

## MSET U.S. Monthly

February 2011

This memorandum is not a product of Morgan Stanley's Research Department and you should not regard it as a research report.

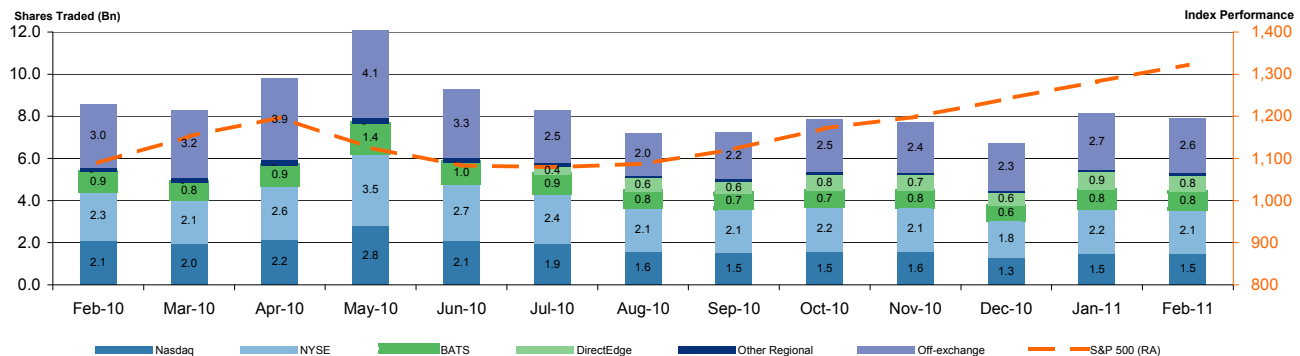
## Commentary

- US ADV was 7.9 billion shares, slightly below January's levels, continuing the measured start to 2011. (Chart 1)
- February saw a significant uptick in selling in InfoTech and Financials. Buying increased in ETFs reversing the net selling trend we highlighted last month. (Chart 2)
- Since Jan, US Equity Long/Short net leverage (non-beta adjusted) has decreased slightly from 64% to 61%. (Chart 3)
- Realized volatility ticked higher in February notably in the Materials and Energy sectors with ongoing developments in MENA. (Chart 4)

## Market Structure Highlights

- February 2011 saw two big global exchange merger announcements: The London Stock Exchange and TMX Group, which owns the Toronto Stock Exchange, announced a potential merger. Immediately thereafter, NYSE Euronext and Deutsche Boerse of Germany announced plans for a merger that would create the world's largest financial exchange.
- On February 28, the SEC's amendments to Regulation SHO took effect. If an exchange-listed equity security drops 10% from the prior day's primary market closing price, short selling will be permitted only above the then-prevailing national best bid, absent a valid exemption. This restriction remains in effect for the remainder of the day on which it is triggered and throughout the following trading day.
- The Joint CFTC-SEC Advisory Committee released a report on regulatory issues stemming from the events of May 6. In the report, the Committee issued 14 recommendations to improve the equities, options, and futures market structures, and to help increase investor confidence.
- The SEC voted unanimously to propose rules defining security-based swap execution facilities (SEFs) and establishing their registration requirements, as well as their duties and core principles, as mandated by Dodd-Frank.

## 1. U.S. Composite ADV vs. S&amp;P 500



Source: BATS US, Standard & Poors, Morgan Stanley Electronic Trading

Nasdaq includes PSX and BEX; NYSE includes Arca, BATS includes BYX and BZX, Direct Edge includes EdgA and EdgX, Other Regional includes CBOE, CHX, ISE and NSX.

## 2. MSET Flows: Feb 2011 vs. Dec to Feb 2011



Source: Morgan Stanley Electronic Trading

Buy Value (3 Month Avg)

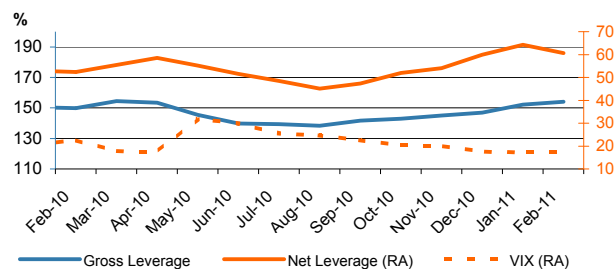
Buy Value (Feb)

Sell + Short Sell Value (3 Month Avg)

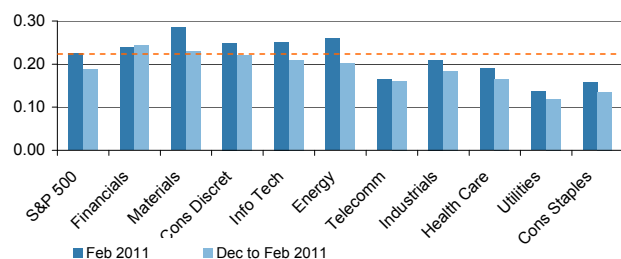
Sell + Short Sell Value (Feb)

Darker shaded bars represent last month's notional volume, with the dashed bars representing the monthly average over the past 3 months. Excludes stat-arb client flow.

