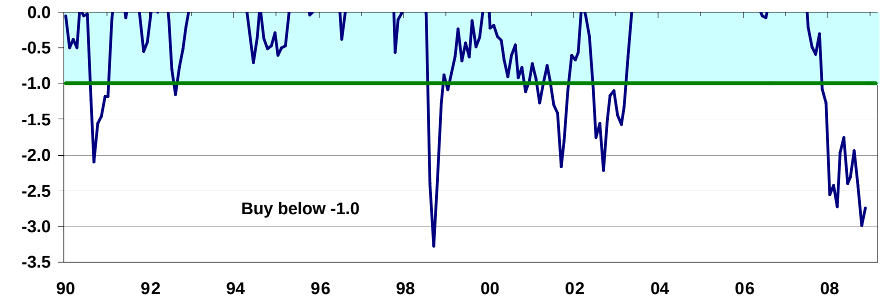
All Four Market Timing Indicators Say Buy

Composite Valuation Indicator (-3.1)



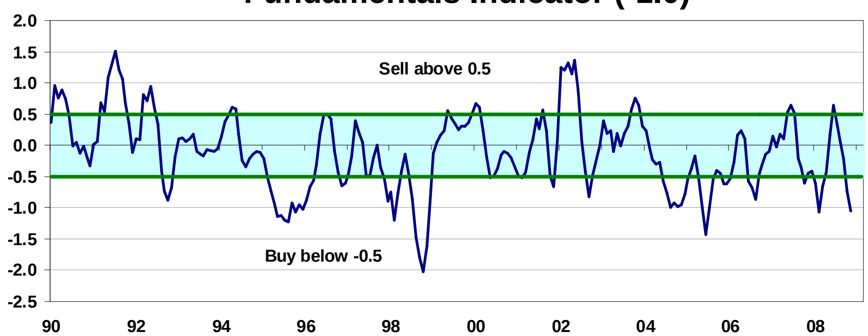
When the CVI is above / below ...	< -1.5	< -1.0	< -0.5	<0.0	>0.0	>0.5	>1.0	>1.5
N6M Perf (%)	9.3	7.9	6.9	7.5	1.8	-1.1	-4.8	-5.8
Hit Ratio (%)	88	84	84	85	59	50	35	31

Capitulation Indicator (-2.7)



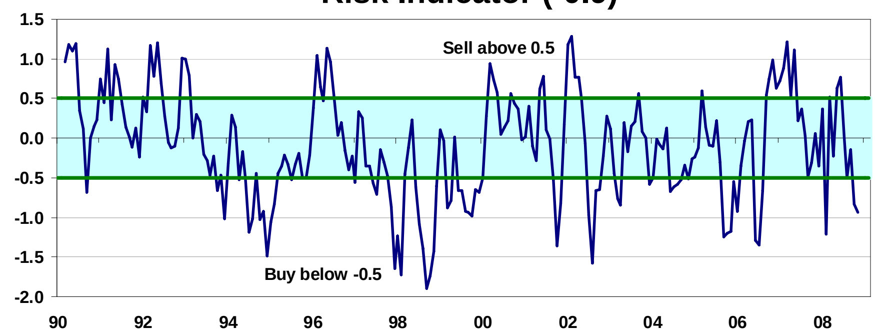
When the Capitulation Indicator is above / below ...	< -2.0	< -1.5	< -1.0	< -0.5	< 0.0
N6M Perf (%)	12.4	8.8	6.2	4.0	3.7
Hit Ratio (%)	90	76	70	67	67

Fundamentals Indicator (-1.0)



When the Fundamentals Indicator is above / below ...	< -1.0	< -0.5	< 0.0	> 0.0	> +0.5	> +1.0
N6M Perf (%)	9.7	8.9	6.3	2.2	-5.2	-13.7
Hit Ratio (%)	93	87	74	61	38	0

