

# **INVESTING IN INVESTMENT BANKS**

**An Investment Analysis for  
MERRILL LYNCH (MER) and GOLDMAN SACHS (GS)**

**Finance 310  
Spring 2005**

**Rachel Dahl  
Nathan Lee  
Dustin Pudwill  
Joanna Urban**

**Team 9**

**TABLE OF CONTENTS**

Executive Summary.....2

Overview of Companies.....4

Industry Analysis.....8

Economic Analysis.....11

SWOT Analysis.....13

Technical Analysis.....17

Financial Ratios.....21

Current Events.....23

References.....26

## **EXECUTIVE SUMMARY**

### **Purpose of This Report**

The purpose of this report is to analyze two investment banking companies: Merrill Lynch and Goldman Sachs. Ideally, this report will focus on the *buy and hold* position for these two stocks. Both of these organizations are well-known and have a record of strong performance.

Through fundamental, technical, and financial analysis, this report seeks to inform the investor of the positive future performance of these stocks. The fundamental analysis includes investigation in company history, industry aspects, economic/business factors, and a SWOT analysis. The report's technical and financial analysis incorporates a comparison of financial ratios, use of historic prices as an indicator of future performance, and news developments.

### **Results of Analyzing Merrill Lynch and Goldman Sachs**

Research has shown both companies are extremely sensitive to external economic developments (interest rates, M&A) and particularly U.S. market events. However, both MER and GS have taken steps to mitigate and diversify risk as to avoid future shocks from unexpected market events. Additionally, financial ratios seemed poor compared to the industry. Research, however, has pointed to the external factors causing this. Technical analysis has shown that both companies are on the up trend and if held can bring ROI to investors.

### **Recommendations for Merrill Lynch and Goldman Sachs: Buy and Hold**

- Our research recommends a buy and hold position for both companies because of their continuing performance in the market and developments for the future.
- Our fundamental and technical analysis also shows strong performance potential by both firms which strengthen our position.

## OVERVIEW OF COMPANIES

### MERRILL LYNCH

**Year Founded:** 1914

**Employees:** 50,600

**Net Revenue:** \$US 22 billion

**Total Client Assets:** \$US 1.6 trillion

**Assets under Management:** \$US 501 billion

**Total Stockholders' Equity:** \$US 31.4 billion

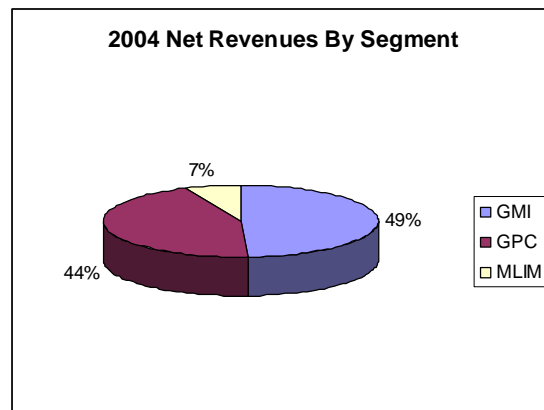
**Fortune 500:** Ranked No.58

**Stock Symbol:** MER

**Global Markets:** 36 countries

Merrill Lynch & Co. Inc is stock brokarage and investment banking company. The company provides financing, investment, advisory and related products and services globally. The services provided by the company include trading and underwriting , investment banking and securities brokerage. Merril Lynch is divided into three business segments: global markets and investment banking (GMI), the private client group (GPC), and Merrill Lynch Investment Managers (MLIM).

The Global Market and Investment banking is one of the world's top global investment banks operating in 28 countries. The segment's net revenue's in 2004 were \$11,000 m. The Private Client Group is the largest business in the world with \$9,831 m in net revenues in 2004. 14,100 financial advisors in over 600 offices around the globe are responsible for providing investment, insurance, banking and retirement services for individuals and businesses. Merrill Lynch Investment Managers help individuals as well as businesses with the financial assets. The segment provides services to 141 of the 500



largest corporations in the MSCI World Index. The segment's net revenues in 2004 were \$1581 m in 2004.

The company has been founded in 1994, when Charles E. Merrill & Co began its business. Few months later the name of the company has been changed to Merrill Lynch & Co. Today this multinational company operates in 36 countries around the world, has around 50,600 employees, and is managing client assets in \$1.6 trillion.

