

IN THE NEWS

MAY 9, 2010

Economic News

During 2008, in Newsletter Volume 1 Number 26 we described the risk posed by algos (automatic trading programs). Now we have more evidence of the risk posed. Highlighting the volatility in the market, the Dow fell nearly 1,000 points on May 6 before recovering most of the loss [1]. Following this collapse, a probe was launched to determine if there were bad trades issued by *black box* (read algos) automatic trading systems [2]. Unfortunately, government controls currently in place are inadequate for preventing further turmoil; and may necessitate a government mediated trading system. Case in point, during the 10 minute free-fall period, stocks fell 700 points creating the largest inter-day fall in history [3].

While Asian countries are recovering nicely, some Western nations continue to struggle. For example, the U.S., first time unemployment claims for the week ending April 24 fell 11,000 to 448,000 [4]. For the following week, the first time unemployment claims fell another 7,000 to 444,000 [5]. In other news, the U.S. gross domestic product grew at a 3.2% rate for the first quarter [6]. Concurrent with growth, inflation is a concern for the economic recovery. For example, during March, food prices increased 2.4%, the largest percentage increase since 1984; and energy increased 0.7% [7]. Furthermore, gold closed above \$1200 per ounce, near its all time high [8]. Meanwhile, before the market crash, oil increased to an 18-month high exceeding \$87 per barrel due in part to increased demand from China [9].

The news from Europe is not very good. For example Standard and Poor's lowered Greece's credit rating to junk status [10]. The Greek financial maelstrom has turned violent with three people killed so far and there were protesters numbering in the tens of thousands [11]. One news article reports Greek protesters numbered 100,000 and were opposing the new Government spending cutbacks aimed at avoiding bankruptcy [12]. What's more, Moody's indicated they may downgrade Portugal's bond rating one or two notches possibly starting down the same path as Greece [13]. Then there is Spain's stability following the Standard & Poor's bond rating downgrade on April 28 [14].

Regulators continued closing troubled financial institutions. For example, on April 30, the following seven were shuttered: 58) Eurobank of San Juan; 59) R-G Premier Bank of Puerto Rico; 60) Westernbank Puerto Rico; 61) CF Bancorp in Michigan; (Continued on page 2)

Security

Sometimes, accessing Government web sites can be risky. Case in point, four public facing cloud-hosted web sites belonging to the Bureau of Engraving and Printing were taken down following discovery of malicious code on the parent site [1].

New York is once again in the news as a terrorism target. Case in point, a smoking car bomb was defused in the

Times Square area of the city [2]. Later, a naturalized American originally from Pakistan was arrested for the attempted terrorist attack [3]. After his arrest, 30 year old Faisal Shahzad admitted to participating in training at a known terrorist camp in Pakistan [4]. What's more, authorities have evidence there was a money courier that helped fund the terrorist attack [5].

Elsewhere, the Russian navy took back a tanker seized by Somali pirates, freeing the crew of 23, killing one pirate and capturing another 10 [6].

1. Jackson, William, GCN, *Treasury shuts down 4 cloud-hosted Web sites after infection*, May 4, 2010.
2. Nichols, Michelle, and Dunham, Will, Reuters, *NY police defuse car bomb in Times Square*, May 2, 2010.

(Continued on page 2)

Inside this issue:

Oil	3
World News	4
Crime	4

Special points of interest:

- Dow experienced the largest inter-day drop in history, down nearly a 1000 points during May 6 trading
- Greece's credit rating cut to junk
- 68th bank shuttered

Economic News

(Continued from page 1)

62) Champion Bank in Missouri; 63) BC National Bank in Missouri; and 64) Frontier Bank in Washington [15]. Then on May 7, the following four financial institutions were shuttered: 65) The Bank of Bonifay in Florida; 66) Access Bank in Minnesota; 67) Towne Bank of Arizona; and 68) 1st Pacific Bank of California [16]. Meanwhile, Goldman Sachs shares plummeted after the Justice department opened a criminal investigation of fraudulent activities [17].

With the stock market meltdown on May 6, its worth recalling former CEO of Bear Stearns, James Cayne, said "unfounded" concerns and "rumors" resulted in an unstoppable run on the bank [18]. This was reaffirmed by the former Bear Stearns Chief Financial Officer who indicated that fears, rumors and innuendo in March 2008 caused a quintessential run on the bank [19]. Clearly, the same forces were evident in the stock market on May 6.

1. Twin, Alexandra, CNN Money, *Dow falls almost 1000, recovers 600*, May 6, 2010.
2. McKay, Peter, Wall Street Journal, *Dow Drops Nearly 1,000 Before Rebound; Possible Bad Trades Probed*, May

6, 2010.

