

N.A.S.D. AWARD

NATIONAL ASSOCIATION OF SECURITIES DEALERS

In the Matter of the Arbitration Between

Name of Claimants

Henry W. Reed and Elizabeth Wadsworth

93-02809

Name of Respondents

Prudential Securities, Inc.
Alex Socolof

REPRESENTATION

For Claimants Henry W. Reed and Elizabeth Wadsworth ("Claimants"): The Claimants appeared pro se.

For Respondents Prudential Securities, Inc. ("Prudential") and Alex Socolof ("Socolof"): Gerard J. Kowalski, Esq. of Prudential Securities, Inc.

CASE INFORMATION

Statement of Claim filed: July 19, 1993.

Claimants' Submission Agreements signed on: July 15, 1993.

Joint Statement of Answer filed by Respondents Prudential and Socolof on: October 4, 1993.

Respondent Prudential's Submission Agreement signed on: October 15, 1993.

Respondent Socolof's Submission Agreement signed on: October 22, 1993.

HEARING INFORMATION

Hearing Date/Sessions: March 1, 1994 - Two Sessions

Hearing Location: National Association of Securities Dealers, Inc. offices located in New York City, New York.

CASE-SUMMARY

Claimants alleged that in May, 1992, Respondent Socolof, a registered representative with Prudential Securities, Inc., recommended a Preferred Equity Redemption Cumulative ("PERC") stock issued by RJR Nabisco; that Claimants inquired as to the suitability of Claimants borrowing against their present investments, the risk in the RJR PERC and the interest cost of the resulting margin account; and that Respondent Socolof stated that he would not normally suggest that Claimants borrow against their investments to finance the purchase of a stock but that Respondent Socolof had made an exception in this case.

Claimants further alleged that on June 3, 1992, Claimants bought 13,000 shares of RJR PERC stock at a price of 10 3/8 per share, for a total cost, including commissions, of \$137,326.00; that following the presidential election in November and the Clinton Administration's announced plan to raise tobacco taxes, Claimants became suspicious of the prospects for the RJR PERC investment and placed a "good till canceled" order with Respondent Socolof to sell Claimants' holding of 13,000 shares at 10 5/8 per share; that Respondent Socolof reported rumors of a new issue of RJR dividend bearing stock which the company intended to distribute to present holders of RJR PERCs; that since this plan would add considerable value to Claimants' stock, they agreed to Respondent Socolof's recommendation to cancel their "good till canceled" order to sell on February 16, 1993; and that then, on June 24, 1993, came the announcement that RJR Nabisco had canceled its plan for the new stock issue.

Claimants also alleged that Respondents disregarded Claimants' investment goals of income and safety of principal; that Respondents failed to conduct a meaningful analysis of the financial risks involved in such an investment; and that Respondents selected for Claimants a security which was unsuitable for their goals, age and lifestyle.

Respondents maintained that Claimants opened accounts with Prudential Securities, Inc. in or about April, 1992; that Respondent Socolof did not have discretion over the accounts and at no time did Respondent Socolof exercise discretion over the accounts; and that the investment which is the subject of this dispute was discussed with Claimants including whether the purchase would be made with cash or on margin.

Respondents maintained that Respondent Socolof did recommend the purchase of RJR Nabisco; that Respondent Socolof was well aware of Claimants' investment objectives and financial background; and that Respondents believed the recommendation of RJR Nabisco was suitable for Claimants' investment objectives in 1992. Respondents further maintained that Socolof attempted to

persuade Claimants to sell other securities to purchase RJR Nabisco rather than borrow against their holdings but that the decision to purchase shares on margin and the amount of shares to be purchased was made solely by Claimants.

Respondents maintained that the fact that Claimants still hold the stock within their accounts was evidence of their failure to mitigate damages and evidence that their claim was based solely upon their disappointment in the performance of their investment. Respondents also maintained that Claimants were "free riding" by maintaining the ability to profit from an investment while disavowing responsibility for the initial purchase. Further, Respondents maintained that the Respondents can not be held responsible for fluctuations of investments due to market conditions and Claimants should not be permitted to avoid the risks of a transaction that they voluntarily undertook.

RELIEF REQUESTED

Claimants requested an award against Respondents either reversing the original purchase transaction and eliminating the debit balances in Claimants' accounts, or for Respondent Prudential to sell the stock and eliminate the debit balances in both accounts. Claimants also requested that they be awarded substantial punitive damages for the callous and reprehensible treatment that Claimants received.

Respondents requested that the panel issue an order dismissing the Claimants' claim in its entirety and assessing all costs associated with this proceeding against Claimants. Respondents also requested that the panel issue an order denying Claimants' request for punitive damages.

AWARD

After considering the pleadings, the testimony and the evidence presented at the hearing, the undersigned arbitrators have decided in full and final resolution of the issues submitted for determination as follows:

1. All claims against Respondents be and hereby are dismissed in all respects.
2. All claims for punitive damages be and hereby are dismissed in all respects.
3. Each party shall bear their own costs except that Respondents, jointly and severally, be and hereby are liable and shall reimburse Claimants the sum of \$650.00 previously deposited with the NASD by Claimants.

FORUM FEES

Pursuant to Section 43c of the Code of Arbitration Procedure, the following Forum Fees are assessed.

2 sessions X \$500 = \$1,000 minus hearing session deposit of 500 = net \$500 due.

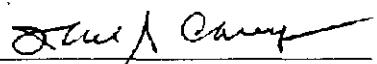
Forum fees Assessed Against:


Respondents be and hereby is liable and shall pay to the NASD the sum of \$500.00 to represent forum fees.

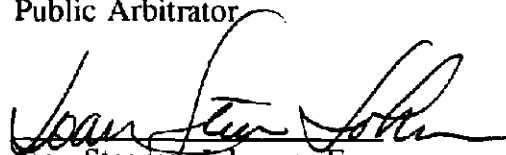
Fees are payable to the National Association of Securities Dealers, Inc.

Concurring Arbitrators' Signatures

Name


Neil J. Carey
Chairperson - Public Arbitrator


William A. Mechmann
Public Arbitrator


Joan Stearns-Johnsen, Esq.
Industry Arbitrator

Date of Decision: April 11, 1994

STATE OF *Connecticut*
COUNTY OF *Fairfield*

S.S.: *STAMford*

On this *28th* day of *March*, 1994, before me personally appeared —
Neil J. Carey known to me to be the individual described in and who executed the foregoing
instrument and be duly acknowledged to me that he/she executed the same

Alan L. Trullinger

6/30/98

STATE OF NEW JERSEY

S.S.:

COUNTY OF MONMOUTH

On this day of April, 1994, before me personally appeared
William A. Mechmann known to me to be the individual described in and who executed the
foregoing instrument and be duly acknowledged to me that he/she executed the same



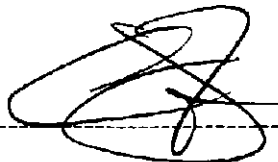
ALIDA De GAETA
NOTARY PUBLIC OF NEW JERSEY
MY COMMISSION EXPIRES JULY 17, 1997

STATE OF *NEW YORK*

COUNTY OF *KINGS*

S.S.:

On this *7TH* day of *APRIL*, 1994, before me personally appeared *Joan Stearns-Johnsen, Esq.* known to me to be the individual described in and who executed the foregoing instrument and be duly acknowledged to me that he/she executed the same



ANTHONY J. FORTE
Notary Public, State of New York
No. 4950100
Qualified in Nassau County
Commission Expires April 24, 1995