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Valuation Factors will be a Winning Stock Picking Strategy Again Very Soon



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Valuation Factors will be a Winning Stock Picking Strategy Again Very Soon Edmund Ng

Valuation Factors have stopped driving returns in 2007. Despite having a very robust long-term performance track record, the composite valuation factor (simple average of earnings to price, cash earnings to price, book value to price, sales to price and dividend yield) have stopped working 6 to 12 months ago on both side of the Atlantic. In Europe, going long the top quintile of stocks that look cheapest on the composite valuation factor and going short the bottom quintile would have produced a negative return of 4% between Aug07 & Dec07, and minus 14% in the US between Feb07 & Dec07. In addition, one of our value screening tools (the Benjamin Graham inspired value screen), have also had a rare year of underperformance in 2007. In this note, we address the reasons why we think valuation factors will begin to be a winning stock picking strategy again very soon.

Valuation factors have underperformed similarly in the past around market turning points, lasting 12 months on average. Based on the US composite valuation factor, which goes back to 1973, we have identified three comparable periods when valuation factors have stopped driving returns - Aug79 to Nov80, Mar89 to Oct90 and May98 to Feb00. The average return and duration of these periods were minus 16% and 12 months respectively. Between Feb07 and Dec07, the composite valuation factor have produced a negative 14% return over 10 months, and hence, based on comparison with history, we believe we may be close to a turning point today. For the first two months of 2008, we have already seen a positive 1% return on this composite valuation factor strategy in Europe, and +3% in the US.

We expect valuation factors to work again in 2008, as valuation spreads are at all-time highs, and some key fundamental factors are also about to turn. Recession fears cause valuation spreads to widen as earnings and fundamentals are called into question, and that is what drove negative return among valuation factors in the last 6 to 12 months. At current levels, valuation dispersions are close to 3 standard deviations wider than usual in the US, which has always been a great signal for valuation factors to start working again. Our backtest shows that the composite valuation factor in Europe returns 18% in the subsequent 12 months after a +2 standard deviation signal, and such strategy has produced a positive return in all occasions. The comparable number in the US is 16%. For 2008, we are also expecting an earnings recession in Europe, return on equity to roll over and inflation to stabilise and/or fall, all of which have been good leading indicators for the turning point in valuation factors.

Key stock picking factors for 2008 will be cheap valuation, positive earnings revision, high cash flow and low leverage. Looking at the subsequent 12 month period when valuation factors start to work again, both in Europe and US, the most obvious conclusion is that valuation factors become the most important group of factors that drive return and momentum ceased to work in these periods. In addition, positive earnings revision, strong liquidity positions, high cash flow and low leverage are also key in terms of drivers of returns. We currently also advocate a large cap bias.

Surprising turnaround pair trades if valuation factors come back to the fore. If valuation factors start to be important again later in 2008, as we expect, the following pair trades would be examples of what may start to work in the next 6-12 months – Long Kingfisher, short H&M or Inditex; Long UBS, short Julius Baer; Long UPM, short ENRC; Long Wolseley, short ABB or Alstom; Long Casino, short BAT; Long Ericsson, short SAP; Long Sanofi, short Qiagen; Long Deutsche Telekom, short Iliad; Long Centrica, short Verbund (see p.11 for more details). These trades would catch many investors off guard, including in some instances ourselves and our analysts.

Buy our valuation-based stock baskets. If we were on the buy side we would put up to one-third of our money in low turnover, quantitative stock picking tools that we believe in logically, and that have a good track record. The Joel-Greenblatt inspired long-short strategy, the Europe target equity screen and the Benjamin Graham inspired value screen are three of our favourite tools. In 2007, the Greenblatt long-short strategy returned 21%, the Europe target equity screen outperformed by 3% and the Benjamin Graham screen underperformed by 4%. The performance numbers for the first two months of 2008 are +4%, +7% and +2% respectively. The following stocks appear on all three of our favourite screens – BP, Total, ENI, Barratt and Bang & Olufsen.

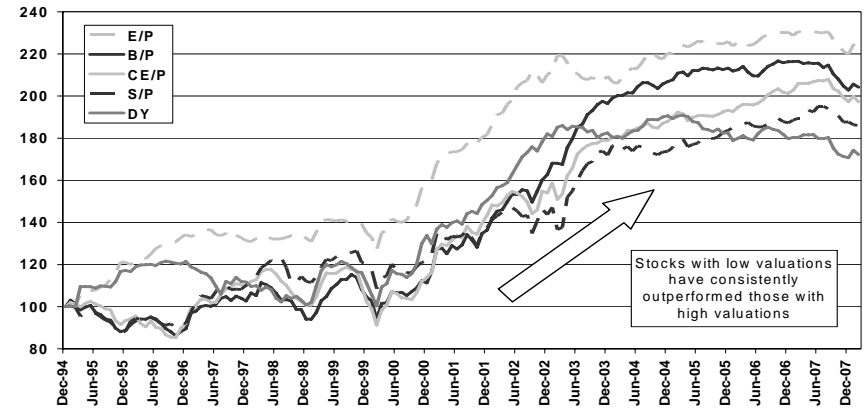
Valuation Factors in Europe Produced Negative Returns in 2007

What are factor returns? Simply put, the factor return is the accrued return in the following month that is explained by a factor during the period of analysis (e.g. earnings to price, or E/P).

How do we calculate factor returns? They are derived at a sector level using a long-short equally-weighted (EW) portfolios, generated every month for each GICS sector. To calculate factor returns for E/P, we sort all constituents for a given sector by E/P. We then form EW long-short portfolios from the top & bottom quintiles. The delta in the average daily returns of the top & bottom quintile is the return for the long-short portfolio for a given sector. The average factor return across the universe is the average return over all sectors (i.e. sector neutral).

The composite valuation factor. In this note, we focus on the composite valuation factor which is an equal-weighted combination of five key valuation factors – trailing earnings to price, book value to price, cash earnings to price, sales to price and dividend yield.

Valuation Factors have a Superb LT Record in Europe ...



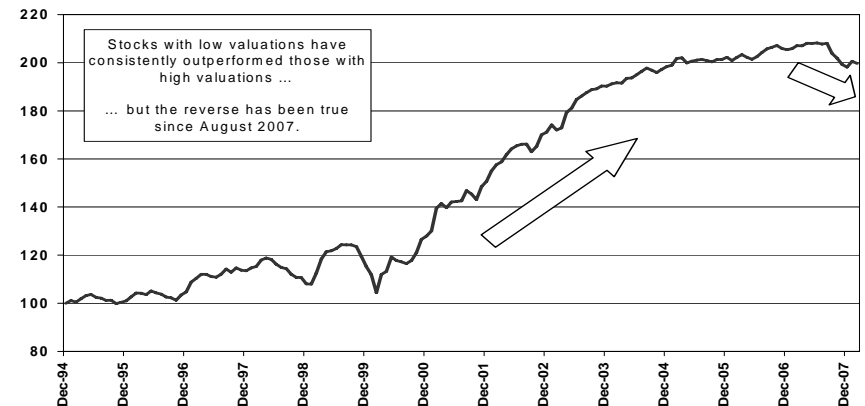
Note: Shows cumulative factor returns based on five valuation factors in Europe, using MSCI Europe as the universe. **Source:** Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

... but Most Valuation Factors Stopped Working in 2007 ...

Valuation Factors	Factor Returns - Track Record Since 95		Factor Returns - 2007
	Avg Ann'd Return	Hit Ratio	
Earnings to Price	6.5	10 / 13	-4.6
Book to Price	6.1	10 / 13	-6.2
Cash Earnings to Price	5.8	9 / 13	-2.0
Sales to Price	5.3	12 / 13	0.2
Dividend Yield	4.7	8 / 13	-5.1
Composite Valuation Factor	5.6	11 / 13	-3.5

Notes: Shows factors returns based on valuation factors in 2007, as well as their annual track-record since 1995. Hit ratio is the probability of the factor return being positive for any given year. **Source:** Morgan Stanley Quantitative and Derivative Strategies, Morgan Stanley Research

... and the Composite Valuation Factor also Didn't Work



Note: Shows cumulative factor returns based on the composite valuation factor in Europe, using MSCI Europe as the universe. **Source:** Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

One of Our Value Screens Stopped Working Temporarily in 2007

MS quantitative value screening tools. If we were on the buy side we would put up to one third of our money in low turnover, quantitative stock picking tools that we believe in logically, and that have a good track record. Below is our three favourite such tools.

Joel Greenblatt-inspired long short strategy. We introduced this concept in our Euroletter from August 1, 2006 'Beyond Beta'. It is about buying quality companies 'on the cheap'. This is achieved by ranking stocks on EV/EBITDA (low is good) and ROCE (high is good)

Target Equity screen. We introduced this concept in our UK strategy note from January 4, 2007, 'Updating our Private Equity and 3 'U's Analysis'. Screen ranks stocks by the attractiveness of their valuations, based on metrics typically employed by private equity investors.

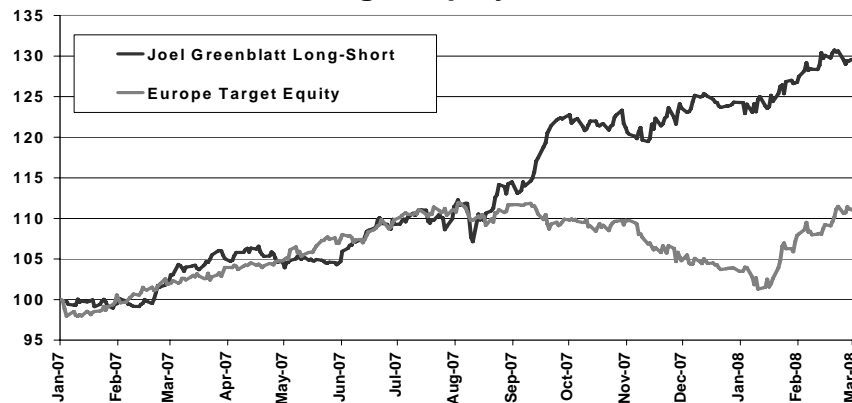
Benjamin Graham-inspired value screen. First introduced in our Euroletter from March 7, 2006 'Intelligent Investor, Chapter 14'. We use Benjamin Graham's criteria to screen for stocks with adequate size, stable record of earnings & dividends, and moderate valuations.

