

IN THE NEWS

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The Economy

After months of investigations, the analysis concludes a single \$4.1 billion sale executed using a trading algorithm triggered the flash crash [1]. Readers will recall from past newsletters we correctly identified the root cause as algos. Now it remains to be seen if the SEC will follow our recommendations of mediating transactions. We suspect it will not thereby setting the stage for future flash crashes.

For the week ending September 25, the number of first time jobless claims was 453,000 and the week prior claims number was revised up from 465,000 to 469,000 [2]. For the next week ending October 2, first time unemployment claims fell to 445,000 and the number for the week prior was revised upward by 3,000 [3]. Elsewhere, the Labor department reported the economy shed 95,000 jobs last month but the unemployment rate remained at 9.6% [4]. What's more, the number of people in the U.S. receiving food stamps increased to 41.8 million, an increase of 1.2 percent from June [5].

For the first time since just before the flash crash that occurred on May 6; the Dow Jones Industrial Average reached 11,000 [6]. Essentially, algorithm driven trades may have been extended the recession by five months. Once again, gold reached a new record high of \$1,310 per troy ounce [7].

On October 1, Regulators shuttered two financial institutions: 128) Wakulla Bank in Florida; and 129) Shoreline Bank in Washington [8]. However, for the Columbus Day weekend, no banks were shuttered.

1. Bowley, Graham, New York Times, *A Single Sale Worth \$4.1 Billion Led to the 'Flash Crash'*, October 1, 2010.
2. Lynch, Sarah, and Hughes, Darrell, *Wall street Journal*, *Jobless Claims*

(Continued on page 2)



Inside this issue:

Energy News	3
World News	4
Financial Fraud	4

Special points of interest:

- SEC concludes algos to blame for the *flash crash*
- Paroles electronic monitoring system for 49 states shut down for 12 hours
- Gold reached new record high
- IMF warns of currency wars
- Regulators closed 129th bank
- 95,000 jobs lost in September

Security

On Tuesday, October 6, the central application that electronically monitors sex offenders, parolees and others in 49 states shut down for 12 hours when the system's data storage reached its limit [1]. The question here is why did the system fill

up? Was it because the company was not paying attention or was is some other factor? Either way, availability is one of the three pillars of security.

One article suggests there were at least 125 successful attacks on Supervisory Control and Data Acquisition

(SCADA) critical infrastructure systems [2]. On page three of this newsletter, we include an NTSB quote from an accident in 1999 where critical audit files disappeared from the computer. Eliminating files is a technique hackers typically

(Continued on page 2)

Security

(Continued from page 1)

use to cover their trail.

Authorities in the UK arrested 20 people belonging to a computer crime organization that over the past four years sold over \$200 million from consumers and small businesses [3].

Iran's intelligence minister acknowledged the Stuxnet virus hit his country but downplayed the impact [4]. It is estimated that 30,000 IP addresses within Iran were

infected with the Stuxnet virus; and the Iranian government claims to have eradicated the virus [5]. What's more, Iranian officials argue the delay with their first nuclear power plant was due to a leak and not the Stuxnet virus [6].

1. Richmond, Todd, AP, *Company: Electronic monitoring went down across US*, October 6, 2010.
2. Coleman, Kevin, FCW, *Stuxnet worm deemed 'best malware ever'*, September 24, 2010.

3. McMillan, Robert, PC World, *Feds Hit Zeus Group, but the Brains Remain Overseas*, September 30, 2010.
4. AP, *Spy chief says Iran able to fight computer worm*, October 2, 2010.
5. AFP, *Iran cleans industrial computers of stuxnet virus*, October 3, 2010.
6. Dareini, Ali Akbar, AP, *Iran: Nuclear delay due to leak, not computer worm*, October 4, 2010.

The Economy

(Continued from page 1)

Post Decline, September 30, 2010.

3. Lynch, Sarah, and Sparshott, Jeffrey, Wall Street Journal, *Jobless Claims Drop*, October 7, 2010.
4. Rampell, Catherine, New York Times, *Cuts in Government Led U.S. Economy to Lose 95,000 Jobs*, October 8, 2010.
5. Bjerga, Alan, Bloomberg,

Food Stamp Recipients at Record 41.8 Million Americans in July, U.S. Says, October 5, 2010.

6. Gibson, Kate, Market Watch, *Dow tops 11,000 on thoughts of Fed moves ahead*, October 8, 2010.
7. Reuters, *US gold hits record high, silver at 30-year peak*, September 29, 2010.
8. Reichl, Dan, Bloomberg, *Banks Fail in Florida*,

Washington as U.S. Closures Reach 129 for This Year, October 1, 2010.

An almost hysterical antagonism toward the gold standard is one issue which unites statisticians of all persuasions. They seem to sense... that gold and economic freedom are inseparable—Alan Greenspan



Energy News

Starting next year, Cuba will drill for oil off the coast of Florida to depths deeper than the BP accident [1]. Experts believe that a Cuban well failure, would reach Florida beaches in three days and Cuba lacks the resources to stop an oil leak [2]. In contrast, it is unknown when the U.S. ban on off-shore drilling will be lifted [3]. Once again, Climate talks ran into opposition as China argued the U.S. and Europe should pay for the emission goals [4].

