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Lawyers Warn of a Clients Exodus from Goldman Sachs

By Simon English

Top Wall Street lawyers today warned that Goldman Sachs is facing an exodus of clients in the wake of the fraud allegations.

Jacob Zamansky, a Manhattan attorney who shot to prominence by successfully suing Merrill Lynch and others in the wake of the dotcom collapse in 2001, said: "I have been hearing from Goldman clients who believe that the firm trades against its own clients and want nothing to do with them.

"This case will be a big blow to Goldman's reputation and clients will flee the firm."

Goldman, led by Lloyd Blankfein, issued a two-page rebuttal of the Securities and Exchange Commission complaint, perhaps to persuade institutions they should stay loyal.

One particular concern is the bank bets against its own clients by taking positions that directly conflict with those of the institutions it serves.

Goldman insisted in its annual report this month that although it had shorted various residential mortgages, this was not "a bet against our clients" but merely prudent risk management. The release today appears to muddy the waters, however.

Defending its role in the creation of one collateralised debt obligation, Abacus, Goldman says it lost more than \$90 million (£59 million) on the deal. It says it had a "substantial long position" in the fund, which client John Paulson was shorting. Analysts say in effect this means the bank was betting against its client. It just happened to lose on this occasion