**Merrill Lynch Business Segments (GMI):**

Global Markets and Investment Banking

- § Provides trading investment services
- § Three lines of business: global clients, global client businesses and regions
- § Global client businesses include debt and equity markets
- § Global clients consist of the institutional clients and investment banking teams
- § Major underwriter of global debt and equity

Private Client Group (PCG):

- § Provides products and services associated with management of wealth, retirement, investment and custody services
- § Serves private people, small and medium businesses, employee benefit plans.
- § Uses planning-based approach to provide assets, liability, and cash.

Merrill Lynch Investment Managers

- § Consists of asset management activities.
- § Offers money management capabilities such as dollar and non-dollar, equity and fixed income, active an passive asset management
- § One of the largest asset managers in the world

## GOLDMAN SACHS

### Corporate Snapshot

**Year Founded:** 1869

**Net Revenue:** \$23.6 billion

**Employees in 2004:** 21,928

**Fortune 500:** Ranked No.59

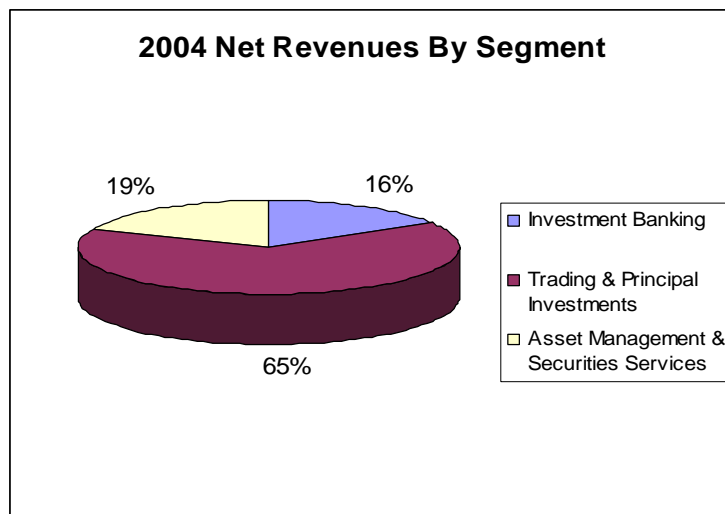
**Stock Symbol:** GS

**Global Markets:** 20 countries

The Goldman Sachs Group is a securities and global investment banking firm providing a wide range of services and products globally. The company is one of the world's leading and most profitable investment banks. Goldman Sachs Group provides wide range of financial services. The company organizes its business into three segments: Investment Banking, Trading and Principal Investment, and Asset Management and Securities Services.

Investment banking provides a broad range in products and services to corporations, institutions, governments, and individuals. This segment represented 16% of 2004 net revenues. The exact amount in net revenues was \$3,347 m.

Trading and Principal Investment consists of the revenues and profit gained from trading



activities, both on behalf of its clients and for its own account.

The net revenues in 2004 were \$13,327 m, which represent 65% of company's net revenues.

Asset Management and securities services segment offers broad array

of investment strategies, advisory and planning. This segment accounted for around 19 % ( \$3,849 m) of Goldman's net earnings in 2004.

Goldman Sachs Group was founded in 1869. The company operates in its offices around the globe. With its headquarters in New York and offices in London, Frankfurt, Tokyo, Hong Kong and other major financial centers around the world. In addition Goldman Sachs employs more that 21,000 individuals globally.

**Goldman Sachs Business Segments:**

Investment Banking:

- § Divided into two segments: financial advisory and underwriting
- § Financial advisory includes advises with respect to mergers and acquisitions
- § Underwriting includes private placement of equity and debt securities as well as public offerings
- § In 1980's was the only one major investment bank with a policy against helping to initiate a hostile takeover

Trade and Principal Investment

- § Divided into two segments: financial advisory and underwriting
- § Financial advisory includes advises with respect to mergers and acquisitions
- § Underwriting includes private placement of equity and debt securities as well as public offerings
- § In 1980's was the only one major investment bank with a policy against helping to initiate a hostile takeover

## Asset Management and Security Services

- § Divided into three categories: security services, commission, and asset management.
- § Asset management includes: mutual funds, separate accts for investors, merchant banking funds.
- § The security services include financial services, securities lending, prime brokerage
- § Commission includes: fees from executing transactions, revenues from increased share of the income and gains.

