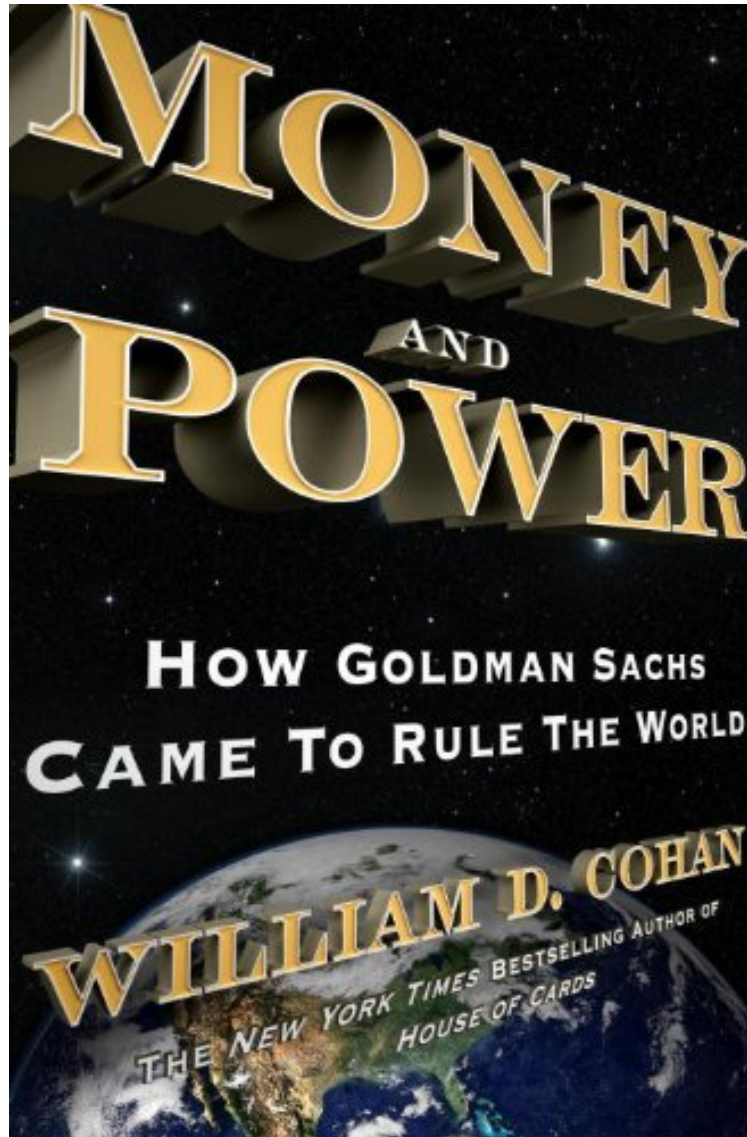


Money and Power: How Goldman Sachs Came to Rule the World

William D. Cohan

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William D. Cohan : Money and Power: How Goldman Sachs Came to Rule the World before purchasing it in order to gage whether or not it would be worth my time, and all praised Money and Power: How Goldman Sachs Came to Rule the World:

0 of 0 people found the following review helpful. The Definitive Biography of Goldman SachsBy John BowenThe definitive biography of Goldman. Very well written, very well researched, very well told, if a bit long, and perhaps too detailed in some areas. It is obvious that Goldman supported this book, as the author got broad access to pretty much all of the major figures in Goldman over the last several decades. That said, Mr. Cohan doesn't pull any punches in discussing the many scandals around Goldman, even going back to its earliest days.My only objection is the almost

