Goldman Sachs Group Inc. (GS), the fifth-biggest U.S. bank by assets, reported profit that exceeded analysts' estimates as investments gained in value and revenue more than doubled on a rebound in fixed-income trading.

Third-quarter net income of $1.51 billion, or $2.85 per share, compared with a loss of $393 million, or 84 cents, a year earlier, the New York-based bank said today in a statement. The average estimate of 25 analysts surveyed by Bloomberg was $2.28 a share.

Goldman Sachs, led by Chief Executive Officer Lloyd C. Blankfein, 58, has been cutting costs to contend with lower revenue from trading securities, which accounts for more than half of the firm's total. Low interest rates spurred a 66 percent jump in corporate-bond underwriting in the quarter, boosting investment-banking fees and debt trading at JPMorgan Chase & Co. and Citigroup Inc.

"All of those things that are positive for Wall Street firms have been doing well," such as stock prices and bond trading, said Michael Vogelzang, chief investment officer at Boston Advisors LLC, which manages $2.3 billion including Goldman Sachs stock. "They have a lot of correlation with the market."

Goldman Sachs, which climbed 3.6 percent yesterday to $124.50, rose to $125.10 in New York trading at 8:06 a.m. Even after gaining 38 percent this year, the stock is below the firm's theoretical liquidation value as investors wait to see whether returns will remain depressed by slow economic growth and regulatory constraints.

'Generally Solid'

"This quarter's performance was generally solid in the context of a still challenging economic environment," Blankfein said in the statement. "We continue to be disciplined in managing our operations and capital."

The firm's return on equity, a measure of how well the firm reinvests stockholder funds, was 8.6 percent for the third quarter, up from 5.4 percent in the second quarter. Tangible book per share, a measure of how much each stockholder would get if the firm was liquidated, climbed to $129.69 from $126.12 at the end of June.

Third-quarter revenue more than doubled from a year earlier to $8.35 billion and was up 26 percent from the second quarter. Revenue exceeded the $7.18 billion average estimate of 16 analysts surveyed by Bloomberg.

Expenses Rise

Expenses rose 40 percent from a year earlier to $6.05 billion and were up 16 percent from the prior quarter. After Goldman Sachs reported its worst first-half revenue in seven years, the company in July started cutting $500 million of costs on top of an earlier $1.4 billion reduction.

Compensation, the firm's biggest expense, more than doubled from a year earlier to $3.68 billion and the firm added 300 jobs in the quarter. Compensation in the first nine months of the year rose 10 percent to $11 billion, enough to pay each of the firm's 32,600 employees an average of $336,442 for the period.

Revenue from sales and trading, overseen globally by Isabelle Ealet, Pablo J. Salame and Harvey M. Schwartz, rose 3 percent to $4.18 billion in the quarter and was up 8 percent from the prior quarter. Schwartz, 48, will succeed Chief Financial Officer David A. Viniar, 57, at the end of January, the firm said on Sept. 18. Viniar, who has worked at Goldman Sachs for 32 years and served as CFO since 1999, will join the board of directors.

Fixed Income

Fixed-income, currency and commodity trading, or FICC, revenue climbed 28 percent from a year earlier to $2.22 billion and
was up 1 percent from the second quarter. Goldman Sachs's figure included a $225 million loss related to accounting adjustments. JPMorgan's fixed-income trading revenue excluding accounting adjustments rose 33 percent in the third quarter to $3.72 billion and Citigroup's increased 63 percent to $3.7 billion.

Goldman Sachs's equities trading revenue fell 16 percent to $1.96 billion from a year earlier and was 16 percent higher than the prior quarter. The figure included $145 million in accounting adjustments. JPMorgan's equity-trading revenue excluding accounting adjustments was virtually unchanged at $1.04 billion, while Citigroup's rose 76 percent to $510 million.

Stock Prices

In the third quarter, Wall Street's biggest banks benefited from higher prices on stocks and bonds as central-bank efforts to spur economic growth fueled investor demand for riskier assets. The average yield premium that investors demand to hold corporate debt over government bonds dropped during the quarter to 168 basis points, or 1.68 percentage points, from 215 basis points, according to an index compiled by Bank of America Corp.'s Merrill Lynch.

Investing & Lending, the Goldman Sachs segment that includes the firm's own holdings in stock, debt, private equity and funds, generated $1.8 billion of third-quarter revenue, compared with negative $2.48 billion a year earlier. The average estimate of six analysts surveyed by Bloomberg was for $1.19 billion in Investing & Lending revenue.

Investment banking, led worldwide by Richard J. Gnodde, David M. Solomon and John S. Weinberg, made $1.16 billion of revenue, 49 percent higher than a year earlier and 3 percent less than the prior quarter. JPMorgan's investment-banking revenue was $1.43 billion in the quarter and Citigroup's was $926 million.

Merger Advice

Fees from financial advice, which includes mergers and acquisitions, fell 3 percent to $509 million and were up 9 percent from the second quarter. Goldman Sachs's mergers-and-acquisitions team, led by Gene T. Sykes, is ranked first among advisers on global takeovers announced this year, the same position it held last year, according to data compiled by Bloomberg.

Revenue from debt underwriting almost tripled to $466 million and was down 6 percent from the prior quarter. Goldman Sachs is seventh among underwriters of corporate debt this year, the same position it held at this stage last year, according to data compiled by Bloomberg.

Equity underwriting revenue more than doubled to $189 million and fell 21 percent from the previous quarter. The firm's equity capital markets team, led by Stephen Pierce, is fourth among managers of equity, equity-linked and rights offerings this year, down from first place at this time last year, according to data compiled by Bloomberg.

Fund management, overseen globally by Eric S. Lane and Timothy J. O'Neill, made $1.2 billion in the quarter, down 2 percent from a year earlier and 10 percent lower than the prior quarter. Assets under management rose 2 percent during the quarter to $856 billion.

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