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Investors Get \$2.2M In Biggest Fund Arbitration Award

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A couple of investors were awarded \$2.2 million, which is the largest amount ever in an arbitration case over losses in a leveraged municipal arbitrage bond fund.

Money managers have been using such funds--also known as tender-option-bond programs--as an alternatives form of leverage instead of auction-rate securities, after that market froze in February 2008.

An American Arbitration Association panel in San Francisco ordered First Republic Securities Co. to pay \$2.1 million to Elliot and Rhoda Levinthal and their trust to replace their losses from a \$3 million investment three years ago in a bond fund that used a leveraged arbitrage strategy, including trades of municipal bonds, short-term notes and interest-rate derivatives. They also were awarded the amount they paid in fees and other costs for the arbitration.

Their lawyer, **Cary Lapidus**, said the panel found that the brokerage was wrong to recommend the investment given the Levinthals' investment objective and risk tolerance.

The couple had accused First Republic of misrepresenting facts about the fund, failing to conduct due diligence in designing the fund, failing to adequately train and supervise employees in the sale of the fund and recommending an unsuitable investment.

The panel found that the Levinthals' losses were the result of First Republic's misconduct, including professional negligence and breaching its fiduciary duties to its clients.

Attorneys for the brokerage couldn't immediately be reached for comment.

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