

Google's Latest Launch: Its Own Trading Floor

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Last fall, some unusual job listings began cropping up on Google's ([GOOG](#)) website. Amid the requests for programmers and engineers were postings for bond traders and portfolio analysts. By spring, tech blogs were speculating about what was going on at Google. The answer was very un-Silicon Valley. Google, it turns out, has launched a trading floor to manage its \$26.5 billion in cash and short-term investments. The hoard is the third-biggest cash pile among U.S. tech companies, after Microsoft ([MSFT](#)) and Cisco's ([CSCO](#)).

One of the company's goals is to improve the returns on its money, which until now has been managed conservatively. Google doesn't disclose its rate of return on investments or the targets it has set, but analyst Aaron Kessler of ThinkEquity estimates the company's 2010 return (including interest income and realized and unrealized gains before tax) at around 2.5 percent. That's a higher return than some other large Internet outfits, such as Yahoo! and Amazon, he says.

Google is using some of its money to buy back shares in the wake of its \$750 million acquisition of mobile advertising firm AdMob, which was an all-stock deal. The transaction was cleared by U.S. regulators on May 21. Investors have been wondering what else the company intends to do with its cash. IBM ([IBM](#)) recently announced plans to spend \$20 billion over five years on acquisitions. Hewlett-Packard ([HPQ](#)) just bought Palm ([PALM](#)) for \$1.2 billion. "Google could do 10 Palm kind of deals," says Michael Yoshikami, president and chief investment strategist of YCMNET Advisors, which owns Google shares. "That would be a pretty decent use of their money." Beyond the AdMob buybacks, Google has said it has no plans to return cash to shareholders.

Google's trading room opened in January. The plan is to keep the war chest growing safely and ready to be deployed should the right mergers-and-acquisitions opportunities arise. The investment team has grown to more than 30 people, up from six three years ago. Many of the new arrivals are former Wall Streeters who left lucrative careers at Goldman Sachs ([GS](#)), JPMorgan Chase ([JPM](#)), and other banks. The man in charge is Brent Callinicos, Google's 44-year-old treasurer, who joined from Microsoft in 2007, back when Google had \$11 billion in cash. "This isn't fast money, this is patient money," he says. His crew works in a recently remodeled finance building on the company's corporate campus in Mountain View, Calif., complete with a rock climbing wall, massage chairs, murals of tropical sunsets, and bamboo wall panels. In a second-floor space accessed by key card—the trading room—the Wall Street vets tap out trades at desks with six computer screens.

Craig A. Jeffery, managing partner of Atlanta-based consultant Strategic Treasurer, says the financial technology at banks and most corporate treasuries tends to be an unwieldy hodgepodge of disparate software applications. If you're crunching numbers in Excel, you probably have to cut and paste the results manually into your foreign-exchange analytics software. Callinicos got around the coordination problem by tapping in-house engineers to meld the various pieces of software into one dashboard for trading and managing cash. "Callinicos built this mosaic of systems and a way of relating them together," says Jeffery.

That woven-together technology gives Google a trading advantage: It shows the value of the company's holdings all over the world in near-real time. This is harder than it sounds. Jeffery says that most treasuries with dozens of bank relationships in multiple countries can see the values of only 60 percent or 70 percent of their positions at any given time. Google's systems can monitor 98 percent of its holdings in real time, says Callinicos. "One of the toughest parts of [managing cash] is extracting the right data for the right decisions at the push of a button," says Wolfgang J. Koester, CEO of FiREapps, a maker of financial software. Callinicos "has been an industry leader on this."

Born in South Africa, Callinicos came to the U.S. at age 16. After receiving an MBA from the University of North Carolina, he landed in Microsoft's finance department in 1992 and became treasurer in 2000. By the time Microsoft's cash neared \$60 billion in 2004—the year the company paid out a one-time \$32 billion dividend—it was generating returns of more than 7 percent.

After a couple years of cautious cash management at Google, Callinicos says he's beginning to build a higher-risk, higher-return portfolio. Since last year he has pulled away from U.S. government notes and moved into corporate debt securities (\$4.9 billion as of Mar. 31, up from \$695 million the year before), agency residential mortgage-backed securities (\$3.3 billion, up from \$60 million), and foreign government bonds (\$332 million, up from zero).

Google is still building its team. Its website lists openings for a foreign government bond trader, a risk analyst, and a portfolio analyst of agency mortgage-backed securities. Callinicos says he's looking for different qualities than those that large banks are seeking. "We're not trying to become a Wall Street firm," he says. "This is Google. It's eclectic." He cites Ranidu Lankage, who came to Google after a full-ride at Yale and a two-year stint at Lehman Brothers. When he's not analyzing Google's portfolio, Lankage is a star of Sri Lankan-style rap and R&B. He landed his first record deal with Sony ([SNE](#)) at age 19.

Callinicos wouldn't comment on what he pays his staff, though Gustavo G. Dolfino, senior managing director at financial recruiting firm Accretive Solutions, says Google pays finance staffers significantly less than what they would make on Wall Street. (Google has not retained Accretive Solutions.) He adds that what Google jobs lack in pay they make up for in stability. "Everybody knows that Google isn't going anywhere."

The bottom line: Google built a state-of-the-art cash-management system to improve returns. It may use that money on future deals.

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