

IN THE NEWS

OCTOBER 11, 2009

Economic News

The good news is the Stock Market closed at its highest level this year [1]. On the other side, the World Bank President, Robert Zoellick, warned the U.S. not to take the dollar's status as for granted because new currencies are challenging its dominance [2]. This contributed to gold rising to a new record level of \$1,045 per troy ounce [3]. The increase continued with gold rising to another new record on Tuesday of \$1,048.20 per ounce [4]. Moreover, at one point during the past week, gold reached a high of \$1,062.70 per ounce [5]. Some trading partners are calling to replace the dollar with some other currency; especially from China and Russia [6]. Domestically, the U.S. economy fell at a 0.7% pace in the second quarter (April-June) [7]. Two weeks ago, the weekly new jobless claims rose to 551,000, more than was expected [8]. Overall, the unemployment rate for September rose to 9.8% indicating the recovery has a way to go [9]. With 263,000 non-farm payroll layoffs, the unemployment is the highest since June 1983 [10]. If those accepting part time work and others that gave up are included, the rate is approximately 17% [11]. So what does good news look like today? The trade deficit for September narrowed to only \$30.7 billion [12]. What's more, the trade deficit with China was down to just \$20.23 billion [13]. And, the budget deficit for Fiscal Year 09 tripled to \$1.4 trillion [14]. Meanwhile, GM announced it will end the Saturn brand name sometime after 2011 [15]. Furthermore, GM completed the sale of its Hummer brand to the Chinese Sichuan Tengzhong Heavy Industrial Machinery Co [16]. While the U.S. continues to struggle with the recession, China and Japan have increased their factory outputs for September [17].

A computer glitch at TD Bank delayed reporting deposits; thereby causing customers to create a near run on the bank [18]. During the next four years, the cost of bank failures is expected to cost the FDIC's insurance funds approximately \$100 billion [19]. To help replenish the depleting insurance fund, the FDIC wants lenders to prepay fees through 2012 of \$45 billion [20]. Possibly signaling trouble ahead for large banks, the head of the FDIC is calling for an end to the policy a bank is too big to fail [21]. Since the last newsletter, three more banks were closed. In Michigan, the Warren Bank became the 96th financial institution shuttered in 2009 [22]. Next, the Jennings State Bank in Minnesota became the 97th closed [23]. The next closed at number 98 was the southern Colorado National Bank [24].

1. Washington Post, *Dow Ends Week at Highest Level in a Year*, October 11, 2009.
2. Somerville, Glenn, Reuters, *World Bank says don't take dollar's place for granted*, September 27, 2009.
3. Nguyen, Pham-Duy, Bloomberg, *Gold Jumps to Record as Inflation Out-*

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IT security

Phishing remains a serious security threat. Consider over 33 people were arrested (53 indicted) in an FBI effort involving attacks from Egypt and US [1]. Resulting losses involving 2 large banks (Bank of America and Wells Fargo)

are estimated at over \$1.5 million [2]. In general, phishing attacks are so threatening; even the Director of the FBI almost became a victim [3].

Illustrating the seriousness of hacker attacks, the DHS

could hire 1,000 more security specialists [4]. Since the last newsletter, hackers published a new critical exploit to the Windows operating system putting pressure on Microsoft to release a patch [5]. What's more, hack-

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Special points of interest:

- Computer glitch nearly caused a run on the TD Bank
- FDIC Chairman wants to end "too big to fail" bank policy
- Record price for Gold, \$1,062.70 per troy ounce
- Counterfeit chips made in China sold to U.S. Navy and other Government agencies

Economic News

(Continued from page 1)

