Good morning. This is Sharon Yeshaya, Head of Investor Relations. During today's presentation, we'll be referring to our earnings release, financial supplement, and strategic update. Copies of which are available at www.morganstanley.com.

Today's presentation may include forward-looking statements that are subject to risks and uncertainties that may cause actual results to differ materially. Please refer to our notices regarding forward-looking statements and non-GAAP measures that appear in the earnings release and strategic update. This presentation may not be duplicated or reproduced without our consent.

I will now turn the call over to Chairman and Chief Executive Officer, James Gorman.

James Gorman

Thank you, Sharon. Good morning everyone. Thank you for joining us. 2018 was a great year that finished on a disappointing note. For the first nine months, Morgan Stanley performed strongly. That translated into full year results that included record revenues, record pretax profit and record net earnings. Some of those results are listed on slide three and are worth noting.

That said, the last six weeks of the year in particular were obviously difficult. That combined with some idiosyncratic items that we'll go through produced a below target ROE of 7.7% for the fourth quarter. In a moment, Jon will take you through the details of the quarter. Importantly, we do not believe the fourth quarter is a new normal. In fact, while it's early days, the first quarter has started on a similar path to the start of the first quarter of 2018.

Now, let me transition and take you through our strategic update presentation so you can get a clearer sense of our direction, performance objectives, and specific action steps. To start, let's review 2018 against our 2018-2019 objectives. So, please turn to slide four. As you can see on the right hand side, our results are generally in line with our target ranges. Regarding Investment Management, it's fair to say we are positioning the business for growth, but it's still early days.

On capital return, we increased our dividend to $0.30 per share and had a buyback of $4.9 billion. The results of 2018 CCAR translated into a flat total capital distribution to 2017 CCAR, a position we believe we can improve upon going forward.

Moving to slide five, stability is critical when markets are volatile. When we look to reshape Morgan Stanley, our objective was to shift the firm towards more relatively stable sources of revenue.

In our view, relatively stable sources of revenue represent those associated with fee-based pricing arrangements, financing, and lending. These are streams that have generally less susceptible to significant variation when faced with market volatility. The results of these efforts are apparent. By design, the increased contribution to firm-wide revenues from these sources should help support a base level of profitability during periods of extended market disruption.

As shown on slide six, capital actions have allowed us to improve our dividend and reduced our share count. Our returns are now exceeding our cost of capital and we continue to have a sufficient capital base. In the future, subject to regulatory approval, we expect to increase our capital return while simultaneously investing in our business for growth.

Slide seven outlines some of our growth objectives. Our dual mission is to drive growth and further enhance the stability of our business.

If you turn to slide eight, please. From an institutional perspective, we are happy with our footprint and we'll continue to invest in product and geographic offerings that support our client base.

Our competitive position is strong and we're confident in our ability to capitalize on opportunities. We believe that the stability of our team and business model compared to an industry, much of which is still going through change, should enable us to continue to take market share.

Moving to slide nine, while the strength of the U.S. economy has been the primary driver of global growth over the last several years, we expect Asia to play a greater role in the next decade. Our existing strong footprint in Institutional Securities, coupled with our growth initiatives, will position us to capitalize on this expected regional growth and wealth creation, particularly as capital markets become a more important source of financing.

Over time, we expect to move to a majority ownership position of our securities joint venture in China. A global corporation of our size should be able to control its own destiny.

On slide 10, as we think about growth in Asia, we shouldn't lose focus of Japan, the world's third-largest economy. We've had a unique partnership with MUFG for almost nine years. As a result, our joint venture has the second largest share in that market.

Further, our partnership has enabled us to provide material financing for clients globally, bringing each of our firm's balance sheet to bear. We work together in over 600 transactions.

Now, shifting the wealth management on slide 11. We have long discussed the relative stability of this revenue base. Scale advantages don't improve the story, resulting in a material increase in average sale in revenues over time.

Looking to the left hand of the slide, on an average basis, 91% of trading days in 2018 saw revenues above $60 million compared to 81% of trading days being below that same threshold in just 2013.

Higher average daily revenues, supported by scale and the added benefit of U.S. tax reform, have improved the segment's contribution to the firm's net income. The ROE of that business almost doubled to 20% over the last six years.

On slide 12, the industry has experienced a secular shift away from transactional towards advisory accounts with serve as fee-based assets. We've witnessed a meaningful increase in the allocation of assets towards advisory and expect this trend to continue in the medium term, albeit, of course, at a slower pace. This shift has reduced our reliance on transactional revenue.

Over time, we believe over half of total client assets will be in advisory. As shown on the right-hand side of the slide, the pool of advisory assets is well diversified. While we're not immune to market downturns, portfolio diversification should help smooth performance over time as all asset classes generally do not move in tandem.

Slide 13 outlines the evolution of our investments into Wealth Management. While we recognize that many of our clients split their wealth amongst several different firms, the technology we have developed creates a compelling rationale for clients to consolidate assets with us.

We believe this -- we consider this consolidation to be a meaningful growth opportunity going forward. Notably, we've been able to invest in these capabilities while continuing to grow our pretax margin, our pretax income, and expand our margin.

The trade-off between revenue growth and margin expansion is important. This year, we would be more interested in driving higher revenue growth within this margin range that we've been public on to necessarily exceed the [audio gap]. Many of you have seen our new technology capabilities, which we believe will elevate our offering.

We plan to further enhance our digital tools as we expand and leverage our Stock Plan channel to convert more leads into new clients. We expect this channel to provide us with another opportunity for growth over the medium term.

Additionally, we're open to acquisitions. These types of additions could enable us to pursue new client segments through alternative channels or accelerate our growth efforts in our core channel.

Now moving to slide 14. The U.S. Bank has afforded us the ability to further provide services to our client base, both in Wealth Management and Institutional Securities. As illustrated on this page, we continue to increase our high-quality lending book.

In Wealth, we moved our mortgage origination platform in-house this year and while we intentionally slowed production temporarily to ensure a successful transition, we now have full control of the product's quality and customer experience. We expect to increase our mortgage penetration and have a strong footing in securities-based lending products with our clients.

Within the Institutional business, while we're cognizant of the risk in the market, including commercial real estate, we have a diversified portfolio that is well-structured and secured. As always, we aim to maintain a high-quality book of secured loans and maintain strong velocity of balance sheet.

