UPDATE 4-NASD fines former Merrill analyst Phua Young

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By Greg Cresci

NEW YORK (Reuters) - Securities industry regulator NASD said Tuesday it fined former Merrill Lynch & Co. analyst Phua Young $225,000 and suspended him from the industry for one year for publicly touting companies he doubted in private.

Young, whom Merrill fired in April 2002, issued positive reports on Tyco International Ltd. and Honeywell International Inc. despite privately harboring negative views on the two companies, NASD said.

The agency, formerly known as the National Association of Securities Dealers, last May charged Young with issuing misleading reports on Tyco and accused him of improper conduct, including flying on Tyco corporate jets.

Young -- who once described himself in an e-mail as a "loyal Tyco employee" -- published research reports in early 2002 in response to an announcement by Tyco that it would retire $11 billion in debt and spin off CIT Group, a large commercial lender that Tyco had purchased for $10 billion.

Young contended that Tyco would receive $8 billion for its CIT unit and assigned its stock a target price of $65 when it was trading in the $30 range, NASD said.

"None of these reports disclosed Young's privately held views that the CIT unit was not worth 'anything near $8 (billion),' that Tyco's fundamentals were weak because of its debt, and that Tyco's stock was overvalued," NASD said.

CIT ultimately sold for $4.6 billion.

On Honeywell, Young issued research recommending that investors buy the stock despite negative views on the company that he expressed privately, NASD said.

For example, NASD said, the analyst characterized Honeywell in as a "totally unmitigated disaster" in e-mail correspondence.

Edward Little, a lawyer for Young, said in a statement, "We wanted a speedy resolution of this case so that Phua Young could return to work as soon as possible."

He declined to say where Young may end up working.

LIGHTNING ROD

"The conduct of this analyst amounted to a betrayal of the objectivity and honesty in research that investors are entitled to," Barry Goldsmith, NASD's executive vice president for enforcement, said in a statement.

The integrity of stock research issued by major Wall Street banks has been the subject of intense criticism in recent years. In April 2003, regulators and 10 firms on Wall Street signed a $1.4 billion settlement that provides for third-party research to be offered to investors.

That settlement grew out of nearly two years of investigations led by New York Attorney General Eliot Spitzer, who showed that some Wall Street analysts knowingly issued biased research in order to help win investment banking business.

Merrill Lynch, second only to Citigroup Inc. in the amount it was fined under the settlement, stressed that it fired Young for breach of policy.

The bank dismissed Young for sending research reports to clients without getting approval from the brokerage.

"Young broke firm policies intended to protect the interests of our clients and investors," Merrill said in a statement. "We will not tolerate such conduct, as Young's termination demonstrated."

The analyst earned up to $4 million a year at Merrill, one of his lawyers said last year. Prior to joining Merrill, he worked at Lehman Brothers for 19 years.