

IN THE NEWS

OCTOBER 25, 2009

Economic News

The Dow rose to over 10,000, its highest level in a year [1]. However, Gold continued to set new record highs and the U.S. dollar weakened [2]. In further signs of a faltering dollar, oil reached a new high for 2009 of \$75.15 a barrel [3]. It continued its climb upward, on Monday, October 20, to above \$79 per barrel [4]. The next day, oil again reached a new record passing the \$80 per barrel price [5]. By the end of Wednesday, the price passed \$82 per barrel [6]. What's more, Fed Chairman Bernanke is asking Asian countries to address the trade imbalance calling it a threat to the global economy [7]. Domestically, during the three month period ending in September, 937,840 homes received a foreclosure letter, the highest ever [8]. On the trade side, China continues currency manipulation that artificially keeps Chinese goods lower in price at the expense of U.S. industry [9]. In effect, China is stealing jobs from other countries [10]. And, as if the domestic auto industry does not have enough problems; an arrest was made for a former Ford employee alleged to have stolen trade secrets for China [11].

Banks are still under economic pressure. For example, the Bank of America posted a \$2.24 billion loss based on approximately \$10 billion in failed loans [12]. Similarly, Sun Trust reported a \$617 million quarterly loss [13]. This at a time when the FDIC bank fund is expected to remain in the red until 2012 [14]. Large financial institutions are still at risk. Case in point, there is news that if CIT Group does not secure a bondholder exchange, they may be forced into bankruptcy [15]. As of last December, CIT Group had approximately \$80 billion in assets [16]. In light of financial industry weakness, regulators shuttered 8 more banks. Starting on October 16, the San Joaquin Bank became the 99th financial institution shuttered this year [17]. Closings continued on October 23 starting with the 100th failure, the Florida based Partners Bank [18]. Next, at number 101, came the American United Bank in Georgia [19]. Next, closed was the Hillcrest Bank in Florida [20]. Then another bank in Florida, the Flagship National Bank was shuttered raising the total to 103



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Special points of interest:

- Dow reached highest level in a year
- Gold rises to new record level
- Bank of America posts \$2 billion loss
- Oil reaches the highest level in a year
- 106 Banks Closed—highest since 1992

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IT security

Security patches continue changing computing environment in the race to correct security holes. For example, Microsoft set a new record by releasing a patch to correct 34 security holes, many considered critical [1].

Many consumers may be operating under a false sense of security. Case in point, the security software company Symantec estimates there are millions of computers operating fake security software [2].

1. Krebs, Brian, Washington Post, *Microsoft Issues Record Number of Security Updates*, October 13, 2009.
2. Bartz, Diane, Reuters, *Fake security software in millions of computers: Symantec*, October 19, 2009.

Economic News

(Continued from page 1)

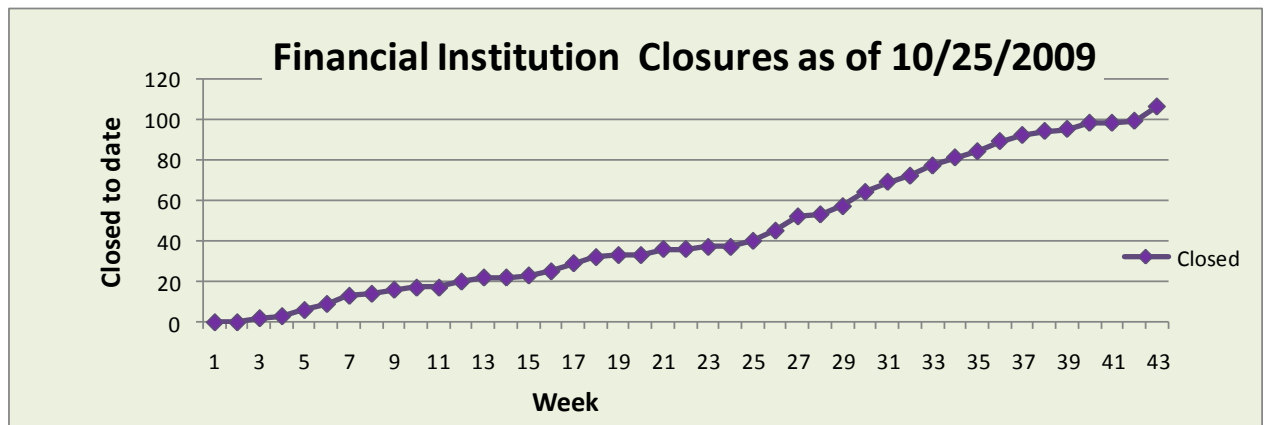
[21]. The next financial institution, at number 104, was the Bank of Elmwood in Wisconsin [22]. Following this was the Riverview Community Bank in Minnesota [23]. Finally, the 106th bank closed was the First DuPage Bank in Illinois [24]. The last time this many banks were closed was in 1992 [25].