Shifting the page to Investment Management, as we noted last year, Investment Management is a business positioned for growth and we're executing on that opportunity as evidenced by strong growth in our asset management fees since we refocused our efforts on Investment Management in late 2015.

Across our business lines, we're seeing strong investment performance while managing client partnerships and distribution and continued product innovation. The focus remains on these drivers to continue our organic growth. A key part of the strategy also includes inorganic growth, driven by new talent, team lift-outs, and acquisitions in areas we believe we can deliver differentiated value to our clients.

Taken as a whole, slide 16 illustrates the operating leverage of this institution. Expense management is absolutely necessary in this industry given the volatility of revenues. We will continue to focus on driving further operating leverage and increase expense management.

Please turn to slide 17. Last year, we established clear strategic objectives for 2018 and 2019, all of which we met, or were in the range of, during the full year 2018. Within the year, we saw patches of over-performance as well as underperformance, obviously, in the fourth quarter. The net result of an 11.5% ROE, excluding intermittent discrete tax items, demonstrates that we're on the right track.

Notwithstanding 2018 finishing as it did, we maintain our ROE and ROTCE target ranges for 2019 and continue to believe the business is well positioned to meet those goals.

Regarding our Wealth Management objective, in constructive markets, the Wealth Management pretax margin of 28% is not a limit. Our margin will be a function of the market and the choices we make on when and how to invest for growth.

That said, as I said earlier, it doesn't serve us well to only focus on margin. We are very focused on absolute PBT growth. Additionally, we will utilize our capital base to support organic and inorganic business initiatives.

For the first time since the financial crisis and the acquisition of Smith Barney, we bought a business in 2018, Mesa West, a small business but a test to find the right way to complement what we're doing in Investment Management. The transaction was successful and the ease of integration exceeded our expectations. We will be looking for similar bolt-on acquisitions within both our Wealth and Investment Management businesses.

Lastly, while not a point of growth, we reiterate that given our business mix and model and our capital base, we will look to achieve 100% payout ratio going forward, subject obviously, to regulatory approval and any acquisition opportunities that may come our way.

Our management team remains committed to executing on our long-term strategy and fulfilling our strategic objectives. We are confident in this institution's ability to deliver both future profitability and performance at the levels that we've outlined.

I'm going to now turn the call over to Jon, who will talk about the fourth quarter in detail, the annual results, and then, of course, we'll take your questions.

Jonathan Pruzan

Thank you and good morning. The fourth quarter was difficult. While the quarter started off well, during the second half, we saw a pickup in volatility and sharp corrections across asset classes.

Intraday and intraweek volatility impacted the underwriting calendar and challenged our market-making businesses. Against this backdrop, we reported revenues of $8.5 billion and PBT of $1.9 billion. EPS was $0.80, ROE was 7.7%, and ROTCE was 8.8%.

In addition to the challenging market dynamics, factors specific to Morgan Stanley further impacted quarterly results. Namely, sharp losses to the investments associated with employee deferred compensation plans had a considerable impact on transactional revenues in Wealth Management.

Additionally, we made slight modifications to the firm's incentive compensation, subject to deferral schedules in order to bring them more in line with peers. Although these factors are not material to the annual results, adjustments can be amplified in any given quarter and impact the segments in slightly different ways.

Now, to the businesses. Our Institutional Securities business reported revenues of $3.8 billion in the quarter, a 22% sequential decline. Sales and trading and underwriting results were both impacted by violent market swings at the end of the year. We saw clients de-risk and delever in the second half of the quarter.

Advisory, however, remained strong and we had our best quarterly results in over 10 years. For the full year, ISG revenues increased 9% to $20.6 billion. This represents the seventh consecutive year of growth ex DVA, underscoring the power of this franchise. Non-compensation expenses of $1.9 billion increased 8% versus the prior quarter, primarily driven by execution-related costs and seasonality.

While the difficult backdrop weighed on market-making, client activity remained robust. These flows had commensurate transaction-related expenses. The compensation ratio for the quarter and full year was approximately 31% and 34% respectively.

Investment Banking revenues of $1.4 billion declined modestly from the prior quarter, consistent with lower industry volumes. Strength in advisory was offset by declines in underwriting, particularly in the weeks following Thanksgiving.

Full year Investment Banking revenues of $6.1 billion increased 10% and are the highest on record. Advisory revenues increased 44% versus the third quarter. Full year advisory revenues of $2.4 billion are the second highest ever.

Sequentially, equity and debt underwriting revenue saw declines, consistent with lower new issue volumes in both products. On a full year basis, we had our best year of underwriting revenues at $3.7 billion as the equity product had its best year in a decade.

Overall, the Investment Banking pipelines and backlogs remain healthy and comparable to the same time last year. That said, persistent volatility and changes to sentiment could impact our ability to bring transactions to market.

In equities, the business performed well. Revenues declined 4% on a sequential basis to $1.9 billion. Volatile market conditions, including the severity of intraday and intraweek movements, impacted performance in cash and derivatives in the fourth quarter.

In prime brokerage, results remained strong. While balances declined, revenues were supported by strong transactional activity in the first half of the quarter. For the full year, equities revenues were the strongest in over a decade, increasing 12% to $9 billion. We expect to retain our leadership position and finish number one globally for the fifth consecutive year.

Fixed income results for the quarter were weak against a challenging market backdrop. Fourth quarter revenues were $564 million. The weakness was driven by both credit and macro.

Both seasonal factors and increased economic uncertainty related to growth and rate outlooks for 2019 and beyond influenced markets, resulting in rapid movements in spreads and asset prices. Credit was impacted by significant widening of spreads towards the end of the year.

Macro results were also disappointing, as a breakdown in historical relationships weighed on revenues. In both cases, unfavorable market conditions resulted in losses as we supported our clients.

While commodities represents a smaller part of our fixed income footprint, the segment performed well on the back of strong client activity. We restructured fixed income over three years ago, and since 2016, the wallet has shrunk by over 10%.

Despite this market dynamic, we have produced approximately $5 billion of revenue each year and gained market share. We are critically and credibly sized for the opportunity and are well-positioned to continue to support our clients.

Wealth Management finished a strong year on a weak note, impacted by the decline in asset prices and the impact of market volatility on investment banking revenues. Overall segment revenues were $4.1 billion for the quarter.