## **INDUSTRY ANALYSIS**

Investment banks help corporations in raising funds in the public market, as well as provide wide array of strategic advisory services. The main purpose of investment banks is raising capital and advising on mergers and acquisitions. The investment banks are also responsible for underwriting and distributing new security issues, and offering brokerage services to public and institutional investors. Providing financial advices to individuals or corporate clients on security issues is another service offered by investment firms. The firms generate revenues by charging fees for transactions. The characteristics of the investment banks depend on the legal and regulatory systems of the country where the bank operates. Usually, investment banks located in Japan, United Kingdom, and United States are independent, publicly traded companies. Investment banks in Europe are part of larger financial institutions involved in commercial and investment banking.

The main role of investment banks is to advise individuals and companies on how to raise money. The transactions offered by investment banks include mergers and

acquisitions, divestitures, liquidations, structured or project finance, private placements, which is the sale of financial instruments to a targeted group of investors. The investment firms also sell the company's equities in the stock market in an initial public offering (IPO). Investment bankers are also responsible for buying and selling stocks, bonds, and other financial instruments for their own portfolio and on behalf of their clients.

The investment firms are divided into three business units. The first one is Corporate Finance, which is concerned with managing the finances of corporations that includes mergers and acquisitions. The next unit, Research, is concerned with investigating, making appropriate recommendations to individuals and corporations regarding shares and bonds. The last business unit called sales and trading, deals with buying and selling shares on behalf of client and for the bank.

Corporate Finance	Research	Sales and Trading
<ul style="list-style-type: none"> <li>- helping clients raise funds in the capital market</li> <li>- advising clients on mergers and acquisitions</li> <li>- highest profit margins come from merger and acquisition advising</li> </ul>	<ul style="list-style-type: none"> <li>- reviews of companies</li> <li>- report writing</li> <li>- "buy" or "sell" ratings</li> </ul>	<ul style="list-style-type: none"> <li>- most profitable business unit of investment bank</li> <li>- buying and selling stock and bonds to make profit</li> <li>- sale force calls on investor to buy the stocks and bonds underwritten by the firm</li> </ul>

*There are five main trends in the investment banking industry:*

**A. The nature of demand:**

Individuals and businesses are demanding a wider range of products and services offered by investment firms. They expect to be able to access information and place orders 24 hours a day, & days a week from anywhere around the globe. Clients are being selective

about service provider to ensure they will receive access to best product and services. The investment firms need to make sure to provide high-quality advisory services.

**B. Regulatory changes:**

The investment firms need to pay particular attention to regulations. Every aspect of investment banking is regulated by federal and state agencies, and different types of banks are regulated by different types of agencies. In the United States, the regulator of investment banking activity is the Securities and Exchange Commission. The Securities and Exchange Commission sets standards for what information must be disclosed about companies that are publicly traded.

**C. Industry Initiatives:**

The investment banking industry is reorganizing itself with a view to justifying risk and improving service provision. Continuous Linked Settlement enables banks to eliminate inter-bank settlement risk for variety of currencies.

**D. Technology imperative:**

Technology is the main driver in this industry. Technology creates new business models and processes. The investment firms need to make important investment decisions in order to keep up with client's demands, and regulations. They need to update or replace their core-banking systems and clearly define their core competencies. Only by doing this and investing in new technology, banks can achieve competitive advantage, profitable returns, and they will be able to distinguish themselves from other market.

### **E. Generating revenues:**

Investment banks purpose is to generate revenues. Banks have very high investment, and high fixed costs. It is not very is easy to generate the revenues necessary to provide returns on the investments.

The investment banking industry consists of large companies that form what is known as “bulge bracket.” Bulge bracket firms provide the full range of investment banking services around the globe. The leading bulge bracket banks are US firms Goldman Sachs, Morgan Stanley Dean Witter and Merrill Lynch. Due to a high-quality of work and services those firm provide globally, they are considered to be the best in the industry and they all compete against each other. Right after those top performers is a group of banks known as being in or just below the bulge bracket category. These include well-known companies like JP Morgan, Salomon Smith Barney and Chase Manhattan. These investment firms also offer many services but are more focused regionally rather than globally.

## **ECONOMIC ANALYSIS**

The investment banking industry’s performance is highly correlated to capital (equity) markets. Other economic factors impacting investment banks are interest rates and merger and acquisition (M&A) activity. Both Merrill Lynch and Goldman Sachs are sensitive to the most of the same economic dynamics.