lavish praise the author places on former Goldman head and US Treasury Secretary Henry Paulson. He says almost nothing negative about Mr. Paulson and depicts him as a reluctant, country boy, with no ambition, who was brought to the head of Goldman by happenstance. He even depicts Mr. Paulson as reticent and benevolent in wresting control of Goldman from John Corzine. It's a little hard to believe that Mr. Paulson rose through the ranks of the most competitive, testosterone-laden, killer investment bank in the world, just by chance, with no ambition. You can make your own judgment. You can't read this book without ending up with at least a grudging admiration for Goldman Sachs. Having worked in several large bureaucracies, what was most impressive is that despite its size, and resultant bureaucracy, Goldman has managed not to become risk-averse and to maintain its edge. Much of this appears to be its ability to hire the best and to compensate them accordingly. Time and again, when other investment banks were zigging, Goldman was zagging. At no time was this more evident than the recent 2007-2008 financial crisis, which Mr. Cohan describes in fantastic detail. Mr. Cohan also points out the many conflicts of interest, and very interestingly, how over time Goldman has moved away from being client-focused to being profit-focused. All in all, an excellent read, that you will find interesting and informative if you are interested in Wall Street and investing.

0 of 0 people found the following review helpful. Money and Power

By Kindle Customer

In depth investigation Goldman's rise. The early pioneers of the company are worth reading about as characters. As times change the personae become a little less dramatic. The work rate of the partners brings to mind an old New Yorker cartoon: Two harried execs are shown rushing across an airport lounge. One says to the other. "This job is killing me, but I'm making a fortune." Sydney Bernstein, for example, was known for his cat napping during meetings. At one meeting the cat nap was his valediction: he never woke up. He was 62. The company seems to be the Richelieu, or, Mazarin, of the modern age with feet planted firmly in both business and government. If you are in the business, or, even on the periphery of financial services, it is worth buying.

2 of 2 people found the following review helpful. Entertaining education

By John Eberhart

It's fun to learn, and this book teaches. Cohen has a lively style, and his collection of stories and opinions about Goldman Sachs will keep you pressing on through this well-written 614-page book. You'll recognize many of the characters, and the brief bios of these alpha males force you to appreciate this select group of financial wizards. The reporting captures the spirit of Goldman Sachs, warts and all, and there are many warts. You will come away with a deep wariness of anyone offering to handle your money for you. You are often seen as the patsy for someone else's sales objective. Cohen's effort would have been improved by editing. As is typical with historians, there is a tendency to include too much detail just because it has been collected and typed up. And there is sometimes a whiff of repetitiveness, e.g., praise for Goldman's core values. There are no pictures. Those quibbles aside, Money and Power is a worthwhile read. Investors and students of finance will benefit from the lessons Cohen presents. You'll be smarter at the end, and what more could you ask of a book?

The bestselling author of the acclaimed *House of Cards* and *The Last Tycoons* turns his spotlight on to Goldman Sachs and the controversy behind its success. From the outside, Goldman Sachs is a perfect company. The Goldman PR machine loudly declares it to be smarter, more ethical, and more profitable than all of its competitors. Behind closed doors, however, the firm constantly straddles the line between conflict of interest and legitimate deal making, wields significant influence over all levels of government, and upholds a culture of power struggles and toxic paranoia. And its clever bet against the mortgage market in 2007—unknown to its clients—may have made the financial ruin of the Great Recession worse. *Money and Power* reveals the internal schemes that have guided the bank from its founding through its remarkable windfall during the 2008 financial crisis. Through extensive research and interviews with the inside players, including current CEO Lloyd Blankfein, William Cohan constructs a nuanced, timely portrait of Goldman Sachs, the company that was too big—and too ruthless—to fail.

"[A] definitive account of the most profitable and influential investment bank of the modern era....recounts these events capably....[and explains] Goldman's cultivation of a reputation for brilliance unique even in the rarefied precincts of Wall Street....gives readers the information they need to ponder whether investment banking has moved in a constructive direction."--The New York Times Book "Destined to be a runaway bestseller...There's no shortage of Goldman clients, rivals, and former employees willing to explain how greed and recklessness led Goldman to become too big, too powerful, and even too conflicted to fail. As one Goldman alum puts it, 'I saw what they did to their customers...They'd steal from them, rape them, anything they could do.' It worked like a charm...[Cohan] has produced the frankest, most detailed, most human assessment of the bank to date. Cohan portrays a firm that has grown so large and hungry that it's no longer long-term greedy but short-term vicious. And that's the wonder -- and horror -- of Goldman Sachs." -- Businessweek "[Money and Power] offers the best analysis yet of Goldman's increasingly tangled web of conflicts...The writing is crisp and the research meticulous, drawing on reams of documents made publicly available by congressional committees and the Financial Crisis Inquiry Commission."-- The Economist "[E]xhaustive, revelatory account of the rise and rise of Goldman Sachs....engrossing....penetrating...Cohan revels in a good bust-up and lingers over anecdotes involving intrigue....All the senior partners still living spoke to him, often very candidly, and only a few from the next ranks seem to have refused....a vast trove of material"--The Financial Times "A former

