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Goldman Sachs Profit Drops 82%, Missing Analysts' Estimates

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July 20 (Bloomberg) -- Goldman Sachs Group Inc. said second-quarter profit dropped 82 percent, missing analysts' estimates on a slide in trading revenue five days after settling U.S. regulators' fraud allegations.

Net income fell to $613 million, or 78 cents a share, from $3.44 billion, or $4.93, a year earlier, New York-based Goldman Sachs said in a statement today. The average estimate of 21 analysts surveyed by Bloomberg was for earnings of $1.99 per share, with estimates ranging from 77 cents to $4.34. Some of the analysts didn't include costs of the settlement.

Lloyd Blankfein, Goldman Sachs's chairman and chief executive officer, is working to restore the firm's reputation after agreeing to pay $550 million to settle the Securities and Exchange Commission's fraud accusations. The bank's bigger competitors, including JPMorgan Chase & Co., last week also reported lower trading revenue as market gyrations reduced clients' willingness to take on risk. Concern that the U.S. economic rebound will stall and reform legislation will crimp profits at finance companies have weighed on their stocks.

"The clouds over the financial industry remain thick," said Michael Farr, president and founder of Washington-based Farr, Miller & Washington LLC, who manages more than $650 million. Farr, who sold his Goldman Sachs stock when the SEC suit was filed on April 16, said he's considering buying again.

"You've got probably the greatest, most innovative investment bank in the world, leading the category, which looks cheap," Farr said before earnings were released. "I have not put my money back in yet but I am taking a close look at doing just that."

Share Performance

Goldman Sachs fell 49 cents, or 0.3 percent, to $145.68 in New York Stock Exchange composite trading yesterday, leaving the stock down 14 percent this year through yesterday. The S&P 500 Financials Index, which tracks the performance of 80 financial company shares, is down 2 percent this year.

The company's shares rebounded last week on news that the firm had reached a settlement with the SEC over its 2007 sale of a collateralized debt obligation. The cost was lower than the $1 billion some analysts had estimated and the settlement didn't require any management changes. Analysts slashed earnings estimates in recent weeks on concern market declines would hurt trading revenue as well as on costs related to the settlement and a one-time bonus tax imposed in the U.K.

"People have gotten overly pessimistic on Goldman," Charles Peabody, an analyst at Portales Partners LLC, said before the earnings were released. "We don't believe they've lost big chunks of their client base, and we do believe in their risk-management capabilities."

Bank of America

Shares in some of Goldman Sachs's biggest rivals fell last week after they reported revenue that was lower than investors predicted. JPMorgan Chase's second-quarter net revenue dropped 9 percent from the first quarter as revenue at the investment bank unit slid 24 percent. Bank of America Corp.'s revenue fell 9 percent as global banking and markets revenue tumbled 38 percent.

Morgan Stanley, which was the second-biggest securities firm after Goldman Sachs before both converted to banks in 2008, is due to report earnings tomorrow.

Investors and analysts said before the earnings that they're keen for news on how the settlement, which imposes changes to the way Goldman Sachs sells mortgage-related securities, and the wider financial regulatory reform bill passed by the U.S. Senate last week will affect earnings.

"I do think there will actually be business reforms where their risk taking might be reined in," said Portales Partners LLC's Peabody. "I don't think there's any question that Goldman did play in the grey areas" and curbing that "reduces your opportunities."