

**NATIONAL ASSOCIATION OF SECURITIES DEALERS
AWARD**

In the Matter of the Arbitration Between

Harland W. Farrell and Margaret M. Farrell,
Trustees of the Farrell Family Trust,

Claimants,

v.

NASD No. 94-1551

Southern California Securities, Inc. and
Robert Corey,

Respondents.

Representation

For Claimant: Harland Farrell - pro se

For Respondent Southern California Securities: pro se, Los Angeles, CA
For Respondent Robert Corey: Paul Hittelman, Esq., Los Angeles, CA

Case Information

Statement of Claim filed: April 20, 1994

Claimant's Submission Agreement signed: April 21, 1994

Statement of Answer filed on: Southern California Securities - June 9, 1994, Robert Corey -
June 27, 1995

Respondents' Submission Agreement signed on: Although duly served, Robert Corey
did not file a submission agreement but did file an Answer and is subject to National
Association of Securities Dealers (NASD) jurisdiction in accordance with NASD Code of
Arbitration Procedure Section 12. Southern California Securities - June 7, 1994

Hearing Information

Prehearing Conference Date(s)/Sessions: January 4, 1996/one

Hearing Date/Sessions: March 7, 1996/one

Hearing Location: Los Angeles, CA

Case Summary

Claimants alleged misrepresentation regarding the purchase of First Trust GNMA Unit Trust Series 63. Claimants further alleged that they were never told at the time of purchase that the investment was a GNMA, that they were paying a 3.8% sales charge and that they were paying a higher price than previously advised. Claimants argued that respondent Robert Corey (Corey) indicated that the matured principal each month would be transferred to a government fund paying 6%; Corey did not say, however, that the 6% interest was required to get one's initial investment back to the purchase level.

Respondent Corey denied all allegations of wrongdoing and alleged comparative negligence in relation to the transactions in issue. Corey also alleged that all damages were caused by the actions of other parties and that the investment was ratified by claimants.

Respondent Southern California Securities (SCS) denied all allegations of wrongdoing and alleged that claimants did not understand the mechanical operation of the investment, a GNMA pool, which is complicated. SCS alleged claimants were sent a prospectus on the investment as well as a confirmation showing the purchase price. SCS was out of business at the time of the hearing and did not appear.

Relief Requested

Claimant requested compensatory damages of \$12,003. Respondent Corey requested costs and attorney's fees.

Other Issues Considered and Decided

The parties have agreed that the Award in this matter may be executed in counterpart copies or that a handwritten, signed Award may be entered. In either case, the parties have agreed to receive conformed copies of the Award while the originals remain on file with the NASD.

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. Respondent Robert Corey is liable for and shall pay claimants \$3,420;
2. The parties shall each bear their respective attorney's fees;
3. The parties shall each bear their respective costs.

Findings of Fact

Claimants, Harland W. Farrell and Margaret M. Farrell, as Trustees of the Farrell Family Trust ("Farrell") were unsophisticated investors who, prior to December 1992, limited the investment of any surplus funds to bank savings accounts and/or certificates of deposit. In December 1992, Farrell watched Respondent Corey "pitch" an investment on a television business channel and, as a result thereof, contacted Corey by telephone. Farrell claims that Corey represented to Claimant that he could make available a "government guaranteed" security with a "current interest rate" of 7.2%. Corey further represented to Farrell that no sales "load" or "commission" would be charged to Farrell. Lastly, Corey advised Farrell that this opportunity was only available if purchased prior to 1992 year end. Farrell's claims as to the initial purchase were not disputed at the hearing.

Farrell invested \$90,000.00 in a GNMA Trust through Corey and his brokerage firm which cleared through another securities firm. In January, Farrell received a confirmation of his investment which clearly indicated that it was a participation in a GNMA product. This was subsequently detailed in the monthly brokerage account statements sent to Farrell. In April, Farrell was sent a prospectus detailing the GNMA product in which he had invested. Shortly thereafter, he was sent a prospectus for an Oppenheimer fund into which any GNMA distributions were to be deposited as a part of the "program" in which Farrell had invested. Eventually, Farrell concluded that he had not invested in a fixed rate government security and following meetings with Respondent and others liquidated his position.

Farrell requests to be made "whole" on his \$90,000.00 by being repaid (i) Corey's commission on the sale, (ii) any principal that was lost, and (iii) the difference between the interest received by Farrell and the 7.2% he believed he would receive.

Corey failed to "know your customer" when he solicited this investment from Farrell and failed to understand the customer's investment objective when selling the GNMA product. Further, he failed to provide Farrell with a statutory prospectus prior to accepting Farrell's money for the GNMA investment. However, once Farrell received the investment of confirmation, monthly brokerage statements, and prospectus, Farrell was

obligated to take reasonable steps to understand what type security he had purchased and to mitigate his perceived losses if the security was not what he understood he was purchasing. Further, the GNMA product, when coupled with the Oppenheimer fund, did produce principal and interest distributions that approximated the numbers presented by Corey until interest rates dropped beginning in 1994 and thereafter.

Farrell is awarded the sum of \$3,420.00 which is the amount deducted from the initial Farrell investment as the commissions and sales loads payable to Corey and others. No other relief is granted.

Other Costs

None.

Forum Fees

Pursuant to Section 43(c) of the Code of Arbitration Procedure, the following forum fees are assessed: The National Association of Securities Dealers, Inc., shall retain the \$300 hearing session deposit previously paid by the claimant. Forum fees are assessed against claimants and respondent calculated as follows:

Total forum fees assessed (one prehearing session @ \$300/session and one hearing session @ \$300/session)	\$	600
Claimant's assessment		300
Claimant's balance due		0
Respondent Corey's assessment		300

An adjournment fee was assessed against Respondent Corey.

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

Arbitration Panel

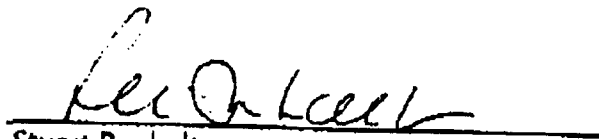
Name

Public/Industry

Stuart Buchalter

Public

Arbitrator's Signature


Stuart Buchalter

Date of Decision:

Date Served: 4/4/96