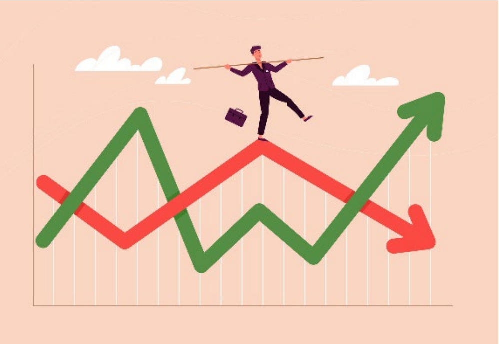
Google, SpaceX, and Net Income: How "Trading Securities" Create Financial Fan Fiction

When Will the AI Bubble Pop?



When "Unrealized Gains" Turn Into "Unrealized Losses"

Trading Securities and Financial Fan Fiction

When **Google** (OK, "Alphabet") recently reported its Q2 earnings, its Net Income grew nearly **300%** from Q1 2025 to Q1 2026.

This seems very impressive until you **dig into the details**.

Trading Securities and Financial Fan Fiction

The vast majority of this came from the "Other Income" line, and, specifically $99 billion of Unrealized Gains on "Equity Securities"…

And, of course, Google just happens to have a **$94 billion stake in SpaceX**, which they disclosed in their 10-Q.

Trading Securities and Financial Fan Fiction

An accounting rule change (ASU 2016-01) that requires companies to report Unrealized Gains and Losses on small equity stakes **greatly distorts** Net Income and EPS for the Big Tech firms.

(See also: Amazon / Anthropic and Microsoft / OpenAI.)

Trading Securities and Financial Fan Fiction

Not only does it make **Net Income and the P / E multiple highly questionable**, but it also raises questions about the entire market's current valuation.

It also means these rules need to be **updated** or **enhanced** to respond to the current hype cycle.

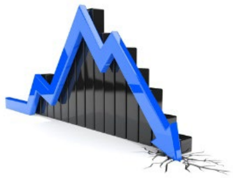
Trading Securities and Financial Fan Fiction

If you want this tutorial in writing, along with screenshots, PDFs, and the Excel model, go to this URL (**pinned in the comments**):

https://breakingintowallstreet.com/kb/accounting/trading-securities/

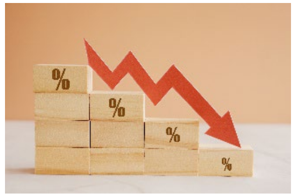
The Short Answer…

- **Unrealized vs. Realized Gains vs. Other:** Go to "Note 7" in the 10-Q to see everything broken out and then the Cash Flow Statement to see the reversals and the Maturities/Sales



- **Unrealized vs. Realized:** "…primarily related to unrealized gains in our equity securities portfolio from SpaceX and a private company."

- **This Works Both Ways:** Get ready for a big Unrealized Loss in Google's Q3 earnings, after the SpaceX share price has plunged!



- **Valuation:** Net Income distortion, but you *can* adjust for this

The Short Answer…

- **Pro-Forma Net Income:** Create a version that starts with EBIT, deducts Net Interest and true/smaller recurring items, but **ignores** the Gains and Losses

- **Results:** Google's LTM Net Income falls from $244B to $123B, and its P / E multiple goes from 16x to 32x

- **So:** Could still argue that 32x is "cheap" for a huge company with this much growth, but it's far different from 16x

- **Quick Solutions:** Focus on metrics like EBITDA, UFCF, and even FCF that remove or reverse Gains and Losses

Trading Securities: Outline

- **Part 1:** Security Types and Accounting for Gains and Losses **7:41**
- **Part 2:** Business Model Distortions and Recommendations **11:47**

Part 1: Security Types and Accounting

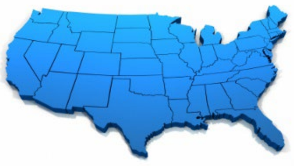
- **Background:** There are several types of "investments," and the rules work a bit differently under IFRS and U.S. GAAP (focusing on U.S. rules here):

Type of Financial Investment:	Why Use It?	Used For:	Balance Sheet:	Accounting Method:	Unrealized Gains and Losses:	Realized Gains and Losses:	Dividends and Interest Received:
Trading or FVPL	Buy/sell for short-term profits	Stocks and Bonds	Short-Term Investments	Fair Market Value	Income Statement	Income Statement	Income Statement
Available For Sale (AFS) or FVOCI	"Default" category if a bond doesn't fit in one of the others	Bonds	Long-Term Investments	Fair Market Value	AOCI	Income Statement	Income Statement
Held-to-Maturity (HTM) or Amortized Cost	Buy and hold until it matures	Bonds	Long-Term Investments	Amortized Cost	Not reported	Income Statement	Income Statement