Good LT Track Record of Our Value Screens ...

Value Screens	LT Performance Track Record		Rel Perf in 2007
	Avg Annual Rel Perf	Hit Ratio	
Joel Greenblatt Inspired¹			
- Long	8.0	13 / 18	9.4
- Short	-8.1	5 / 18	-12.0
- Long-Short	16.9	17 / 18	21.4
Europe Target Equity Screen²	11.5	7 / 7	3.5
Benjamin Graham Inspired³	6.8	12 / 15	-4.4

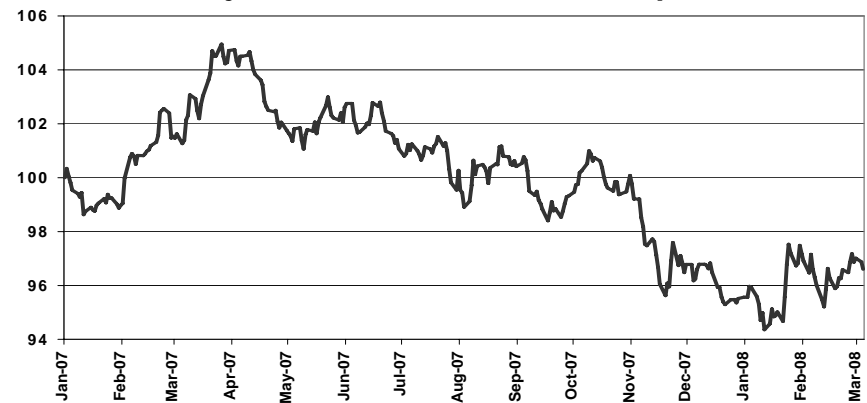
Notes: 1: Track record since 90. 2: Track record since 01. 3: Track record since 92. Hit ratio is the probability of the value screens outperforming the benchmark in a given year.
Source: MSCI, Worldscope, IBES, Morgan Stanley Research

... Joel Greenblatt & Target Equity Worked Well in 2007 ...



Source: MSCI, Worldscope, Datastream, Morgan Stanley Research

... but Benjamin Graham Screen Underperformed



Source: Worldscope, MSCI, Datastream, Morgan Stanley Research

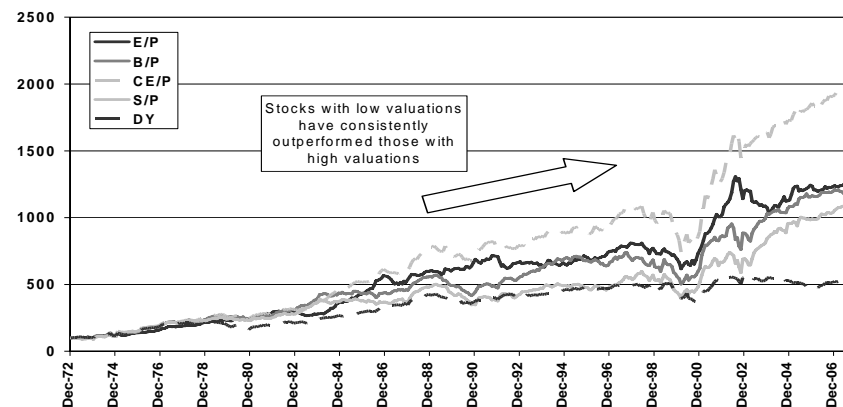
Similar Negative Performance for Valuation Factors in the US

Time series analysis based on composite valuation factor return. We use the history of the US composite valuation factor to identify past periods when valuation factors did not work, and the following:

1. Key return drivers in periods when valuation factors did not work
2. Leading indicators that signal the turning point for valuation factors
3. Key drivers of return when valuation factors start to work again

We believe it is valid to use US factor returns for this analysis, given the US factor returns have the longest history going back to 1973. European factor returns only go back to 1995. We also found that both European & US factor returns tended to behave similarly in the past, especially at turning points. There were two periods since 1995 when valuation factors have stopped working temporarily, in 98-00 and 2007. We found that the start & end point, and the duration of these periods are very comparable in both Europe and US.

US Valuation Factors have a Superb LT Record since 73



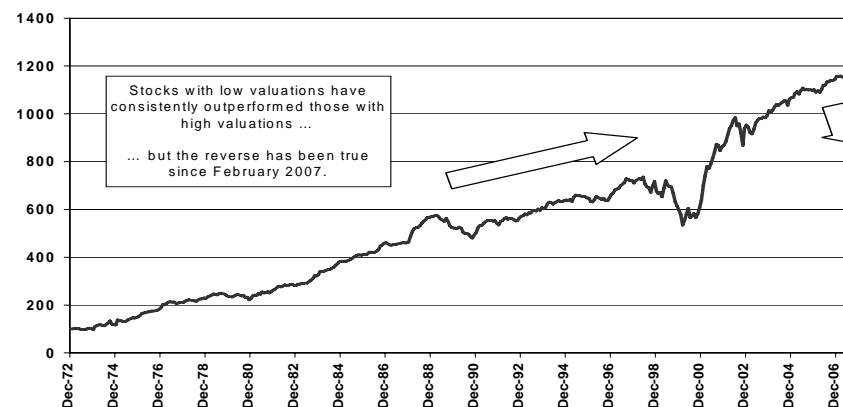
Note: Shows cumulative factor returns based on five valuation factors in US, using SPX as the universe. **Source:** Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

... but All Valuation Factors Stopped Working in 2007 ...

Valuation Factor	Factor Returns - Track Record Since 73		Factor Returns - 2007
	Avg Ann'd Return	Hit Ratio	Return
Earnings to Price	7.9	26 / 35	-3.7
Book to Price	7.4	26 / 35	-24.3
Cash Earnings to Price	9.0	29 / 35	-14.8
Sales to Price	7.3	26 / 35	-16.0
Dividend Yield	5.1	23 / 35	-10.6
Composite Valuation Factor	7.3	28 / 35	-14.1

Notes: Shows factors returns based on valuation factors in 2007, as well as the annual track-record since 1973. Hit ratio is the probability of the factor return being positive for any given year. **Source:** Morgan Stanley Quantitative and Derivative Strategies, Morgan Stanley Research

... and the Composite Valuation Factor also Didn't Work



Note: Shows cumulative factor returns based on the composite valuation factor in US, using SPX as the universe. **Source:** Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

Key Drivers of Return when Valuations Factors Do Not Work - Strong Momentum, Robust Growth, High Quality & Low Leverage

Definition of periods when the valuation factors do not work. Using the US composite valuation factor, we defined these periods as times when the factor return produced a minus 10% return or worse. There were 6 of these periods since 1973, including the most recent period between Feb07 & Dec07.

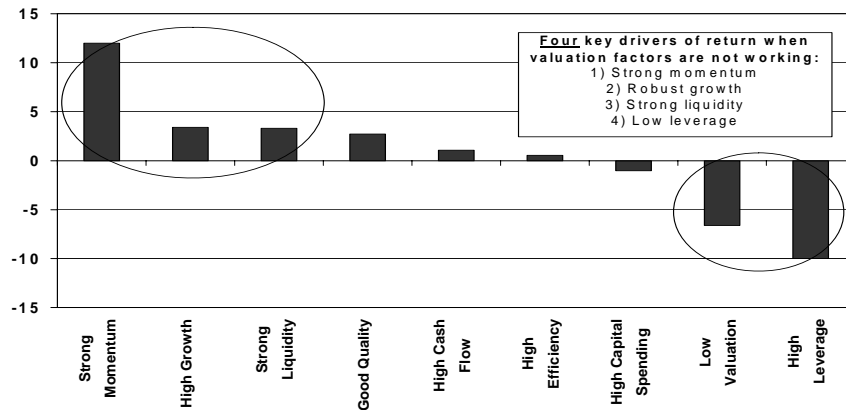
Momentum, growth, quality & low leverage are key when valuation do not work, both in Europe and US. We believe this was the story in 2007, when it was all about buying stocks with the right characteristics & valuations for these stocks ended up at even more expensive level (e.g. Utilities).

Periods When Composite Valuation Factor Did Not Work

Start	End	Duration (Mths)	Composite Valuation Factor Return			
			USA		Europe	
			Cumulative	Ann'd	Cumulative	Ann'd
Sep-74	Dec-74	3	-13.2	-43.0	-	-
Aug-79	Nov-80	15	-11.2	-9.1	-	-
Mar-89	Oct-90	19	-16.7	-10.9	-	-
May-98	Feb-00	21	-27.4	-16.7	-11.7	-6.9
Jun-02	Oct-02	4	-11.8	-31.1	-0.1	-0.3
Feb-07	Dec-07	10	-14.1	-16.7	-4.3	-5.1
Average		12	-15.7	-21.2	-5.4	-4.1
Median		13	-13.7	-16.7	-4.3	-5.1

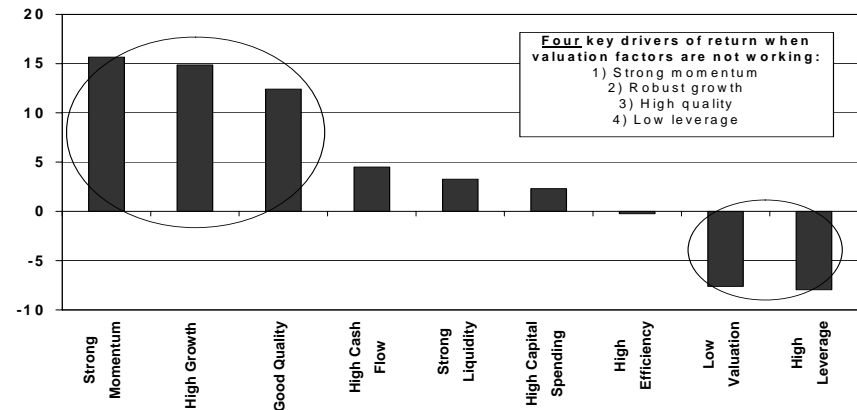
Note: We defined the periods as one when valuation factors do not work if the US composite valuation factor produced a minus 10% return or worse during that period.
Source: Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

When Valuation Factors Stop Working Momentum, Growth & Low Leverage are Key in Europe ...



Note: Chart shows ann'd return of the 8 categories of European factor returns during past periods when the US composite valuation factor stopped working. **Source:** Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

... and Almost the Same Factor Groups Drove Return in the US During These Periods ...

