

N.A.S.D. REGULATION AWARD

NATIONAL ASSOCIATION OF SECURITIES DEALERS REGULATION, INC.

In the Matter of the Arbitration Between

Name of Claimant

Bonnie I. McKnight

96-03476

Name of Respondents

Legg Mason Wood Walker, Inc
Interstate/Johnson Lane
Robert C. Thomas

REPRESENTATION

For claimant Bonnie I. McKnight ("claimant") appeared her representative Fred Thompson, III, Esq. of the law firm Stokes & Thompson located in Charlestown, South Carolina.

For respondent Legg Mason Wood Walker, Inc. ("Legg Mason") appeared its representative and in-house counsel, John Gilner, Esq.

For respondent Robert C. Thomas ("Thomas") appeared his representative Thomas Keaveny, II, Esq. of the law firm of Holmes & Thomson located in Charleston, South Carolina.

For respondent Interstate/Johnson Lane ("Interstate") appeared its representative and in-house counsel, Pamela P. Warnement, Esq.

CASE INFORMATION

Statement of Claim filed: August 12, 1996.

Claimant's Submission Agreement signed on: August 30, 1996.

Statement of Answer filed by respondent Legg Mason on: November 8, 1996.

Respondent Legg Mason's Submission Agreement signed on: November 8, 1996.

Joint Statement of Answer filed by respondents Thomas and Interstate on: November 8, 1996.

Respondent Interstate's Submission Agreement signed on: November 8, 1996.

Respondent Thomas' Submission Agreement signed on: November 7, 1996.

HEARING INFORMATION

Hearing Dates/Sessions:	May 22, 1997	two sessions
	May 23, 1997	two sessions

The hearings were conducted at the Charlotte Marriott at the City Center located in Charlotte, North Carolina.

CASE SUMMARY

Claimant alleged that she entered into a broker/customer relationship with respondent Thomas in 1988 while she was employed by Johnson Lane n/k/a Interstate Johnson Lane and kept that relationship until April 1995. Claimant further alleged that she deposited over \$230,000.00 during that period and relied exclusively upon Thomas for investment advice. Claimant also alleged that she informed Thomas she wished to invest conservatively for the purpose of getting income and conservative growth. Claimant contended that Thomas did not follow her instructions, instead he embarked on the purchase/sale of non/low rated securities. Claimant further contended that Thomas' trading patterns continued through her marriage and divorce, despite his knowledge that she had limited income following the divorce. Claimant also contended that Thomas traded her account more actively following her marital separation. Claimant asserted that Thomas' trading patterns cause Interstate to investigate him but that he assured Interstate that he was complying with her investment goals.

Claimant alleged that she transferred her account to Legg Mason when Thomas switched his employment because she trusted his advice. Claimant further alleged that when she realized that she would not recover the lost value from her account she closed it.

Claimant asserted that respondents violate the "know your customer" rules and suitability requirements. Claimant further asserted that she lacked sophistication. Claimant also asserted that respondents breached their fiduciary duty to her because she relied on Thomas as her financial advisor.

Respondent Legg Mason denied all claims insofar as they input any wrongdoing whatsoever to it or Thomas while he was employed by it. Respondent maintained that the allegations are over broad, vague and fail to delineate claimant's damages. Respondent further maintained that claimant failed to show that respondents were the proximate cause of any of her losses. Respondent also maintained that claimant did not incur any losses while she had her accounts with it. Respondent contended that it should not be held liable due to claimant's contributory negligence; claimant does not have a private right of action; claimant ratified the investments; claimant did not mitigate the losses; claimant assumed the risk of loss; and, claimant's lost opportunity is speculative.

Respondents Thomas and Interstate maintained that claimant is an educated, intelligent, independent, business person who is fully capable of understanding, and did understand, the potential risks and rewards of investing in the stock market. Respondents further maintained that claimant was informed about each investment and decided whether or not to make the trade. Respondents also maintained that claimant told Thomas that she wanted income and growth from her account and that her risk tolerance was discussed. Respondents contended that claimant often rejected Thomas' advice and at other times came to him with investment choices. Respondents also contended that Thomas stayed in contact with claimant and on several occasions recommended that she sell the investments that had depreciated but that claimant repeatedly rejected this advice. Respondents asserted that claimant made regular cash withdrawals from her account despite Thomas' recommendation that such action might adversely affect her account. Respondents further asserted that claimant was kept fully informed about the activity in the account and never complained about the service she had received until the arbitration claim was filed.