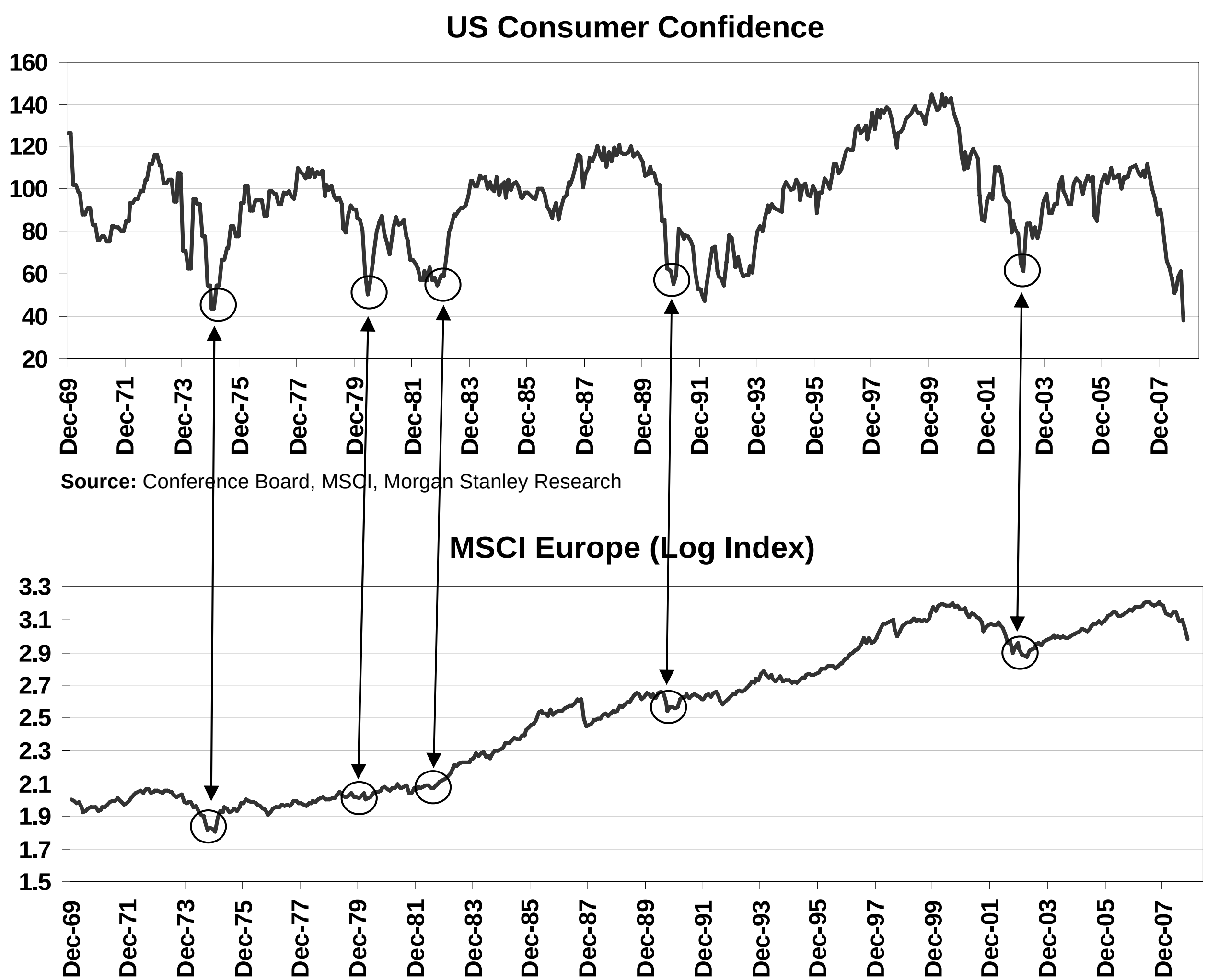
Risk Indicator (-0.9)



When the Risk Indicator is above / below ...	< -1.0	< -0.5	< 0.0	> 0.0	> +0.5	> +1.0
N6M Perf (%)	7.0	7.7	7.2	0.9	-2.9	-7.4
Hit Ratio (%)	71	78	78	55	43	36

Source: Morgan Stanley Research

When The Consumer Finds Out, The Market Usually Already Knows

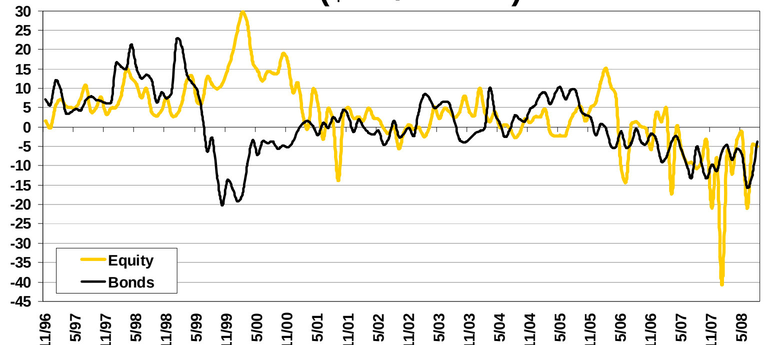


Source: Conference Board, MSCI, Morgan Stanley Research

Source: MSCI, Morgan Stanley Research

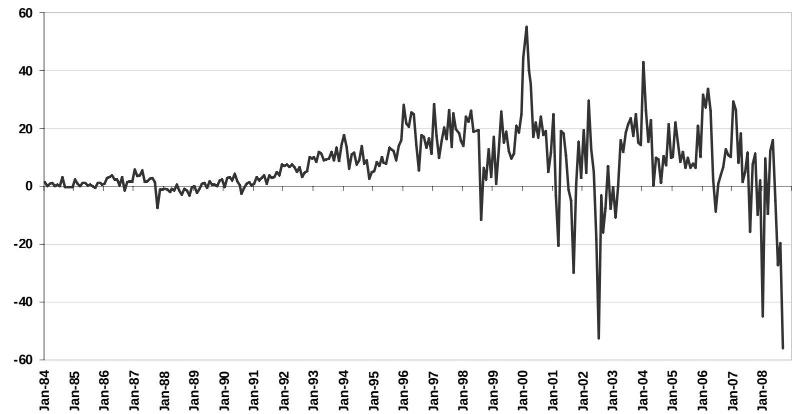
All-Time Lows On A Variety Of Indicators

European Mutual Fund Flows to Equities & Bonds ($bn / month)