Have you ever seen or heard of a car fire? With the move toward more battery operated

cars, a question here is: are batteries a fire hazard? Consider the crash of a United Parcel Service 747-400 may have been caused by a cargo of lithium batteries [5]. What's more, the FAA has issued a safety alert regarding the fire hazard with lithium batteries [6].

1. Clark, Lesley, and Kennedy, Sara, Miami Herald, *Cuba ready to drill for oil deeper than BP*, October 3, 2010.
2. New York Times/Dallas News, *Cuba's drilling has risks*, September 30, 2010.
3. Dlouhy, Jennifer A., San Francisco Chronicle, *Future of offshore drilling ban remains unclear*, October 1, 2010.
4. Buckley, Chris, Reuters, *Climate talks struggle as China and U.S. face off*, October 6, 2010.
5. AFP, *FAA links lithium batteries to air crash in UAE: FAA*, October 8, 2010.
6. Pasztor, Andy, Wall Street Journal, *FAA Issues Lithium Battery Fire-Safety Alert*, October 8, 2010.

*I feel like the fellow in jail
who is watching his
scaffold being built—
Dwight D. Eisenhower*

The SCADA system was connected via a bridge to the rest of the building network. It was also directly accessible via dial-in modem. No firewalls or access monitoring were incorporated into the system. These protections should have been installed to isolate the system from a "hacker" attack. Although no evidence was found to suggest that an intrusion by an unauthorized or unknown user caused the computer slowdown that occurred on the day of the accident, the lack of basic security features related to the SCADA system could allow such an intrusion in the future. (Three deaths and 237,000 gallons of gasoline entered a stream) – NTSB, NTSB/PAR-02/02, Pipeline Accident Report

World News

China is showing the U.S. that currency manipulation is not the only one sided trade practice in their inventory. For example, China is imposing a tariff on imported U.S. chicken [1]. And to be sure, a tariff of 50.3% is not a trivial expense [2]. One day after China's action, the U.S. placed tariffs on Chinese copper pipes [3]. Perhaps the U.S. can learn another technique from China's stepped up inspection of goods to and from Japan [4].

Some are suggesting the current currency wars against the U.S. dollar are akin to the tariffs of the 1930's that helped extend the great depression [5]. What's more, many countries have adopted the China's practice of artificially lowering the value of currency [6]. Even the IMF warned countries not to engage in currency wars at a time when some countries, including Japan, Brazil and South Korea, have taken steps to keep their currency weak thereby improving their trade balance. [7]. In response, Treasury Secretary Geithner again is warning China to

relax its currency policy because it's unfair [8]. Moreover, the U.S. is not alone in calling for Chinese currency change. Case in point, Chinese premier Wen Jiabao called for the European Union to stop demanding China allow its currency to increase in value [9]. In his first major policy speech, Japan's Prime Minister Naoto Kan warned of China's expanding military [10]. In Europe, Moody's lowered Spain's credit rating below AAA meaning borrowing costs will increase [11].

1. Bloomberg/AP, Ahead of the Bell: China imposes tariff on chicken, September 27, 2010.
2. Riley, Charles, CNN Money, U.S. poultry producers hit by Chinese tariff, September 27, 2010.
3. Palmer, Doug, Reuters, US sets duties on copper pipe from China, Mexico, September 27, 2010.
4. McDonald, Joe, AP, Shippers say China slows handling of Japan goods, September 27, 2010.

5. Forsyth, Randall, Barron's, *The World Wakes Up to Threat of Currency Wars*, September 29, 2010.
6. Sanger, David, And Wines, Michael, New York Times, *More Countries Adopt China's Tactics on Currency*, October 3, 2010.
7. Curtsinger, Martin, AP, *IMF Warns Countries Against Currency Wars*, October 8, 2010.
8. Branigin, William, Washington Post, *U.S. warns China on currency policy*, October 6, 2010.
9. Miller, John, Wall Street Journal, *China to EU: Tone Down Yuan Criticism*, October 6, 2010.
10. BBC News, *Japanese PM Naoto Kan warns of China's military rise*, October 1, 2010.
11. Ortiz, Fiona Reuters, *Spain loses AAA status, stands firm on austerity*, September 29, 2010.

The Government's business

is in sound condition—

Andrew W. Mellon,

Secretary of the Treasury

(December 5, 1929)

Financial Fraud

In the latest international case, the FBI estimates \$70 million was stolen on-line from U.S. banks [1]. Elsewhere, in California four were arrested in a \$9 million mortgage fraud scheme [2].

Ponzi schemes continue to make the news. For example, a southern California man was charged with operating an \$11 million Ponzi scheme impacting 300 victims [3]. In New Jersey, a man was charged

with operating a \$2.4 million Ponzi scheme [4]. In Illinois, a man was charged with operating a \$12 million Ponzi scheme [5].

1. Caldwell, Alicia, AP, *FBI says cyber-thieves stole \$70 million*, October 1, 2010.
2. Taub, David, KMJ Radio, *Four Arrested in \$9 Million Mortgage Fraud Scheme*, October 4, 2010.
3. Bloomberg/AP, *SoCal*

man accused of Ponzi scheme, mortgage fraud, October 1, 2010.

4. Ryan, Joe, The STAR Ledger, *Springfield man is charged with bilking more than \$2M from investors*, October 5, 2010.
5. Roeder, David, Chicago Sun-Times, *Man accused of \$12 mil. Ponzi scheme*, October 8, 2010.