Respondents maintained that they made suitable recommendations to claimant and provided claimant with the nature and risk of each investment.

RELIEF REQUESTED

Claimant requested out of pocket expenses, investment opportunity losses, attorney's fees as provided under the South Carolina Blue Sky Law, costs, plus compensatory damages of \$136,000.00.

Respondent Legg Mason requested that the case be dismissed in its entirety with costs assessed against claimant.

Respondents Interstate and Thomas requested that the case be dismissed in its entirety.

OTHER ISSUES CONSIDERED & 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 NASD Regulation.

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. Respondents Interstate/Johnson Lane and Robert C. Thomas be and hereby are jointly and severally liable and shall pay to claimant Bonnie I. McKnight \$16,177.00 in compensatory damages.

2. Respondents Interstate/Johnson Lane and Robert C. Thomas be and hereby are jointly and severally liable and shall pay to claimant Bonnie I. McKnight simple interest at the South Carolina statutory rate from August 12, 1996 to the date of payment of the award.
3. The claims of claimant Bonnie I. McKnight against respondent Legg Mason Wood Walker, Inc. be and hereby are dismissed in their entirety.
4. The parties shall bear their respective attorneys fees and costs.
5. All other relief requests are denied.

FORUM FEES

Pursuant to Rule 10332(c) of the Code of Arbitration Procedure, the arbitrators have determined that NASD Regulation shall retain the \$200.00 non-refundable filing fee previously deposited by claimant and have assessed the following forum fees:


4 sessions x \$750.00	= \$3,000.00
minus claimant's \$750.00 deposit	= <u>\$ 750.00</u>
total outstanding	= \$2,250.00

Claimant be and hereby liable for the sum of \$1,500.00 representing one-half of the total amount of forum fees assessed. Claimant previously deposited \$750.00 with NASD Regulation. Therefore, claimant shall pay NASD Regulation, Inc. \$750.00 in satisfaction of outstanding forum fees.

Respondent Interstate/Johnson Lane and Robert C. Thomas be and hereby are jointly and severally liable for the sum of \$1,500.00 representing one-half of the total amount of forum fees assessed. Therefore, respondents Interstate/Johnson Lane and Robert C. Thomas shall pay to NASD Regulation, Inc. \$1,500.00 in satisfaction of outstanding forum fees.

ARBITRATORS' SIGNATURES

I, Arne Hovdesven, Esq., do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.



Arne Hovdesven, Esq.
Public Chairperson

I, Alexander I. Heckman, Esq., do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.

Alexander I. Heckman, Esq.
Industry Arbitrator

I, Thomas S. Wallace, do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.

Thomas S. Wallace
Public Arbitrator

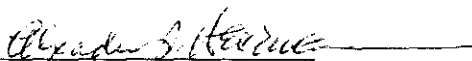
Date of Decision: August 7, 1997

ARBITRATORS' SIGNATURES

I, Arne Hovdesven, Esq., do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.

Arne Hovdesven, Esq.
Public Chairperson

I, Alexander I. Heckman, Esq., do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.



Alexander I. Heckman, Esq.
Industry Arbitrator

I, Thomas S. Wallace, do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.

Thomas S. Wallace
Public Arbitrator

Date of Decision: August 7, 1997

ARBITRATORS' SIGNATURES


I, Arne Hovdesven, Esq., do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.

Arne Hovdesven, Esq.
Public Chairperson

I, Alexander I. Heckman, Esq., do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.

Alexander I. Heckman, Esq.
Industry Arbitrator

I, Thomas S. Wallace, do hereby affirm, pursuant to Article 7507 of the Civil Practice Law and Rules, that I am the individual described herein, and who executed this instrument which is my award.



Thomas S. Wallace
Public Arbitrator

Date of Decision: August 7, 1997