

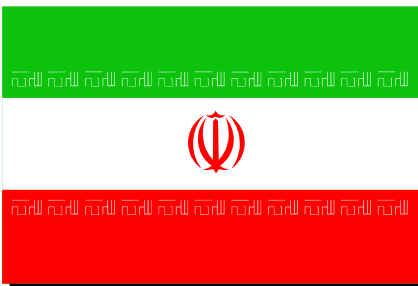
IN THE NEWS

VOLUME 2 ISSUE 28

SEPTEMBER 27, 2009

World News

In a stunning rebuke, the nuclear conference in Vienna issued a resolution critical of Israel: "expresses concern about the Israeli nuclear capabilities." [1]. Perhaps the greatest threat to Israel is Iran. In his speech before the U.N., Israel's Binyamin Netanyahu admonished Iran and perhaps provided a final warning to those listening [2]. The U.S. has abandoned a planned European missile shield based on the argument that Iran's long range missile capability has not advanced much [3]. However, the International Atomic Energy Agency believes Iran can make a nuclear bomb and their ballistic missile technology is improving [4]. One expert believe the decision not to deploy the missile defense was because Iran is further along in developing medium range missiles [5]. Meanwhile, the president of France, Nicolas Sarkozy reaffirmed that Iran is indeed working on building nuclear bombs [6] What's more, Secretary of State Clinton warned Iran on their nuclear program [7]. To complicate matters, Iran announced the existence of a second uranium enrichment facility [8]. Meanwhile, the U.N., which seems powerless to slow Iranian nuclear ambitions, endorsed a new U.S. Goal of total nuclear weapon elimination [9]. To make matters worse, China has stated it won't support sanctions against Iran for nuclear weapons treaty violations [10]. The U.S. has accused



Iran of building a hidden nuclear processing plant [11]. Furthermore, the U.S. president pointed out the secret Iranian nuclear plant showed a disturbing pattern [12]. And nuclear ambitions extend to the Western hemisphere. For example, Brazil's VP has publicly stated his country should develop nuclear weapons [13]. Furthermore, Brazil's president Luiz Inacio Lula da Silva plans to meet with Iran's president Ahmadinejad [14]. Perhaps Iran will help Brazil realize obtaining nuclear weapons. In yet another example, Iran has helped Vene-

(Continued on page 2)

Inside this issue:

Exploitable	3
Are banks safe now?	3
Financial News	4
Crime	4

Special points of interest:

- SEC proposed Flash Trade ban
- Fed Chairman believes the recession is over
- 95th financial institution shuttered this year

IT security

Not surprisingly, cyber criminals are targeting small business where information assurance budgets are modest [1]. Moreover, there is a new Trojan virus that is being used to compromise user's on-line banking to 4,500 financial institutions [2]. In North Carolina, hackers may have stolen over 100,000 social security num-

bers [3]. Meanwhile, there are concerns that the new smart grid (electric) may be vulnerable to hacker attacks [4].

1. Baldor, Lolita C., AP, *Cyber criminals targeting small businesses*, September 14, 2009.
2. Harvey, Mike, Times Online (UK), *New Trojan virus poses online bank-*

ing threat, September 21, 2009.

3. Vijayan, Jaikumar, Computer World, *UNC data breach exposes 163,000 SSNs*, September 26, 2009.
4. Quain, John R., Fox News, *Will the 'Smart Grid' Be Safe Enough?*, September 25, 2009.

World News

(Continued from page 1)

zuela find uranium deposits [15].

Elsewhere, Secretary of Defense Gates warned that China's military modernization could undermine U.S. power in the Pacific [16]. What's more, China is committed to catching up with the West in space exploration [17]. For example, China broke ground on its fourth space center [18].

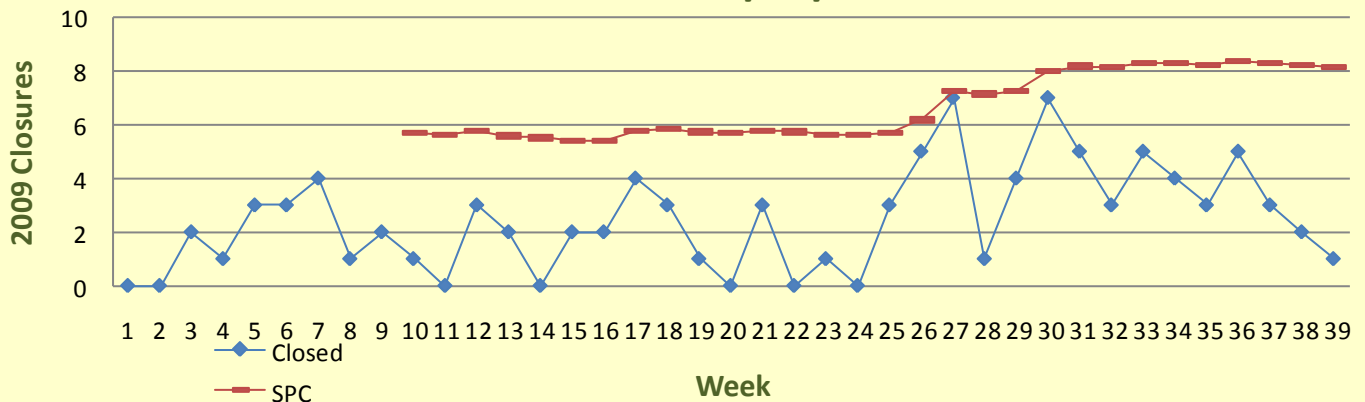
1. AP, *Nuclear conference critical of Israel*, September 18, 2009.
2. Hockstader, Lee, *Washington Post*, *Israel's Final Warning to the World?*, September 25, 2009.
3. *Jerusalem Post*, *Sarkozy: Iran working on nukes today*, September 16, 2009.
4. Spiegel, Peter, *Wall Street Journal*, *U.S. Shelves Nuclear-Missile Shield*, September 17, 2009.
5. Gertz, Bill, *Washington Times*, *National security adviser says Iran advancing*