The U.S. stock market is a solid predictor of how well investment banks will perform. Generally, investment banks will be profitable during bull markets and recede during bear markets. For example, during the dot.com bust and September 11<sup>th</sup>, Merrill Lynch streamlined 10,000 workers, thus showing the volatility of this industry.

However, this correlation between the economy and company performance can be a good predictor for investors. Fundamentally, investors can long their positions during a bull market and short them during a bear market. The impact of lower interest rates also positively affects investment banks because it encourages consumer/business spending and lifts the market. M&A activities, which are underwritten by investment banks, will also have a positive affect on investment banks performance.

The U.S. economy improved from 2003, 2003, and 2004 which was caused by low interest rates, a high stock market rally, and investor confidence. These positive factors increased consumer and business investments allowing for higher commissions and investment banking revenues. This also caused a good number of M&A activity which were postponed due to the earlier recessions. The U.S. economy also experienced solid 3.8% growth in 2004.

In 2005, we recommend investors hold investment banking stocks because of the threat of rising interest rates which could curb investment activity throughout the year. Investor optimism (at 52% from 74%) is also at it's lowest in two years which could have harmful effects on investment bank equities.

The global economy will also have important implications for investment banks and in particular Goldman Sachs and Merrill Lynch. Both firms operate in foreign countries and are diversifying investments to move away from being sensitive to U.S. markets. Emerging markets are becoming attractive for investment companies because of their recent stellar performance. Developing countries grew faster than the global average with China and India as an engine. China's economy grew 10% while India grew 7%. Both Goldman Sachs and Merrill Lynch are already investing in the Chinese

market. It may not be surprising if we see investment banks seeking overseas investments if the U.S. economy recedes.

Once again, we recommend and buy and hold strategy becomes our belief is that through tight operations and diversified investments both Merrill Lynch and Goldman Sachs will bring returns. However equities market may see a slowdown due to the loss of investor confidence and the rise of interest rates.

## SWOT ANALYSIS

### MERRILL LYNCH

Strengths	Weaknesses
Market Leader in Multiple Lines	Poor Performance of equities
Localized Business Operations	Cost of Streamlining
Record Earnings	
Opportunities	Threats
International Expansion	Competition
Private Client Group and Wealth Management	Economic Downturn

#### **Strengths:**

First, Merrill Lynch is the market leader in many of the product line it offers. Because of this it can offer a large range of investment vehicles for clients. The diversity of it's' products protects Merrill Lynch from some changes in the economy. Secondly, Merrill Lynch has created a more localized business environment for the sake of tailoring their services to certain geographical areas. Merrill Lynch created 20 regional areas in

which it does business-these segments are also global. Finally, with the help of strong global markets, Merrill Lynch saw strong revenue growth since 2003. Since December 2004, Merrill Lynch reported a 17% revenue gain.

### **Weaknesses**

Merrill Lynch has two weaknesses. The poor performance of equities is the most prominent because of it is an investment banking company. Because it is tied to the equity market, Merrill Lynch is subject to their fluctuations which have show poor performance until recently. The second weakness was the streamlining of Merrill Lynch's workforce since the September 11<sup>th</sup> terrorist attacks negatively affected the economy. The company laid off 10,000 workers and cut down on international operations and only until now has started to pick up.

### **Opportunities**

After realizing that the weaknesses of Merrill Lynch were caused by external economic factors- the best opportunity for the company is diversification through global markets. Merrill Lynch operates in foreign markets (Europe 16%, Japan 6% and other 7%) however the majority is still fixed to the U.S. economy (71%). Merrill Lynch needs to continue expansion and diversify not just with product offerings, but also in international securities. The company has intentions of increasing business in Germany, France, Japan and China. Merrill Lynch has also created a joint venture with BOC International China Limited that could give them a solid advantage in the world's fastest growing economy.

Merrill Lynch sees opportunities in expanding its Private Client Group and introducing a Global Private Client Group which will combine U.S. and International groups. This will allow Merrill Lynch to enter the growing wealth management market in both the U.S. and abroad.

**Threats**

Merrill Lynch meets competition with Morgan Stanley Dean Witter, another investment services company. These two companies are in direct competition because they offer similar products. Because Merrill Lynch once held the dominate position in this market there will some direct competition between the two which will ultimately be a positive for investors in terms of innovation and creation of new investment products.

Once again, as with all investment companies Merrill Lynch is sensitive to economic activates and downturns (recessions, crashes) are always looming for the company. Merrill Lynch once again needs to mitigate this risk through diversification.