Lazard Freres Co. banker and newspaper reporter, Cohan brings the bank's sometimes 'schizophrenic' behavior to vivid life...Dra...About the Author William Cohan is an award-winning journalist and Wall Street veteran. His first book, *The Last Tycoons*, about Lazard, won the 2007 Financial Times/Goldman Sachs Business Book of the Year Award and was a New York Times bestseller. His second book, *House of Cards*, also a bestseller, is an account of the last days of Bear Stearns Co, described as "gripping...high drama" by Michiko Kakutani of The New York Times. He is a regular on the pages of the Financial Times, is a contributing editor at both Vanity Fair and Fortune, and is an online columnist for The New York Times.

Excerpt. copy; Reprinted by permission. All rights reserved. Wall Street has always been a dangerous place. Firms have been going in and out of business ever since speculators first gathered under a buttonshy;wood tree near the southern tip of Manhattan in the late eighteenth century. Despite the ongoing risks, during great swaths of its mostly charmed 142 years, Goldman Sachs has been both envied and feared for having the best talent, the best clients, and the best political connections, and for its ability to alchemize them into extreme profitability and market prowess. Indeed, of the many ongoing mysteries about Goldman Sachs, one of the most overarching is just how it makes so much money, year in and year out, in good times and in bad, all the while revealing as little as possible to the outside world about how it does it. Anothermdash; equally confoundingmdash; mystery is the firm's steadfast, zealous belief in its ability to manage its multitude of internal and external conflicts better than any other beings on the planet. The combination of these two genetic strainsmdash; the ability to make boatloads of money at will and to appear to manage conflicts that have humbled, then humiliated lesser firmsmdash; has made Goldman Sachs the envy of its financial- services brethren. But it is also something else altogether: a symbol of immutable global power and unparalleled connections, which Goldman is shamelessly;less in exploiting for its own benefit, with little concern for how its success affects the rest of us. The firm has been described as everything from "a cunning cat that always lands on its feet" to, now famously, "a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money," by Rolling Stone writer Matt Taibbi. The firm's inexorable success leaves people wondering: Is Goldman Sachs better than everyone else, or have they found ways to win time and time again by cheating? But in the early twenty-first century, thanks to the fallout from Goldman's very success, the firm is looking increasingly vulnerable. To be sure, the firm has survived plenty of previous crises, starting with the Depression, when much of the firm's capital was lost in a scam of its own creation, and again in the late 1940s, when Goldman was one of seven;teen Wall Street firms put on trial and accused of collusion by the federal government. In the past forty years, as a consequence of numerous scandals involving rogue traders, suicidal clients, and charges of insider trading, the firm has come far closermdash; repeatedlymdash; to financial collapse than its reputation would attest. Each of these previous threats changed Goldman in some meaningful way and forced the firm to adapt to the new laws that either the market or regulators imposed. This time will be no different. What is different for Goldman now, though, is that for the first time since 1932mdash; when Sidney Weinberg, then Goldman's senior partner, knew that he could quickly reach his friend, President-elect Franklin Delano Rooseveltmdash; the firm no longer appears to have sympathetic; high-level relationships in Washington. Goldman's friends in high places, so crucial to the firm's extraordinary success, are abandoning it. Indeed, in today's charged political climate, which is polarized along socioeconomic lines, Goldman seems particularly isolated and demonized. Certainly Lloyd Blankfein, Goldman's fifty-six-year-old chairman and CEO, has no friend in President Barack Obama, despite being invited to a recent state dinner for the president of China. According to Newsweek columnist Jonathan Alter's book *The Promise*, the "angriest" Obama got during his first year in office was when he heard Blankfein justify the firm's \$16.2 billion of bonuses in 2009 by claiming "Goldman was never in danger of collapse" during the financial crisis that began in 2007. According to Alter, President Obama told a friend that Blankfein's statement was "atly untrue" and added for good measure, "These guys want to be paid like rock stars when all they're doing is lip-synching capitalism." Complicating the firm's efforts to be better understood by the American publicmdash; a group Goldman has never cared to; serve; is an; long-standing reticence among many of the firm's current and former executives, bankers, and traders to engage with the media in a constructive way. Even retired Goldman partners feel compelled to check with the firm's disciplined administrative bureaucracy, run by John F. W. Rogersmdash; a former chief of staff to James Baker, both at the White House and at the State Departmentmdash; before agreeing to be interviewed. Most have likely signed confidentiality or nondisparagement agreements as a condition of their departures from the firm. Should they make themselves available, unlike bankers and traders at other firmsmdash; where; self-aggrandizement in the press at the expense of colleagues is typicalmdash; Goldman types stay firmly on the message that what matters most is the Goldman team, not any one individual on it. "They're extremely disciplined," explained one private-equity executive who both competes and invests with Goldman. "They understand probably better than anybody how to never take the game face off. You'll never get a Goldman banker after three beers saying, 'You know, listen, my colleagues are a bunch of fucking dickheads.' They just don't do that the way other guys will, whether it's because they tend to keep the uniform on for a longer stretch of time so they're not prepared to damage their squad, or whether or not it's because they're afraid of crossing the powers that be, once