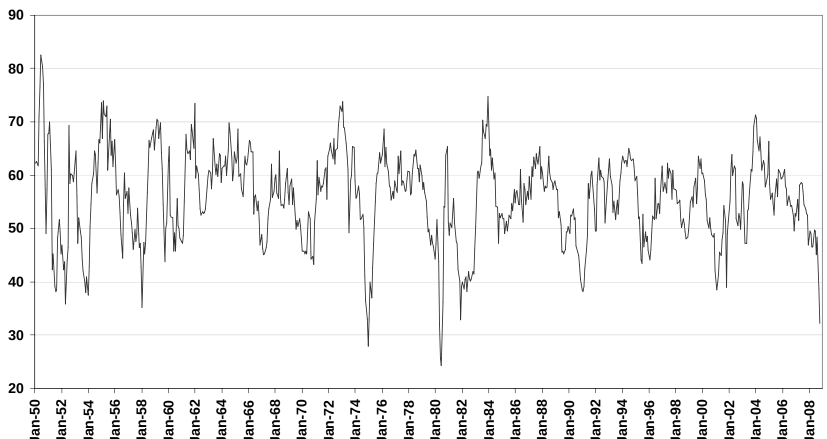
Note: Data are for seven European countries: France, Germany, Italy, Spain, Switzerland, Sweden and the UK. Exludes Switzerland from Jan-03. May-04 includes projection for UK. Jun-06 excludes UK. **Source:** National mutual fund associations, Wall Street Journal Europe, Morgan Stanley Research

US Equity Mutual Fund Flows ($bn/ month)



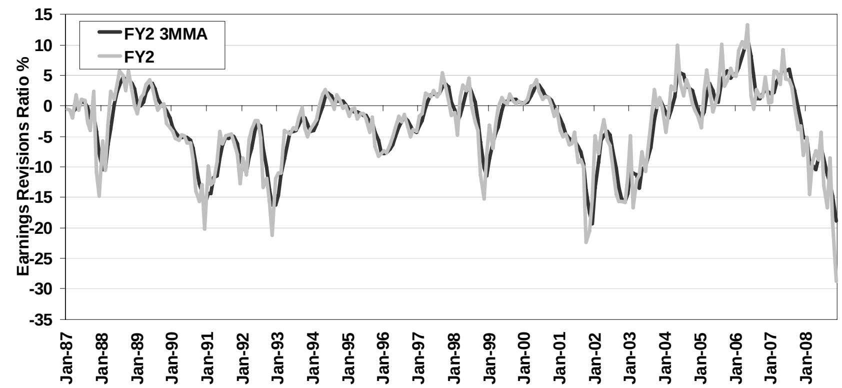
Source: ICI, Morgan Stanley Research

ISM New Orders



Source: ISM, Morgan Stanley Research

MSCI Europe - Earnings Revisions Ratio %



Source: MSCI, IBES, Morgan Stanley Research

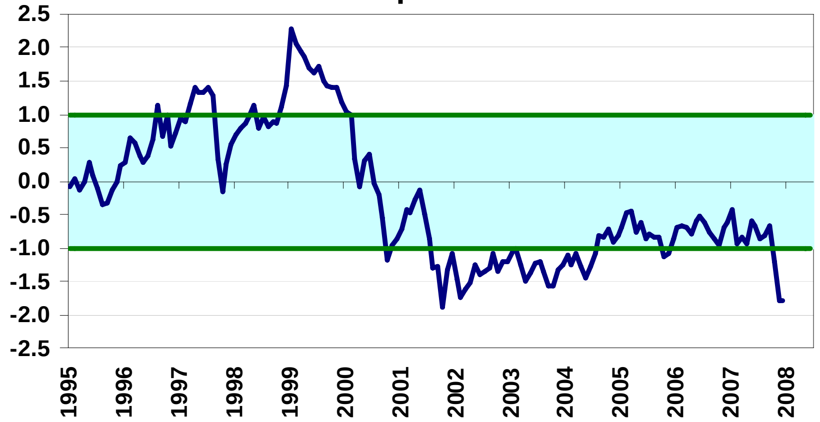
Traditional CVI *And* Our New Credit-based CCVI Both Say “Buy”

Our traditional CVI compares equity valuations with inflation and government rates. In recognition of today’s driving forces, we have now developed a new credit-based CVI, called CCVI, comparing equity valuations with inflation, LIBOR and BBB rates. Our conclusion is twofold. First, the CVI is a better tool than our CCVI, as our CVI has a longer history and has given many correct sell signals that our CCVI never captured. Second, when the CCVI signals equities are 1.5 standard deviations below fair value, such as now, it has been an exceptional 6-12 month buy signal. Both CVI and CCVI give a buy signal for European equities today.

Composite Valuation Indicator

Source: MSCI, Morgan Stanley Research

Credit-Based Composite Valuation Indicator



Source: MSCI, Morgan Stanley Research

CVI Models Backtest - Full History

Average Performance Following Indicator Above / Below Given Levels

	< -1.5	< -1.0	< -0.5	< 0.0	> 0.0	> +0.5	> +1.0	> +1.5
Avg. Perf. %								
+6M	9.3	7.9	6.9	7.5	1.8	-1.1	-4.8	-5.8
+12M	14.2	15.8	15.9	15.9	4.1	0.2	-4.7	-5.9
Hit Ratio %								
+6M	88	84	84	85	59	50	35	31
+12M	82	86	88	86	64	54	37	19
No. of Observations								
	19	58	135	206	166	109	52	16

Note: CVI data available from Nov-77 and CCVI from Dec-95
Source: MSCI, Morgan Stanley Research

CCVI Models Backtest - Full History

Average Performance Following Indicator Above / Below Given Levels

	< -1.5	< -1.0	< -0.5	< 0.0	> 0.0	> +0.5	> +1.0	> +1.5
Avg. Perf. %								
+6M	10.1	6.8	2.7	2.0	5.8	5.6	-2.8	-0.6
+12M	23.1	14.8	6.3	6.6	10.7	7.6	-4.4	-10.1
Hit Ratio %								
+6M	86	84	69	67	64	60	30	38
+12M	100	92	72	70	70	67	43	13
No. of Observations								
	8	40	80	99	56	43	23	8

Note: CVI data available from Nov-77 and CCVI from Dec-95
Source: MSCI, Morgan Stanley Research

European Model Portfolio Changes

Today we are buying SES, Admiral and selling Suez Environment, Prudential, and Healthcare across existing holdings.