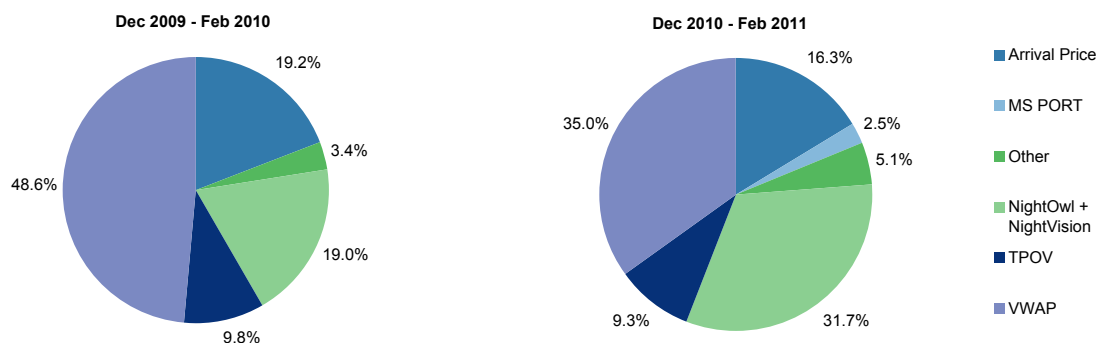
### 3. US Equity Long/Short Gross and Net Leverage



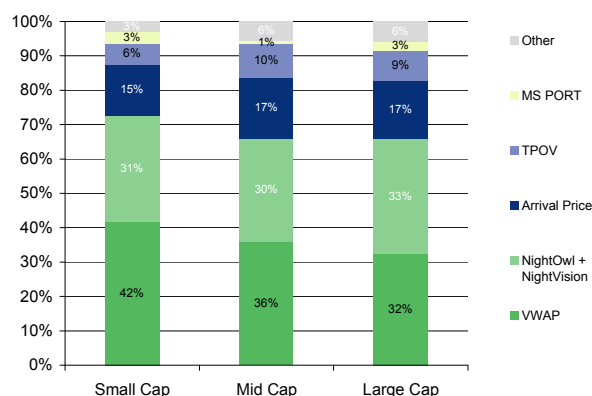
### 4. Realized Volatility: Feb 2011 vs. Dec to Feb 2011



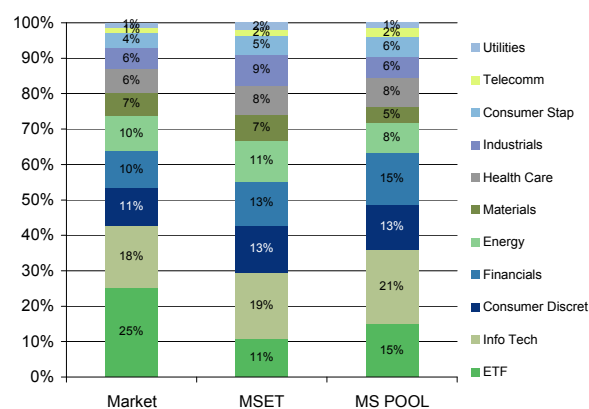
### 5. MSET Strategy Usage (Shares Traded)



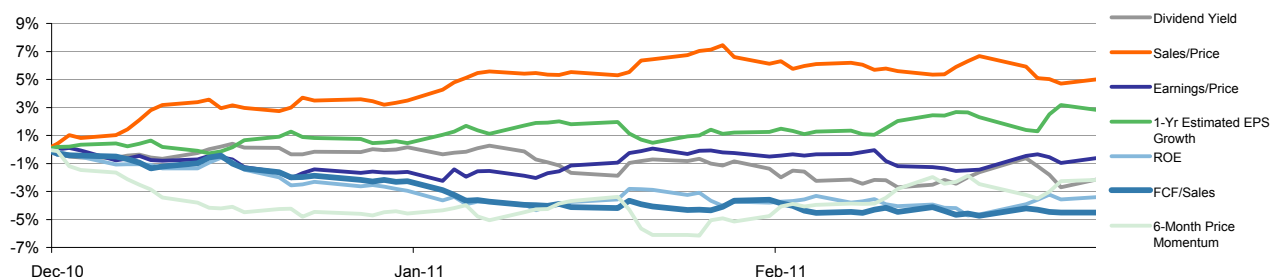
### 6. Strategy Usage by Mkt Cap (Shares Traded, Feb 2011)



### 7. Volume by Sector (Notional, Feb 2011)



### 8. Cumulative US Factor Performance - S&P 500



### Riddle of the Month

- How can you add eight 8's to get the number 1,000? (Addition is the only mathematical operation in the answer.)

Americas: (212) 761-8653 • Europe: (888) 465-2554 • Asia (Non-Japan): (800) 231-2252 • Japan (800) 932-8918 • Australia (612) 9770-1119

Copyright © 2011 Morgan Stanley. All rights reserved. Services are offered through Morgan Stanley & Co. Incorporated ("Morgan Stanley"), Member SIPC. The information provided herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any securities or to participate in any particular trading strategy. No representation is given with respect to the accuracy or completeness of this information, and the information may change without notice. Morgan Stanley on its own behalf and on behalf of its affiliates disclaims any and all liability relating to these materials, including, without limitation, any express or implied representations or warranties for statements or errors contained in, or omissions from, these materials. Morgan Stanley is not acting as a municipal advisor and the opinions or views contained here are not intended to be, and do not constitute, advice, including within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.