Over the last several years, the impacts from our employee deferred compensation plans have had limited impact on both revenues and pretax margin, but this quarter, losses on deferred compensation plan investments had an outsized impact of over 5% to the revenue line. Fourth quarter revenues, including revenue impacts of DCP for all periods, were in line with both third quarter 2018 and fourth quarter 2017.

Full year results highlight the business' operating leverage. Year-over-year revenues, excluding the DCP revenue impacts, grew approximately 5%. By comparison, total non-compensation expenses grew only 1%. The growth in annual revenues and the limited increase to non-comp expenses while still investing in the platform highlight the business' extraordinary benefit of scale.

The PBT margin was 24.4% for the quarter. The margin was impacted by the difficult environment, increased seasonal expenses, the adjustments to the deferral schedule of discretionary incentive compensation, and the impacts of DCP.

Absent these impacts, the margin would have been more in line with our annual results. For the full year, Wealth Management produced a PBT margin of 26.2%. Transactional revenues were $422 million, down $276 million sequentially. The DCP impacts accounted for more than the sequential decline.

Asset Management revenues were unchanged versus the prior quarter. Higher asset levels at the end of the third quarter helped insulate these revenues against the market decline in the fourth quarter.

However, not all assets are priced in the beginning of the quarter. And on a full year basis, Asset Management revenues increased 9%, a function of higher fee-based client assets driven by markets and flows.

Total client assets of $2.3 trillion in the fourth quarter decreased 8% sequentially, reflective of broader market movements. We continue to see positive fee-based asset flows, with fee-based assets now representing 45% of total client assets.

Total U.S. Bank deposits of $187 billion increased 7% versus the third quarter, driven by higher deposit sweep balances. In particular, our bank deposit program benefited from seasonality and clients holding more cash in the face of volatile markets.

Net interest income of $1.1 billion increased 2% versus the prior quarter and 4% over the full year. We expect 2019 annual NII growth to be in line with the loan growth.

Given the number of factors that can distort any individual quarter, we continue to manage this business with a long-term lens. Key indicators of the business' strength remain intact. Increased lending penetration, the adoption of digital tools, fee-based asset flows, and minimal attrition indicate an engaged financial adviser population and a business positioned to grow. We would expect the margin to rebound in the first quarter, and we are confident in our ability to deliver our 26% to 28% margin objective in 2019.

Investment Management reported revenues of $684 million, a 5% increase sequentially. For the full year, revenues of $2.7 billion were up 6%.

Asset management fees of $628 million grew 4% versus the third quarter, driven by a significant amount of the year's performance fees being recognized in the fourth quarter. This increase was a result of the revenue recognition accounting rule change implemented early this year. The increase was partially offset by declines in management fees, which were impacted by lower average AUM. On a full year basis, asset management fees increased a very healthy 12%, reaching $2.5 billion.

Investment revenues increased on a sequential basis, primarily driven by our private investments within our funds. As we have previously said, this line has the potential to be lumpy, though we continue to see broad-based gains in our private alternative strategies. Other revenues were impacted by an impairment of a legacy, non-controlling interest in a third-party asset manager.

In 2018, we integrated our first acquisition, had positive annual long term flows and a very strong fundraising year, underscoring the health of our franchise. We continue to look for organic and inorganic opportunities to grow this business.

Turning to the balance sheet, on a sequential basis, total spot assets of $854 billion were down from $866 billion on the back of lower client balances and inventory. During the fourth quarter, we repurchased approximately 26 million shares or $1.2 billion of common stock and our Board declared a $0.30 dividend per share.

Our tax rates for the quarter and full year were 22.1% and 22.7% respectively, excluding $111 million and $203 million of intermittent tax discrete benefits in the relevant periods. We expect a similar tax rate in 2019.

Turning to the outlook, we recognize that the environment has become more uncertain than last year. Despite the potential for varying backdrops, we're confident in our ability to execute on our stated strategic objectives.

While we cannot predict how these dynamics will unfold in 2019, we're focused on growing and supporting our clients and are prepared to respond to market environments with appropriate actions.

Although the asset pricing witnessed at the end of the year will have an impact on first quarter results, markets have settled into tighter ranges and historical relationships that broke down in the fourth quarter have realigned. The market backdrop we saw in November and December has been replaced by a clearly more constructive tone.

With that, we will now open the line to questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]

Our first question comes from Guy Moszkowski with Autonomous. Your line is open.

Guy Moszkowski

Good morning.

James Gorman

Good morning.

Guy Moszkowski

The first question I wanted to ask was just -- I recognize that, in Wealth Management, there were some moving parts that had to do with two different deferred comp programs, one being the one that affects both the expense and the revenue lines equally, and we've seen that before. But it appears that there was another one that had a onetime impact on costs. And I was hoping that you could tease out for us more the numerical impacts of both of those and maybe a more fulsome explanation of the one-time element with respect to deferred comp just so we can understand it better.

James Gorman

Maybe I'll talk about the -- what was behind the philosophy and then Jon can tell you whatever he can tell you about the numerical aspects of it. We've had, I would say, a very aggressive deferral program for a number of years. Back several years ago, we just thought it was a little over the top and we were pushing too much -- frankly, too much revenue into future years, which is mortgaging your future and not healthy. And we adjusted that one time.

In the last couple of years, with particularly our more junior employees at the sort of associate VP level, if you looked at where they were deferred relative to The Street, they were clearly an outlier. And these are young folks and that just didn't feel appropriate.

We made those changes, it affected obviously -- just given the mix of our business and the compensation mix; it affects the institutional business in aggregate more than it does the other businesses just because it's a much bigger with the bonus pool. But it also affects anybody who's at those more junior levels across the Board.

And the -- so we made that adjustment. It obviously brings up your comp expense and affects the -- and given that's an adjustment for the full year, the fact is hits in one quarter affects that quarter disproportionately.

So, the sort of business rationale for employees and being appropriately placed in the market for the younger folks makes a lot of sense. It helps with attrition. Clearly, it has an impact, not life-changing, but that has an impact on a business where one point of margin is $40 million, $45 million. It has an impact on a business of that kind.

On the other side of it, it's bringing compensation this year, not next year and the year after. So, it has the other side of the equation, too. So, that was the rationale behind it, Guy.

