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## Goldman Sachs Rakes In Profit in Credit Crisis

By [JENNY ANDERSON](#) and LANDON THOMAS Jr.

For more than three months, as turmoil in the credit market has swept wildly through Wall Street, one mighty investment bank after another has been brought to its knees, leveled by multibillion-dollar blows to their bottom lines.

And then there is [Goldman Sachs](#).

Rarely on Wall Street, where money travels in herds, has one firm gotten it so right when nearly everyone else was getting it so wrong. So far, three banking chief executives have been forced to resign after the debacle, and the pay for nearly all the survivors is expected to be cut deeply.

But for Goldman's chief executive, [Lloyd C. Blankfein](#), this is turning out to be a very good year. He will surely earn more than the \$54.3 million he made last year. If he gets a 20 percent raise — in line with the growth of Goldman's compensation pool — he will take home at least \$65 million. Some expect his pay, which is directly tied to the firm's performance, to climb as high as \$75 million.

Goldman's good fortune cannot be explained by luck alone. Late last year, as the markets roared along, David A. Viniar, Goldman's chief financial officer, called a "mortgage risk" meeting in his meticulous 30th-floor office in Lower Manhattan.

At that point, the holdings of Goldman's mortgage desk were down somewhat, but the notoriously nervous Mr. Viniar was worried about bigger problems. After reviewing the full portfolio with other executives, his message was clear: the bank should reduce its stockpile of mortgages and mortgage-related securities and buy expensive insurance as protection against further losses, a person briefed on the meeting said.

With its mix of swagger and contrary thinking, it was just the kind of bet that has long defined Goldman's hard-nosed, go-it-alone style.

Most of the firm's competitors, meanwhile, with the exception of the more specialized [Lehman Brothers](#), appeared to barrel headlong into the mortgage markets. They kept packaging and trading complex securities for high fees without protecting themselves against the positions they were buying.

Even Goldman, which saw the problems coming, continued to package risky mortgages to sell to investors. Some of those investors took losses on those securities, while Goldman's hedges were profitable.

When the credit markets seized up in late July, Goldman was in the enviable position of having offloaded the

toxic products that [Merrill Lynch](#), [Citigroup](#), [UBS](#), [Bear Stearns](#) and [Morgan Stanley](#), among others, had kept buying.

“If you look at their profitability through a period of intense credit and mortgage market turmoil,” said Guy Moszkowski, an analyst at Merrill Lynch who covers the investment banks, “you’d have to give them an A-plus.”

This contrast in performance has been hard for competitors to swallow. The bank that seems to have a hand in so many deals and products and regions made more money in the boom and, at least so far, has managed to keep making money through the bust.

In turn, Goldman’s stock has significantly outperformed its peers. At the end of last week it was up about 13 percent for the year, compared with a drop of almost 14 percent for the XBD, the broker-dealer index that includes the leading Wall Street banks. Merrill Lynch, Bear Stearns and Citigroup are down almost 40 percent this year.

Goldman’s secret sauce, say executives, analysts and historians, is high-octane business acumen, tempered with paranoia and institutionally encouraged — though not always observed — humility.

“There is no mystery, or secret handshake,” said Stephen Friedman, a former co-chairman and now a Goldman director. “We did a lot of work to build a culture here in the 1980s, and now people are playing on the balls of their feet. We just have a damn good talent pool.”

That pool has allowed Goldman to extend its reach across Wall Street and beyond.

Last week, [John A. Thain](#), a former Goldman co-president, accepted the top position at Merrill Lynch, while a fellow Goldman alumnus, Duncan L. Niederauer, took Mr. Thain’s job running the [New York Stock Exchange](#). Another fellow veteran trader, Daniel Och, took his \$30 billion hedge fund public.

Meanwhile, two Goldman managing directors helped bring Alex Rodriguez back to the Yankees, a deal that could enhance the value of Goldman’s 40 percent stake in the YES cable network — which it is trying to sell — while also pleasing Yankee fans. The symmetry was perfect: like the Yankees, Goldman, more than any other bank on Wall Street, is both hated and revered.

[Robert E. Rubin](#), a former Goldman head, is the new chairman of Citigroup. In Washington, another former chief, [Henry M. Paulson Jr.](#), is the Treasury secretary, having been recruited by [Joshua B. Bolten](#), the White House chief of staff and yet another former Goldman executive.

The heads of the Canadian and Italian central banks are Goldman alumni. The [World Bank](#) president, [Robert B. Zoellick](#), is another. [Jon S. Corzine](#), once a co-chairman, is the governor of New Jersey. And in academia, Robert S. Kaplan, a former vice chairman, has just been picked as the interim head of [Harvard University](#)’s \$35 billion endowment.

Since going public in 1999, Goldman has been the No. 1 mergers and acquisitions adviser, globally and in the

United States, with two exceptions: in 2005 it came in second in the United States rankings, and in 2000 it lost the top spot globally. In both instances, Morgan Stanley took the lead, according to Dealogic.

Goldman, of course, has made its share of mistakes. It took among the most serious write-downs in the third quarter on loans that were made to private equity firms, totaling \$1.5 billion. The firm runs one of the largest hedge fund operations in the world, but its flagship funds — funds whose investors include marquee Goldman clients and employees — have had two years of abysmal performance. Clients are expected to redeem billions of dollars of capital at the end 2007.

