

N.A.S.D. AWARD

NATIONAL ASSOCIATION OF SECURITIES DEALERS

In the Matter of the Arbitration Between

Name of Claimant

Dorothy J. Baldwin

93-03866

Name of Respondent

Merrill Lynch, Pierce, Fenner & Smith, Inc.

CASE SUMMARY

In a claim filed with the National Association of Securities Dealers, Inc. on September 27, 1993, Claimant Dorothy J. Baldwin ("Claimant"), through her representative, Jill Levi, Esq., of Feltman, Karesh, Major & Farbman, located in New York, NY., alleged that Respondent Merrill Lynch, Pierce, Fenner & Smith, Inc. ("Respondent"), breach its fiduciary duty to Claimant, omitted material facts, breached contractual duties, and sold unsuitable securities. Claimant further alleged that on or after September 28, 1987, she purchased from Respondent \$5,000.00 worth of Arvida/JMB Partners, L.P. I ("Arvida I"). Claimant contended Respondent began offering Arvida I interests to the public in September of 1987, and that Respondent served as both underwriter and selling agent for this offering. Claimant further contended that the prospectus was extremely difficult to understand and was written in such a way as to obfuscate rather than communicate the information. Claimant further contended that Respondent took advantage of the incomprehensibility of the prospectus and knew that the audience to which it was pitching relied completely upon its presentation. Claimant further alleged that a significant portion of the real property acquired by the Arvida I partnership consisted of undeveloped land which is considered speculative. Claimant contended that a large front-end load increased the risk for investors in Arvida I. Claimant further contended that cash distributions to the limited partners in Arvida I totalled \$320.00 for each interest owned and were paid through mid-1990. Claimant alleged that Respondent made no real effort to inform existing or potential investors that the distributions were in fact "managed distributions". Claimant further alleged that by artificially maintaining these high distributions, Respondent concealed from investors and potential investors the failure of the partnership to achieve its touted goals and enabled Respondent to tout the "track record" of Arvida I. Claimant contended that the effect of distributions in Arvida I totalling approximately \$139,000.00 was to materially reduce the available capital of the partnership. Claimant further contended that through December of 1991, Respondent advised its customers in its monthly statements that the market value and estimated market value of each unit of Arvida I was \$1,000.00 the amount the investor paid. Claimant alleged that by consistently reporting the market value at the original cost and by making managed distributions, Respondent concealed the failure of the Arvida I partnership and should be held liable for Claimant's loss.

Respondent Merrill Lynch, Pierce, Fenner & Smith, Inc., through its representatives, Dominick Evangelista, Esq., and Brian F. Amery, Esq., of Bressler, Amery & Ross, located in Morristown, NJ., maintained in its Statement of Answer and supplemental pleadings that the Arvida I offering represented a high quality, reasonable investment made through a comprehensive prospectus which disclosed the reasonably foreseeable risks and lost value only because of a severe, nationwide real estate recession. Respondent further maintained that pursuant to its standard practice, the Arvida I prospectus describing the investment was forwarded to Claimant and disclosed the nature of the investment, as well as the risks attendant thereto. Respondent contended that the existing and reasonably foreseeable conditions at the time of the Arvida I offering indicated that it was a sound venture. Respondent further contended that the Claimant has failed to explain how Respondent's involvement in various aspects of the Arvida I offering operated to the detriment of Claimant's interest in the partnership. Respondent maintained that the facts clearly indicating that it would receive selling commissions and re-numeration of underwriting, due diligence investigation and marketing expenses are disclosed throughout the prospectus. Respondent further maintained that Claimant was provided full and fair disclosure of the various roles Respondent was to perform in connection with the Arvida I offering. Respondent contended that although the prospectus did not predict the recession of 1990, it did fully and fairly caution that real estate investments would adversely suffer if adverse national or local economic conditions were to occur. Respondent further contended that Claimant's equation of undeveloped land with raw land is in error. Respondent maintained that the prospectus specifically described each real estate holding and the state of development of each particular holding at the time of the offering, and a review of the prospectus easily confirms that Arvida I was not involved in raw land holdings. Respondent further maintained that the prospectus contained full disclosure of the use of the proceeds of the Arvida I offering, including fees to be paid to Respondent, the general partner, and others. Respondent contended that it notified all of its customers that the limited partnership prices contained on the monthly statements reflected the original cost and did not represent current market value. Respondent further contended that Arvida I represented an offering of high quality real estate properties which lost value because of the severe, nationwide real estate recession beginning three years after the offering, and accordingly, it should not be held liable for the Claimant's loss.

RELIEF REQUESTED

Claimant Dorothy J. Baldwin requested \$10,000.00 in actual damages, plus interest, costs, and attorneys' fees.

Respondent Merrill Lynch, Pierce, Fenner & Smith, Inc. requested that the claims of the Claimant be dismissed.

OTHER ISSUES CONSIDERED & DECIDED

The Arbitrator has reviewed and considered all documentation regarding Respondent Merrill Lynch, Pierce, Fenner & Smith, Inc.'s request and motions and has made the following determinations:

1. Respondent's Request for a Hearing is denied.
2. Respondent's Motion to Strike the following portions of Claimant's Supplemental Submission are granted:
 - a. References to Consent order filed by the SEC against Prudential Securities.
 - b. Copies of NASD Arbitration Awards concerning Merrill Lynch customer and former customers.
 - c. Copy of magazine article appearing in April, 1994 edition of Business Week.
3. Respondent's Motion to Strike allegations re: GBL Sec. 325-e(5) is denied.

The Arbitrator declined to review and consider the supplemental documentary submissions filed on November 1, 1995 by Respondent Merrill Lynch, Pierce, Fenner & Smith, Inc. and November 7, 1995 by Claimant.

AWARD

Pursuant to Section 13 of the NASD, Inc. Code of Arbitration Procedure, a single Public Arbitrator, Diane J. Getzler, Esq., was selected to review the matter in controversy between the parties set forth in submissions to Arbitration signed by the Claimant Dorothy J. Baldwin, on September 23, 1993, and by the Respondent Merrill Lynch, Pierce, Fenner & Smith, Inc., on January 14, 1994.

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. Respondent Merrill Lynch, Pierce, Fenner & Smith, Inc. is liable and shall pay to the Claimant Dorothy J. Baldwin, \$3,300.00 in actual damages.
2. Claimant Dorothy J. Baldwin shall assign all her rights and title in Arvida/JMB Partners, L.P. I ("Arvida I") to Respondent Merrill Lynch, Pierce, Fenner & Smith, Inc.
3. All other relief requests are denied.
4. The \$150.00 filing fee previously deposited with the National Association of Securities Dealers, Inc. by the Claimant Dorothy J. Baldwin, shall be retained by the NASD, Inc. Respondent Merrill Lynch, Pierce, Fenner & Smith, Inc. shall pay to the Claimant Dorothy J. Baldwin, \$150.00 as reimbursement of the filing fee.

AFFIRMATION

I, **DIANE J. GETZLER**, do hereby affirm, pursuant to Article 7507 of the Civil Procedure Law and Rules, upon my oath as arbitrator that I am the individual described herein and who executed this instrument, which is my oath and award.



DIANE J. GETZLER

DATE OF DECISION: April 24, 1996