In Consumer Discretionary we are buying SES, which is one of our selection of high and secure dividend stocks as per our publication from today *The Hunt For High & Secure Dividend Yields*. It trades on 11x PE and 5.2% DY on our analysts' 2009 numbers. It has committed to increase its annual dividend by a minimum of 10% annually. Growth is driven by the increased number of tv channels, by the switch to high definition requiring 3-4x the digital bandwidth, and by growing data demand. Thus, we are increasing Consumer Discretionary from Neutral to +2 OW. We believe in the 'first in first out' principle. Consumer cyclicals have been underperforming for the longest time and tend to start to outperform very early on in the recession (See *Fear and Loathing in the UK,* 27 June 2008).

Within Financials, we are buying Admiral and selling Prudential. Admiral is another of our selection of high and secure dividend stocks, trading on 7% DY and 11x PE on our analysts' 2009 numbers. Admiral is the lowest cost provider of UK motor insurance, allowing it to undercut competitors and rapidly grow market share from its current 4% up to 7% by 2012. Importantly it has no debt or refinancing needs, and it should benefit from improving rates and profitability in the UK motor market due to less capacity. We expect 20% EPS CAGR to 2012. We are selling Prudential which we see as more risky than Admiral as balance sheets for insurance companies are likely to continue to be perceived to be under pressure while US house prices and economic growth remain under pressure. For instance, we believe US house prices will continue to fall and may trough in early 2010 (see *The Link Between European Equities and US Housing, 15 September*). Thus, we are lowering Financials from Neutral to -0.5 UW by lowering Insurance from +2.5 to +2 OW.

We are lowering our Healthcare OW from +1.5 to Neutral. While we wish to stay OW Defensives/ UW Cyclicals until close to the end of the earnings recession, we have noticed how Pharma - which had been our biggest OW for most of this year - has become the most popular sector in the market, and it has become a bit expensive on relative multiples too. We sell across our existing holdings Bayer, Roche, Novartis, Rhoen Klinikum. Our preferred defensive is Telcos.

Within Industrials, we are selling Suez Environment. Our analyst Emmanuel Turpin recently downgraded Suez Environment from Overweight to Equal-weight. We put the money raised across our other Industrials holdings, Vallourec and EADS. Industrials remains -6 UW. We wish to continue to be underweight global cyclicals, with the global slowdown still gathering pace.

After these changes we have lowered our OW Defensives/ UW Cyclicals quite considerably now in the last few weeks. In three weeks we have moved from +8 OW Defensives versus -8 UW Cyclicals, to +2.5 OW versus -2 UW. Our focus, in general, is on stocks on attractive valuations, with high and sustainable dividends, strong balance sheets and little cyclicality in general.

- **Defensives +2.5 OW**: Telcos +4 OW, Neutral Utilities & Healthcare, Staples -1.5 UW,
- **Cyclicals -2 UW**: Cons Discretionary +2 OW, Energy +2 OW, Neutral Materials & Tech, Industrials -6 UW
- **Financials -0.5 UW**: Insurance +2 OW, Banks -0.5 UW, Div Fin & Real Estate -2 UW

European Model Portfolio

OVERWEIGHTS	Benchmark Weight (%)	Portfolio Over + / Under - Weight	Portfolio Position
Telco (SXKP) Tele2, Telefonica, Vodafone, Deutsche Telekom, France Telecom,	7.2	+4.0	11.2
Cons Discr (Autos SXAP & Media SXMP*) Pearson, DMGT, DSGI, Carnival, SES	8.5	+2.0	10.5
Insurance (SXIP) Sampo, Swiss Re, AXA, Admiral	5.0	+2.0	7.0
Energy (SXEP) BG, Acergy, Total, Tullow Oil, BP	12.2	+2.0	14.2
Healthcare (SXDP) Novartis, Roche, Bayer, Rhoen Klinikum	11.7	+0.0	11.7
Tech (SX8P) ASML, Nokia	2.9	+0.0	2.9

UNDERWEIGHTS	Benchmark Weight (%)	Portfolio Over + / Under - Weight	Portfolio Position
Materials (Basic Resources SXPP & Chemicals SX4P) Rio Tinto[2], Akzo Nobel, Lafarge, ENRC	7.2	+0.0	7.2
Utilities (SX6P) Suez-GDF, EDF, International Power	7.4	+0.0	7.4
Banks (SX7P) Intesa Sanpaolo, Santander, Societe Generale, Barclays, Banco Popolare, BNP[2], RBS	12.6	-0.5	12.1
Cons Staples (SX3P*) Henkel, Nestle, Diageo, Imperial Tobacco, Carrefour	11.8	-1.5	10.3
Div Fin & Real Estate (SXFP* & SX86P) Credit Suisse, UBS	4.8	-2.0	2.8
Industrials (SXNP) Vallourec, EADS	8.7	-6.0	2.7