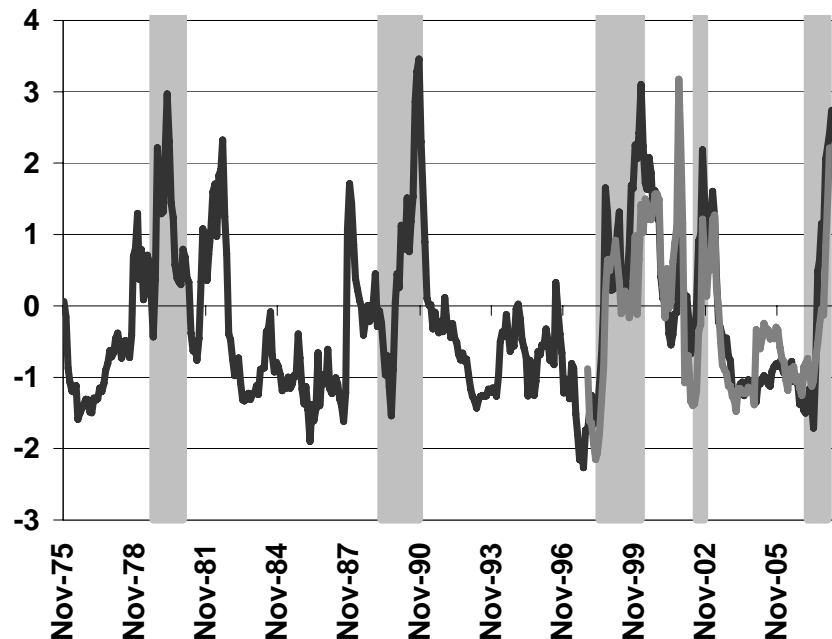


Note: Chart shows ann'd return of the 8 categories of US factor returns during past periods when the US composite valuation factor stopped working. **Source:** Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

Valuation Dispersion at All-time Wide indicates We Are Very Close to a Turning Point

What is valuation dispersion? We rank the fundamental values (e.g. earnings yield) for a particular factor across the entire universe of constituents. The difference between the top & bottom quintile medians provides the factor dispersion (**i.e. not sector neutral**). We calculate the dispersion for the US composite valuation factor based on an equal weighted average dispersion among E/P, B/P, S/P, CE/P & DY. We then expressed the US composite valuation factor dispersion in z-scores terms (i.e. no. of standard deviation away from the 3 year rolling average).

Valuation Dispersion is Almost 3 SD Wider than Normal ... **... Is the Most Reliable Indicator for Composite Valuation Factors to Work again in Europe & US ...**



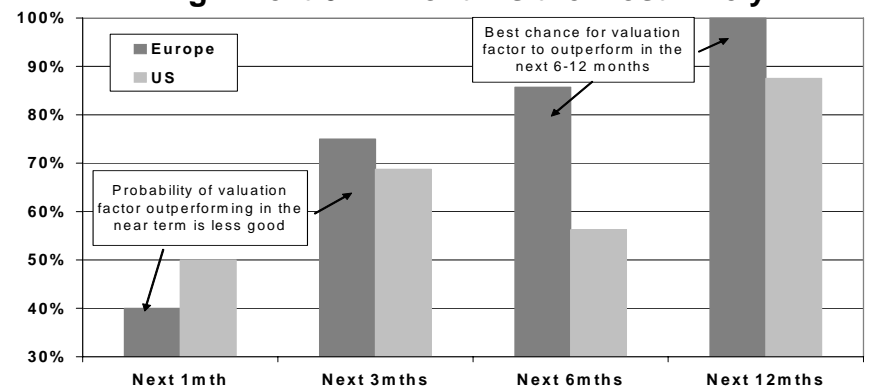
■ US Composite Valuation Factors Stopped Working
 — US Composite Valuation Factor Dispersion (3yr Z-Score)
 — Europe Composite Valuation Factor Dispersion (3yr Z-Score)

Source: Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

US Composite Valuation Factor Dispersion (3y z-score)	Next 12mth Valuation Factor Returns When Dispersion is ...					
	... Narrower than Normal			... Wider than Normal		
	< -2	< -1	< 0	> 0	> 1	> 2
1) Europe Composite Valuation Factor						
- Avg next 12 month factor return	0.8	1.4	3.7	11.0	13.6	18.5
- Hit Ratio	1 / 2	37 / 49	85 / 98	41 / 49	22 / 26	7 / 7
2) US Composite Valuation Factor						
- Avg next 12 month factor return	-5.0	6.5	6.3	7.6	11.7	13.5
- Hit Ratio	0 / 2	92 / 117	208 / 253	92 / 122	47 / 56	14 / 16

Source: Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

Timing – Next 6-12 Month is the Most Likely



Note: Chart show probability of composite valuation factors in Europe & US working again at different time horizon, when dispersion is more than 2 S.D. wider than usual.

Source: Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

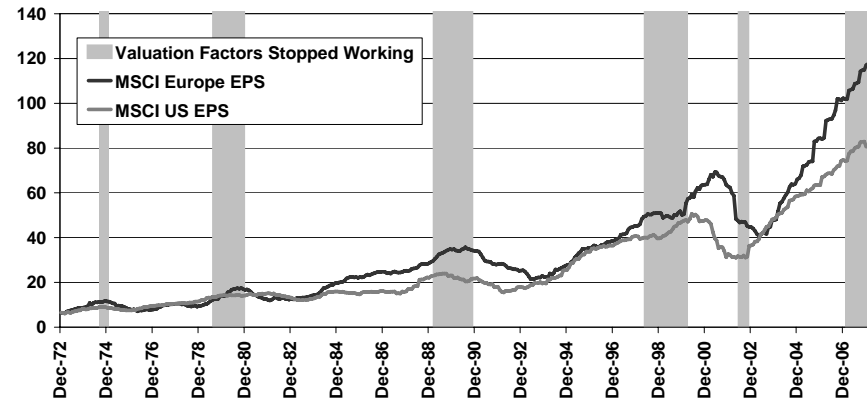
Start of Earnings Recession, Falling CPI & ROE suggest More Emphasis on Valuations

Other indicators also suggest that valuation should be more important in the next 6-12 months. We have looked at a range of factors to help identify the turning point for valuation factors, and we believe the factors below indicate that we might be close to such point:

1. The imminent earnings recession in Europe. Historically, the start of earnings recessions often indicate the return of valuation factors. This is very logical given the market tends to discount the upcoming recession by 12 months, and during that period, investors have little confidence in earnings due to concerns regarding forecast risks. Hence, valuation factors do not work. After the big initial market correction however, it reaches a point where a lot is in the price and incremental forecast risks are much reduced. Thus, investors have more confidence in earnings and valuation factors begin to work again.

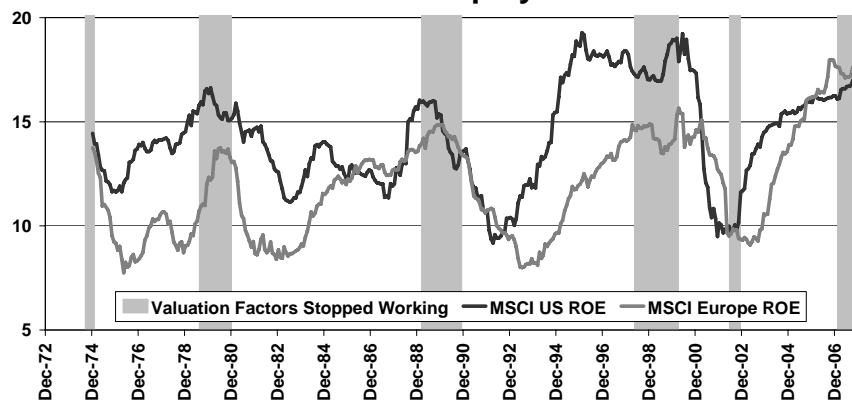
2. Inflation stabilising / falling & ROE rolling over. Low and stable inflation prints have often had a positive impact on multiple expansion. Also, in the last 30 years, valuation factors often begin to work again as ROE starts to fall.

More Focus on Valuation as Earnings Peak ...



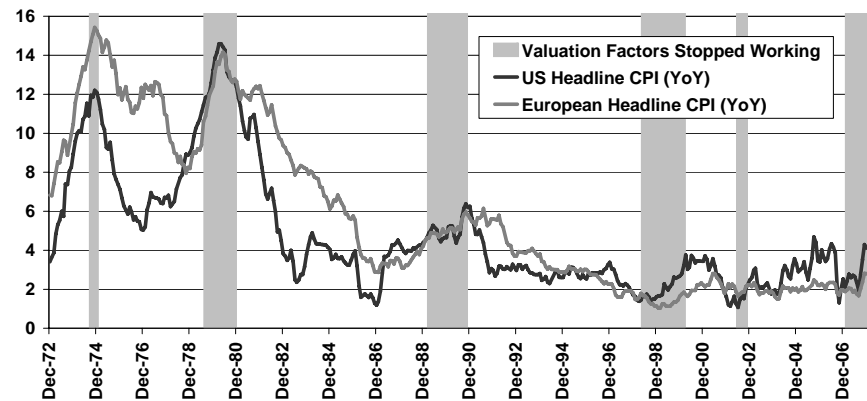
Note: Shades are periods where the US composite valuation factor stopped working. Source: Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

... and Return on Equity Rolls Over ...



Note: Shades are periods where the US composite valuation factor stopped working. Source: Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

... and Inflation Stabilises and/or Falls



Note: Shades are periods where the US composite valuation factor stopped working. Source: Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

We are Not Calling for a Rotation from Growth to Value

All we are saying is that valuation factors will be important stock picking factors again later this year, given valuation dispersion is at an all-time wide, which has been a reliable indicator for a turnaround in valuation factors, but not in style investing (except in 2000). We are not calling for MSCI Europe value to outperform the growth index.

Earnings revision will remain a key return driver in 2008. We believe that while some growth factors such as, forward earnings growth rates, will be less effective relative to valuation factors going forward, earnings revision will continue to drive return, as they have done at this point of previous cycles.