Guy Moszkowski

Thanks. And just in terms of the numerical impact?

Jonathan Pruzan

Again, I'll try -- there were two separate impacts. One was the DCP. So, the deferred cash that our employees invest while they wait until it vests. That had the significant impact on the revenues that I mentioned, over 5% in the quarter. That had a more limited impact on the PBT. And again, over a long period of time -- excuse me, over the annual basis, the deferred comp plans have generally been pretty -- have not really impacted the PBT, but we did obviously see a 14% decrease in the S&P in the quarter.

And within Wealth, based on the mix of how those employees invest their assets and the deferral schedules, you saw a bigger revenue impact there. On the one-time change and the adjustment, as James said, it's magnified because of the quarter. In any one quarter -- and I would -- as I mentioned in my script, if you take those as well as the seasonality as well as some of the volatility we saw in the Investment Banking or I guess, in the calendar revenue, which you can see in the supplement, the margin would have been closer to the full year margin, had those impacts not occurred.

Operator

Thank you. Our next question comes from Glenn Schorr with Evercore ISI. Your line is open.

Glenn Schorr

Hi, thanks very much. Just looking for a little color on the inorganic potential in Investment Management. I think we all know the tough world and backdrop on the traditional side of the business. We know that Morgan Stanley sold the retail component of its business and the alternative world is growing.

So, you gave us a look on check mark in each asset class. But can we sharpen that a little -- focus a little bit more and say why now? What particular focus? And then maybe how you think about investing in that business versus say buying back stock at book value?

James Gorman

Yes. I mean, if the stock stays at -- if the stock's at $42 or whatever it is going to open up this morning, that's a -- I kind of like buying that all day long, to be blunt. So, yes, I do but I'm trying to think a little longer than what's going on today and tomorrow.

Listen, the Investment Management platform is very interesting. We are -- I think as the slide shows, we have a very good long-only business. Dennis Lynch has been number one Morningstar. So, I think two of the last four years has had great flows and we've had -- we've got a great deep value team led by William Lock in London and a bunch of other teams. So, we have a very strong performance in that business. We had very good flows into managed equities, which is -- and obviously, The Street did not experience that, so that's a positive.

Our fixed income business has typically been a small -- not typically, it is smaller than we would like. It's more of a scale-driven business, as you know. So, I see opportunities where if we could build out and acquire teams and/or small add-on firms to build out the equity or the fixed income side that would be very interesting. Put liquidity aside for a minute.

In the Alternatives space, and that's where we did the commercial real estate transaction with Mesa West, the California firm. We give them global reach. I think that integration has gone really well. That was sort of our little test tube, getting our foot back in the water. I think it was a couple of hundred million dollars, just to get a sense of it. And I think that's going great.

And those -- so whether it's across that real estate platform, our private equity platform, our Asia PE platform, our mezzanine platform, the infrastructure funds, we've now got two $4 billion infrastructure funds, the real estate business has bounced back, there are a lot of spaces, Glenn, where we can add on.

Now, we're not suggesting we're about to do a megadeal in Asset Management and you and I and everybody else knows those are complicated and not all of those have been successful over time. But what we are focused on is -- we're fortunate to have a platform that plays in pretty much every space, including, by the way, fund of funds, which I didn't mention. We have real estate and private equity fund of funds, hedge fund fund of funds.

So, we plan all of those, and if we can drop in a series of -- sort of string-of-pearl type acquisitions across the platform while we're driving organic growth in the actively managed, which is the higher margin business, get better scale in the fixed income platform and do this over a period of years and not look for a single answer but a series of answers, I think there's a lot of space in there. And I think Dan and his team -- I was over there a couple of days ago with the team and I think they're -- they've got the program working well.

Glenn Schorr

Appreciate that. A quickie on trading. I heard all your comments on equities, but -- I know we won't get numbers, but in general, could we -- could you comment on like how much client deleveraging and lower volumes impacts things versus trying to stand up and facilitate for clients and just taking some hits along the way when the market is falling like a rock?

Jonathan Pruzan

I think that was a good characterization. First of all, that business performed extraordinarily well we'll be number one. Again, for the fifth consecutive year, we maintained our leading share in a market that grew probably about 10%. So, it was a good overall year.

Clearly, cash and derivatives were impacted by that volatility. PB hung in there. We did see deleveraging. It came down pretty dramatically in the fourth quarter. We've seen a little bit, probably a couple of points of gross balances coming back, but certainly not back to the levels of October. And again, the tone is more constructive here in the first couple of weeks, but the impacts around the equities was really around the cash and the derivatives.

James Gorman

Although I think he's also asking about, in the fixed income side, when we stood by our clients on the--

Jonathan Pruzan

Absolutely, sorry. Yes, so in FID, we clearly saw a much more difficult market. It was a one-way market. We stood to support our clients. It was tough client flow, and we really saw that both across -- really, in the macro space, the credit clearly impacted by the widening spreads. But we had good client activity and we supported our clients.

Operator

Thank you. Our next question comes from Brennan Hawken with UBS. Your line is open.

Brennan Hawken

Good morning. Thanks for taking the questions. You guys referred to this a couple of times, and James, I believe you referenced how you all made a change to the deferral schedule for comp a few years ago, which was also to bring in line with peers.

So, my question is what -- you made reference to the fact that it was the junior level, but what processes allowed the drift away from the competitive set over these past few years? And what steps are you putting in place so that we can all rest assured we're not going to see a three-peat of this event?

James Gorman

Yes. I think, Brennan, that's a fair question, but to be totally clear, I mean, the change we made several years ago was a big deal. I mean, that was a multibillion-dollar event. And that was -- I went to the Board and just said, we are pushing way too much compensation into future years. And we are mortgaging the future and I just don't think that's a good way to run a railroad.

You've -- yes, we want to defer comp because we want people to live with their actions when they're at this firm. And at the most senior levels, obviously myself, we defer most of it and we do that willingly. And -- but we didn't actually get the bottom end of the tables right if you looked at it. And we were at the outer ends for sort of the associate, VP, and junior ED levels and these are regarded sort of good housekeeping.