1. CNN Money, *Dow 10,000: First close in a year*, October 14, 2009.
2. AFP, *Gold spikes to new record high*, October 14, 2009.
3. BBC News, *Oil reaches 2009 high above \$75*, October 14, 2009.
4. Habiby, Margot, Bloomberg, *Crude Oil Rises to One-Year High Above \$79 as Equities Increase*, October 19, 2009.
5. Schmollinger, Christian and Kyoungwha, Kim, Bloomberg, *Oil Rises Above \$80, Gold Near Record High on Dollar*, October 20, 2009.
6. Williams, Mark, AP, *Oil hits \$82 per barrel as dollar plunges*, October 21, 2009.
7. Hilsenrath, Jon, Wall Street Journal, *Bernanke Calls on Asia, U.S. to Do*

More to Address Trade Imbalances, October 20, 2009

8. Christie, Les, CNN Money, *Foreclosures: 'Worst three months of all time'*, October 15, 2009.
9. Norris, Floyd, New York Times, *Weak Dollar? Not So Much in China*, October 15, 2009.
10. Greber, Jacob, Bloomberg, *Krugman Says China Is Devaluing Its Currency, 'Stealing' Jobs*, October 23, 2009.
11. Wilson, Amy, Automotive News, *Ex-Ford engineer charged with stealing trade secrets*, October 16, 2009
12. Augstums, Ieva M., AP, *Bank of America loses \$2.24B as loan losses rise*, October 16, 2009.
13. Solsman, Joan E., Wall Street Journal, *SunTrust Swings to Loss*, October 22, 2009
14. Ellis, David, CNN Money, *FDIC bank fund in the red until 2012*, October 14, 2009.
15. Shen, Linda, and Moore, Michael J., Bloomberg, *CIT, Icahn Spar as Lender Tries to Avoid 'Free-Fall'*, October 23, 2009.
16. www.google.com/finance?q=NYSE:CIT&fstype=ii
17. Reuters, *State Closes San Joaquin Bank*, October 16, 2009.
18. BBC News, *US bank failures hit 100 for year*, October 23, 2009.
19. Gordon, Marcy, AP, *Bank closings hit 101 for year; most since 1992*, October 23, 2009.
20. Wagner, Daniel, AP, *Bank failures top 100, only part of industry woes*, October 23, 2009.
21. Campbell, Dakin, and McKee, Michael, Bloomberg, *U.S. Bank Failures Exceed 100 for Year, First Time Since 1992*, October 23, 2009.
22. Pepitone, Julianne, CNN Money, *Bank failures stack up: Now 105 for 2009*, October 23, 2009.
23. Garrison-Sprenger, Nicole, Pioneer Press, *Regulators close Riverview bank in Twin Cities*, October 23, 2009.
24. Yerak, Becky, Chicago Tribune, *First Dupage Bank of Westmont closed by state and U.S. regulators*, October 23, 2009.
25. Thiruvengadam, Meen A., Wall street Journal, *Bank Failures Now at 106*, October 24, 2009.

