

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

In the Matter of the Arbitration Between

Uma P. Reddi and  
Aruna Reddi

Claimants

vs.

E.F. Hutton & Co., Inc. and  
Darrell T. Jones

Respondents

CASE NO. 88-02482

SUMMARY OF ISSUES

Claimants filed this claim with the NASD on August 8, 1988 against E.F. Hutton & Co., Inc. and its account executive Darrell T. Jones. Claimants alleged that they were counseled to invest and trade in options which were not suitable for their investment goals, and that the risks associated were not properly explained to them. Claimants further alleged that Hutton failed to reasonably supervise its employee in connection with the handling of Claimants' account.

Respondents denied the allegations and maintained that the trading in options was consistent with Claimants' stated investment objectives; that Claimants specifically acknowledged the risks involved in selling naked options; and that Respondents recommended other investments which were conservative in nature which were rejected by Claimants. Respondent E.F. Hutton & Co., Inc. filed a counterclaim against Claimants and alleged that as a result of the market crash on October 19, 1987 Claimants' account was left with an unsecured debit balance and that under the terms of the Margin Agreement entered into between the parties, Claimants are liable for any deficiencies in their account arising out of margin call liquidations.

DAMAGES AND RELIEF REQUESTED

Claimants requested damages as amended at the hearing, in the amount of \$97,357.91, interest from October 1987, costs, and dismissal of the counterclaim.

Respondents requested dismissal of the claim.

Respondent/CounterClaimant E.F. Hutton & Co., Inc. requested damages in the amount of \$11,215.00, and costs.

DAMAGES AND RELIEF AWARDED

On October 11, 1989 the undersigned arbitrators heard the controversy between the parties as set forth in submissions to arbitration signed by Claimant on July 11, 1988 and by Respondent Shearson Lehman Hutton on September 30, 1988 and Darrell T. Jones on October 11, 1989. The hearing was held in Salt Lake City, Utah and lasted two sessions. The arbitration panel, having considered the pleadings, the testimony, and the evidence

presented at the hearing, has determined in full and final resolution of the issues submitted for determination as follows:

1. Claimant Uma P. Reddi (who directed the trades in the account) met the suitability standards for options trading.

2. Respondent E. F. Hutton & Co., Inc. failed to reasonably supervise its employee in connection with the handling of Claimants' account, specifically in reference to the covering of options on October 15, 1987 as requested by Claimants before the close of market on that day. Therefore, Respondent E.F. Hutton & Co., Inc. is solely liable for and shall pay to Claimants the sum of Thirty-Seven Thousand, Five Hundred Thirty-One Dollars and Seventy-Five Cents (\$37,531.75) calculated as follows:

a. Loss to Claimants covering option 10-16-87	\$ 88,747.41
b. Loss if options covered 10-15-87	\$ <u>(40,000.00)</u>
c. Gross Amount	\$ 48,747.41
d. Offset by debit balance due Respondent 12-31-87	\$ <u>(11,215.66)</u>
e. Amount awarded	\$ 37,531.75

3. Respondent E. F. Hutton & Co., Inc. is further assessed interest at ten percent (10%) per annum on the principal sum of \$37,531.75 from October 15, 1987 until date paid, or alternatively \$10.2827 per diem.

4. The parties shall each bear their respective costs including attorneys' fees.

5. Pursuant to Section 43 of the National Association of Securities Dealers, Inc. ("NASD") Code of Arbitration Procedure, the NASD shall retain the \$750.00 filing fee previously deposited by the Claimant.

#### OTHER ISSUES

The parties stipulated to the execution and service of the award in counterpart copies.

ARBITRATORS CONCURRING

DATE SERVED: 12/12/89

James A. Murphy

Al T. Hays

Samuel H. Wilson