I have zero intention of a three-peat. There will not be a three-peat. We've done zero house -- we've done some housekeeping here. I think it was smart to do. And I wouldn't make a meal out of this. It's just something that given obviously the disappointing sort of sticker at a price numbers of some of this stuff; it affects things like the margin in Wealth Management because, as I said, $40 million, $45 million is a point of margin. If you change some of the comp and put it in this year and you do it all in one quarter, it affects that margin for that quarter. But I'm not -- I'm just not that -- I'm not that wound up about it, honestly. And certainly, there is -- to your core question, we are not going to be doing a three-peat on this. This was just a cleanup.

Brennan Hawken

Okay. Thank you. And then you guys commented on how we are -- the first quarter is off to a better start. Probably, we're going to see a lot more elasticity in revenues bouncing back in the Securities business. Curious if you can provide us some insights and share some perspectives on what you saw in Wealth. When you see several months of sequential declines in the markets that are particularly pronounced, there could be some shaking of confidence, which tends not to rebound as fast as markets might. Is that what we should also expect in Wealth? Might there be a little bit of a slower lift in that business? Or are you seeing some meaningful amount of the Wealth clients reengage or many of them that did not pull back in the fourth quarter? Thanks.

James Gorman

Yes, Brennan, good question. There are three or four things that can affect the Wealth business in difficult times of stress. One is advisers. Do they stay or leave? Attrition is extremely low, so that's not an issue. And I think, frankly, our adviser force, they like working at Morgan Stanley. The platform, the support, the brand, the stability of the firm, these are very positive. So, that's number one.

Number two, did clients pull assets out during the financial crisis? I think we lost 2.5% of our client assets during the financial crisis. So -- and that was, obviously, a very, very, very different world from what we've been in with a little market turmoil here. So, no, there's no issue there.

The third is, did clients move more money into cash? The answer to that is absolutely. You saw our deposit numbers go up. Our cash levels are -- I don't want to say at historic highs, but they're -- because I frankly don't have the full history, but as long as I've been doing this business, which is almost 30 years, these cash levels are high. And people that's sitting on the sidelines, they've had a lot of anxiety served up to them in the last year, not just consensus about the economy but political anxiety and all of the other stuff going on around the world. So, yes, high cash levels.

Do I expect clients to reengage if things stabilized? Absolutely. Part of reengaging is having products to buy, so new issue coming to market, the banking calendar being a positive. Clients see something that's attractive out there to participate in and they start getting moving, and the advisers are calling them.

So, I don't see -- again, I've been doing this a very long time and this is not a period where I would say you're seeing any fundamental shift in client attitude or confidence. You definitely have a very low level of transaction, which we've had for two years, and it's got increasingly lower and even pushed into more money being cash through the fourth quarter. That could stay as is. It can't go much lower just given where transaction revenues are, frankly.

I probably have a bias in 2019 that you'd see some rebound on that. I don't think you're going to -- we're not talking bull market rebound obviously, but I think you'd see some modest rebound in transaction activity. And as the calendar picks up, you also have the new issue starting to kick in.

Operator

Thank you. Our next question comes from Mike Mayo with Wells Fargo. Your line is open.

Mike Mayo

Hi, can you hear me?

James Gorman

Yes, good morning Mike.

Jonathan Pruzan

Hey Mike.

Mike Mayo

I'm struggling with the quarter understanding exactly what happens, so I'm just going to kind of ask point blank. On the one hand, you can say, this is Morgan Stanley acting conservatively, scrubbing the balance sheet, housekeeping, new comp program.

On the other hand, it could be Morgan Stanley of old, where you had hiccups in Fixed Income like the second half of 2015 or 2013 or during the financial crisis. So, my question is, how much of this quarter, the fourth quarter -- I get you got your targets for the year, but I'm really talking about the fourth quarter. How much of this quarter is due to scrubbing the balance sheet and housekeeping and how much is due to execution falling short of what you wanted?

And what would be helpful there is -- so for the macro, fixed income the $500 million, that's half your target per quarter. How much of that was due to markdowns versus sales? And when it came to housekeeping, I guess were estimating $150 million impact due to the change in compensation. If you could give a specific number that was in response to Guy's question, too. Thanks.

James Gorman

Yes. Well, listen, I'll have a go at it, and I'm sure Jon will add in. And it's a good question, Mike. I don't really see it. I certainly don't see it as the B, which is the Morgan Stanley of old, if you will, the sort of episodic volatile shifts, overdependence on propositions, big marks, misplaced trades, major integrations going on at the same time, selling businesses, writing stuff off. It's not that. I mean that's -- we're not remotely close to that.

As to sort of housekeeping, cleaning up, balance sheet management, comp plan management, I wouldn't put all of it down to that either. I don't think that -- I think that flatters the numbers. That was a factor, as we went through, in a whole bunch of areas.

But on the business side, fixed income, $500 million is hardly a good quarter. That's not a satisfactory result from my perspective. We've talked about $1 billion a quarter, on average, and we've repeated on average because you can't guarantee it every time. We had I think $1.7 billion in the first quarter and $500 million and change in the last quarter, so that's $1.1 billion just on those two quarters. The year averaged at about $1 billion in a quarter, but yes -- no, that was not a good result. And we know that, the folks -- the team knows that and we don't -- we do not expect that to be standard operating procedure. So, on a pure operating basis, that was probably the biggest gap against our expectations.

And the third issue is obviously the market. I mean, clients move money into cash in times of distress, new issue gets pushed back, calendar gets pushed back. There's -- there are positions you have where you're supporting clients where you're taking small hits along the way. Some of your hedges don't work when all of the assets correlate and move together. I mean there was a lot of market activity.

So, I would put -- if you were to put probabilities against each of those three categories, I would put 0% against sort of the Morgan Stanley of old category. I would put 30%-plus, 30%, 40% on the sort of the various one-off things we did, cleanups and so on, and 60% of the results reflected what was going on in the market. And if you washed all of that out against the competitive set, I think you'd find our results probably look much more like the competitive set when you normalize that.

But again, I'm not -- we're not being defensive about it. It wasn't the quarter we wanted. And we move on to 2019 and we expect, as we said, a rebound in important areas. Jon, I don't know if you want to add to it.

Jonathan Pruzan

Yes. I would just say on the -- to echo James on the point of the Morgan Stanley of old reference. If you think about -- and I was looking at this the other day. A quarter where we put up this type of result in fixed income was third quarter of 2015, and in that quarter, we were sub 4% ROE, sub $1 billion in PBT in Wealth.