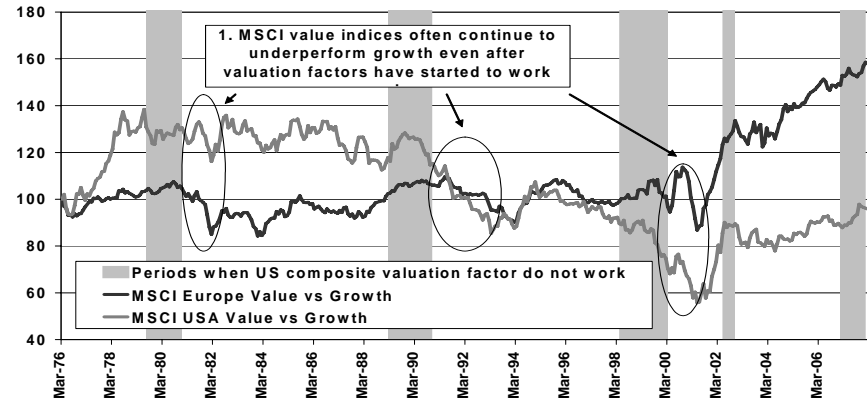
Therefore, the conclusion of this study is not to simply load up on cheap financials & cyclicals. While both groups have fallen a lot in this bear market, and headline valuations are starting to look attractive, we believe cyclicals will face severe margin pressures in 2008, and financials still have to go through a round of provisioning, both of which will lead to more downgrade and underperformance. We will discuss later the value stocks which we think investors should start to buy.

... as Wider than Usual Dispersion is a Poor Predictor of MSCI Europe & US Value vs Growth

US Composite Valuation Factor Dispersion (3y z-score)	Next 12mth Return of MSCI Value rel. Growth When Dispersion is ...					
	... Narrower than Normal			... Wider than Normal		
	< -2	< -1	< 0	> 0	> 1	> 2
1) MSCI Europe Value vs Growth						
- Median next 12 month relative return	5.2	2.7	1.8	-1.2	-1.1	2.5
- Hit Ratio	2 / 2	87 / 118	164 / 254	54 / 122	27 / 56	8 / 16
2) MSCI US Value vs Growth						
- Median next 12 month relative return	-11.6	-1.2	-1.8	-2.5	-1.1	-0.9
- Hit Ratio	0 / 2	53 / 118	104 / 254	51 / 122	26 / 56	8 / 16

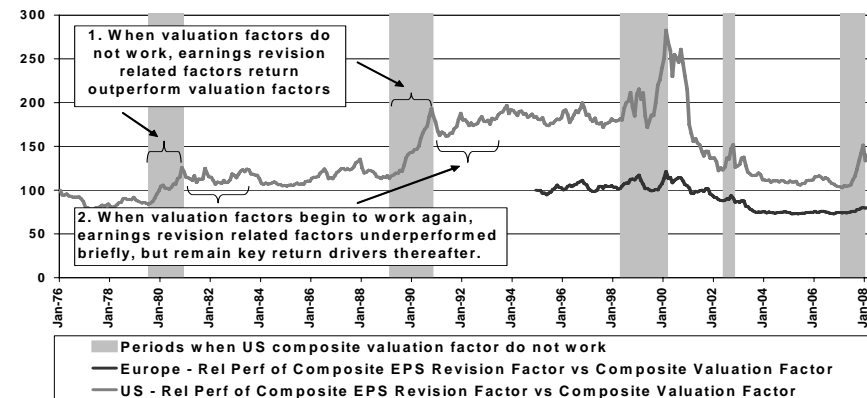
Note: shows next 12mth relative performance of MSCI value vs growth indices, post different levels of valuation dispersion. Source: Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

Valuation Factors Working Again Does Not Always Mean Rotation From Growth to Value ...



Note: shows rel. performance of MSCI value vs growth indices through time. Source: Morgan Stanley Quantitative & Derivative Strategies, MSCI, Morgan Stanley Research

Earnings Revision Will Remain a Key Return Driver



Note: shows factor returns of the composite valuation factor, relative to earnings revision related factors. Source: Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

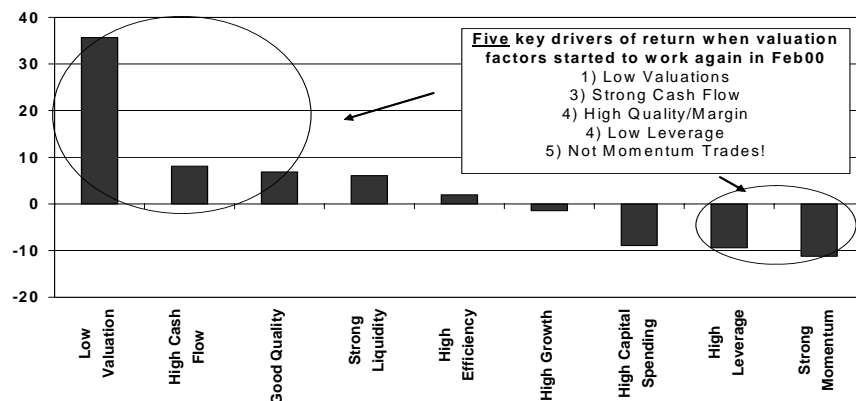
Key Return Drivers in 2008 – Valuation, Earnings Revisions, Cash Flow & Low Leverage

What will be the key return drivers for the next 12 months in Europe? The period between May-98 & Feb-00 was the only period since 95 when valuation factors failed to work for a long period of time (more than 6 months). We zoom in on the 12 month period between Feb-00 & Feb-01 to identify the key return drivers back then.

At the factor group level. We found that low valuation, positive earnings revision, high cash flow, good quality (i.e. margin or profitability), low leverage and weak momentum were key drivers of return between Feb00 and Feb01. We believe it is likely that investors will see the similar factor groups driving returns in 2008.

At the single factor level. All top 16 factors in Europe were valuation factors. In addition, free cash flow yield was the most important factor within cash flow. Net income margin and ROE improvements were also key. At the bottom, investors were rewarded to avoid stocks with strong price momentum and high leverage (especially debt to equity).

When Valuation Factors Began to Work Again in Feb00 - Valuation, Cash Flow & Low Leverage were Key in Europe



Note: Chart shows 12 months return of various groups of European factor return strategies between Feb00 & Feb01. **Source:** Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

Best European Factors Between Feb00 & Feb01

Top 40 European Factors	Return	Bottom 40 European Factors	Return
Value - Price to Sales 1yr change	44.9	Performance - Price Momentum 3mo	-30.4
Value - Cash Earnings to Price 1yr change	44.0	Growth - 5yr historical EPS growth	-25.9
Value - Book to Price 1yr change	43.4	Performance - Market Cap 1yr change	-25.8
Value - Enterprise Value to Sales 1yr change	42.1	Capital Spending - Capital Employed 1yr change	-25.3
Value - Cash Earnings to Price	39.4	Performance - Price Momentum 12mo	-23.9
Value - Earnings FY1 to Price	38.2	Leverage - Debt to Equity 1yr change	-23.0
Value - Dividend Yield	36.3	Performance - Price Momentum 6mo	-21.2
Value - Dividend Yield 1yr change	35.6	Leverage - Net Debt to Equity 1yr change	-20.9
Value - Book to Price	35.4	Leverage - Net Debt to Equity	-19.0
Value - Enterprise Value to EBITDA	35.1	Capital Spending - Depreciation 1yr change	-18.5
Value - Earnings to Price	32.5	Capital Spending - Shares Outstanding 1yr change	-17.8
Value - Enterprise Value to Sales	30.8	Leverage - Debt to Assets 1yr change	-17.1
Value - Enterprise Value to EBITDA 1yr change	29.6	Leverage - Capitalization Ratio 1yr change	-15.0
Value - Earnings FY1 to Price 1yr change	27.6	Growth - 2yr forward EPS growth	-15.0
Value - Earnings to Price 1yr change	27.0	Leverage - Debt to Equity	-14.9
Value - Price to Sales	24.2	Quality - 2yr change in Payout ratio	-12.6
Cash Flow - FCF to Market Cap	19.4	Capital Spending - R&D to Sales 1yr change	-12.0
Cash Flow - FCF to Market Cap 1yr change	17.1	Capital Spending - Capex 1yr change	-11.8
Quality - 2yr change in Net Income Margin	14.9	Growth - 1yr historical Sales growth	-10.9
Quality - 1yr change in ROE	14.6	Leverage - Debt to Assets	-9.8
Leverage - Current Liability Ratio 1yr change	14.6	Growth - 1yr forward EPS growth	-9.3
Efficiency - Total Assets Turnover 1yr change	14.3	Capital Spending - Shares Issued 1yr change	-8.3
Growth - 1yr historical EPS growth	11.8	Capital Spending - Capex to Sales 1yr change	-7.9
Quality - 2yr change in ROCE	11.0	Growth - 2yr historical Sales growth	-7.5
Efficiency - Working Cap Turnover 1yr change	9.9	Efficiency - R&D 1yr change	-7.1
Quality - Payout ratio	9.8	Growth - 1yr historical, 2yr forward EPS growth	-6.9
Quality - Net income margin	9.4	Cash Flow - FCF to EPS	-6.8
Growth - 2yr historical EPS growth	9.3	Capital Spending - R&D to Sales	-6.7
Quality - 2yr change in ROE	9.3	Quality - Profit Margin	-5.3
Quality - 1yr change in Net Income margin	8.8	Leverage - Interest Coverage Ratio 1yr change	-5.2
Growth - 2yr change in EBIT margin	8.8	Capital Spending - Capex to Sales	-4.1
Quality - EBIT margin	8.5	Growth - 2yr historical BVPS growth	-3.5
Performance - Analysts Revisions 6mo change	8.2	Leverage - Capitalization Ratio	-3.4
Quality - ROA	8.1	Efficiency - LT Debt to Working Cap	-2.7
Quality - 2yr change in ROA	7.9	Efficiency - LT Debt to Working Cap 1yr change	-2.5
Cash Flow - FCF to Sales 1yr change	7.8	Growth - 1yr historical BVPS growth	-2.1
Growth - 1yr change in EBIT margin	7.7	Growth - 2yr historical, 2yr forward EPS growth	-1.9
Quality - 1yr change in ROA	7.6	Efficiency - Cash Turnover 1yr change	-1.8
Liquidity - Current Ratio	7.2	Efficiency - Cash Turnover	-1.6
Liquidity - Working Cap Ratio	7.2	Growth - 2yr historical, 1yr forward EPS growth	-1.0

Note: shows 40 best and worst factor returns in Europe in the 12 months between Feb00 & Feb01. **Source:** Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

Potential Pair Trades if Valuation Factors Return

Surprising turnaround trades if valuation factors come back to the fore. If valuation factors start to be important again later in 2008, as we expect, the following pair trades would be examples of what may start to work again. These are not trades that we or our analysts recommend investors to put on, but we believe they are good illustrations of the potential trades that would catch many investors off guard, including in some instances ourselves and our analysts. We handpicked these names based on the methodology presented in this study (see footnote for details).