they've taken the blood oath... they maintain that discipline in a kind of eerily successful way. Anyone who might have forgotten how dangerous Wall Street can be was reminded of it again, in spades, beginning in early 2007, as the market for home mortgages in the United States began to crack, and then implode, leading to the demise or near demise a year or so later of several large Wall Street firms that had been around for generations; including Bear Stearns, Lehman Brothers, and Merrill Lynch; as well as other large financial institutions such as Citigroup, AIG, Washington Mutual, and Wachovia. Although it underwrote billions of dollars of mortgage securities, Goldman Sachs avoided the worst of the crisis, thanks largely to a fully authorized, well-timed proprietary bet by a small group of Goldman traders; led by Dan Sparks, Josh Birnbaum, and Michael Swenson; beginning in December 2006, that the housing bubble would collapse and that the securities tied to home mortgages would rapidly lose value. They were right. In July 2007, David Viniar, Goldman's longtime chief financial officer, referred to this proprietary bet as "the big short"; in an e-mail he wrote to Blankfein and others. During 2007, as other firms lost billions of dollars writing down the value of mortgage-related securities on their balance sheets, Goldman was able to offset its own mortgage-related losses with huge gains; of some \$4 billion; from its bet the housing market would fall. Goldman earned a net profit in 2007 of \$11.4 billion; then a record for the firm; and its top five executives split \$322 million, another record on Wall Street. Blankfein, who took over the leadership of the firm in June 2006 when his predecessor, Henry Paulson Jr., became treasury secretary, received total compensation for the year of \$70.3 million. The following year, while many of Goldman's competitors were fighting for their lives; a great many of them would lose; Goldman made a "substantial profit of \$2.3 billion," Blankfein wrote in an April 27, 2009, letter. Given the carnage on Wall Street in 2008, Goldman's top five executives decided to eschew their bonuses. For his part, Blankfein made do with total compensation for the year of \$1.1 million. (Not to worry, though; his 3.37 million Goldman shares are still worth around \$570 million.) Nothing in the financial world happens in a vacuum these days, given the exponential growth of trillions of dollars of securities tied to the value of other securities; known as "derivatives"; and the extraordinarily complex and intricate web of global trading relationships. Accounting rules in the industry promote these interrelationships by requiring firms to check constantly with one another about the value of securities on their balance sheets to make sure that value is reflected as accurately as possible. Naturally, since judgment is involved, especially with ever more complex securities, disagreements among traders about values are common. Goldman Sachs prides itself on being a "mark-to-market" firm, Wall Street argot for being ruthlessly precise about the value of the securities; known as "marks"; on its balance sheet. Goldman believes its precision promotes transparency, allowing the firm and its investors to make better decisions, including the decision to bet the mortgage market would collapse in 2007. "Because we are a mark-to-market firm," Blankfein once wrote, "we believe the assets on our balance sheet are a true and realistic reflection of book value." If, for instance, Goldman observed that demand for a certain security or group of like securities was changing or that exogenous events; such as the expected bursting of a housing bubble; could lower the value of its portfolio of housing-related securities, the firm religiously lowered the marks on these securities and took the losses that resulted. These new, lower marks would be communicated throughout Wall Street as traders talked and discussed new trades. Taking losses is never much fun for a Wall Street firm, but the pain can be mitigated by offsetting profits, which Goldman had in abundance in 2007, thanks to the mortgage-trading group that set up "the big short." What's more, the profits Goldman made from "the big short" allowed the firm to put the squeeze on its competitors, including Bear Stearns, Merrill Lynch, and Lehman Brothers, and at least one counter-party, AIG, exacerbating their problems; and fomenting the eventual crisis; because Goldman alone could take then write-downs with impunity. The rest of Wall Street squirmed, knowing that big losses had to be taken on mortgage-related securities and that they didn't have nearly enough profits to offset them. Taking Goldman's new marks into account would have devastating consequences for other firms, and Goldman braced itself for a backlash. "Sparks and the [mortgage] group are in the process of considering making significant downward adjustments to the marks on their mortgage portfolio especially CDOs and CDO squared," Craig Broderick, Goldman's chief risk officer, wrote in a May 11, 2007, e-mail, referring to the lower values Sparks was placing on complex mortgage-related securities. "This will potentially have a big P&L impact on us, but also to our clients due to the marks and associated margin calls on repos, derivatives, and other products. We need to survey our clients and take a shot at deterring the most vulnerable clients, knock on implications, etc. This is getting lots of 30th floor; the executive floor at Goldman's former headquarters at 85 Broad Street; attention right now," Broderick's e-mail may turn out to be the unofficial "shot heard round the world" of the financial crisis. The shock waves of Goldman's lower marks quickly began to be felt in the market. The first victims; of their own poor investment strategy as well as of Goldman's marks; were two Bear Stearns hedge funds that had invested heavily in squirrely mortgage-related securities, including many packaged and sold by Goldman Sachs. According to U.S. Securities and Exchange Commission (SEC) rules, the Bear Stearns hedge funds were required to average Goldman's marks with those provided by traders at other firms. Given the leverage used by the hedge funds, the