- look Fuels Investor Demand, October 6, 2009.
4. New York Times/Reuters, *Gold Hits Record as Dollar Falts*, October 7, 2009.
5. Nguyen, Pham-Duy and Larkin, Nicholas, Bloomberg, *Gold Pares Weekly Gain as Stronger Dollar, Rally Spur Sales*, October 9, 2009.
6. Ahrens, Frank, Washington Post, *Dollar's Slide Gives Rise to Calls for New Reserve*, October 7, 2009.
7. Aversa, Jeannine, AP, *Economy dips at 0.7 percent pace in 2Q*, September 30, 2009.
8. Augstums, Ieva M., AP, *Stocks open lower after jobs, income data*, October 1, 2009.
9. Randall, Maya Jackson, Wall Street Journal, *Jobs Cuts Unexpectedly Accelerate*, October 2, 2009.
10. Mutikani, Lucia, Reuters, *U.S. Sept non-farm payrolls plunge 263,000*, October 2, 2009.
11. Rugaber, Christopher S., AP, *Jobless rate reaches 9.8 percent in September*, October 2, 2009.
12. Chandra, Shobhana, Bloomberg, *U.S. Trade Deficit Unexpectedly Falls as Exports Rise*, October 9, 2009.
13. Barkley, Tom, Wall Street Journal, *U.S. Trade Gap Shrinks as Exports Rise*, October 9, 2009.
14. Taylor, Andrew, AP, *CBO: Budget deficit hit record \$1.4T in 2009*, October 7, 2009.
15. Krisher, Tom, and Fohnson, Kimberly S., *Sun sets on Saturn: GM kills fading star brand*, October 1, 2009.
16. Terlep, Sharon, Wall Street Journal, *GM Finalizes Deal To Sell Hummer To China's Tengzhong*, October 9, 2009.
17. Coghill, Kim, Reuters, *Chinese, Japanese factories ramp up output*, September 30, 2009.
18. Carlin, Dave, CBS, *Online Glitch Angers Millions Of TD Bank Customers*, October 1, 2009.
19. Gordon, Marcy, AP, *FDIC says bank failures to cost around \$100B*, September 29, 2009.
20. Vekshin, Alison, Bloomberg, *FDIC Proposes Banks Prepay Fees Through 2012, Raise \$45 Billion*, September 29, 2009.
21. Lawder, David, Reuters, *"Too big to fail" must end for all: FDIC chief*, October 4, 2009.
22. Shwiff, Kathy, Wall Street Journal, *Warren Bank of Michigan Is 96th Failure in 2009*, October 2, 2009.
23. Letzing, John, Market Watch, *Minnesota bank is 97th U.S. failure of 2009*, October 2, 2009.
24. Pelofsky, Jeremy, Reuters, *S. Colorado Natl Bank closed by regulators-FDIC*, October 2, 2009.

*I was born an American I
will live an American I shall
die an American—Daniel
Webster*

IT Security

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- ers posted several thousand user passwords from Microsoft's free email service, hotmail [6] Elsewhere, rogue programs are siphoning \$ millions per day from bank accounts and the newest exploits avoid many fraud detection controls [7].
1. AFP, *FBI smashes US-Egypt cyber 'phishing' ring*, October 7, 2009.
 2. Krebs, Brian, Washington Post, *33 Arrested as FBI Busts Global 'Phishing'*, October 8, 2009.
 3. Prince, Brian, eWeek, *FBI Director Nearly Hooked in Phishing Scam, Swears Off Online Banking*, October 8, 2009.
 4. Bain, Ben, Federal Computer Week, *DHS could hire 1,000 more cybersecurity professionals*, October 1, 2009.
 5. McMillan, Robert, IDG News Services, *Pressure on Microsoft, as Windows Attack Now Public*, September 28, 2009.
 6. Krebs, Brian, Washington Post, *Trove of Hotmail Passwords Posted Online*, October 5, 2009.
 7. McMillan, IDG News Services, *New Trojan Gives Criminals Full-service Bank Theft*, September 30, 2009.

Homeland Security

One very effective technique used by some countries to reduce U.S. imports, is to impose significant inspections on American goods. In contrast, the U.S. maintains a very weak inspection program. For example, toxic Chinese made sheetrock, was imported into the U.S. in quantity [1]. Examples are presented that illustrate the need for improved import inspection. By requiring comparable inspections paid with import fees, the U.S. could ensure better product safety while increasing domestic jobs.