MSCI Sectors

Telecommunication Services	7.2	+4.0	11.2	Materials	7.2	+0.0	7.2
Consumer Discretionary	8.5	+2.0	10.5	Utilities	7.4	+0.0	7.4
Energy	12.2	+2.0	14.2	Financials	22.4	-0.5	21.9
Health Care	11.7	+0.0	11.7	Consumer Staples	11.8	-1.5	10.3
Information Technology	2.9	+0.0	2.9	Industrials	8.7	-6.0	2.7

** The mapping between GICS Sectors (such as Healthcare) and DJ Stoxx SuperSectors - Level 3 (such as SXDP) is imperfect at places. In particular, less than two-thirds of market cap of Consumer Discretionary, Consumer Staples and Diversified Financials is covered by the corresponding DJ Stoxx Supersectors.*

1. This stock is currently not covered in Europe by a Morgan Stanley industry analyst. 2. Although the shares of this company remain in the model portfolio, Morgan Stanley & Co. International plc policy precludes the exercise of investment management discretion or the rendering of investment advice on the shares at this time by the strategist and/or the Morgan Stanley analyst who follows the shares. 3. The equity position is allocated as the European Equity Model Portfolio. Bonds are allocated equally between France, Germany, the Netherlands and the UK. The bond position is invested in ten-year paper of these countries.

Source: MSCI/Exshare, Morgan Stanley Research

History of The Performance Post Full House Signals – Buy and Sell

Full House Sell Signals

Subsequent MSCI Europe Performance Following Full House Sell Signal

	Subsequent Performance %		
	+3M	**+6M**	**+12M**
Mar-81	0.0	-8.4	2.1
Sep-87	-29.5	-25.2	-16.8
Feb-90	5.5	-6.8	-3.7
May-92	-16.1	-7.0	2.3
Apr-02	-21.7	-26.2	-29.9
May-07	-5.2	-4.9	-14.8
Average	**-11.2**	**-13.1**	**-10.1**
Hit Ratio	**17**	**0**	**33**

Note: A Full House Sell Signal is defined as first month that CVI, Fundamentals and Risk Indicator all provide a sell signal (or Pre-1990, CVI and Fundamentals both provide a sell signal). After the initial months reported in this table, Apr 81, May 81, Jun 81, Jul 81, Aug 81, Oct 81, Mar 90 and May 90 also had all Market Timing Indicators providing sell signal. If these dates are included in the backtest, average next 6M performance was -8.5% with a hit ratio of 21%. Usually the CVI sell signal is when the score is higher than +1, but during the deflation year of 2002 we used a score of higher than -0.5 as a sell signal.

Source: MSCI, Morgan Stanley Research

Full House Buy Signals

Subsequent MSCI Europe Performance Following Full House Buy Signal

	Subsequent Performance %		
	+3M	**+6M**	**+12M**
Jul-84	12.2	23.7	31.9
Aug-98	6.3	11.7	16.7
Nov-01	-0.7	-3.7	-23.1
Sep-02	5.6	-6.2	10.6
Average	**5.8**	**6.4**	**9.0**
Hit Ratio	**75**	**50**	**75**

Note: A Full House Buy Signal is defined as first month that CVI, Fundamentals, Risk and Capitulation Indicators all provide a buy signal (or Pre-1990, CVI, Capitulation and Fundamentals all provide a buy signal). After the initial months reported in this table, Sep 98, Oct 98 and Nov 98 also had all Market Timing Indicators providing buy signal. If these dates are included in the backtest, average next 6M performance was 10.9% with a hit ratio of 71%.

Source: MSCI, Morgan Stanley Research

What Are Our Proprietary Market Timing Indicators

We publish a number of indicators that relate to market timing or tactical asset allocation. We do not publish which exact constituencies are used, nor the weightings or time periods. We consider this highly proprietary and valuable.

There are 4 models :

Composite Valuation Indicator (CVI):

This is a composite valuation tool of MSCI Europe relative to bonds and inflation.

We use a variety of weighted indices on real and nominal bond yields, dividend yields, short rates, and some equity valuation factors like PE and PBV to construct this index. The model indicates buy and sell signals and are based on z scores for these weighted factors.

We do publish the end product figure once a month. The buy and sell levels are -1 and +1 respectively. The way we use this model is that equities are fairly valued at zero and when CVI reading falls below -1, we would prefer to be buyers of equities, at +1 we would prefer to be a buyer of bonds/cash.

Fundamentals, Risk and Capitulation Indicators:

The calculations for these indicators are broadly similar to the CVI.

Factors included in the indicators are however different from the CVI and include factors like business surveys, ROE, bond yields, credit spreads, fund flows, money supply, and momentum (as proxy for sentiment).

For each series we use multi-year period rolling averages and calculate similar rolling average standard deviations. As with CVI, the latest reading for the series is then expressed as a z-score once a month.

Looking For Attractively Valued Stocks With Good Financial Health

In recent weeks and months we have written about our preference for value stocks and our preference for companies with strong financial health. On this page we combine our preferred ways of identifying value (Joel Greenblatt-inspired method based on high ROCE & low EV/EBITDA) and good financial health (Piotroski-inspired method). On the left hand side are the most attractively valued companies with a high Piotroski score, on the right hand side the most least attractively valued companies with a low Piotroski score. See also *Piotroski Revisited: A Guide To Corporate Financial Health*, 6 October 2008 and *Valuation Factors Are Working Again,* 20 October 2008.

