

June 18, 2008

Why Goldman Is Golden

**Sticking to Its Strategy
Keeps Firm Ahead of Rivals
That Often Forgo Caution**

June 18, 2008; Page C18

Catching Goldman Sachs Group is a widespread Wall Street obsession. The attempt also is often futile -- and risky. Just ask such ousted executives as former Merrill Lynch boss Stan O'Neal or Morgan Stanley's old second in command, Zoe Cruz, both of whom measured their companies' performances against their more-successful rival. Another decent quarter of earnings leaves Goldman looking further ahead than ever.

Goldman is now the only big Wall Street brokerage house that hasn't stumbled badly in the credit crisis. It took some hits -- almost \$800 million on leveraged loans, much of that as hedges failed -- but its \$2.1 billion of income beat analysts' expectations by a third, even as it sold off roughly \$100 billion of assets, almost as much as Lehman Brothers Holdings unloaded.

Goldman's model is pretty simple: run a set of businesses broad enough to cover pain in individual areas -- something Lehman, for one, isn't yet doing -- and avoid losses as much as possible.

Yet rivals struggle to emulate it. That is in part because in chasing Goldman's earnings, they often throw caution to the wind. Merrill and Citigroup let their mortgage businesses get too big without hedging the risks, while Morgan Stanley got too greedy on a mortgage-related trade.

Others' recent woes make Goldman look even more alluring. Shareholders must feel more comfortable owning the company's stock than the shares of its rivals. And clients may be more willing than ever to entrust the company with their business. Other financial institutions are certainly doing so; selling banks' rights issues helped Goldman's equity-underwriting revenue last quarter to almost quadruple from the first quarter.

Still, the company's invincible aura could yet suffer from one poor quarter, and its relative strength has meant it hasn't felt the need to disclose as much about risky parts of its business as others have. Meanwhile, its earnings, like others', will be crimped if regulators force investment banks to hold more capital and keep their debt loads from getting too big. What is more, clients hate a monopoly, so they will spread business round. For now, though, keeping up with Goldman keeps getting harder for its rivals.

Vice-Presidential Pink Slips

It isn't just with its earnings that Goldman often leads the way. So rivals' vice presidents might want to note who is leaving Goldman's lower-Manhattan headquarters with a pink slip and a box

of personal items. The investment bank's lower and midlevel staff proved vulnerable in a recent round of job cuts. It is easy to see why VPs, who sit in the middle of the hierarchy, might be at particular risk elsewhere, too.

Banks are looking for places to trim the fat. The big-ticket managing directors who haven't pulled in enough revenue are eased out first. Along with surplus junior and support staff, VPs are prime candidates for the next round. They don't have the money-making relationships, nor are they the worker bees. In slow markets, VPs often have to fight to prove their worth.

Moreover, in the wake of four years of booming markets, the VP level may well be overcrowded. Banks need to make room for new promotions, particularly at a time when the bonus pool is shrinking. A title boost can be a nice carrot for senior associates who might otherwise be disappointed with their year-end pay.

So what is next for the masses of thirtysomething VPs roaming New York and London without jobs? They probably won't have to sleep in the streets. The average VP took home a bonus of about \$600,000 last year and about the same the year before, according to [Wall Street Comps](#), a compensation survey Web site.

Perhaps they could spend some time soul-searching. Or there is always the lure of an expatriate job. Plenty of banks are on the lookout for specialists -- especially those with a Goldman pedigree -- to work where the money is, in places like Dubai.

--Antony Currie and Lauren Silva