So, the business is on much stronger footing, where that business is smaller today than it was and the relative contribution is not as important. It's an important business for us. We have confidence in it. As we said, we put up $5 billion of revenue in each of the last three years in a shrinking market, so it's not the business of old.

James Gorman

And I mean, we still -- I mean, just to say it. I think the net for the quarter is $1 billion, $1.5 billion, a little under that, I think, roughly. In the bad old days, Mike, even absent markets and stuff, we were happy to hit $1 billion net in our best quarters. And the bad old days were like four years ago, three. It wasn't -- this is a -- I have similar hair as I have back -- have now back then. So, it was -- we're not talking the real old days. So, yes -- no, I'm not. This is not that.

Mike Mayo

Just one follow-up. How much of the FICC underperformance was due to write-downs? And I asked because maybe you get write-ups if spreads are tightening here.

Jonathan Pruzan

No, I mean, there was no -- there wasn't any major individual event. As I said, we had good client activity, part of facilitating our market-making businesses standing in between flow. And that flow was tough this quarter.

So, there wasn't any individual event, Mike. Obviously, we do have inventories and inventories move up and down as markets move up and down. So, you'll see some of that in the first quarter.

James Gorman

We did have a write-down of a piece we own in the asset management business. We're not going to name it, obviously. But we've had some investments that were done pre-crisis, long, long time ago. And unfortunately, we continue to live with those. And they're not frankly that significant, but we -- that was something that went on this quarter.

Operator

Thank you. Our next question comes from Steven Chubak with Wolfe Research. Your line is open.

Steven Chubak

Hey good morning. So wanted to kick things off with a question on the Wealth Management margin guidance. Certainly encouraging to hear the reaffirmation of the 26% to 28% target. I'm just wondering, given the benefit from the roll-off of the legacy Smith Barney contracts, I believe you guided to 125 to 150 basis points from that alone, whether that benefit -- should we expect it to fall to the bottom-line or will those proceeds be reinvested in the business?

James Gorman

Just -- again, I think it's important to note, and I'm sure your models do this. There's seasonality in that business. So, again, that's a full year number. I've no idea what the first quarter is going to look like, but we typically have FICO, the social security payments in the first quarter, some of that stuff. So, it's the full year number.

I think we're -- you're pointing it out right. I think we just had -- a couple of days ago, somebody sent me a note it was the 10th anniversary of the announcement of the deal, which was pretty exciting. It was January like 9th or 12th or something. And I think those deals, yes, they run off towards the end of this month, something like that.

So, we'll see some of that has been reinvested and will be reinvested in the business, but yes, you'll get some -- you clearly get some margin improvement from that -- against that. We -- just to say, at least for this quarter, obviously, where assets were priced on the equity side for the quarter was lower than they were in the previous couple of quarters. And the equity markets are recovering a bit then, so we'll be doing repricing at the end of this quarter.

So, they'll -- I would say there will continue to be some pluses and minuses through the first quarter and then things probably stabilize out a little bit more.

Steven Chubak

And the full year number is--?

Jonathan Pruzan

And the full year number is -- yes, we're solid on the full year number.

Steven Chubak

Got it. And just one follow-up on some of the comments relating to how clients are managing some of their cash given the sell-off in 4Q. You alluded to the elevated client cash levels. I could certainly see that in the data, James. You're clearly a good student of this business. But just given the market pullback at year end and the 7% uptick in deposits, I'm just trying to gauge how sticky is that cash, in your mind. Especially as equity markets grind higher, do you expect to see some immediate engagement? And how does that inform your NII guidance for the full year?

Jonathan Pruzan

So, you're right, we did see a nice uplift in the deposits. Some of that is seasonal, but clearly, some of that was activity driven by asset allocation, as we've talked about before. That's sort of the primary driver of what people do with their money in our system and we did see people change their behavior a bit here, either we saw redemptions in mutual funds going into cash and cash-like products as well as some of the dividends that they received not going back into the market. So, we did see a little bit more of the deposits than we had expected.

To the degree that those deposits stay in the system for longer, you're right; they'll have a positive impact on NII. Either way, I think we're very comfortable with our guidance that the NII will grow in line with our loan growth guidance, which is mid-single-digits. And I think it's a little too early to say how people are going to spend that money. We do typically see -- start to see some of that money flow out for taxes and other purposes. But again, it's a little early in the year to predict whether that stays -- that extra deposit stay on, but it would have a positive impact.

Operator

Thank you. Our next question comes from Christian Bolu with Bernstein. Your line is open.

Christian Bolu

Good morning. Wanted to spend a bit of time on your Wealth Management technology investments. I agree that you got to do some pretty interesting stuff, especially around the Aladdin integration, et cetera. But help me understand how it translates into improved financial performance. Is it that you think it will be hard for peers to replicate so you can build a sustainable advantage over time? Or should I think about it some other way?

Jonathan Pruzan

I think there's a couple of ways to think about it on both revenue and expenses and also time. A couple of things that will be helpful, I think. Again, some of the digital tools go around asset aggregation and risk analytics. So that should -- over time, as adoption accelerates and FAs are using the product with their clients, should help with the external assets held away. So, from a medium to longer term, that should help us acquire more of our clients' assets, and we know they have a significant portion of those assets held away.

That will also help them just with the analytics and our Next Best Action and things that we have in that area should help them with their time. We find that when the adviser has more time, they have more ability to engage with their clients, which is always a positive. And then on the expense side, some of the changes that we're making eliminate some of the paper that goes on in the offices and whatnot and we'll continue to see efficiencies on the expense side because of these investments.

James Gorman

We're getting close to the end of the hour. We'll extend this for a little bit, I think, just to give everybody a chance to ask more questions because, obviously, there's a bunch of stuff people are trying to understand. So, why don't we go up to 9:15?

Christian Bolu

Okay. I've got one quickly. On the Stock Plan business, I believe Naureen Hassan talked about growing the business like 18 months ago. So, maybe help us understand the progress since then, what you've been doing differently or more in 2019 and beyond to drive further growth.

Jonathan Pruzan

Sure. So, we've made some really critical hires in that business. We continue to transfer our plans on to another technology provider, and that process is going. It just kicked off this year. And we would expect that with the new focus and the new technology, we should be able to effectively touch more of those clients that we have in that space. And again, we think it's a real nice opportunity over the medium to longer term to bring in more clients and more assets into the business.