Sector	Potential Longs			Potential Shorts		
	Name	Price (26-Mar-08)	Rating / Industry View (26-Mar-08)	Name	Price (26-Mar-08)	Rating / Industry View (26-Mar-08)
Consumer Discretionary	BMW	€ 34.9	UW / I	SWATCH	SFr 263.3	UW / N
	KINGFISHER	£ 1.4	OW / I	H&M, INDITEX	SKr 338.0, € 36.0	UW / I, EW / I
Consumer Staples	CASINO, DELHAIZE	€ 75.2, € 51.5	EW / C, EW / C	BAT, BEIERSDORF	£ 17.8, € 52.2	EW / I, EW / I
Energy	ROYAL DUTCH SHELL, STATOIL	£ 16.6, Nkr 151.0	EW / A, OW / A	TULLOW OIL	£ 6.6	OW - V / A
Financials	LIBERTY INTERNATIONAL, GECINA	£ 9.6, € 94.3	UW / A, UW / A	KLEPIERRE, IMMOEAST	€ 38.1, € 6.0	UW / A, UW / A
	UBS	SFr 29.3	UW / C	JULIUS BAER, PARTNERS GROUP	SFr 72.9, SFr 138.0	OW / C, OW / I
	HBOS, HYPO REAL ESTATE	£ 5.4, € 14.9	OW / C, EW - V / C	RAIFFEISEN	€ 83.5	EW / I
Health Care	ASTRAZENECA, SANOFI	£ 18.5, € 46.5	EW - V / I, EW / I	QIAGEN	€ 12.7	-
Industrials	RANDSTAD	€ 26.5	OW / I	CAPITA GROUP	£ 6.8	OW / I
	WOLSELEY	£ 5.3	EW / I	ABB, ALSTOM	SFr 26.2, € 135.5	OW / C, OW / C
Information Technology	ERICSSON	SKr 11.5	OW / I	SAP	€ 32.6	OW - V / I
Materials	UPM	€ 12.2	OW / I	LONMIN, ENRC	£ 31.0, £ 9.7	EW / A, N/A
Telecommunication Services	DEUTSCHE TELEKOM	€ 10.7	EW / I	ILIAD	60.5	OW - V / I
Utilities	CENTRICA, RWE	£ 3.0, € 76.5	OW / C, OW / C	Verbund AG	€ 44.1	-

Note: Potential longs / shorts (non-financials) – screening for stocks with at least 3 of 5 trailing valuation factors in the cheapest / most expensive quintiles within the sector (P/E, P/BV, DY, P/CE & P/S). Potential longs / shorts (financials) – screening for stocks with at least 2 of 3 trailing valuation factors in the cheapest / most expensive quintiles within the sector (P/E, P/BV & DY). Only include stocks with a market cap above \$3bn. 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, Morgan Stanley Research

**Best Value Baskets to Start Buying Today (1) - Joel Greenblatt-Inspired Long-Short Strategy
 - A Simple Stock Screen that Would Have Generated Performance In 16 Out Of 17 Years**

MSCI Europe: Buying Cheap Quality Stocks – Low EV/EBITDA & High ROCE

Avg Next 12m Rel Perf (Rebalanced in Oct)	Long Top 50 Stocks	Short Bottom 50 Stocks	Long - Short Strategy	#Companies in Sample
30-Apr-90	-3%	-10%	9%	515
30-Apr-91	-3%	-18%	16%	545
30-Apr-92	9%	-15%	27%	553
30-Apr-93	12%	8%	4%	537
30-Apr-94	4%	-11%	15%	560
30-Apr-95	11%	-9%	24%	593
30-Apr-96	1%	-16%	22%	608
30-Apr-97	-8%	-12%	5%	736
30-Apr-98	-3%	-6%	6%	776
30-Apr-99	-9%	3%	-17%	768
30-Apr-00	45%	-12%	57%	750
30-Apr-01	16%	-25%	42%	794
30-Apr-02	10%	-15%	21%	703
30-Apr-03	18%	13%	5%	719
30-Apr-04	10%	1%	9%	753
30-Apr-05	13%	2%	13%	822
30-Apr-06	11%	-7%	21%	863
30-Apr-07	10%	-16%	27%	916
Average	8.0%	-8.1%	16.9%	
#Years of Outperformance	13 / 18	5 / 18	17 / 18	

Note: Table shows avg next 12mths rel performance (based on semi-annual re-balancing at the end of April and October each year) of going long/short (or both) the top/bottom (or both) 50 stocks ranked on ROCE and EV/EBITDA. We have taken the sum of the squared ranks. Top & Bottom 50 baskets re-balanced semi-annually, assuming no transaction costs. This analysis is done excluding financial stocks, and excluding companies on negative ROCE and negative EV/EBITDA. Apr07 figure shows 11mth of performance up to Mar08.

Source: MSCI, Worldscope, Morgan Stanley Research. Inspired by Joel Greenblatt.

**Best Value Baskets to Start Buying Today (1) - Joel Greenblatt-Inspired Long-Short Strategy
- Current Constituents of the Long & Short Baskets**

Long Basket

Company	Sector	Price (28 Mar 08)	Mkt Cap (\$Mn, Non-Float Adj)	ROCE 2006	EV/EBITDA 2006
Next PLC	Consumer Discretionary	€ 11.98	4,930	61.5%	4.8
Gestelevision Telecinco S.A.	Consumer Discretionary	€13.16	5,128	68.2%	5.6
Mediaset S.p.A.	Consumer Discretionary	€5.78	10,786	30.5%	4.5
Antena 3 de Television S.A.	Consumer Discretionary	€8.73	2,912	150.3%	5.8
ProSiebenSat.1 Media AG	Consumer Discretionary	€13.65	2,359	28.0%	4.3
Schibsted ASA	Consumer Discretionary	NKr 153.00	2,013	32.8%	5.4
Bang & Olufsen A/S	Consumer Discretionary	DKr 293.00	682	26.7%	4.9
Barratt Developments PLC	Consumer Discretionary	€ 4.38	3,050	23.5%	4.0
Daily Mail & General Trust PLC	Consumer Discretionary	€ 4.39	3,239	23.5%	5.0
Persimmon PLC	Consumer Discretionary	€ 7.90	4,763	22.8%	4.6
JM AB	Consumer Discretionary	SKr 139.00	2,076	36.6%	6.7
Marks & Spencer Group PLC	Consumer Discretionary	€ 4.09	13,833	27.9%	6.4
Continental AG	Consumer Discretionary	€63.47	16,207	23.9%	5.9
M6-Metropole Television S.A.	Consumer Discretionary	€14.12	2,899	28.0%	6.5
Bellway PLC	Consumer Discretionary	€ 8.00	2,039	22.0%	5.1
Cermaq ASA	Consumer Staples	NKr 66.25	1,206	23.8%	5.2
Heineken Holding N.V.	Consumer Staples	€31.65	12,251	22.1%	4.2
StatoilHydro ASA	Energy	NKr 152.70	96,392	51.8%	4.3
TGS-NOPEC Geophysical Co. ASA	Energy	NKr 72.90	1,521	40.8%	3.9
ENI S.p.A.	Energy	€21.64	136,935	38.8%	3.6
Total S.A.	Energy	€47.19	178,388	36.2%	4.8
Royal Dutch Shell PLC (CL B)	Energy	€ 16.63	92,212	30.7%	1.6
BP PLC	Energy	€ 5.12	194,988	23.2%	4.8
AstraZeneca PLC	Health Care	€ 18.67	54,722	47.1%	4.6
Merck KGaA	Health Care	€81.43	8,310	23.0%	4.4
GlaxoSmithKline PLC	Health Care	€ 10.64	117,986	50.1%	6.9
Vallourec S.A.	Industrials	€153.63	12,872	52.1%	5.6
Rolls-Royce Group PLC	Industrials	€ 4.09	14,956	23.4%	3.7
Rentokil Initial PLC	Industrials	€ 0.96	3,501	40.9%	6.5
BE Group AB	Industrials	SKr 61.75	519	36.4%	6.7
Schindler-Hldg AG Ptg	Industrials	SFr 74.10	3,800	22.7%	5.0
Peab AB	Industrials	SKr 61.50	1,597	32.6%	6.6
Rockwool International A/S	Industrials	DKr 775.00	1,461	21.6%	3.8
CSR PLC	Information Technology	€ 3.24	860	40.9%	3.9
L.M. Ericsson Telephone Co.	Information Technology	SKr 11.64	28,999	24.3%	3.9
ASML Holding N.V.	Information Technology	€15.14	10,316	35.8%	6.5
Antofagasta PLC	Materials	€ 6.58	13,026	66.5%	3.6
Vedanta Resources PLC	Materials	€ 20.66	11,953	42.0%	4.0
Boliden AB	Materials	SKr 62.50	3,041	40.4%	2.0
Salzgitter AG	Materials	€108.95	10,881	34.0%	2.9
Norddeutsche Affinerie AG	Materials	€24.90	1,608	33.6%	2.5
Kazakhmys PLC	Materials	€ 15.67	14,548	48.2%	5.1
Acerinox S.A.	Materials	€16.80	6,888	32.2%	6.4
Anglo American PLC	Materials	€ 29.91	79,465	29.1%	6.3
SSAB Svenskt Stal AB	Materials	SKr 166.00	6,717	33.2%	6.7
Belgacom S.A.	Telecommunication Services	€28.40	15,166	29.1%	5.8
BT Group PLC	Telecommunication Services	€ 2.16	34,817	22.2%	4.1
Mobistar S.A.	Telecommunication Services	€58.74	5,873	56.9%	7.1
Drax Group PLC	Utilities	€ 5.29	3,615	43.6%	2.7