Consider the impact should advanced weapons be smuggled into our country. For example, last June, a Continental pilot, flying at 12,000 feet, reported a near missile by a missile [2]. This follows a similar event, in the same area, during 2008 [3]. That after one year, the first reported missile went unresolved shows a general unpreparedness against sophisti-

cated weapon attacks.

In a more serious area of concern, a nuclear engineer working at the Cern research center in Switzerland was arrested for al-Qaeda links [4]. The Cern research facility was quick to state the suspected scientist was not working on anything that could be used by terrorists [5]. Nevertheless, the information the nuclear scientist may have provided to al-Qaeda is not public. If we do not inspect goods coming into the U.S., how can we prevent a serious disaster?

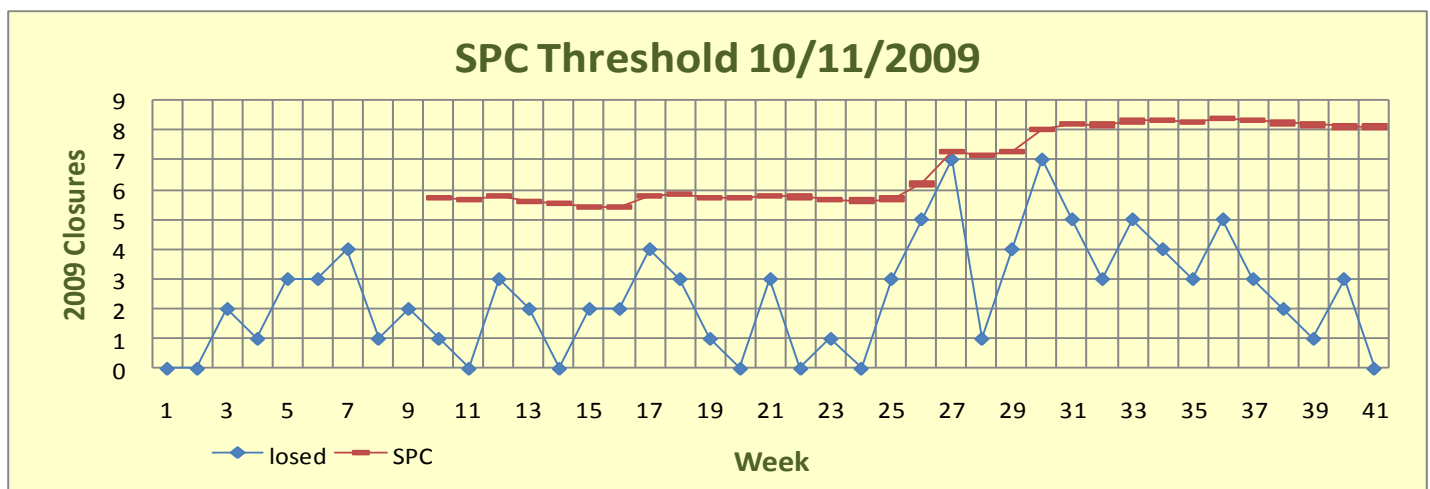
Furthermore, the U.S. maintains a porous border with Mexico that will remain problematic for some time. Case in point, Congress deleted funds for 300 miles of tall fencing along the Texas border with Mexico [6].

1. Showers, Al, WLOX (ABC), *Homeowners, attorneys meet about Chinese drywall problems*, October 6, 2009.
2. Geraldino, Duarte, Fox

News (KRIV Houston), *Missile Possibly Launched in Liberty County*, June 1, 2009.

3. Dallas Morning News/AP, *Flying object near Continental Express plane*, June 3, 2009.
4. Sage, Adam, Times Online (UK), *Nuclear engineer from Cern lab arrested for al-Qaeda links*, October 9, 2009.
5. Clark, Nicola, and Overbye, Dennis, New York Times, *Scientist Suspected of Terrorist Ties*, October 9, 2009.
6. Sherman, Christopher, AP, *Gov't dismisses call for more Texas border fencing*, October 9, 2009.