**GOLDMAN SACHS**

Strengths	Weaknesses
Global Market Leader Culture and reputation Strength of Asset Management Global Presence	Decline in Investment Banking Division Decline in U.S. Market
Opportunities	Threats
Recovery of Investment Banking Division Market Recovery	Operations High leveraged to capital markets Highly regulated environment Economic conditions

## **Strengths**

Goldman Sachs has a variety of strengths. More notorious are its reputation as a Global market leader and also its history. GS is one of the largest investment banks in the world and has been established since 1869. Additionally, GS has grown organically—meaning the company's growth strategy has been through management and expansion instead of takeovers and acquisitions. In terms of financial strengths, a large portion (32%) of GS's revenues is generated outside the U.S. which increases its diversification and allowed them to survive the recent declines in the industry.

## **Weaknesses**

Goldman Sachs has seen declines in both its investment banking division and its position in the U.S market. Its investment banking revenues have steadily been falling since 2000. GS has also seen loss in U.S. Business revenues even though 60% of its business is generated there. However, GS has seen growth in the European and Asian markets.

## **Opportunities**

Goldman Sachs sees prospects in recovering its declining investment banking division. A recovering U.S. economy and a focus on emerging markets will be a great opportunity to revitalize its signature division. GS will also see opportunities as the market recovers, unlike its competitors; GS was able to outperform the market through its effective business model and operations. This puts GS in a good position during a full economic recovery.

## Threats

Goldman Sachs is highly leveraged on capital markets meaning that they are affected by the fluctuations of equities. GS needs to generate more revenues based on business fees instead of ROI. The financial service industry is going through intense investigation and new regulations can restrict GS's flexibility and growth.

## TECHNICAL ANALYSIS OF GS AND MER

Technical Analysis studies focus on using historical stock prices and trading volume to predict which way the stock prices will be moving in the future. By analyzing past price action, it's possible to identify future trends so that people can make better decisions on the timing and location of trades. Focusing on information and stock prices up until April 12, 2005, Merrill Lynch and Goldman Sachs companies have both been doing well and our recommendations for both of these companies

are to buy and hold. Currently, Goldman Sachs stock price (104.19) is about twice as much of that than Merrill Lynch's stock price (53.18). Although this is the case, when comparing the two companies, they pretty much move in the same direction. Both Merrill Lynch and Goldman Sachs are currently in an "up-trend," which is a good entry point (you should buy they stock).



## Relative Strength Indicator (RSI)

The Relative Strength Indicator is the bottom of the two graphs that are shown above. Again, both Merrill Lynch and Goldman Sachs RSI's are moving in an upward direction. The relative strength of a company deals with the number of days that that companies closing stock price went up divided by the number of days that the closing stock price went down. When the Relative Strength Indicator is less than 30, it means that the stock is oversold, which is a good indicator to buy the stock. When the Relative Strength Indicator is above 70, the stock is being undersold, which means that you should sell the stock if you have any. Merrill Lynch's RSI is currently very low, around 30 and moving up. This is one of the reasons why our recommendations for Merrill Lynch are to buy and hold. Looking at Goldman Sach's RSI, they are quite a bit higher than Merrill Lynch but are not quite at 70, meaning that it is still ok to buy. Although we still recommend that we buy this stock, we have to keep an eye on this just in case the RSI goes up much higher.

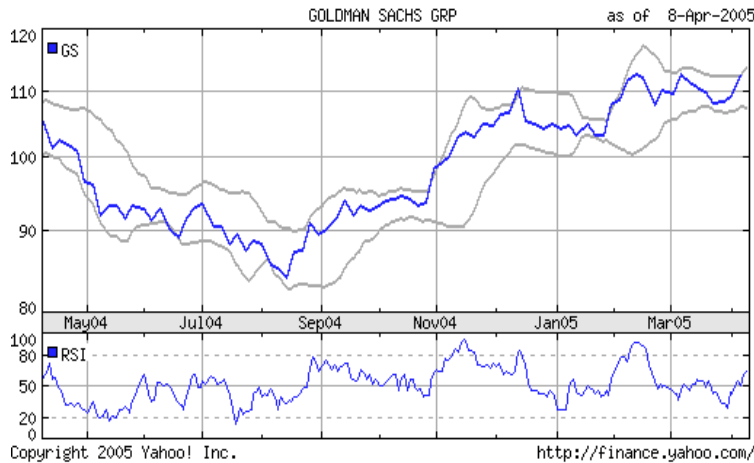
## Bollinger Bands

Using stocks Bollinger bands is another technical indicator of predicting how the stock price in the future is going to perform. A Bollinger band is a moving average of the price of the stock, and its upper and lower limits are determined by two standard deviations above and below the moving averages respectively. Generally, the



wider the bands, the greater the volatility of the stocks price. Shown are both Merrill Lynch's and Goldman Sach's Bollinger bands.