Operator

Thank you. Our next question comes from Matt O'Connor with Deutsche Bank. Your line is open.

Matt O'Connor

Good morning. I was wondering if you could talk about, kind of broadly speaking, expense flexibility if macro turns down again. And then, I guess, specifically within the Institutional Securities, you've had really nice market share gain in the investment bank as well as across the trading businesses the past couple of years.

And should we think about that as providing more flexibility to cut costs if you need? Or are you really mindful about protecting those share gains and less flexibility to cut costs than maybe we'd suggest?

James Gorman

Why don't I start on this and let Jon talk about how to think about the Institutional Business and expense management versus growth. Firstly, very important that we've reiterated our efficiency ratio, which was a 2018-2019 target. We say we'd be at or below 73%. I think we've had -- I don't know how many years we've put efficiency ratios in these decks, but certainly every other one, if not more often, and I don't think we've missed one yet. And last year, we're at 72%.

So, again, that's something -- we focus and we care a lot about expense management. Obviously, when you have a quarter with -- the way we had in the last quarter and some things going on, you -- if we thought that was a 12-month event, then we'd have a very different view on the expenses of this organization. But you don't want to panic. You don't want to have -- just because you have a quarter and suddenly you start throwing out a whole bunch of investments that are important for the growth of this firm. I mean, we got to focus on more than just a quarter. We've got a focus on three to five-year growth, and we plant a lot of seeds. We'd like to see them come through.

Now, all of you know a big part of our expense is compensation. I can absolutely promise you, if we have a year of flat to 2018 on revenues, our compensation will be down. We paid people well for a record year this year. We -- they deserve that. They've done a phenomenal job.

But the other side of that is we've got to find continued growth. And if we don't see that, then, obviously, we find that in the expense line. So, comp is a huge part of the expense line. And across this organization, I mean, we're in, I don't know, how many countries in the world. We make thousands of incremental business decisions that drive expenses every day, and yes, that is something we will be hyper focused on as we get through about the first half of this quarter and get a better sense of where we think things are really heading.

But we have an efficiency ratio out there for a reason, and we would do everything reasonably within our power to drive to that. Jon, do you want to talk about the investment within -- I mean, we've attracted talent so--

Jonathan Pruzan

Yes. No, again, I think that you mentioned it. We have been gaining market share, but we do have flexibility and levers. We implemented the Streamline program a couple of years ago. That discipline has continued throughout the building. We have monthly meetings with all the business heads and all the units. People have targets and we're going to continue to be very focused on the expenses that we can control. And so there are levers, and if we need to use them, we will.

Matt O'Connor

Okay. Thank you.

Operator

Thank you. Our next question comes from Devin Ryan with JMP Securities. Your line is open.

Devin Ryan

Thanks for that. Good morning. I guess first question here just on Brexit and the uncertainty that's been increasing over there and just how we should think about either risks to Morgan Stanley around potentially personnel movements or maybe indirect, just related to kind of how you guys are thinking about the outlook for the institutional business given that uncertainty is pretty high right now.

James Gorman

In terms of specific uncertainty to Morgan Stanley in personnel, I wouldn't -- if I were you, honestly, I wouldn't think about it. It's just -- that's not in my top 200 issues today. In terms of the potential for Brexit and the ongoing saga in the U.K. Parliament to disrupt the markets, to slow down one of the most important economies in the world, the U.K., potentially contribute to a further slowdown in Europe, that's getting in the top, I don't know, 15 to 20 issues that I deal with.

So, yes, we watch it very carefully, but we're a very global firm with resources all over the planet. So, we will manage this. And I think our team has done a great job setting up for both the expected Brexit outcome, which is a sort of soft departure or smooth landing or whatever the language is. But if it doesn't happen and we end up with a hard or we end up with no Brexit or remain, well, we're ready to deal with that, too.

Devin Ryan

Okay, great. And just a quick follow-up here just on Investment Banking. It was a light quarter for debt capital markets. I know issuance in the market was slow. But are you changing your thinking at all on extending balance sheet just with some of the volatility that we've seen recently?

And then with that volatility, as we're entering 2019, it will be great to get a little bit of perspective around the dialogue with clients, either on the equity issuance side, where I think there's been some enthusiasm around potential for IPOs this year and then also on the M&A advisory side as well.

Jonathan Pruzan

Sure. I'll try to take that. In DCM, you're right; it was a tough finish in terms of volumes in the year, subdued activity levels. I think it was the slowest quarter since 2011. And from a high-yield perspective, it was the lowest since, I think, 2009. So, the volatility really shut down that market in the fourth quarter. As spreads widened out a bit, some deals got hung, Europe was really challenged. But we have seen that sort of reverse itself, as I think I mentioned. The high yield spreads have come in 100 basis points. Leveraged loans are back to where they were. There was a handful of deals on the road, mostly LBOs that are going well and that market seems to be reopening. And so we would expect a continuation of issuance there.

On the M&A side, and I've mentioned the pipelines and the backlogs, dialogues are good, confidence is high, people are looking for growth, and we have good dialogues going on now. You saw some of the announcements we made earlier in the year and we continue to be involved in those discussions. And we feel good about the pipeline.

And then lastly, on the equity product, the one caveat here is the IPO product in the U.S. as we need the SEC open to price those deals. We have a very strong pipeline and hopefully, this issue gets resolved. Then we'll bring those to market as soon as they do.

Operator

Thank you. Our next question comes from Michael Carrier with Bank of America Merrill Lynch. Your line is open.

Michael Carrier

Thanks guys. Jon, maybe just first question for you. Just in terms of the environment, you mentioned getting better in the first quarter. Since some of the volatile like line items -- when I think about the Institutional Business, like the other line that credit flows through, investment line that was negative and then even the deferred comp, was there anything in the fourth quarter that was more like realized losses versus mark to market that if the market continues to stabilize, we would expect some normalization there?

Jonathan Pruzan

Yes, I mean -- again, as you know, most of that inventory is mark-to-market. And so as markets move up and down, we adjust those valuations. We have hedging that goes on that helps protect us from those volatilities.

But as I mentioned in the fourth quarter, we saw some things that we haven't seen in the past or we haven't -- some historical relationships broke down. There was one item that we'd call out in the press release and the other line around that investment we had in the public security. We still own that. It's restricted and so things will move around a little bit.

