

**NASD
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

**CHRISTOPHER C. TAVARES
CRD NO. 2975868**

Respondent.

**DISCIPLINARY PROCEEDING
NO. CAF040083**

**HEARING OFFICER
ALAN W. HEIFETZ**

DATE: APRIL 5, 2005

INTRODUCTION

Disciplinary Proceeding No. CAF-040083 was filed on November 24, 2004, by the Department of Enforcement of NASD ("Complainant"). Respondent Christopher Tavares submitted an Offer of Settlement ("Offer") to Complainant on March 28, 2005. Pursuant to Code of Procedure Rule 9270(e), the Complainant and the National Adjudicatory Council ("NAC") Review Subcommittee or the Office of Disciplinary Affairs ("ODA") have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to Code of Procedure Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, to the entry of findings and violations consistent with the allegations of the

Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by NASD.

BACKGROUND

Christopher C. Tavares, age 40, was the Chief Compliance Officer, President, research analyst, registered principal, and part owner of Metro Trading Inc. Tavares was first registered with NASD in 1997, and first registered as a general securities principal in 1998. Tavares also held the series 27, 55, and 63 licenses.

Tavares' disciplinary history consists of one matter. In May 2003, NASD's Department of Market Regulation accepted Tavares' Offer of Settlement agreeing to a fine of \$25,000, which included disgorgement of \$9,165, a suspension in all capacities for four (4) months and in a principal or supervisory capacity for two (2) years. Tavares agreed to findings that he traded ahead of his own research, maintained a joint securities account with a family member at another firm and failed to give notice, and committed supervisory violations.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows. The findings herein are pursuant to Respondent Tavares' Offer of Settlement and are not binding on any other person or entity named as a respondent in this or any other proceeding.

1. In October 2002, Christopher C. Tavares was the President, research analyst, registered principal, Chief Compliance Officer

and part owner of Metro Trading, Inc. (“Metro Trading” or “the firm”), a member of NASD.

2. In October 2002 and throughout most of its existence, Metro Trading consisted of basically two people, Tavares and the firm’s trader, who worked on-site at the firm’s lone office in Deerfield Beach, Florida.
3. Metro Trading filed a Form BDW on September 25, 2003, having effectively ceased operations several months before.
4. While in existence, the firm did relatively little business of any kind. It conducted some proprietary trading and issued occasional research reports authored by Tavares, but did little more.
5. Tavares was the firm’s only analyst. The only prior research experience he had was efforts he undertook to conduct research to trade his personal accounts when he was employed outside the securities industry.
6. On October 30, 2002, Tavares, acting through Metro Trading, issued a research report on Technologies, Inc. (“HiEnergy”) which was distributed to members of the public. The report was disseminated through PRNewswire.
7. In the report, Tavares rated HiEnergy a “buy” and included a six month price projection for HiEnergy’s stock of \$3.50 to \$4.00. At the time, the stock was trading at \$2.23, although that was not stated in the report.

8. The report did not define what was meant by a “buy” rating and did not disclose any risks which could impede the achievement of the price target. The report also did not disclose the valuation method used to determine the price target.
9. The report did not disclose that HiEnergy’s auditors had issued a going concern opinion on the company a few months before the issuance of the report. It also did not disclose that the company had negative cash flow from operations of approximately \$653,000 and an accumulated deficit of approximately \$2.7 million, and was involved in pending litigation with close to \$1 million in potential damages.
10. The report failed to contain any of the disclosures required by NASD Rule 2711.
11. Tavares was the principal of Metro Trading responsible for the firm’s written supervisory procedures. The firm had no written supervisory procedures reasonably designed to ensure compliance with the provisions of 2711, and Tavares made no effort to adopt and implement such procedures.
12. NASD Conduct Rule 2711 went into effect on July 9, 2002, in pertinent part.
13. Pursuant to paragraph (h) of Rule 2711, a member is required to disclose within its research reports, among other things, the meaning of each rating used in its rating system; the valuation

methods used to determine price targets; a reasonable basis for price targets; a statement concerning the risks that may impede achievement of the price target; and disclosures required by NASD Conduct Rule 2210. In addition, the disclosures required by paragraph (h) of Rule 2711 must be presented on the front page of research reports in a clear, comprehensive, and prominent fashion, or the report must state on the front page where in the report the disclosures can be found.

14. Pursuant to paragraph (i) of the Rule 2711, a member must adopt and implement written supervisory procedures in order to ensure the member and its employees comply with the provisions of the rule.
15. Tavares failed to define the meaning of each rating used in Metro Trading's rating system in his research report on HiEnergy Technologies.
16. Tavares failed to disclose in the HiEnergy report the valuation method used to determine the price target, failed to provide a reasonable basis for the price target, and failed to include a disclosure concerning the risks that might impede the achievement of the price target contained in the report.
17. Tavares failed to make certain disclosures as required by NASD Rule 2210 in the HiEnergy report.

18. Tavares did not present any of the disclosures required by section (h) of Rule 2711 on the front page of the research report, nor did the front page refer to the page on which such disclosures could be found, and the disclosures required by Rule 2711(h) were not presented in a clear, comprehensive, and prominent fashion.
19. Tavares failed to have Metro Trading adopt and implement written supervisory procedures reasonably designed to ensure that the firm and its employees complied with the provisions of Rule 2711.
20. In the report on HiEnergy, Tavares omitted material facts which caused it to be misleading. He failed to disclose that HiEnergy's auditors had issued a going concern opinion on the company. He also failed to disclose that the company had a large negative cash flow from operations of approximately \$653,000 and accumulated deficit of approximately \$2.7 million, and that the company was involved in pending litigation with substantial potential damages. By omitting that information, the report as written contained exaggerated, unwarranted, or misleading statements and Tavares failed to provide a sound basis for evaluating the facts with regard to HiEnergy.
21. Tavares included in the HiEnergy report a price target projection that was exaggerated and unwarranted, given among other things, the company's negative cash flow, lack of revenue stream, and the

company's questionable financial condition as indicated by the going concern opinion.

22. Tavares failed to provide in the HiEnergy report the current price of the stock at that time, and instead included an older price.

Based on the foregoing, Christopher Tavares violated NASD Conduct Rules 2110, 2210 and 2711.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by NASD, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that Christopher Tavares be suspended from association with any NASD member for Ninety (90) Days in all capacities and fined Twenty Thousand (\$20,000) Dollars. The fine shall be due and payable either immediately upon reassociation with a member firm following the issuance of the Order, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier. It is further ordered that, before again acting in any capacity requiring registration, Christopher Tavares must re-qualify by examination

The sanctions imposed herein shall be effective on a date set by NASD staff. Pursuant to IM-8310-2(f), a bar or expulsion shall become effective upon approval or acceptance of this Order by the NAC.

SO ORDERED.

NASD

By: 
Thomas B. Lawson

Chief Counsel/Associate Vice President

Enforcement Department

on behalf of the Director of ODA, pursuant
to delegated authority