When analyzing any companies Bollinger bands, if the stock price hits the lower



Bollinger band, you should buy because historically the trend is that the stock price will rise. When the stock price hits the top of a Bollinger band, you should sell because the price will be going down in the near

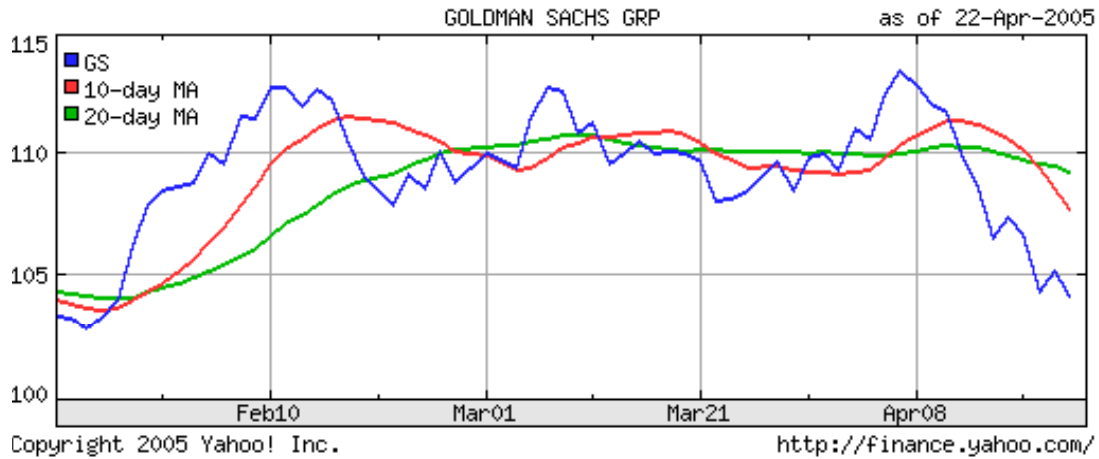
future. Looking at the Bollinger bands for Merrill Lynch, the stock price just recently touched the bottom band. This major reason why we recommend buying and holding this stock, we predict that the stock price will be rising. On the other hand, when looking at Goldman Sach's Bollinger bands, their stock price is currently touching the upper band. We still recommend to buy this stock even though it goes against what the Bollinger bands predict because you should not only look at the Bollinger bands when determining if you should buy or sell, you should look at a number of different things.

### **Moving Averages**

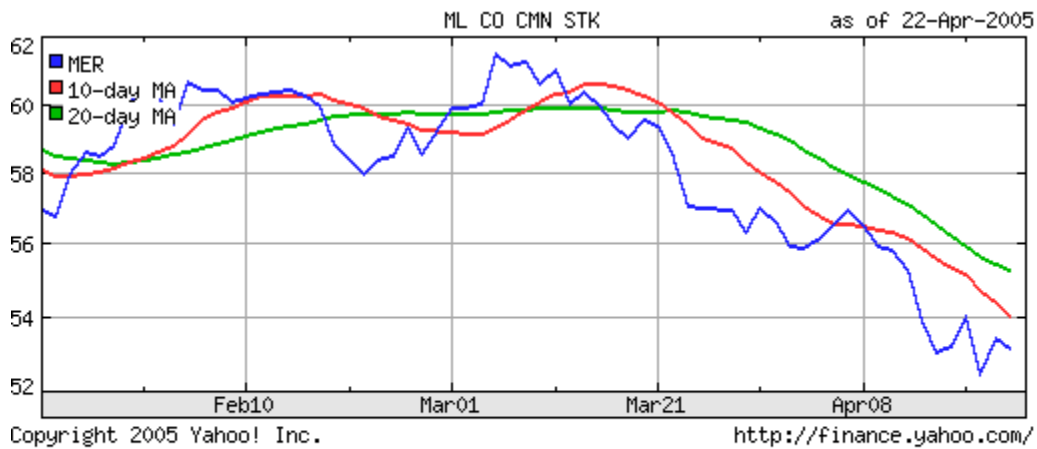
Looking at moving averages of a stock price is another important characteristic of determining how a specific stock is going to perform. When comparing moving averages, there are two technical terms and/or actions that you should look for. The first one to look for is called a "Golden Cross." This is when a long term moving average crosses above a short term moving average. When this happens, it's a good indicator to

