

## Goldman Trading Strategy Pays Off

By Steven Marlin and Riley McDermid  
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Goldman Sachs isn't the archetype of greed as it's been portrayed in the media, but is taking advantages of natural and unprecedented opportunities to profit, Wall Street professionals told Markets Media Thursday.

“Clearly the firm for a variety of reasons came out of last fall stronger than its competitors and as the markets picked up they positioned themselves well,” said Bill Feingold, co-founder and managing principal of Hillside Advisors, and a former vice president of proprietary convertible trading at Goldman Sachs.

The company, fresh off a blowout second quarter, disclosed in a regulatory filing that it's received inquiries from various governmental agencies and self-regulatory organizations regarding the firm's compensation processes as well as credit derivative instruments.

In the same filing, the company reported that daily trading revenue exceeded \$100 million for 46 days in the second quarter. Those profits appear to have come through market making, where the company has put chunks of its capital at risk.

“It seems like Goldman was willing to step in to trades where there was a buyer and seller and force trades to happen,” Feingold said. “It has a lot of good traders, and was uniquely positioned to take intelligent risks when a lot of its competitors were not.”

Goldman has emerged from the crisis in a strong position to take advantage of the market turnaround this year. “Once markets started to unfreeze, opportunities arose for market making, plus lots of equity issuance, combined with less competition too,” said Dan Borge, director at LECCG.

It's also benefited mightily from reduced competition. “Two of their competitors went of business because the government chose not to bail them out,” said Clark Beecher, principal at Houston-based professional services firm, Magellan International. “The reason they're succeeding is less competition.”

The reckless risk taking that characterized Wall Street before the crash seems to have disappeared, at least for now. “Nobody's making markets like in the past, when banks were on suicide missions with market making, but they've positioned themselves better,” said Feingold.

**The change in culture is likely to persist for some time. “Goldman Sachs is hiring people, and its appetite for growth exists but is conservative,” said Robert Olman, president of Alpha Search Advisory Partners. “It's raised the bar substantially on quality of candidates; it's looking for the best out there as opposed to just adding bodies to a booming business.”**

The House last week passed a bill that would give shareholders an advisory vote on executive compensation and prevent “perverse incentives in the compensation practices of financial institutions.” Only two House Republicans voted in favor of the bill. The bill requires an annual non-binding advisory vote by shareowners on executive compensation at public companies, as well as advisory votes by shareowners on compensation packages that include golden parachutes.