When you have an efficient
government, you have a
dictatorship—Harry S.
Truman



Environment

Warning of the pending climate-change agreement failure, China re-asserted the need for developed (rich) nations (excluding China) to change their demands [1]. While the US is trying to recover from an economic recession, China's economy is growing by 8% [2]. A growing economy means more air pollution. Meanwhile, domestically, the Environmental Protection Agency (EPA) is committing to more air pollution rules by 2011 [3]. If China, the largest industrial giant on the planet, will not cut back on its global emissions, what can be gained by U.S. cuts alone?

In a further sign of emissions treaty compliance problems; Japan is signaling that if other rich countries do not cut back, it will not live up to its previous commitment to a 25% emissions cut by 2020 [4]. So if China doesn't cut back, Japan may not.

Meanwhile, the air pollution in Hong Kong (part of China) matched the record high set in 2000 [5]. Consider another Chinese city, Shanghai, where 3 days with little air pollution was considered a news story [6]. In Beijing, China has announced reduced air pollution at the same time a monitor at the U.S. Embassy consistently records unhealthy quality [7]. Perhaps this is the model China will use to control air pollution; just report the air is good regardless of facts.

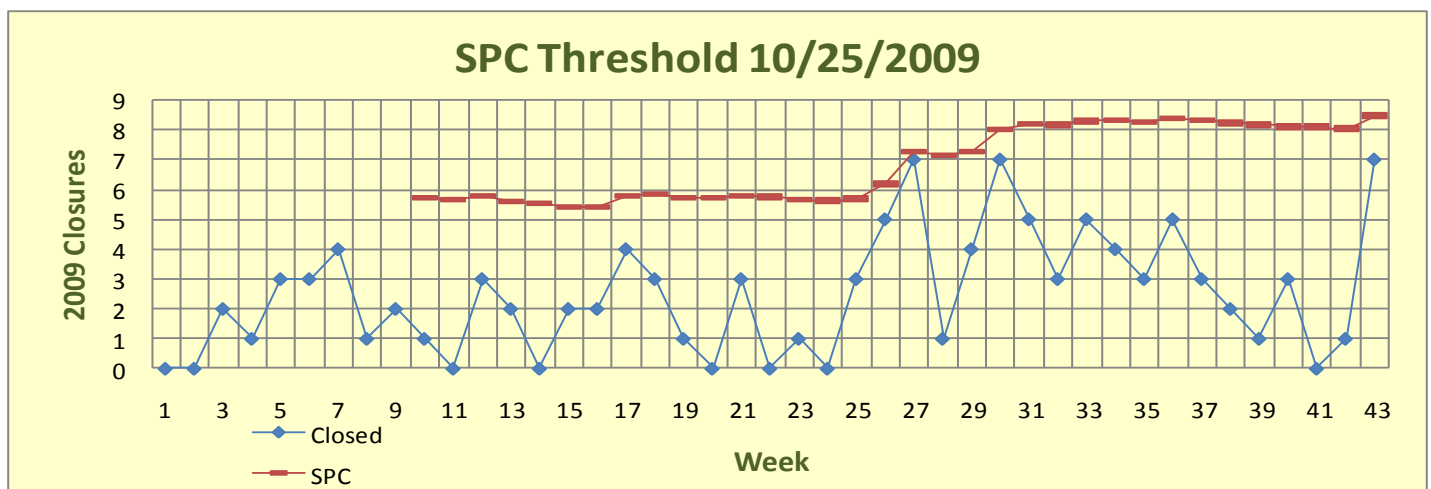
To minimize world outrage of pollution, China and India signed a memorandum of understanding for greater cooperation [8]. The idea is the two countries will share information and technology related to emissions control.