MOST PREFERRED

Company	Industry Group	Mkt Cap ($Mn)	ROCE 2007	EV/EBITDA 2007	Piotroski Score 2007
OUTOTEC	Capital Goods	498	41.8%	0.4	8.0
MAN STAMM	Capital Goods	6,140	27.5%	1.7	7.0
SKANSKA B	Capital Goods	3,248	22.6%	1.1	7.0
ANDRITZ	Capital Goods	1,143	23.8%	2.0	7.0
KONECRANES	Capital Goods	1,033	45.8%	3.4	8.0
SKF B	Capital Goods	3,671	24.3%	2.9	7.0
SCANIA B	Capital Goods	3,123	22.5%	3.3	8.0
PHILIPS ELECTRS (KON.)	Capital Goods	19,901	18.4%	1.5	9.0
ALFA LAVAL	Capital Goods	3,125	38.6%	4.2	8.0
ATKINS WS	Commercial & Professional Services	781	61.8%	1.9	7.0
SWATCH GROUP INH	Consumer Durables & Apparel	4,984	21.3%	2.8	8.0
LADBROKES	Consumer Services	1,499	84.5%	3.6	7.0
TOTAL	Energy	132,105	34.8%	3.1	7.0
BHP BILLITON PLC	Materials	34,547	31.6%	2.5	8.0
BASF	Materials	29,919	22.2%	2.9	7.0
BUZZI UNICEM ORD	Materials	1,843	20.3%	1.5	7.0
NORSK HYDRO	Materials	4,817	17.4%	0.9	8.0
M6-METROPOLE TELEVISION	Media	1,999	32.4%	3.8	7.0
HMV GROUP	Retailing	618	114.1%	3.0	8.0
ASM INTERNATIONAL	Semiconductors & Semiconductor Equipment	546	23.8%	2.2	7.0
NOKIA CORP	Technology Hardware & Equipment	60,459	48.7%	3.3	7.0
TELENOR	Telecommunication Services	8,327	18.8%	1.9	8.0
D/S NORDEN	Transportation	1,231	55.4%	0.9	8.0
PANALPINA	Transportation	1,199	26.6%	3.0	8.0
CENTRICA	Utilities	18,206	35.6%	3.2	7.0

LEAST PREFERRED

Company	Industry Group	Mkt Cap ($Mn)	ROCE 2007	EV/EBITDA 2007	Piotroski Score 2007
ABENGOA	Capital Goods	1,279	6.8%	6.6	3.0
Q-CELLS	Capital Goods	2,663	9.8%	6.3	2.0
TAYLOR WIMPEY	Consumer Durables & Apparel	172	0.9%	23.3	2.0
MITCHELLS & BUTLERS	Consumer Services	991	2.3%	12.2	2.0
TUI	Consumer Services	2,832	5.7%	4.6	3.0
SOCO INT'L	Energy	1,486	11.3%	21.7	3.0
SAINSBURY (J)	Food & Staples Retailing	7,623	8.1%	4.9	2.0
PREMIER FOODS	Food Beverage & Tobacco	317	2.2%	9.5	2.0
CADBURY	Food Beverage & Tobacco	12,171	13.0%	8.2	2.0
SSL INTERNATIONAL	Health Care Equipment & Services	1,288	10.9%	25.4	3.0
GIVAUDAN	Materials	4,881	4.4%	13.7	3.0
RIO TINTO PLC	Materials	43,564	10.7%	8.2	3.0
REXAM	Materials	3,760	9.4%	6.7	2.0
KINGFISHER	Retailing	4,192	7.0%	5.2	3.0
DEUTSCHE POST	Transportation	12,685	2.8%	18.2	3.0
BRISA	Transportation	4,626	7.2%	12.4	3.0
FIRSTGROUP	Transportation	3,276	7.3%	7.8	3.0
ARRIVA	Transportation	2,026	9.4%	5.7	3.0
ATLANTIA	Transportation	10,820	13.3%	8.4	3.0
FRAPORT	Transportation	2,917	8.1%	4.8	2.0
SEVERN TRENT	Utilities	4,942	6.6%	9.3	2.0
ACCIONA	Utilities	5,133	7.3%	9.3	2.0
ENEL	Utilities	42,070	8.2%	8.1	3.0
IBERDROLA	Utilities	33,692	8.1%	6.9	2.0
NATIONAL GRID	Utilities	27,751	10.1%	7.6	2.0

Notes: Rebalanced based on universe and data as of 30th October 08; liquidity constrained. Basket of most preferred stocks on the left is ranked on ROCE (High is Good) & EV/EBITDA (Low is Good) (sum of the square rank), screened based on universe of stocks with Piotroski score of 7 or above. Basket of least preferred stocks on the right is ranked on ROCE & EV/EBITDA (sum of the square rank), screened based on universe of stocks with Piotroski score of 3 or below. For important disclosures regarding companies that are the subject of this screen, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures.

