

N.A.S.D. AWARD

NATIONAL ASSOCIATION OF SECURITIES DEALERS

In the Matter of the Arbitration Between

Name of Claimant

Fred L. Schaff

93-01326

Name of Respondent

Ferris, Baker Watts Incorporated

CASE SUMMARY

In a claim filed with the National Association of Securities Dealers, Inc. on April 2, 1993, Claimant Fred L. Schaff, who appeared Pro Se, alleged that he held an IRA account with Respondent Ferris, Baker Watts, Incorporated from July 1991 to on or about October 29, 1992, the date of transfer, whereby the claim of damages is based on two specific problems involving Collateralized Mortgage Obligations, ("CMO"), plus numerous additional errors in monthly statements in pricing of holdings and errors in allotting interest and/or return of principal at both the proper amounts and at the proper times. Claimant further alleged that the initial statement, July 26, 1991 to August 30, 1991, showed the purchase of two CMO's, Drexel Burnham Lambert, ("DBL"), and Oxford Acceptance Corp., ("DAC"), at which time, since DBL had already had some principal repayment, the purchase cost was only \$10,488.93 for a \$25,000 face value CMO; however, in spite of the purchase price being correct in the statement, the Position statement showed a value of \$25,204.50 and this, in turn, was reflected in the value of the Portfolio Summary on the front page of the statement. Claimant contended that he contacted Respondent to get this corrected and although the correction showed up on the next statement, it was not noted as a correction; however, in early 1992, he received a IRS Form 5498 which stated to the IRS the value of his IRA account. Claimant further contended that in that form the value of his holding was misstated by \$18,234.38 which was the difference between the actual value of the DBL CMO at the end of 1992 and the \$25,000 face value, and this difference, amounted to an overstatement of Claimant's IRA by 30% to the IRS, at which time, such error continues to exist at the IRS despite Claimant's repeated requests to have a correction filed. Claimant asserted that also on the initial statement, the purchase of the DAC CMO was billed at a cost of \$10,447.47 and then, two days later, was valued in the Positions at only \$9,888.50, a loss of over 5% in two days in a time when bond values were climbing due to lowering

interest rates and this difference, after much telephone and written discussion, with Respondent, it was reconciled by giving his account \$200.00 credit against the OAC purchase price and by increasing the Position value of the OAC to \$10,508.30 all in the November 29, 1991 to December 31, 1991 statement. Claimant further asserted that the final and major issue of his claim regards a missed payment of both principal and interest on the DBL CMO on or about December 1, 1991. Claimant argued that the remaining problems involve all of the errors in the years worth of statements and the time and analysis it took him to keep up with the correct account value. Claimant further argued that the value of the monetary damages is based on the specific case of lost investment opportunity due to Respondent's delay in crediting interest and principal payments from a CMO, in addition to Punitive damage in that not only did these errors occur but Respondent continuously delayed corrections, thus they should be held liable.

Respondent Ferris, Baker Watts Incorporated by and through their in-house counsel Theodore W. Urban, Esq., maintained that they acknowledge that the Claimant Fred L. Schaff, had an IRA account with them from July 1991 to September 1992, and that he purchased two collateralized Mortgage Obligations ("CMOs") within the account, among numerous other investments not at issue. Respondent further maintained that Claimant's positions included a \$25,000 Drexel Burnham Lambert CMO maturing June 1, 2013 at 8.5000% stated interest ("Drexel CMO") and a \$10,000 Oxford Acceptance Corporation CMO maturing August 20, 2012 at 8.950% stated interest ("Oxford CMO"). Respondent contended that they acknowledge that, over the year in question, certain delays occurred in the reporting and payment of principal and interest payments on the CMOs in Claimant's account. Respondent further contended that all such errors were inadvertent and fully corrected in a timely manner. Respondent asserted that Claimant's claim for lost investment opportunity is entirely speculative, and is not supported by the facts. Respondent further asserted that it is the responsibility of all investors to monitor their account statements to ensure the accuracy of the information recorded thereon, and Claimant cannot be compensated for performing an obligation imposed upon every securities account holder. Respondent further maintained that they acted in good faith with respect to Claimant and has continuously and diligently corrected any temporary posting delays or errors in Claimant's accounts whereby the Statement of Claim fails in manner to allege a basis for damages, thus the claim should be dismissed.

RELIEF REQUESTED

Claimant Fred L. Schaff requested \$6,875.00 in actual damages together with \$3,000.00 in Punitive damages.

Respondent Ferris, Baker Watts Incorporated requested the claim be dismissed in its entirety.

AWARD

Pursuant to Section 13 of the National Association of Securities Dealers, Inc. Code of Arbitration Procedure, a single Public Arbitrator, Allen Kilik, Esq., was selected to review and determine the matter in controversy between the parties set forth in submissions to Arbitration signed by the Claimant on March 30, 1993 and by the Respondent on June 14, 1993.

And, the Arbitrator, having considered the proof of the Parties, has decided and determined in full and final resolution of the issues submitted for determination as follows:

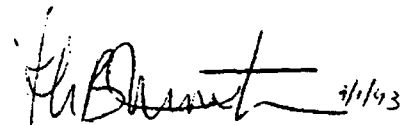
1. The claim of Claimant Fred L. Schaff against Respondent Ferris, Baker Watts Incorporated is dismissed.
2. The parties shall bear their respective costs.
3. The \$150.00 filing fee previously deposited with the National Association of Securities Dealers, Inc. by the Claimant Fred L. Schaff shall be retained by the NASD, Inc.

AFFIRMATION

I, ALLEN KILIK, ESQ., do hereby affirm upon my oath as arbitrator that I am the individual described herein and who executed this instrument, which is my oath and award.



Allen Kilik, Esq.

 7/1/93

DATE OF DECISION: September 10, 1993

HELENA R. MONTENEGRO
NOTARY PUBLIC OF NEW YORK
MY COMMISSION EXPIRES MAY 1, 1995