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From Buffett, Thought-Out Support for Goldman

By **ANDREW ROSS SORKIN**

OMAHA

Why is [Warren Buffett](#) sticking his neck out so far in defense of [Goldman Sachs](#)?

That was the question so many [Berkshire Hathaway](#) shareholders, some in disbelief, kept asking here over the weekend, after Mr. Buffett offered his full-throated support of Goldman and its chief executive, [Lloyd C. Blankfein](#), as they fight a civil fraud suit brought by regulators.

Yet by the end of Berkshire's annual meeting, at least some of the 40,000 shareholders in attendance who had been skeptical of Goldman had come to the same conclusion: Mr. Buffett may actually be right.

"I don't have a problem with the Abacus transaction at all, and I think I understand it better than most," Mr. Buffett declared with nonchalance late Sunday afternoon, referring to the mortgage [derivatives](#) deal at the center of the lawsuit. He had just finished playing Ping-Pong with Ariel Hsing, a top-ranked 14-year-old junior table tennis player. (He lost 2 to 1.)

His comments echoed the strong view he had offered just the day before: "For the life of me, I don't see whether it makes any difference whether it was [John Paulson](#) on the other side of the deal, or whether it was Goldman Sachs on the other side of the deal, or whether it was Berkshire Hathaway on the other side of the deal," Mr. Buffett said.

Have we all been thinking about this the wrong way?

Mr. Buffett's view — conventional, perhaps, on Wall Street but contrarian on that mythical place called Main Street that Mr. Buffett usually occupies — is worth considering for at least

one reason: No one else of prominence has spoken out so publicly in support of Goldman. In his trademark way, he made a plain-spoken case that makes sense.

Cynics might regard Mr. Buffett's statements as predictably self-serving. After all, his company owns about \$5 billion in preferred stock in Goldman. What's more, ever since he made a big investment in Goldman during the thick of the [financial crisis](#), his priceless reputation has been hitched to the firm.

But remember that he has been a consistent and unapologetic critic of Wall Street, especially in the wake of the financial crisis. And besides, his stake in Goldman is more a loan than an investment, so he'll no doubt be paid no matter what happens with the Abacus suit.

But on the facts of the [Securities and Exchange Commission's](#) civil fraud case against Goldman, Mr. Buffett — he was questioned on this topic over the weekend by shareholders and a panel of three journalists, including me — was resolute. (He did not directly address reports that the Justice Department was conducting a criminal inquiry into Goldman's mortgage deals, but his positive view of the firm is obvious.)

To him, investors should make their investment decisions based on the quality of the securities, not on who helped put them together or who else was betting for or against them. He suggested those factors were irrelevant.

"I don't care if John Paulson is shorting these bonds. I'm going to have no worries that he has superior knowledge," he said, adding: "It's our job to assess the credit." The assets are the assets. The math either works or it doesn't.

In its suit, the S.E.C. has accused Goldman of not disclosing that the Abacus instrument was devised in part by a short-seller, John Paulson, who stood to gain by betting against it.

IKB, one of the buyers, and ACA, which acted as the selection agent and insured the transaction, said they didn't know Mr. Paulson was on the other side of the deal and had influenced which mortgages were chosen. Together, IKB and ACA lost nearly \$1 billion in the deal.

Mr. Buffett, who has always approached investing as a dispassionate exercise based on his reading of the numbers, said IKB and ACA had all the relevant facts that any investor would need. They were able to see all the mortgages, which were referenced in full, and yet they made what turned out to be a very bad bet.

“It’s a little hard for me to get terribly sympathetic,” he said. When he makes his investments for Berkshire, he said, “we are in the business of making our own decisions. They do not owe us a divulgence of their position.”

On Sunday, Mr. Buffett said that the case against Goldman seemed to be based only on hindsight.

“It’s very strange to say, at the end of the transaction, that if the other guy is smarter than you, that you have been defrauded,” he said. “It seems to me that that’s what they are saying.”

Indeed, many securities lawyers have said from the start that the case against Goldman might be hard for the S.E.C. to win, for many of the reasons spelled out by Mr. Buffett in his defense of Goldman.

One Berkshire shareholder who has been a regular in Omaha is Bill Ackman, an outspoken hedge fund manager who has made a career of railing against bad corporate practices. He spent years, for example, trying to get people to pay attention to the failures of the rating agencies before the crisis became full-blown.

In recent days, he has gone even further than Mr. Buffett in his defense of Goldman, suggesting it would have been unethical for the firm to disclose Mr. Paulson’s position in the Abacus deal. He says that Goldman, as the market maker, had a duty to protect the identity of both sides of the transaction.

He agrees with Mr. Buffett that as an investor, he would not have considered it necessary to know that Mr. Paulson had helped select the securities.

If that is really the case, it makes you question all of the outrage being directed at Goldman over this transaction. “The country wants to hang somebody,” one Berkshire board member told me.

With so many easy targets of the financial crisis — [Fannie Mae](#), [Freddie Mac](#), [A.I.G.](#), [Bear Stearns](#), [Lehman Brothers](#) — it does seem odd that the government, and the public, has chosen to vilify one of only a couple of firms that made fewer mistakes than the rest.

Still, the chorus of Goldman opponents has become so loud that, predictably, some people have called for Mr. Blankfein’s head.

On that subject, Charles Munger, Mr. Buffett's vocal sidekick and vice chairman, put it bluntly: "There are plenty of C.E.O.'s I'd like to see gone in America. Lloyd Blankfein isn't one of them."

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