Short Basket

Company	Sector	Price (28 Mar 08)	Mkt Cap (\$Mn, Non-Float Adj)	ROCE 2006	EV/EBITDA 2006
RNB Retail & Brands AB	Consumer Discretionary	SKr 33.40	320	1.5%	48.4
Sogetec S.A.	Consumer Discretionary	€27.73	6,027	3.0%	27.7
Lottomatica S.p.A.	Consumer Discretionary	€18.31	4,389	2.6%	21.8
La Seda de Barcelona S.A.	Consumer Discretionary	€1.20	1,188	4.7%	15.9
NH Hoteles S.A.	Consumer Discretionary	€10.94	2,557	6.1%	13.2
Carphone Warehouse Group PLC	Consumer Discretionary	€ 2.90	5,326	7.0%	11.5
Scottish & Newcastle PLC	Consumer Staples	€ 7.88	14,979	6.2%	21.3
Pemod Ricard S.A.	Consumer Staples	€68.31	23,659	6.8%	20.9
AarhusKarlshamn AB	Consumer Staples	SKr 163.00	1,134	7.6%	16.0
Marine Harvest ASA	Consumer Staples	NKr 3.02	2,067	6.1%	11.9
Songa Offshore ASA	Energy	NKr 67.50	1,159	1.2%	82.1
Awilco Offshore ASA	Energy	NKr 50.60	1,487	1.6%	71.0
BW Offshore Ltd.	Energy	NKr 14.65	1,315	2.8%	34.1
SeaDrill Ltd.	Energy	NKr 134.00	10,522	5.4%	26.7
Petrolia Drilling ASA	Energy	NKr 1.87	373	4.9%	20.8
Wavefield Inseis ASA	Energy	NKr 38.00	964	7.5%	49.0
AGR Group ASA	Energy	NKr 40.00	554	5.5%	19.3
SeaBird Exploration Ltd.	Energy	NKr 12.45	199	4.6%	17.1
Ocean Rig ASA	Energy	NKr 39.40	1,321	6.3%	16.9
Petroplus Holdings AG	Energy	SFr 59.60	4,119	9.0%	16.6
Prosafe S.E.	Energy	NKr 79.70	3,605	9.8%	17.3
Golar LNG Ltd.	Energy	NKr 92.00	1,223	6.9%	13.3
DNO International ASA	Energy	NKr 7.70	1,371	11.9%	21.0
ALK-Abello A/S	Health Care	DKr 601.00	1,172	1.2%	77.3
Shire PLC	Health Care	€ 9.99	11,213	3.8%	35.0
Qiagen N.V.	Health Care	€13.21	4,058	11.2%	26.5
Grifols SA	Health Care	€16.60	5,588	12.2%	44.9
Stada Arzneimittel AG	Health Care	€45.95	4,235	10.6%	17.7
Lonza Group AG	Health Care	SFr 128.80	6,542	10.9%	17.2
Eitzen Chemical ASA	Industrials	NKr 16.00	541	0.7%	42.2
Renewable Energy Corp. ASA	Industrials	NKr 138.00	13,420	6.7%	61.3
Deutsche Post AG	Industrials	€19.30	36,706	3.8%	18.3
Sacyr-Vallehermoso S.A.	Industrials	€22.10	9,938	5.7%	19.1
Cintra Concesiones de Infraestructuras de	Industrials	€9.53	8,152	6.4%	16.9
Brisa-Autoestradas de Portugal S/A	Industrials	€9.08	8,607	8.2%	20.3
Grupo Ferrovial S.A.	Industrials	€47.46	10,517	5.0%	13.4
Koninklijke Philips Electronics N.V.	Industrials	€24.85	44,867	5.5%	13.5
Smiths Group PLC	Industrials	€ 9.41	7,328	7.5%	15.4
Nordex AG	Industrials	€23.59	2,491	12.0%	56.1
Aeroports de Paris	Industrials	€74.00	11,569	7.3%	14.4
Balfour Beatty PLC	Industrials	€ 4.63	4,030	9.1%	14.3
Vestas Wind Systems A/S	Industrials	DKr 512.00	20,087	14.5%	45.9
Autonomy Corp. PLC	Information Technology	€ 8.85	3,785	10.7%	48.9
Auriga Industries A/S	Materials	DKr 129.00	492	1.6%	16.3
Symrise AG	Materials	€16.36	3,054	7.3%	16.7
Syngenta AG	Materials	SFr 286.75	30,037	11.7%	22.6
Neuf Cegetel	Telecommunication Services	€34.84	11,539	2.8%	17.7
Public Power Corp. S.A.	Utilities	€27.00	9,896	1.9%	13.5
Centrica PLC	Utilities	€ 3.02	22,309	5.8%	14.3
Fortum Oyj	Utilities	€25.97	36,602	10.5%	15.8

Note: Latest Top and Bottom 50 stocks ranked on ROCE (high is good) and EV/EBITDA (low is good). Updated as of 28 March 2008. These screens should provide suggestions for stocks to underweight or avoid. We do not make a recommendation to outright short the stocks that qualify on the screens. Investors that can and who are looking for stocks to outright short should, however, find the screens a useful starting point. 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

**Best Value Baskets to Start Buying Today (2) – Benjamin Graham Inspired Value Screen
 - Performance Track Record & Methodology**

- Companies sampled: 1642

	#Companies with Data	#Companies qualified
1 Adequate size: Latest Mkt Cap > \$500mn	1642	1361
2 Healthy Financials: Current Ratio > 2x	1322	308
3 Healthy Financials: LT Debt < Working Capital	1322	586
4 Earnings Stability: EPS > 0 each year in the last 10 years	584	412
5 Dividend Record: DPS > 0 each year in the last 10 years	401	321
6 Earnings Growth: > 33% EPS growth in 10 years	731	583
7 Moderate P/E: Price divided by avg EPS last 3Y < 15x	1365	715
8 Moderate valuation: P/E x P/BV < 22.5	1281	526

Definitions / Sources / Notes

- Working Capital = Current Asset - Current Liabilities
- Current Ratio = Current Asset / Current Liabilities
- Earnings stability and dividend record: if 2006 is reported, the measurement period is 97 - 06
- Earnings Growth: avg EPS last 3Y / Same avg EPS 10Y ago > 1.33
- P/BV ratio calculated based on latest mkt cap and last reported book value
- Source: MSCI, Worldscope, IBES, Morgan Stanley Research

Note: In the remainder of this document we use all these criteria apart from #2 and #3, as those criteria are more typical for industrial companies and generally balance sheets are strong. Also we have modified criteria #1 to Market cap > \$500mn, as the original criteria implies that the analysis will be done excluding financial.

Source: "The Intelligent Investor" by Benjamin Graham, MSCI, Worldscope, Morgan Stanley Research

Backtest of Benjamin Graham's Value Stocks

	Absolute Performance		Relative Performance		#Observation
	CAGR	Hit Ratio	CAGR	Hit Ratio	
1 Year	18.3%	72%	6.8%	60%	447
2 Years	17.3%	78%	7.1%	61%	415
3 Years	16.6%	75%	6.1%	57%	363
4 Years	16.9%	83%	5.9%	61%	320
5 Years	14.4%	83%	5.6%	62%	235

Source: MSCI, Worldscope, Morgan Stanley Research

Best Value Baskets to Start Buying Today (2) – Benjamin Graham Inspired Value Screen - Current Constituents of the Long Basket