Source: MSCI, Worldscope, Morgan Stanley Research

Disclosures

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

Prices as of 31 October 2008: Novartis (sfr 58.4) Roche holding genuss (sfr 176.8) Bayer (€43.16) Rhoen-klinikum (€16.77) Sampo a (€15.57) Swiss reinsurance co (sfr 47.76) Axa (€14.85) Prudential (315 p) Tele2 b (skr65.5) Telefonica (€14.42) Vodafone group (119.1 p) Deutsche telekom (€11.58) France telecom (€19.7) Rio tinto plc (2864 p) Akzo nobel (€32.425) Lafarge (france) (€51.315) Eurasian natural RES (309.25 p) Bg group (913 p) Acergy (nkr44.3) Total (€42.815) Tullow oil (524 p) Bp (507.25 p) Gdf-suez (€34.655) Suez environnement (€15) Edf (€46.9) Int'l power (221.5 p) Intesa sanpaolo ord (€2.8425) Banco santander (€8.37) Societe generale (€42.175) Barclays (178.9 p) Banco popolare (€9.69) Bnp paribas (€56) Royal bank of scotland (67.5 p) Pearson (608 p) Daily mail & gen trust a (291 p) Dsg international (32.25 p) arnival plc(p&o princes (1355 p) Henkel vorzug (€22.51) Nestle (sfr 45) Diageo (951 p) Imperial tobacco group (1665 p) Carrefour (€32.92) Asml hldg (€13.6) Nokia corp (€12.18) Credit suisse (sfr 43.42) Ubs namen (sfr 19.35) Vallourec (€87) Eads (€12.94) British american tobacco (1700 p) Admiral group (912.5 p)

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision. Customers of Morgan Stanley in the US can receive independent, third-party research on companies covered in Morgan Stanley Research, at no cost to them, where such research is available. Customers can access this independent research at www.morganstanley.com/equityresearch or can call 1-800-624-2063 to request a copy of this research.

Morgan Stanley & Co. International plc, authorized and regulated by Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. As used in this disclosure section, Morgan Stanley includes RMB Morgan Stanley (Proprietary) Limited, Morgan Stanley & Co International plc and its affiliates.

For important disclosures, stock price charts and rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Equity Research Management), New York, NY, 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Ronan Carr, Teun Draaisma, Matthew Garman, Edmund Ng, Graham Secker, Charlotte Swing.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies.

Important US Regulatory Disclosures on Subject Companies

The following analyst, strategist, or research associate (or a household member) owns securities (or related derivatives) in a company that he or she covers or recommends in Morgan Stanley Research: Ronan Carr - Vodafone Group (common stock, common stock). Morgan Stanley policy prohibits research analysts, strategists and research associates from investing in securities in their sub industry as defined by the Global Industry Classification Standard ("GICS," which was developed by and is the exclusive property of MSCI and S&P). Analysts may nevertheless own such securities to the extent acquired under a prior policy or in a merger, fund distribution or other involuntary acquisition.

As of September 30, 2008, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: Akzo Nobel, ASML Holding NV, Banco Popolare, Bayer AG, BP plc, Carnival Plc, Carrefour, Credit Suisse Group, Daily Mail, Deutsche Telekom, Diageo, France Telecom, Imperial Tobacco, Intesa Sanpaolo, Lafarge, Nestle, Nokia, Novartis, Prudential plc, Roche, Royal Bank of Scotland, Sampo, Santander, SES, Swiss Re, Telefonica, TOTAL, UBS, Vallourec.

Additional information on recommended securities/instruments is available on request.

Disclosures

As of September 30, 2008, Morgan Stanley held a net long or short position of US$1 million or more of the debt securities of the following issuers covered in Morgan Stanley Research (including where guarantor of the securities): Akzo Nobel, Alstom, Barclays Bank, Bayer AG, BNP Paribas, BP plc, Carnival Plc, Carrefour, Credit Suisse Group, Deutsche Telekom, Diageo, EADS, EDF, France Telecom, GDF Suez, Henkel, Imperial Tobacco, International Power, Intesa Sanpaolo, Lafarge, Michelin, Nestle, Nokia, Novartis, Pearson, Prudential plc, Rio Tinto Plc, Roche, Royal Bank of Scotland, Sampo, Santander, SES, Societe Generale, Swiss Re, Tele2, Telefonica, TOTAL, UBS, Vodafone Group.

Within the last 12 months, Morgan Stanley managed or co-managed a public offering of securities of Barclays Bank, Credit Suisse Group, Deutsche Telekom, Diageo, Imperial Tobacco, Intesa Sanpaolo, Royal Bank of Scotland, Sampo, Santander, Societe Generale, UBS.

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from Akzo Nobel, AXA, Barclays Bank, Bayer AG, BNP Paribas, BP plc, Carrefour, Credit Suisse Group, Deutsche Telekom, Diageo, EADS, EDF, Eurasian Natural Resources Corp., France Telecom, Imperial Tobacco, International Power, Intesa Sanpaolo, Lafarge, Nestle, Nokia, Prudential plc, Rio Tinto Plc, Royal Bank of Scotland, Santander, SES, Societe Generale, Suez Environnement, Swiss Re, Tele2, Telefonica, UBS, Vodafone Group.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Akzo Nobel, Alstom, ASML Holding NV, AXA, Barclays Bank, Bayer AG, BG Group, BNP Paribas, BP plc, Carnival Plc, Carrefour, Deutsche Telekom, Diageo, EADS, EDF, Eurasian Natural Resources Corp., France Telecom, Henkel, Imperial Tobacco, International Power, Intesa Sanpaolo, Lafarge, Michelin, Nestle, Nokia, Novartis, Pearson, Prudential plc, Rhoen Klinikum, Rio Tinto Plc, Roche, Royal Bank of Scotland, Sampo, Santander, SES, Societe Generale, Suez Environnement, Swiss Re, Tele2, Telefonica, TOTAL, Tullow Oil, UBS, Vallourec, Vodafone Group.