But Goldman's absence from the mortgage debacle and the strong performance of its other businesses made up for the write-down associated with the loans. The firm reported \$2.85 billion in profit in the third quarter, up 79 percent. Mr. Moszkowski estimates that investment and commercial banks in the United States have taken \$50 billion in write-downs related to mortgages, with more coming; Mr. Blankfein said at a conference last week that he expected to take none.

Goldman's business is built on taking risks, both for itself and its clients. In recent years, Goldman has established the largest private equity and real estate fund complexes in the world. That has led to natural tensions with private equity clients who sometimes complain, but never publicly, about Goldman's common insistence to team up with them for a piece of the deal.

"Goldman has done the best job of any firm in the U.S. or world competing with their clients but doing business with them," said one client who asked not to be named because he does business with the firm. "They've managed to get their clients to live with it."

Still, this bottom-line approach has turned off some Goldman veterans and clients. They see the firm's desire to advise, finance and invest — a so-called triple play — as antithetical to Goldman's stated No. 1 business principle of putting clients first.

And there is little question that its success in trading, investment banking and servicing hedge funds — many of the traders come right from Goldman — allows the firm a bird's-eye view on trends and capital flows in the market.

Numerous Goldman investment bankers, former and current, voice the view that Mr. Blankfein's approach — using Goldman's investment banking business to develop principal investment opportunities for the firm — creates a brand intended to feed Goldman's profits rather than relationships. But this harking back to the firm's golden days as a pure advisory firm does not find much sympathy at Goldman these days.

"I have little patience for these people who talk of the last days of Camelot," Mr. Friedman said. "Principal investing has been an important and useful business. If you want to be relevant you have to anticipate where the world is going."

Mr. Blankfein, at the conference last week, echoed that sentiment. "While the integration of our investment banking operations with our merchant bank was somewhat controversial at the time, we felt these

businesses were mutually reinforcing,” he said.

Money soothes a lot of concerns, of course, and Goldman has had plenty to spread around. Through the third quarter, Goldman’s \$16.9 billion compensation pool — the money it sets aside to pay its employees — was significantly bigger than the entire \$11.4 billion market capitalization of Bear Stearns.

Goldman executives and analysts assign much of their success to smart people and a relatively flat hierarchy that encourages executives to challenge one another. As a result, good ideas can get to the top.

But the differentiator that has become clearest recently is the firm’s ability to manage its risks, a tricky task for any bank. Checks and balances must be in place to turn off a business spigot even as it is still making a lot of money for a lot of people. In a world where power gravitates to the rainmakers, that means only management can empower the party crashers.

At Goldman, the controller’s office — the group responsible for valuing the firm’s huge positions — has 1,100 people, including 20 Ph.D. ’s. If there is a dispute, the controller is always deemed right unless the trading desk can make a convincing case for an alternate valuation. The bank says risk managers swap jobs with traders and bankers over a career and can be paid the same multimillion-dollar salaries as investment bankers.

“The risk controllers are taken very seriously,” Mr. Moszkowski said. “They have a level of authority and power that is, on balance, equivalent to the people running the cash registers. It’s not as clear that that happens everywhere.”

For all its success on Wall Street, it is Goldman’s global reach and political heft that inspire a mix of envy and admiration. In the race for president, Goldman Sachs executives are the top contributors to [Barack Obama](#) and [Mitt Romney](#), and the second highest contributor to [Hillary Rodham Clinton](#). Mr. Blankfein has held a fund-raiser for Mrs. Clinton in his apartment and has come out publicly in her favor.

Another member of Goldman’s influential diaspora is Philip D. Murphy, a retired executive who is the chief fund-raiser for the [Democratic National Committee](#).

All of which has made Goldman a favorite of conspiracy theorists, columnists and bloggers who see the firm as a Wall Street version of the Trilateral Commission.

One particular obsession is President Bush’s working group on the markets, an informal committee led by Mr. Paulson that includes [Ben S. Bernanke](#), the chairman of the Federal Reserve; [Christopher Cox](#), the chairman of the Securities and Exchange Commission; and Walter Lukken, the acting chairman of the [Commodity Futures Trading Commission](#).

The group meets about once a quarter — privately, with no minutes taken — to ensure that government agencies are briefed on market conditions and issues. The group is currently examining the extent to which the packaging and distribution of mortgage loans contributed to the crisis. It also recently completed a study recommending that hedge funds not be subject to further regulation; the group’s fund committee was led by

Eric Mindich, a former Goldman trader who now runs a successful hedge fund.

There is no evidence that the conduct of the group is anything but above board. But to some, the group's existence adds more color to the view that Goldman is indeed everywhere — much as [J. P. Morgan](#) was in the early years of the 20th century.

“Goldman Sachs has as much influence now that the old J. P. Morgan had between 1895 and 1930,” said Charles R. Geisst, a Wall Street historian at [Manhattan College](#). “But, like Morgan, they could be victimized by their own success.”

Mr. Blankfein of Goldman seems aware of all this. When asked at a conference how he hoped to take advantage of his competitors' weakened position, he said Goldman was focused on making fewer mistakes. But he wryly observed that the firm would surely take it on the chin at some point, too.

“Everybody,” he said, “gets their turn.”

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