Company	Industry Group	Country	Price (26-Mar-08)	Mkt Cap (26-Feb-08, \$Mn)	Stock Rating / Industry View (26-Mar-08)	In Model Portfolio?
BMW AG	Automobiles & Components	Germany	€ 94.94	33,230	Underweight / I	
Renault	Automobiles & Components	France	€ 69.72	31,385	Underweight / I	
Compagnie Generale des Etablissements Michelin	Automobiles & Components	France	€ 65.40	14,867	Overweight / I	YES
Reteer Holding AG	Automobiles & Components	Switzerland	SFr 394.50	1,768	-	
HSCB Holdings PLC	Banks	United Kingdom	£ 8.21	195,147	Equal-Weight / C	
Banco Santander S.A.	Banks	Spain	€ 12.76	126,080	Overweight / C	YES
BNP Paribas S.A.	Banks	France	€ 64.63	92,432	Overweight / C	YES
Unicredito Italiano Spa Ord	Banks	Italy	€ 4.26	89,942	Equal-Weight / C	
Intesa Sanpaolo S.p.a.	Banks	Italy	€ 4.49	84,100	Overweight / C	YES
Barclays PLC	Banks	United Kingdom	£ 4.53	60,314	Equal-Weight / C	YES
Societe Generale S.A. (France)	Banks	France	€ 64.78	59,648	Overweight / C	YES
KBC Group N.V.	Banks	Belgium	€ 81.95	45,960	Overweight / C	
Danske Bank A/S	Banks	Denmark	DKr 178.75	26,400	Underweight / C	
DB NOR ASA	Banks	Norway	Nkr 77.85	20,386	Overweight / C	
Erste Bank der Oesterreichischen Sparkassen AG	Banks	Austria	€ 40.00	19,886	Underweight / I	
Natixis	Banks	France	€ 10.20	19,693	NAV / C	
Allied Irish Banks PLC	Banks	Ireland	€ 13.50	18,761	NAV / C	
Svenska Handelsbanken A	Banks	Sweden	SKr 178.00	18,238	NAV / C	
Skandinaviska Enskilda Banken AB	Banks	Sweden	SKr 160.00	17,829	Equal-Weight / C	
Bank of Ireland Ord SIK EUR0.64	Banks	Ireland	€ 9.76	15,276	NAV / C	
Svebank AB	Banks	Sweden	SKr 170.50	14,768	Overweight / C	
Piraeus Bank S.A.	Banks	Greece	€ 18.30	9,765	NAV / C	
Banco BPI S/A	Banks	Portugal	€ 3.32	3,996	-	
Fomento de Construcciones y Contratas S.A.	Capital Goods	Spain	€ 42.40	6,746	Underweight / I	
Wolseley PLC	Capital Goods	United Kingdom	£ 5.52	7,339	Equal-Weight / I	
Wienerberger AG	Capital Goods	Austria	€ 33.21	4,404	Equal-Weight / I	
Meggitt PLC	Capital Goods	United Kingdom	£ 2.71	3,585	-	
Zodiac S.A.	Capital Goods	France	€ 30.86	2,710	-	
Tatavis Perkins PLC	Capital Goods	United Kingdom	£ 10.85	2,618	Equal-Weight / I	
DCC PLC	Capital Goods	Ireland	€ 16.42	1,963	-	
Societe BIC	Commercial Services & Supplies	France	€ 40.00	3,141	-	
Electrolux AB	Consumer Durables & Apparel	Sweden	SKr 96.50	4,856	Equal-Weight / C	
Persimmon PLC	Consumer Durables & Apparel	United Kingdom	£ 7.90	4,763	-	
Taylor Wimpey PLC	Consumer Durables & Apparel	United Kingdom	£ 1.87	4,040	-	
Barrett Developments PLC	Consumer Durables & Apparel	United Kingdom	£ 4.38	3,950	-	
Hunter Douglas N.V.	Consumer Durables & Apparel	Netherlands	€ 49.68	2,946	-	
Indesit Co. S.p.a.	Consumer Durables & Apparel	Italy	€ 8.55	1,533	-	
Bang & Olufsen A/S	Consumer Durables & Apparel	Denmark	DKr 293.00	682	-	
Entreprise Inno PLC	Consumer Services	United Kingdom	£ 3.64	3,716	Overweight / I	
Deutsche Bank AG	Diversified Financials	Germany	€ 72.85	60,839	Equal-Weight / C	
Fortis (N) N.V.	Diversified Financials	Belgium	€ 19.90	55,299	-	
Investor AB	Diversified Financials	Sweden	SKr 135.00	10,335	-	
Eurazeo	Diversified Financials	France	€ 80.45	6,855	-	
3i Group PLC	Diversified Financials	United Kingdom	£ 8.39	6,543	Equal-Weight / I	
Schofield PLC	Diversified Financials	United Kingdom	£ 9.54	4,323	Equal-Weight / I	
Vontobel Holding AG	Diversified Financials	Switzerland	SFr 33.80	2,212	Equal-Weight - V / I	
Close Brothers Group PLC	Diversified Financials	United Kingdom	£ 6.11	1,826	-	
Catties PLC	Diversified Financials	United Kingdom	£ 2.30	1,675	-	
BP PLC	Energy	United Kingdom	£ 5.12	194,988	Equal-Weight / A	
Total S.A.	Energy	France	€ 47.19	178,388	Overweight / A	
ENI S.p.A.	Energy	Italy	€ 21.64	138,035	Equal-Weight / A	
Royal Dutch Shell PLC (CL B)	Energy	United Kingdom	£ 16.63	92,212	Equal-Weight / A	
OMV AG	Energy	Austria	€ 42.16	19,982	++ / A	
Casino Guichard-Perrachon et Cie. S.A.	Food & Staples Retailing	France	€ 78.29	11,687	Equal-Weight / A	
Delhaize Group	Food & Staples Retailing	Belgium	€ 50.78	8,028	Equal-Weight / C	
Kesko Oyj	Food & Staples Retailing	Finland	€ 32.05	3,343	-	
Borgman S.A.	Food Beverage & Tobacco	France	€ 68.20	1,863	-	
AXA S.A.	Insurance	France	€ 23.15	77,599	Overweight / I	YES
Aviva PLC	Insurance	United Kingdom	£ 6.13	32,253	Overweight / I	
Legal & General Group PLC	Insurance	United Kingdom	£ 1.27	16,215	Equal-Weight / I	
Sampo Oyj	Insurance	Finland	€ 17.35	15,825	Equal-Weight / I	YES
Fondaria-SAI S.p.a.	Insurance	Italy	€ 26.55	5,252	-	
Lafarge S.A.	Materials	France	€ 108.99	30,111	Overweight / I	
ThyssenKrupp AG	Materials	Germany	€ 36.27	29,481	Equal-Weight / I	
Hörmim Ltd	Materials	Switzerland	SFr 104.00	27,417	Overweight / I	
CRH PLC	Materials	Ireland	€ 23.90	20,659	Equal-Weight / I	
voestalpine AG	Materials	Austria	€ 44.28	11,503	Overweight / I	
Solvay S.A.	Materials	Belgium	€ 79.55	10,645	Underweight / I	
Svenska Cellulosa AB	Materials	Sweden	SKr 125.50	10,501	Overweight / I	
SSAB Svenska Stal AB	Materials	Sweden	SKr 169.00	6,717	Overweight / I	
Rexam PLC	Materials	United Kingdom	£ 4.29	5,534	-	
Buzzi Unicem S.p.A.	Materials	Italy	€ 15.58	4,063	-	
Italcementi S.p.A.	Materials	Italy	€ 12.44	3,481	Equal-Weight / I	
Tian Cement Co. S.A.	Materials	Greece	€ 25.74	3,128	Equal-Weight / N	
Alstom AG	Materials	Germany	€ 13.81	3,063	-	
May-Metrol Kartan AG	Materials	Austria	€ 24.95	2,254	-	
Italmobiliare S.p.A.	Materials	Italy	€ 62.88	2,197	-	
Mytilneos Holdings S.A.	Materials	Greece	€ 6.28	1,529	-	
Cementit Holding S.p.A.	Materials	Italy	€ 5.86	1,472	-	
Huhtamaki Oyj	Materials	Finland	€ 6.95	1,158	-	
Daily Mail & General Trust PLC	Media	United Kingdom	£ 4.39	3,229	Overweight / A	
Sandoz S.A.	Pharmaceuticals Biotechnology & Life Sciences	Switzerland	SFr 101.04	101,265	Equal-Weight / I	YES
UCB S.A.	Pharmaceuticals Biotechnology & Life Sciences	Belgium	€ 22.70	6,576	Equal-Weight - V / I	
Wendthave N.V.	Real Estate	Netherlands	€ 80.86	2,655	-	
DSG International PLC	Retailing	United Kingdom	£ 0.68	2,440	Underweight / I	
Dteteren N.V. S.A.	Retailing	Belgium	€ 228.48	1,996	-	
Vodafone Group PLC	Telecommunication Services	United Kingdom	£ 1.57	167,979	Overweight / I	YES
E.ON AG	Utilities	Germany	€ 121.31	132,623	Equal-Weight / C	

Note: Updated as of 28 March 2008. A = Attractive; I = In-line; C = Cautious; NAV = not available; ++Estimates for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time. "-" Not covered by Morgan Stanley. 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:** Worldscope, MSCI, IBES, Morgan Stanley Research