It would be our policy to use nuclear weapons wherever we felt it necessary to protect our forces and achieve our objectives—Robert S. McNamara



In Memory of Ronald E. Bacon-A visionary

World News

While some are debating a world free of nuclear weapons; India announced the capability of developing high yield weapons in the 200 kilotons range, comparable to the superpowers [1]. Following through on its previous announcement, Iran conducted new tests of its long range missile capable of hitting targets in Israel and Europe [2]. What's more, UN nuclear agency staffers believe Iran has sufficient data to make a workable atomic bomb [3]. In response to the Iranian aggression, the U.S. agreed to rare one-on-one talks with Iran's diplomats [4]. What's more, in spite of the missile tests, China, a permanent member of the U.N. Security Council, will not support strong sanctions against Iran [5]. Elsewhere, the new Japanese foreign minister has asked China to cut its nuclear arsenal [6]. Not unexpectedly, China accused the "rich nations" of undermining climate talks [7]. Given China is now perhaps the richest nation on Earth, maybe the statement is par-

tially true. Further south, India has accused Pakistan of supporting the terrorists that bombed the Indian embassy in Afghanistan [8]. Indian news accounts suggest Pakistan wants to purge Afghanistan of Indian influence [9]. Perhaps the real culprits are the Taliban terrorists trying to alleviate Pakistan pressure by starting a war between India and Pakistan. Even so, one Afghan official has stated the Taliban now includes about 4,000 foreign fighters [10].

1. Lamont, James and Blitz, James, Financial Times, *India raises nuclear stakes*, September 27, 2009.
2. Cowell, Alan, New York Times, *Iran Conducts New Tests of Mid-Range Missiles*, September 28, 2009.
3. Broad, William J., and Sanger, David E., New York Times, *Report Says Iran Has Data to Make a Nuclear Bomb*, October 3, 2009.
4. Kessler, Glenn, Washington Post, *U.S. to Seek Rare Meeting With Iran on Nu-*

clear Program, September 30, 2009.

5. Graham-Harrison, Emma, Reuters, *For China, Iran uranium plant no game changer*, September 28, 2009.
6. Klamann, Edmund, Reuters, *Japan calls on China to cut nuclear arsenal*, September 28, 2009.
7. Buckley, Chris, Reuters, *China says rich countries undercut climate talks*, October 10, 2009.
8. MacDonald, Myra, Reuters, *Afghanistan blames Pakistan for embassy bombing; India holds fire*, October 10, 2009.
9. Rajghatta, Chidanand, Time of India, *Pak's great game: Evict India from Afghanistan through terror*, October 11, 2009.
10. Faiez, Rahim, and Vogt, Heidi, AP, *Afghan official: Foreigners bolstering Taliban*, October 11, 2009.

*The optimist thinks that this
is the best of all possible
worlds; the pessimist knows
it—Julius Robert
Oppenheimer*

Crime

Fraud continues to dominate white collar crime. For example, the SEC charged a Michigan stock broker for his part in an alleged \$250 million Ponzi scheme [1]. Furthermore, in New York, 12 people were arrested in a \$9 million mortgage fraud scheme [2]. In the past, we have discussed counterfeit devices from China and other countries. This problem remains. For

example, in California, members of a family were charged with selling counterfeit chips made in China to the U.S. Navy and other Government agencies [3].

1. Kell, John, Wall Street Journal, *Michigan Broker Charged With Fraud in Ponzi Scheme*, September 28, 2009.
2. Yan, Ellen, Newsday, *12 arrested in Long Island*

mortgage scam ring, October 8, 2009.

3. Wilber, Del Quentin, Washington Post, *Family Members Charged With Selling Counterfeit Computer Chips*, October 9, 2009.