buy. The other important action that you should look for is called a “Death Cross.” A death cross occurs when the short term moving averages cross above a long term moving average, in which case you should sell the stock. The following is of Goldman Sachs and Merrill Lynchs 10-day and 20-day moving averages.

### 10-day and 20-day MA's for GS



### 10-day and 20-day MA's for MER



Looking at the past three months for both Merrill Lynch and Goldman Sachs (for purposes of seeing it better), both of them have recently displayed a golden cross action. This is where the long term moving average (green line) crosses above the short term moving average (red line). For both Merrill Lynch and Goldman Sachs, this is yet one more determinant for us to recommend that you should buy and hold these two stocks. There does not seem to be any seasonality for either of these two stocks.

## **FINANCIAL RATIOS**

Merrill Lynch is one of the world's leading financial management and advisory companies with total client assets of approximately \$1.6 trillion. Merrill Lynch is a very profitable company; however most of their ratios are generally below the industry and the sector. After analyzing the ratios, there are explanations behind these lagging ratios.

Valuation ratios tell whether a stock is inexpensive or costly relative to alternative investment opportunities. The price to earnings ratio is the price an investor is paying for one dollar of the company's earnings. It basically shows whether a company is over or under valued. Merrill Lynch's P/E ratio is 13.07 and the industry is 16.62. Goldman and Sachs are 12.15. This shows that compared to the industry, Merrill Lynch's and Goldman Sachs' stock is under-priced. The Beta measures stock price volatility. Merrill Lynch's beta is 1.75 and Goldman Sachs is 1.65. These are higher than the industry and sector and Merrill Lynch's beta shows more volatility than Goldman Sachs. Merrill Lynch's and Goldman Sachs book value are slightly lower than the industry and S&P 500 which means that the company is under-valued compared to the industry.

Evaluating the dividends, both companies' pay fewer dividends than the industry. Due to this the payout ratio is also lower. Merrill Lynch's payout ratio is 13.41

and Goldman's is 10.27 compared to the 17.62 of the industry. Merrill Lynch's payout ratio could be attributed to the growth in earnings per share. Merrill Lynch's earnings per share in 2001 was \$-.45 and in 2004 it increased to \$4.81. The dividend growth rate is also low which, as a rule of thumb, an income seeking investor should not expect a yield lower than the S&P 500, unless the stocks dividend growth is dramatically higher.

Profitability ratios for Merrill Lynch and Goldman Sachs are generally lower or about the same as the industry and the S&P 500. Profitability ratios tell you how much of each revenue dollar is left over after subtracting costs, as profits to the company. Both companies have average or slightly below average revenue left over after expenses are paid for.

Analyzing both company's management effectiveness using several ratios shows that overall, they are lower compared to the industry. Return on Assets for Merrill Lynch is .74 and Goldman is .94. The industry is 4.09 which shows that they are not getting as high of a return from all the assets available to them. Their return on equity is also lower with 14.67 for Merrill Lynch and 19.87 for Goldman compared to 18.03 of the industry. This shows that Goldman has a higher return on the capital that is owned by the shareholders. Goldman's five year average return of equity is also up to par with the industry.

After analyzing both Merrill Lynch and Goldman Sachs ratios, it is apparent that using many different methods, on average, they are below the industry. Some of these lower ratios can be explained by the nature of the company and others by external factors. However, our recommendation to buy and hold both companies' is supported by other types of analysis such as the stock trends and the Bollinger bands.