Best Value Baskets to Start Buying Today (3) – European Private Equity Screen

Stock	Country	Sector	Price (€)	Market Cap(\$mm)	FCF/ EV Yield	EV/ Fixed Assets	P/BV 2008	EBIT/ Int. Paid	Div Yld 2008	OVERALL RANK
CALTAGRONE EDITORE	Italy	Media	390	770	20.1	1.8	0.6	13.5	5.4	1
BOLIDEN	Sweden	Materials	6250	3041	13.8	1.4	1.2	37.6	4.8	2
HERACLES GENERAL CEMENT	Greece	Materials	1650	1853	11.2	1.7	1.5	53.2	6.8	3
LUFTHANSA	Germany	Transportation	1730	12516	9.6	0.7	1.2	8.8	6.0	4
ENI	Italy	Energy	2164	150955	8.7	2.0	1.7	293.5	6.2	5
DS SMITH	United Kingdom	Materials	153	1207	13.2	1.5	0.9	5.3	5.8	6
DSG INTERNATIONAL	United Kingdom	Retailing	68	2431	11.7	1.7	0.9	4.7	8.5	7
A-TEC INDUSTRIES	Austria	Capital Goods	5324	555	13.2	1.5	0.7	4.3	5.9	8
SIDENOR STEEL PROD & MAN	Greece	Materials	766	1163	13.5	1.6	1.1	6.9	4.6	9
FISCHER (GEORG) NAMEN	Switzerland	Capital Goods	48975	2022	11.7	2.1	1.2	8.8	5.1	10
NORDDEUTSCHE AFFINERIE	Germany	Materials	2490	1608	9.1	3.6	1.0	22.5	5.8	11
DRA X GROUP	United Kingdom	Utilities	529	3008	13.2	2.0	2.4	14.1	10.2	12
SARAS	Italy	Energy	294	4413	10.0	2.8	1.7	24.6	6.1	13
RAUTARUUKKI	Finland	Materials	3001	6648	12.8	3.9	1.9	30.4	6.5	14
MARAZZI GROUP	Italy	Capital Goods	525	848	12.3	1.4	0.9	5.5	4.7	15
BRITISH AIRWAYS	United Kingdom	Transportation	247	5729	25.5	0.5	0.9	4.7	4.0	16
MYTILINEOS HOLDINGS	Greece	Materials	828	1530	7.8	2.1	1.2	123.8	4.2	17
EPCOS	Germany	Technology Hardware & Equipment	910	939	12.2	1.2	0.9	7.5	3.3	18
HOME RETAIL GROUP	United Kingdom	Retailing	268	4725	10.5	3.3	0.7	7.5	5.6	19
PORTUGAL EMPRESA PRODUTO	Portugal	Materials	222	1884	11.5	1.3	1.3	6.9	4.5	20
COMPUTACENTER	United Kingdom	Software & Services	168	523	11.9	1.9	0.9	7.1	4.8	21
MORGAN SINDALL	United Kingdom	Capital Goods	978	841	26.4	1.3	2.1	11.4	4.2	22
CIBA HOLDING	Switzerland	Materials	3682	2560	11.0	1.8	0.7	3.3	6.8	23
LANXESS	Germany	Materials	2485	3266	10.5	1.7	1.3	9.7	4.0	24
HUNTER DOUGLAS	Netherlands	Consumer Durables & Apparel	4268	2846	13.4	3.8	1.3	15.0	4.3	25
L.D.C.	France	Food Beverage & Tobacco	6588	849	11.3	1.7	1.1	22.8	2.3	26
KONINKLIJKE DSM	Netherlands	Materials	3038	8708	9.9	2.0	0.9	8.1	4.1	27
ACA FOODSERVICE GROUP	United Kingdom	Consumer Durables & Apparel	302	700	17.2	3.5	1.2	8.9	4.1	28
HELLENIC PETROLEUM	Greece	Energy	872	4211	8.7	2.6	1.0	9.0	5.0	28
TOMKINS	United Kingdom	Capital Goods	179	3171	8.3	2.6	1.4	9.8	7.7	30
THOMSON	France	Consumer Durables & Apparel	448	1910	15.2	3.1	0.6	2.8	7.8	30
SALZGITTER	Germany	Materials	10895	10881	18.3	3.3	1.2	41.5	2.3	32
STATOILHYDRO	Norway	Energy	15270	95786	8.2	1.8	2.4	44.9	5.5	33
D/S NORDEN	Denmark	Transportation	5050	4771	13.6	6.8	2.4	117.1	6.6	34
OMV AG	Austria	Energy	4216	19982	10.8	1.7	1.3	10.5	3.2	35
WACKER CONSTR EQUIPMENT	Germany	Capital Goods	118	1387	9.0	6.3	1.0	23.3	5.1	36
PUBLIGROUPE	Switzerland	Media	29100	732	10.5	7.5	1.0	38.3	4.3	37
THYSSEN KRUPP	Germany	Materials	3627	29481	9.8	2.0	1.6	15.2	3.6	38
BP	United Kingdom	Energy	512	193897	8.0	2.2	1.9	26.0	5.3	38
BUZZI UNICEM ORD	Italy	Materials	1558	4070	14.5	1.1	1.2	6.2	2.9	40
SAAB B	Sweden	Capital Goods	14900	2602	10.9	3.3	1.4	26.7	3.2	41
TRINITY MIRROR	United Kingdom	Media	294	1584	14.6	2.1	0.9	-1.1	7.5	42
SKANSKA B	Sweden	Capital Goods	11575	7706	10.9	5.4	2.2	32.9	7.3	43
SMURFIT KAPPA GROUP	Ireland	Materials	720	2480	20.2	1.5	0.7	0.4	4.6	44
REPSOL YPF	Spain	Energy	2252	43436	6.0	1.4	1.3	20.1	4.9	45
VALEO	France	Automobiles & Components	2488	3074	11.9	1.5	1.1	2.6	4.9	46
JOHNSTON PRESS	United Kingdom	Media	127	735	10.2	3.8	0.5	3.8	8.1	47
PRAKTIKER BAU UND HEIMWE	Germany	Retailing	1697	1555	12.8	3.0	1.0	7.5	3.2	48
KISA ELECTRICALS	United Kingdom	Retailing	214	2272	10.2	2.3	2.5	10.9	6.9	49
JUNGHEINRICH VORZUG	Germany	Capital Goods	2319	386	23.2	0.8	1.3	5.5	2.8	50
ELEMENTS	United Kingdom	Materials	67	599	12.6	3.3	1.2	5.8	4.4	51
BARRATT DEVELOPMENTS	United Kingdom	Consumer Durables & Apparel	438	3052	12.5	75.4	0.5	10.9	8.8	52
AKZO NOBEL	Netherlands	Materials	5155	23304	22.2	3.0	1.2	6.0	3.6	53
BODYCOTE INTERNATIONAL	United Kingdom	Capital Goods	187	1218	9.4	1.6	1.1	4.5	4.5	54
OESTERREICHISCHE POST	Austria	Transportation	2737	3027	7.1	2.8	2.1	69.7	5.7	55
UPM-KYMMENE	Finland	Materials	1132	9167	8.2	1.3	0.9	2.3	6.6	56
TOTAL	France	Energy	4719	178594	10.0	3.0	2.1	14.4	4.7	57
FKI	United Kingdom	Capital Goods	69	816	12.7	3.4	1.1	3.0	6.5	57
BARCO	Belgium	Technology Hardware & Equipment	4495	900	6.2	6.6	1.3	12.1	5.6	59
BANG & OLUFSEN B	Denmark	Consumer Durables & Apparel	29300	682	9.1	5.3	2.1	33.0	6.1	60
OUTOKUMPU	Finland	Materials	2902	8314	9.4	3.3	1.5	10.4	4.1	61
STOLT NIELSEN	Norway	Transportation	10600	1243	12.5	5.4	0.9	5.1	4.8	62
STORA ENSO R	Finland	Materials	749	7243	8.5	1.2	0.8	-0.1	6.0	62
HEIDELBERGER DRUCK	Germany	Capital Goods	1710	2154	7.4	3.5	1.0	7.5	5.8	64
WAVIN	Netherlands	Capital Goods	767	954	10.7	3.0	1.5	4.4	6.1	64
BELLMAY	United Kingdom	Consumer Durables & Apparel	885	243	14.1	87.5	0.9	15.6	5.2	66
KLONI REISEN NAMEN B	Switzerland	Consumer Services	54550	1624	16.5	5.3	1.9	29.4	3.5	67
CERMAQ	Norway	Food Beverage & Tobacco	6625	1206	8.5	4.3	1.3	43.4	3.4	68
ROLLS-ROYCE GROUP	United Kingdom	Capital Goods	409	14972	11.1	3.3	1.9	16.2	3.5	69
RHEINMETALL	Germany	Capital Goods	4626	2631	11.0	1.8	1.3	5.7	3.2	70
RENAULT	France	Automobiles & Components	6972	31385	5.9	3.2	0.8	9.0	6.5	71

Note: The overall rank is the rank of the average rank across all metrics shown. This method is used as a valuation tool only, this is not intended as a list of potential takeover targets. Prices updated as of 28 March 2008. 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: IBES, Worldscope, Morgan Stanley Research

Appendix – Full List of Factor Returns

<p>Capital Spending Related Capex/Assets Capex/Sales Capex/Depreciation R&D/Assets R&D/Sales Shares Outstanding 3mo change Capex 3mo change Capital Employed 3mo change Capex/Assets - 3 mo change Capex/Sales - 3 mo change Capex/Depreciation - 3 mo chan Capex/Assets - 1 mo change Capex/Sales - 1 mo change Capex/Depreciation - 1 mo chan</p>	<p>Growth Related 2-Yr Historical Growth 3mo hist BVPS growth 3mo hist DPS growth 3mo hist EBIT growth Sales Growth 1-Yr Sales Growth 3-Yr Analysts Revisions Analysts Revisions FY1 Growth in Estimated EPS Analysts Revisions - 3 mo Analysts Revisions FY1 3mo 1-Yr Estimated EPS Growth 1-Yr Historical Growth Sales Growth 5-Yr 3-Yr Historical Growth Historical LTG Estimated LTG Estimated LTG - 3 mo change Earnings Surprise Estimated LTG - 1 mo change</p>	<p>Liquidity Related Quick Ratio Cash Ratio Current Ratio Quick Ratio - 3 mo change Cash Ratio - 3 mo Change Current Ratio - 3 mo Change Quick Ratio - 1 mo change Cash Ratio - 1 mo Change Current Ratio - 1 mo Change</p>	<p>Value Related E/P Trailing B/P CE/P S/P Dividend Yield EBITDA/P EBITDA/EV E/P Trailing - 1 mo change B/P - 1 mo change CE/P - 1 mo change</p>
<p>Cash Flow Related FCF/Sales FCF/Price FCF / EPS FCF/Price - 1 mo change FCF / EPS - 1 mo Change FCF/Price - 3 mo change FCF / EPS - 3 mo Change FCF/Sales - 3 mo change FCF/Sales - 1 mo change</p>	<p>Leverage Related Debt to Equity Assets/Equity Interest Coverage Debt / Assets Capitalization Ratio Current Liability Ratio Debt to Equity - 3 mo change Interest Coverage - 3 mo chang Debt / Assets - 3 mo Change Capitalization Ratio - 3 mo Ch Assets/Equity - 3 mo change Current Liability Ratio - 3 mo Debt to Equity - 1 mo change Assets/Equity - 1 mo change Interest Coverage - 1 mo chang Debt / Assets - 1 mo Change Capitalization Ratio - 1 mo Ch Current Liability Ratio - 1 mo</p>	<p>Momentum Related 1 Period Return Size (Mkt Cap) 3 Month Return 6 Month Return 1 Month Return Market Cap - 3 mo change 12 Month Return 2-12 Month Return</p>	<p>S/P - 1 mo change Dividend Yield - 1 mo change EBITDA/P - 1 mo change EBITDA/EV - 1 mo change E/P Trailing - 3 mo change B/P - 3 mo change CE/P - 3 mo change S/P - 3 mo change Dividend Yield - 3 mo change EBITDA/P - 3 mo change</p>
<p>Efficiency Related Sales/Assets Cash Turnover Working Cap Turnover Inventory Turnover R&D 3mo change Sales/Assets - 3 mo change Cash Turnover - 3 mo Change Working Cap Turnover - 3 mo Ch Inventory Turnover - 3 mo Chan Sales/Assets - 1 mo change Cash Turnover - 1 mo Change Working Cap Turnover - 1 mo Ch Inventory Turnover - 1 mo Chan</p>		<p>Quality Related ROE Payout Ratio ROA ROCE EBIT Margin Profit Margin Working Cap 3mo change ROE - 3 mo change ROCE - 3 mo change EBIT Margin - 3 mo change Profit Margin - 3 mo change ROA - 3 mo change ROE - 1 mo change ROA - 1 mo change ROCE - 1 mo change EBIT Margin - 1 mo change Profit Margin - 1 mo change</p>	<p>EBITDA/EV - 3 mo change E/P Est FY1 E/P Est FY1 - 1 mo change E/P Est FY1 - 3 mo change EG/P EG/P - 1 mo change EG/P - 3 mo change</p>

Note: Full list of 135 factor returns in the US, grouped into 8 categories. **Source:** Morgan Stanley Quantitative & Derivative Strategies, Morgan Stanley Research

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Prices as at March 27, 2008: BP (512 p) Total (€47.19) ENI (€21.64) Barratt Developments (438 p) Bang & Olufsen B (DKr 293) Persimmon (789.5 p) Abbey (116 p)

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(as of Feb 29, 2008)

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	Count	% of Total	Count	Total IBC	% of Rating Category
Overweight/Buy	1039	44%	322	45%	31%
Equal-weight/Hold	974	41%	300	42%	31%
Underweight/Sell	356	15%	100	14%	28%
Total	2,369		722		

Data include common stock and ADRs currently assigned ratings. For disclosure purposes (in accordance with NASD and NYSE requirements), we note that Overweight, our most positive stock rating, most closely corresponds to a buy recommendation; Equal-weight and Underweight most closely correspond to neutral and sell recommendations, respectively. However, Overweight, Equal-weight, and Underweight are not the equivalent of buy, neutral, and sell but represent recommended relative weightings (see definitions below). 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.

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