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2. BBC News, *China economic growth accelerates*,

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3. Geiger, Kim, and Tankersley, Jim, Los Angeles Times, *EPA commits to set air pollution rules by 2011*, October 24, 2009.
4. Fujioka, Chisa, Reuters, *Japan may cut emissions by less than 25 pct*, October 23, 2009.
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I can give you a six-word formula for success: "Think things through - then follow through—Sir Walter Scott



Years ago, famous psychologist B.F. Skinner wrote about “operant conditioning.” The concept is to reward good behavior (positive reinforcement) and punishing bad. By using this approach, behavior can be modified. With that as a backdrop, consider that for consistent bad behavior exhibited by North Korea, the communist country was rewarded. So what behavioral modification has the world’s response provided? In response to announced North Korean missile tests just prior to peace talks, China says this won’t damage the negotiations [1]. Secretary of Defense Gates warned that North Korea has become a deadly threat to the region [2].

Similarly, Russia is cautioning the U.S. against any sanctions against Iran [3]. Expectedly, Iran again stated it will not abandon its nuclear ambitions [4]. Iran has a history of appearing to agree to international pressure only to back out. Case in point, after missing a UN imposed deadline, Iranian hardliners criticized the UN plan [5].

In a twist of policy, one report suggests Russian policy now allows a nuclear first strike option [6]. What’s more, the U.S. plans to allow Russian

inspectors access to U.S. nuclear warheads so they can be physically counted [7]. In a further deterioration of U.S. influence, Venezuelan President, Hugo Chavez, seized control of a Hilton Hotel [8]. Terrorists continue to dress as military or first responders to carry out their attacks. Case in point; dressed as soldiers and driving a vehicle with Army plates, terrorists were able to penetrate Pakistan’s army headquarters [9].

China continues to emerge as the most World’s serious threat. Case in point, by manipulating its currency, China is threatening world recovery; effectively taking jobs away from struggling countries [10]. What’s more, in a report to Congress, China is spying on U.S. industry and is prepared for cyberwarfare [11]. Consider, without industry and jobs, a struggling country’s tax base is less. In such situations, military expenditures are typically among the first cut. Effectively, China is eliminating other’s military capability by manipulating trade.

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2. Stewart, Phil, and Kim, Jack, Reuters, *US's Gates*

says North Korea's military "more lethal", October 21, 2009

3. BBC News, *Don't pressure Iran, says Russia*, October 13, 2009.
4. Hafezi, Parisa, Reuters, *Iran says nuclear technology program to go ahead*, October 20, 2009.
5. Hafezi, Parisa, Reuters, *Iran hardline lawmakers carp nuclear fuel deal*, October 24, 2009.
6. Nowak, David, AP, *Report: Russia to allow pre-emptive nukes*, October 14, 2009.
7. Lewis, Dana, Fox News, *Tentative Inspection Program Would Allow Russia to Visit U.S. Nuclear Sites*, October 13, 2009.
8. AFP, *Hilton 'evaluating' Venezuelan hotel seizure*, October 14, 2009.
9. Kahn, Zarar, and Toosl, Nahal, AP, *Bloody siege at Pakistan army HQ ends with 19 dead*, October 11, 2009.
10. Dean, Jason, New York Times, *Krugman Rails Against China's Currency Policy*, October 23, 2009.
11. McMillian, Robert, IDG News Service, *Report Says China Ready for Cyber-war, Espionage*, October 23, 2009.

Crime

We continue to examine crimes exceeding \$1 million. Since the last newsletter, a husband and wife were arrested for running a spare parts scam that bilked Cisco out of \$23 million [1]. In New York, a Hedge Fund chief was arrested for \$20 in illegal trades [2]. Elsewhere in New York, 41 people were charged in a \$64.6 million mortgage

fraud scheme [3]. In California, 20 people were charged in a \$26 million Medicare fraud scheme [4].

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With Fraud, October 16, 2009.

3. Bray, Chad, Wall Street Journal, *41 Charged In \$64.6M Mortgage Fraud Takedown - DOJ*, October 15, 2009.
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*When the mind is thinking it
is talking to itself—Plato*