*Financial Ratios Charts:*

**Goldman Sachs**

<b>Ratios</b>	<b>GS</b>	<b>Industry</b>	<b>Sector</b>	<b>S&amp;P 500</b>
<b>P/E Ratio</b>	12.15	16.62	15.41	21.75
<b>Price to Sales</b>	1.81	2.57	3.38	2.94
<b>Beta</b>	1.65	1.64	0.73	1
<b>Dividends Yield</b>	0.88	1.37	2.5	2.08
<b>Payout Ratio</b>	10.27	17.62	28.48	29.19
<b>Gross Margin</b>	32.06	N/A	N/A	46.29
<b>Return on Assets</b>	0.94	4.09	2.62	7.42
<b>Return on Equity</b>	19.87	18.03	16.77	19.34
<b>Asset Turnover</b>	0.06	N/A	N/A	0.95

**Merrill Lynch**

<b>Ratios</b>	<b>MER</b>	<b>Industry</b>	<b>Sector</b>	<b>S&amp;P 500</b>
<b>P/E Ratio</b>	13.07	16.62	15.41	21.75
<b>Price to Sales</b>	1.76	2.57	3.38	2.94
<b>Beta</b>	1.75	1.64	0.73	1
<b>Dividends Yield</b>	1.12	1.37	2.5	2.08
<b>Payout Ratio</b>	13.41	17.62	28.48	29.19
<b>Gross Margin</b>	30.08	N/A	N/A	46.29
<b>Return on Assets</b>	0.74	4.09	2.62	7.42
<b>Return on Equity</b>	14.67	18.03	16.77	19.34
<b>Asset Turnover</b>	0.05	N/A	N/A	0.95

**CURRENT EVENTS**

On Tuesday, April 20<sup>th</sup>, the NYSE and Archipelago Holdings, agree to merge into the NYSE Group, which would be a publicly held company. Archipelago Holdings is the operator of Archipelago Exchange. It is the world's first totally open, all electronic stock exchange in the United States. If approved by regulators, "This combination will be good

for investors and for America.” Goldman Sachs acts as a financial advisor to Archipelago and the NYSE.

Several Wall Street Executives are upset about the multiple roles played by Goldman Sachs Inc. Goldman Sachs was John Thain’s, the CEO of the NYSE, former employer, and Goldman is a stakeholder in the electronic trading company, ArciEx. Since Goldman knows both of the businesses fairly well, he used them as intermediaries. Since Goldman wants to find the right solution for the NYSE, it didn’t go about it in the right way. Critics suggest that the Goldman’s presentation is in question and the advisor should remain behind the scenes.

This could possibly affect Goldman Sachs as a company by giving them a bad publicity. They did advise both company’s, but they made a mistake by getting too involved in the deal from the beginning.

In Merrill Lynch news, the investment company has announced its plans to expand into Indonesia. Indonesia is a developing country with 200 million people and the company wants to spark foreign investment and also cash in on M&A activities. The company also is doing advising Endesa and Fednosa on the sale of their stake in Auna communications. This comes after the 12 billion Euro takeover bids from Apax, Blackstone and CVC Capital Partners, and a 12.5 billion euro offer from US private equity firm Kohlberg Kravis Roberts.

## **CONCLUSION**

Once again, we recommend a BUY and HOLD position on both MER and GS. Our research on the company history and operations shows us that they are leaders in the industry and offer solid products and services to its customers. The industry, economic,

and SWOT analysis gave us a good idea about how external factors are being dealt with by both companies and the investment banking industry. We are confident that both Merrill Lynch and Goldman Sachs are taking the appropriate measures (such as global investing, strengthening product lines... etc) to mitigate risks coming from these external factors. The technical analysis shows an uptrend for both firms and is poised to continue. Financial ratios are below industry average; however this is probably related to external factors such as the decrease in investor confidence and threat of rising interest rates.

## REFERENCES:

Datamonitor: Goldman Sachs

Datamonitor: Merrill Lynch

“Lex NYSE.” FT.com 26 April 2005. <http://biz.yahoo.com>

“New York Stock Exchange and Archipelago Exchange Agree to Merge.” PRNewswire 20 April 2005. <http://investor.archipelago.com/phoenix>.

Goldman Sachs: [www.gs.com](http://www.gs.com)

Merrill Lynch: [www.ml.com](http://www.ml.com)

Merrill Lynch sets to expand in Indonesia:

<http://www.iht.com/articles/2005/04/26/bloomberg/sxmerrill.php>

SCH, Endesa and Fenosa hire Merrill Lynch to advise on Auna stake sale:

<http://uk.biz.yahoo.com/050426/323/fh97k.html>

Standard and Poor’s Industry Surveys: Investment Services

Yahoo! Finance. [finance.yahoo.com](http://finance.yahoo.com)

Yahoo! News: [news.yahoo.com](http://news.yahoo.com)