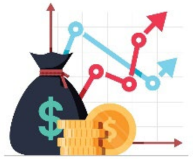
- **Realized Gains and Losses:** These *always* appear on the Income Statement and get reversed on the Cash Flow Statement, and the Total Proceeds appear in CFI on the CFS

Part 1: Security Types and Accounting

- **U.S. GAAP:** All Unrealized Gains and Losses on all Equity Securities (stocks) are now treated the same way



- **IS:** Record the Unrealized Gain or Loss in “Other Income”



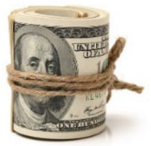
- **CFS:** Reverse the Gain or Loss <u>and</u> record a Deferred Tax adjustment because no Cash Taxes are paid until it’s sold

- **BS:** Common Shareholders’ Equity changes due to the Net Income, and the Trading Securities and Deferred Tax Asset (DTA) on the Assets side change to balance this

Part 1: Security Types and Accounting

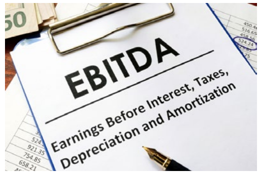
- **AFS Securities:** Now only used for certain Debt investments under U.S. GAAP; Unrealized Gains and Losses appear within Accumulated Other Comprehensive Income (AOCI) in Equity on the L&E side and affect the Securities on the Assets side

- **HTM Securities:** Mostly used for bonds; these **amortize** over time, but Unrealized Gains and Losses do not appear anywhere on the statements; won't even know about them until a sale takes place

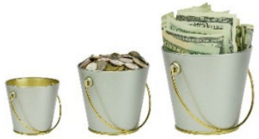


Part 2: Business Model Distortions

- **What's the Big Deal?** After all, you can just use metrics like EBITDA and UFCF to avoid all these issues with Net Income, EPS, and P / E



- **BUT:** Lots of stock indices, ETFs, funds, general investors still use Net Income, EPS, and P / E to make allocation decisions



- **Also:** These accounting rules let companies *keep* inflating their Net Income by "investing in" AI startups, having the startups buy services from them, and then recording *both* the Revenue and the Unrealized Gains on them

Part 2: Business Model Distortions

- **Thanos / Dr. Doom Loop:** Makes an appearance once again!

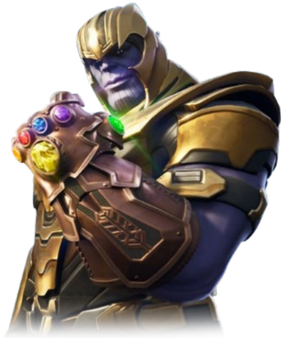
This step does *not* directly give Google more Cash to invest in SpaceX, but it often leads to a higher stock price, which makes it easier to raise funding and justify future investments.

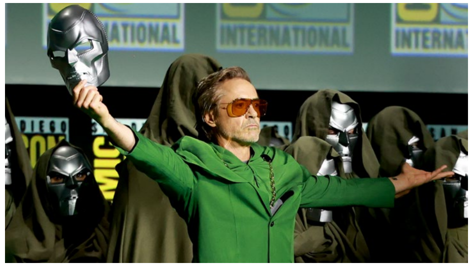
Google "invests in" SpaceX and later decides to rent GPUs from them as well.

SpaceX now has <u>both</u> an investment from Google and substantial Revenue from it.

SpaceX is "more valuable" as a result of this commercial relationship with Google.

Google records a huge **Unrealized Gain** on SpaceX, juicing its Net Income for the quarter.

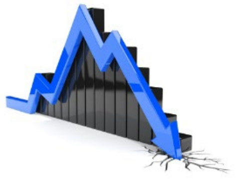




Part 2: Business Model Distortions

- **Main Issue:** They are following "the rules," so this is **not** illegal or fraudulent; the problem is the rules were not designed with this scenario in mind

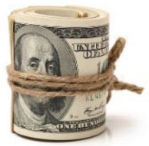
- **Minimum:** Disclose Realized and Unrealized Gains/Losses separately and create a separate category for investments in entities that have a commercial relationship with the parent

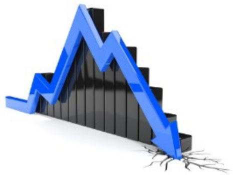


- **Original Point of Rule Change:** It was in response to the 2008 financial crisis, when banks failed to value their securities properly – but now it's creating different problems in this cycle

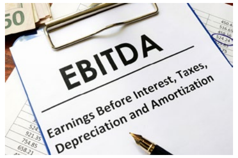
Recap and Summary

- **Intro:** Google and Its Distorted Net Income and P / E





- **Part 1:** Security Types and Accounting for Gains and Losses



- **Part 2:** Business Model Distortions and Recommendations