Within the last 12 months, Morgan Stanley & Co. Incorporated has received compensation for products and services other than investment banking services from Akzo Nobel, AXA, Barclays Bank, Bayer AG, BG Group, BNP Paribas, BP plc, Carrefour, Credit Suisse Group, Deutsche Telekom, Diageo, EADS, EDF, GDF Suez, Imperial Tobacco, International Power, Intesa Sanpaolo, Lafarge, Nestle, Novartis, Prudential plc, Rio Tinto Plc, Roche, Royal Bank of Scotland, Sampo, Santander, Societe Generale, Suez Environnement, Swiss Re, Telefonica, TOTAL, Tullow Oil, UBS, Vodafone Group.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Akzo Nobel, Alstom, ASML Holding NV, AXA, Barclays Bank, Bayer AG, BG Group, BNP Paribas, BP plc, Carnival Plc, Carrefour, Credit Suisse Group, Deutsche Telekom, Diageo, EADS, EDF, Eurasian Natural Resources Corp., France Telecom, Henkel, Imperial Tobacco, International Power, Intesa Sanpaolo, Lafarge, Michelin, Nestle, Nokia, Novartis, Pearson, Prudential plc, Rhoen Klinikum, Rio Tinto Plc, Roche, Royal Bank of Scotland, Sampo, Santander, SES, Societe Generale, Suez Environnement, Swiss Re, Tele2, Telefonica, TOTAL, Tullow Oil, UBS, Vallourec, Vodafone Group.

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: Akzo Nobel, Alstom, AXA, Barclays Bank, Bayer AG, BG Group, BNP Paribas, BP plc, Carrefour, Credit Suisse Group, Deutsche Telekom, Diageo, EADS, EDF, France Telecom, GDF Suez, Henkel, Imperial Tobacco, International Power, Intesa Sanpaolo, Lafarge, Nestle, Novartis, Pearson, Prudential plc, Rio Tinto Plc, Roche, Royal Bank of Scotland, Sampo, Santander, SES, Societe Generale, Suez Environnement, Swiss Re, Telefonica, TOTAL, Tullow Oil, UBS, Vodafone Group.

Within the last 12 months, Morgan Stanley has either provided or is providing non-securities related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: AXA, Credit Suisse Group.

Within the last 12 months, an affiliate of Morgan Stanley & Co. Incorporated has received compensation for products and services other than investment banking services from UBS.

The research analysts, strategists, or research associates principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

An employee or director of Morgan Stanley & Co. Incorporated is a director of Tele2.

Morgan Stanley & Co. International plc is a corporate broker to BG Group, Imperial Tobacco, International Power.

Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight and Underweight are not the equivalent of Buy, Hold and Sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any

Disclosures

case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of October 31, 2008)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight to hold and Underweight to sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating		% of		% of	% of
Category	Count	Total	Count	Total IBC	Rating Category
Overweight/Buy	869	39%	275	42%	32%
Equal-weight/Hold	983	44%	286	44%	28%
Underweight/Sell	403	18%	89	14%	22%
Total	2,255		650		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V). We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

Disclosures

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Stock Price, Price Target and Rating History (See Rating Definitions)

Other Important Disclosures

Morgan Stanley produces a research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in this or other research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Client Link at www.morganstanley.com.

For a discussion, if applicable, of the valuation methods used to determine the price targets included in this summary and the risks related to achieving these targets, please refer to the latest relevant published research on these stocks.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities/instruments discussed in Morgan Stanley Research may not be suitable for all investors. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities or derivatives of securities of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities or derivatives of securities of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons

Morgan Stanley and its affiliate companies do business that relates to companies/instruments covered in Morgan Stanley Research, including market making and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis.

With the exception of information regarding Morgan Stanley, research prepared by Morgan Stanley Research personnel are based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits.

The value of and income from your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in your securities transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the closing price on the primary exchange for the subject company's securities/instruments.

Disclosures

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. Information on any securities/instruments issued by a company owned by the government of or incorporated in the PRC and listed in on the Stock Exchange of Hong Kong ("SEHK"), namely the H-shares, including the component company stocks of the Stock Exchange of Hong Kong ("SEHK")'s Hang Seng China Enterprise Index; or any securities/instruments issued by a company that is 30% or more directly- or indirectly-owned by the government of or a company incorporated in the PRC and traded on an exchange in Hong Kong or Macau, namely SEHK's Red Chip shares, including the component company of the SEHK's China-affiliated Corp Index is distributed only to Taiwan Securities Investment Trust Enterprises ("SITE"). The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Morgan Stanley Research is disseminated in Japan by Morgan Stanley Japan Securities Co., Ltd.; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services licence No. 233742, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of Morgan Stanley Research in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc representative about the investments concerned. In Australia, Morgan Stanley Research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at wholesale customers only, as defined by the DFSA. This research will only be made available to a wholesale customer who we are satisfied meets the regulatory criteria to be a client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley Research, or any portion hereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley Research is disseminated and available primarily electronically, and, in some cases, in printed form.

The Americas	Europe	Japan	Asia/Pacific
1585 Broadway	20 Bank Street, Canary Wharf	4-20-3 Ebisu, Shibuya-ku	Three Exchange Square
New York, NY 10036-8293	London E14 4AD	Tokyo 150-6008	Central
United States	**United Kingdom**	**Japan**	**Hong Kong**
Tel: +1 (1) 212 761 4000	Tel: +44 (0)20 7425 8000	Tel: +81 (0)3 5424 5000	Tel: +852 2848 5200

©2008 Morgan Stanley