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M.S.R.B.

In the Matter of the Arbitration between :

Claimant, :

AWARD

v. :

STEPHEN E. SHOGREN, :

MS 89-104

Respondent. :

The Undersigned, pursuant to section 31 of MSRB rule G-35, hereby states as follows:

CASE SUMMARY

Claimant alleges numerous material misrepresentations by Respondent Stephen E. Shogren, formerly President of now defunct United Securities, Inc., Wichita, Kansas, concerning the amount of risk involved in an investment in Dodge City, Kansas, Industrial Development Revenue Bonds (Lora Locke Hotel) Series 1983 ("the Lora Locke bonds"), which went into default, and in several other industrial revenue bonds which Claimant purchased from Respondent in the period 1979-84. Claimant alleges that Respondent misrepresented industrial revenue bonds as low risk investments that were guaranteed and federally backed and never explained to him the different types of municipal bonds and their respective elements of risk, or that losses to his principal could occur. Claimant also alleges that he did not read the Official Statement (O.S.) for the Lora Locke bonds because he believed it would support Respondent's representations, upon which he relied. Claimant contends that Respondent, as an underwriter of the Lora Locke bonds, had a responsibility to ask Claimant what percentage of his investable funds and life savings this investment represented and, had Claimant been aware of the amount of risk involved, he never would have bought the bonds.

Respondent denies making numerous material misrepresentations or ever telling Claimant that industrial revenue bonds were federally backed or guaranteed. Respondent maintains, among other things, that if he had made such statements to Claimant, he would have said the same things to other investors, and he is not aware that any of his other customers, particularly those who lost money on the Lora Locke bonds, have made such complaints. Respondent contends that he explained to Claimant the different types of bonds and the quality and degree of risk associated with each type. Respondent also maintains that he is not aware of a

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default or missed payment on any of the bonds owned by Claimant from 1979-84, other than the Lora Locke bonds. Respondent contends that the Lora Locke bonds were structured and marketed in good faith, without any knowledge or expectation of future problems, and he believes that Claimant understood the risks of this investment.

RELIEF REQUESTED

Claimant requests an award of \$15,614.04 for lost principal on the Lora Locke bonds (purchased on 4/25/84); \$3,934.65 for losses on nine transactions with Respondent from 1979-84; \$10,000 plus accrued interest to the date of sale for two bonds remaining in his portfolio which he alleges are at risk; and, his \$400 filing fee. The total award requested is \$29,948.69.

AWARD

On July 16, 1990, in Washington, D.C., the undersigned arbitrator heard the controversy between the parties set forth in submissions to the arbitrator signed by Claimant on October 27, 1989 (filed with the MSRB on December 15, 1989), and by Respondent on January 26, 1990. The undersigned, having considered the pleadings, the testimony, and the evidence presented at the hearing, has determined, in full and final resolution of the issues submitted for determination, that:

The purchase of the Lora Locke bonds was not a suitable investment for Claimant given his financial resources and objectives. The Official Statement clearly states that "A PROSPECTIVE PURCHASER OF THE BONDS DESCRIBED HEREIN SHOULD BE AWARE THAT ANY SUCH INVESTMENT IS SPECULATIVE IN NATURE." (Emphasis supplied.)

Claimant's failure to read the O.S. does not negate or obviate Respondent's affirmative duty to (1) inquire about Claimant's financial situation and needs and (2) make suitable recommendations based on Claimant's disclosures. The record does not support a finding that the speculative nature of the investment was consistent with Claimant's objectives. Evidence of others purchasing the bonds does not reveal whether they were similarly situated to Claimant and, therefore, is inconclusive.

Claimant's request to be made whole for nine transactions prior to his purchase of the Lora Locke bonds is denied. In this regard, the record does not reflect that those transactions involved speculative bonds. As for the two bonds remaining in

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Claimant's portfolio, he may sell or retain them. The decision is his. Finally, Claimant's filing fee shall be retained by the MSRB.

Respondent is directed to pay to Claimant \$15,614.04.

Patrick J. Halter

Patrick J. Halter

Dated: 8/17/90

STATE OF Virginia
COUNTY OF Alexandria
City

ss.:

On this 17th day of August, 1990, before me personally appeared Patrick J. Halter to me known and known to me to be the individual described in and who executed the foregoing instrument and he duly acknowledged to me that he executed the same.

Clare J. McFalla
Notary Public

My commission expires: March 31, 1994.