in medium-range missiles, September 20, 2009.

6. AP, *AP NewsBreak: Nuke agency says Iran can make bomb*, September 17, 2009.
7. Lee, Matthew, AP, *Clin-ton warns Iran over nuclear program*, September 18, 2009.
8. BBC News, *Iran 'has second enrichment site'*, September 25, 2009.
9. Strobel, Warren P., *Miami Herald*, *Obama's nuclear-free goal gains U.N. endorsement*, September 25, 2009.
10. Blanchard, Ben, and Parsons, Claudia, *Reuters*, *China, Britain diverge on Iran nuclear sanctions*, September 24, 2009.
11. Spetalnick, Matt, and Heinrich, Mark, *Reuters*, *Obama accuses Iran of building secret nuclear plant*, September 25, 2009.
12. Bohan, Caren, *Reuters*, *Obama accuses Iran of pattern of evasion*, September 26, 2009.
13. Sibaja, Marco, *Miami Herald*, *Brazil VP says country should build nuclear arms*, September 25, 2009.
14. Goodman, Joshua, *Bloomberg*, *Lula Defends Ahmadinejad's Nuclear Goal, Plans Visit to Iran*, September 24, 2009.
15. Romero, Simon, *New York Times*, *Venezuela Says Iran Is Helping It Look for Uranium*, September 25, 2009.
16. AFP, *China could undermine US military power in Pacific: Gates*, September 16, 2009.
17. AFP, *China says will push space programme to catch up West*, September 17, 2009.
18. Bodeen, Christopher, AP, *China breaks ground on space launch center*, September 14, 2009.

Don't gamble; take all your savings and buy some good stock and hold it till it goes up, then sell it. If it don't go up, don't buy it—Will Rogers

SPC Threshold 9/27/2009



Exploitable

Reverse-engineering experts have detected a number of dummy parts included with the latest generation of integrated circuits [1]. If the devices made contain large numbers of unused components, a bad actor need only discover one of these to potentially introduce exploits difficult to detect and correct. What's more, device analysis becomes more difficult with the inclusion of additional dummy devices. Additionally,

China already has a well established industry pumping out fake electronics such as iPhones [2].

Another troubling sign is the loss of U.S. technical expertise. For example, 2/3 of the engineering Ph.D.'s granted in the U.S. are awarded to non-U.S. citizens; and U.S. students are 25th in math [3]. So where will the technology advancements come from?

1. Corey, Anne-Marie, IEEE

Spectrum, *New Chips Loaded With Dummy Parts*, September 16, 2009.

2. Boudreau, John, San Jose Mercury News, *Fake iPhones are cheap and popular in China*, September 16, 2009.
3. Aviation week & Space Technology, *A Race to the Bottom*, August 24/31, 2009.

Are Banks Safe Now?

With the FDIC's adjusted fund at the lowest level since 1992, the FDIC Chairman is considering Treasury borrowing [1]. Other signs of continuing stress, during the last quarter, the trouble bank list increased by more than one bank per day, standing at 416 banks [2]. The question remains, are we out of the woods?

Consider the SEC chairman's testimony on April 3, 2008 before the Senate Banking Committee. Bear Stearns liquidity pool dropped from \$12.4 billion to \$2.4 billion on the Thursday before the Citi purchase.

Then along came the Lehman Brothers collapse, the largest bankruptcy in U.S. history [3]. This in turn forced the Government to save AIG [4]. We have repeatedly pointed out that computer programs are configured to make trades without human intervention. Case in point, following a bogus new article, within minutes United Airlines dropped over \$1 billion in values [5]. In our July 20, 2008 newsletter we suggested the FDIC in-

crease its insurance protection from \$100,000 to \$250,000. A increase was eventually included in the Senate version of the financial rescue plan later in the year [6]. However, the increase came late for Wachovia's collapse due to a silent run where depositors with over \$100K transferred funds to just under \$100K [7].

So what happens next? The short answer is the same conditions that allowed silent runs on the banks have yet to be addressed. One of the few efforts to start controlling the process is the SEC announcement to stop Flash Trades [8]. The possibility of another meltdown depends on the computer programs making the financial transactions without human intervention.