But if you step back even further for the full year, if you put all those lines together, 2017 versus 2018; they were pretty much -- pretty -- I think the Delta was a little under $200 million. So, it wasn't really material, again, through the overall year. It does have sometimes outsized impact to the quarter though.

Michael Carrier

Okay, that's helpful. And then, James, you mentioned just on the strategic review M&A a few times. You hit on it in the investment management business. I think you mentioned even in the Wealth and just wanted to get their sense. So, that you're seeing more, like innovative opportunities out there for acquisitions or is it you also some of the capital has been tied up and you haven't been able to maybe pay out as much as you want to? Just wanted to get a sense on what's sort of driving more of the M&A comments throughout the different businesses?

James Gorman

Yes. No, it's a good pickup and it's less the capital issue, frankly. And it's more a state of mind here. I don't want to suggest that the markets open up or not open up. That's very sort of deal and company-specific, but it's more our attitude. Our attitude is we have some terrific platforms. We are interested in finding ways to penetrate new client groups. And we just want to continue to build-out and obviously, doing deals in wealth and asset management is a completely different ball of wax than doing them in trading businesses or in banking businesses.

So, the bias is obviously, things that are sort of the scale-driven, within our wheel house and extend us into better penetration of existing clients or new clients. And we think we have capacity. Yes -- no, we're -- it's a focus. Obviously, getting deals done, as you all know, that's you know -- you can't guarantee stuff, but -- if you -- I know one thing, if you're not intending to do them, you won't do them.

Operator

Thank you. Our next question comes from Jim Mitchell with Buckingham Research. Your line is open.

Jim Mitchell

Hey good morning. May be a quick question on capital return. In November, Randy Quarles talked about maybe eliminating the leverage ratio in this post stress scenario. How do you -- does that change the way to think about capital return at all? Or any update on that front in terms of kind of discussions with the Fed on what the formal approach might be with respect to leverage and the stress tests?

Jonathan Pruzan

Yes. Unfortunately, there hasn't been a lot of progress. We do know the SCB is going to be delayed and therefore, I think those comments probably tie into the SCB and how he thinks about the capital regime going forward.

Obviously, 2019 stress test, I don't think will be impacted by some of the comments that he made in May. We haven't gotten the instructions at the scenario yet for the year, but we stand by the comment that we believe we have sufficient capital and should be able to return 100% of it going forward -- of the earnings, excuse me, not the capital.

Jim Mitchell

Thanks. And a follow-up to on liquidity reserve, I noticed that it did jump quite a bit. Just by balance sheet coming down. Is that sort of mechanical because of the environment? Or is there something else to read into the liquidity reserve jumping so much?

Jonathan Pruzan

Yes, I mean, there's two components one of the primary drivers is really deposits we talked about. We saw about an $8 billion increase in those suite deposits in the quarter. And then the second is, as client balances came down, we, obviously, have liquidity to support those businesses, the businesses use less of it.

We still hold that liquidity because our expectation is that the businesses will use it again and we -- as we've talked about a lot, we've dramatically changed the structure of our liabilities and the durability of our liabilities and therefore, we're sized to support our clients, to use less cash in the quarter and we still have it in case they want to use it again next quarter or this quarter.

Operator

Thank you. Our next question comes from Gerard Cassidy with RBC. Your line is open.

Gerard Cassidy

Thank you. Good morning gentlemen.

James Gorman

Good morning.

Gerard Cassidy

Can you guys give us some color? You touched a little bit on the leverage loan market. Can you give us some color on your exposure to leverage loans and the CLOs? And just what you're seeing in that market may be compared to prior time periods where you guys are involved in that business?

Jonathan Pruzan

Sure. Two separate questions. On the event, there's some disclosure, I think in the footnotes that gets you to sort of a single -- or excuse me, non-investment-grade exposure. It's been pretty stable over the last period of time. So, I think going into the quarter, we felt very good with the book that we had or the exposures we had. They were well priced, structured.

We weren't involved in the deals that got pulled in the December timeframe. And we feel very good about sort of that book of business and being able to bring that to market, assuming these conditions continue to hold.

On the CLO front -- as you know we're an active securitizer. We provide warehouse for that business. We like that business. That business is dramatically different and I think, sometimes confused with the business of CDOs and other things years ago.

For us, the warehouse business, we've got good equity protection. Usually, somewhere in the order of 20%. The collateral is well diversified by sector; it's not all real estate, which it was back in the day. And so we like that business. We didn't see any credit -- any credit negative in that business this quarter. We're actually in the market with the CLO currently, hope to price it next week. A couple of deals might price next week so that business or that market is coming back as well. So, we like that business and it was -- it's a good business for us.

Gerard Cassidy

Great. And just a quick follow-up, Jon. We've talked about this in the past. Obviously, you've had a good institutional penetration in equities. Can you give us an update on MiFID II? How you're seeing that play out? What benefits you're seeing for your business?

Jonathan Pruzan

A couple of things. I would say it's sort of consistent with the comments we talked about in the past. It probably outperformed our expectations a little bit although again our expectations was it wasn't going to have a material impact on the business.

We've outperformed a little bit. We have seen some consolidation of -- or how people look at their counter parties and consolidating. We've also seen some consolidation in the space as they are less providers. So, not material, but probably outperforming what we originally thought and also still pretty early and we'll have to see longer there on how impacts.

Operator

Thank you. Our last question is from Al Alevizakos with HSBC. Your line is open.

Alevizos Alevizakos

Hi, thank you for taking my question. It's a question on the strategy update that you gave. Mostly interested about the -- your kind of confidence that you will be able to grow the lending, especially on mortgage business, because you're practically going against your peers, that they are closer to this kind of market segment. So, I was just wondering what makes you that comfortable with the 5% loan growth.

Jonathan Pruzan

Again, we, obviously, have multiple products, mortgage being one, the securities-based lending and tailored lending within the wealth segment and we continue to see good client engagement. The reason we are confident is that the last couple of quarters, as we've integrated -- our excuse me, shifted from the old platform we have that a new platform, we seen that -- those balances grow.

Again, the number of applications we have, obviously, rates came down a little bit. So, refinance activity has been a little bit healthier and we just feel that we're underpenetrated with our client base. Our clients like most products and we would expect to continue to grow them going forward.