impact of the new, lower Goldman marks was magnified, causing the hedge funds to report big losses to their investors in May 2007, shortly after Broderick's e-mail. Unsurprisingly, the hedge funds' investors ran for the exits. By July 2007, the two funds were liquidated and investors lost much of the \$1.5 billion they had invested. The demise of the Bear hedge funds also sent Bear Stearns itself on a path to self-destruction after the firm decided, in June 2007, to become the lender to the hedge funds—taking out other Wall Street firms, including Goldman Sachs, at close to one hundred cents on the dollar—by providing short-term loans to the funds secured by the mortgage securities in the funds. When the funds were liquidated a month later, Bear Stearns took billions of the toxic collateral onto its books, saving its former counter-parties from that fate. While becoming the lender to its own hedge funds was an unexpected gift from Bear Stearns to Goldman and others, nine months later Bear Stearns was all but bankrupt, its creditors rescued only by the Federal Reserve and by a merger agreement with JPMorgan Chase. Bear's shareholders ended up with \$10 a share in JPMorgan's stock. As recently as January 2007, Bear's stock had traded at \$172.69 and the firm had a market value of \$20 billion. Goldman's marks had similarly devastating impacts on Merrill Lynch, which was sold to Bank of America days before its own likely bankruptcy filing, and AIG, which the government rescued with \$182 billion of taxpayer money before it, too, had to file for bankruptcy. There is little doubt that Goldman's dual decisions to establish "the big short" and then to write down the value of its mortgage portfolio exacerbated the misery at other firms. From the Hardcover edition.