1. Wagner, Daniel, AP, *FDIC chief considers tapping Treasury for funds*, September 18, 2009.
2. BBC News, *US problem banks at 15-year high*, August 27, 2009.
3. Luhby, Tami, CNN Money, *WaMu shares hit hard*, September 15,

2008.

4. Son, Hugh, and Holm, Erik, Bloomberg, *Fed Takes Control of AIG With \$85 Billion Bailout*, September 17, 2008.
5. Nizza, Mike, The New York Times, *A Stock-Killer Fueled by Algorithm After Algorithm*, September 10, 2008.
6. Taylor, Andrew, AP, *Senate to vote on financial rescue plan*, October 1, 2008.
7. Rothacker, Rick, and Jall, Kerry, McClatchy Newspapers, *Wachovia faced 'silent' bank run; FDIC forced sale*, October 11, 2008
8. Kisling, Whitney, and Westbrook, Jesse, Bloomberg, *Flash Trade Halt Backed for Nasdaq, Bats as SEC Votes*, September 18, 2009.

In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value—Alan Greenspan

Financial News

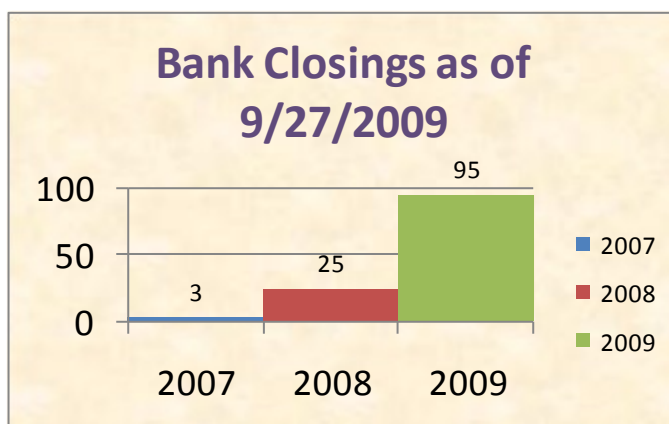
In a small step to address computer trades, the SEC is proposing a ban on Flash Trading where high speed trades benefit at the expense of slower trades [1]. In other good news, Fed Chairman Ben Bernanke said in his view the recession is likely over [2].

chase U.S. debt, the U.S. could face economic problems [6]. What's more, U.S. financial institution loan losses are expected to be \$53 billion in 2009 exceeding estimates [7].

Regulators continued shuttering three more banks. Starting on September 18, two Irwin

Shares, September 16, 2009.

3. Puzzanghera, Jim, Los Angeles Times, 'Audit the Federal Reserve' bill gains steam, September 26, 2009.
4. Pavliva, Halia and Larkin, Nicholas, Bloomberg, Gold Rises to Record Settlement Price on Inflation Concern, September 16, 2009.
5. Rugaber, Christopher S., AP, New jobless claims drop unexpectedly to 545K, September 17, 2009.
6. Park, JeeYeon, CNBC, US May Face 'Armageddon' If China, Japan Don't Buy Debt, September 24, 2009.
7. AP, US large-loan bank losses triple to \$53 billion, September 25, 2009.
8. Letzing, John, Market Watch, Two Irwin Union Bank failures bring 2009 total to 94, September 18, 2009.
9. Witkowski, Wallace, Market Watch, Atlanta's Georgian Bank fails; 95th of the year, September 25, 2009.



This comes at a time when there are calls for Congressional auditing of the Federal Reserve [3]. Elsewhere, with investors fearing inflation, the gold settlement price rose to a new record level and silver reached a 13-month high [4]. The number of first time unemployment claims for the week of September 11 was 545,000 a number less than expected [5]. In other news, there are warnings that if China and Japan do not pur-

Union Banks were closed bring the total to 94 [8]. On September 25, the Georgian Bank of Atlanta became the 95th financial institution close during 2009 [9].

1. Anderson, Jenny, New York Times, U.S. Proposes Ban on 'Flash' Trading on Wall Street, September 17, 2009.
2. Siddiqi, Ish Aq, Wall street Journal, Bernanke Comments Lift European

Space isn't remote at all. It's only an hour's drive away if your car could go straight upwards—Sir Fred Hoyle

Crime

Mortgage fraud continues to be a significant criminal activity. Case in point, the FBI is currently investigation over 2,600 cases of mortgage fraud [1]. Meanwhile, in New York, a political fundraiser, Hassan Nemazee, was charged with defrauding Citigroup Inc. and HSBC out

of \$290 million [2]. Elsewhere, 2 men were charged in a \$80 million ATM Ponzi scheme [3].

1. Pelofsky, Jeremy, Reuters, FBI says has over 2,600 mortgage fraud cases pending, September 16, 2009.

2. McCool, Grant, Reuters, U.S. charges Obama fundraiser in \$290 million fraud, September 21, 2009.
3. Bray, Chad, Wall Street Journal, Two Charged in ATM Ponzi Scheme, September 21, 2009.