3. Goldstein, Matthew, Reuters, *Stock plunge raises alarm on algo trading*, May 6, 2010.
4. Lynch, Sarah, and Bater, Jeff, *Jobless Claims Fall Slightly*, April 29, 2010.
5. Rugaber, Christopher, AP, *New jobless claims drop for third straight week*, May 6, 2010.
6. Mutikani, Lucia, and Ricci, Andrea, Reuters, *U.S. economy grows 3.2 pct in Q1*, April 30, 2010.
7. Chandra, Shobhana Bloomberg, *Producer Prices in U.S. Rise 0.7%; Core Rate Up 0.1%*, April 22, 2010.
8. Whittaker, Matt, Dow Jones Newswires, *Gold Futures Settle Above \$1,200 As Haven Play*, May 7, 2010.
9. Welsch, Edward, Dow Jones Newswires, *Oil Hits New 18-Month High On Strong Economic Growth*, May 3, 2010.
10. Ross-Thomas, Emma, and Davis, Andrew, Bloomberg, *Greece Cut to Junk at S&P as Contagion Spreads*, April 27, 2010.
11. Bilefsky, Dan, and Dempsey, Judy, New York Times, *Three Reported Killed in Greek Protests*, May 5, 2010.
12. Pylas, Pan, AP, *World stocks slide as 3 die during Greek protests*, May 5, 2010.
13. Patnaude, Art, Dow Jones Newswires, *Moody's Puts Portugal On Review For Downgrade*, May 5, 2010.
14. Sills, Ben, and Duarte, Esteban, Bloomberg, *Spain Borrowing Cost May Rise as Zapatero Faces Abyss*, May 5, 2010.
15. Gordon, Marcy, AP, *Banks closed in Puerto Rico, Mich., Mo., Wash.*, April 30, 2010.
16. Rampton, Roberta, Reuters, *Regulators close four banks, total now 68*, May 7, 2010.
17. Gordon, Marcy, AP, *Goldman shares plunge over probe*, April 30, 2010.
18. Gordon, Marcy, AP, *Bear Stearns execs say firm's collapse unavoidable*, May 5, 2010.
19. Lawder, David, and Younglai, Rachelle, Reuters, *Panel criticizes Bear Stearns' risk-taking*, May 5, 2010.

Remember that credit is money—Benjamin Franklin

Security

(Continued from page 1)

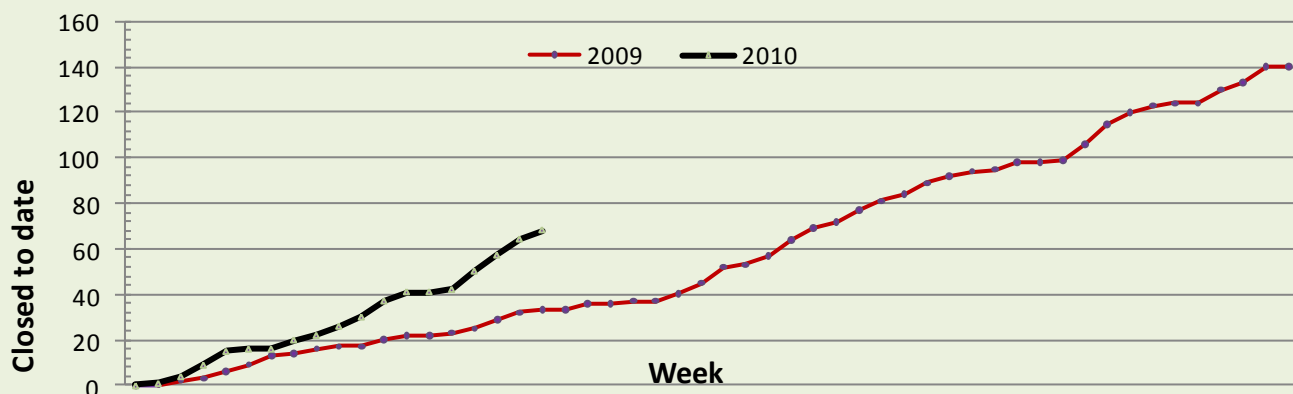
3. Rashbaum, William, and Mazzetti, Mark, Boston Globe, *Pakistani-American is arrested in NYC bomb case*, May 4, 2010.
4. Nichols, Michelle,

Reuters, *Investigators still interviewing NY bomb suspect*, May 5, 2010.

5. Hays, Tom, and Dawar, Rasool, AP, *Investigators seek money courier in NYC bomb plot*, May 7, 2010.

6. Fleishman, Jeffrey, Los Angeles Times, *Russian warship opens fire, takes oil tanker back from pirates*, May 6, 2010.

Financial Institution Closures as of 5/9/2010



Oil

A deep drilling oil rig accident in the Gulf of Mexico is expected to cost BP hundreds of millions of dollars [1]. What's more, BP shares hit a seven-month low on concerns over the clean-up costs the company will pay [2].

While the BP oil leak is bad, it is small compared to the Gulf record holder the Mexi-

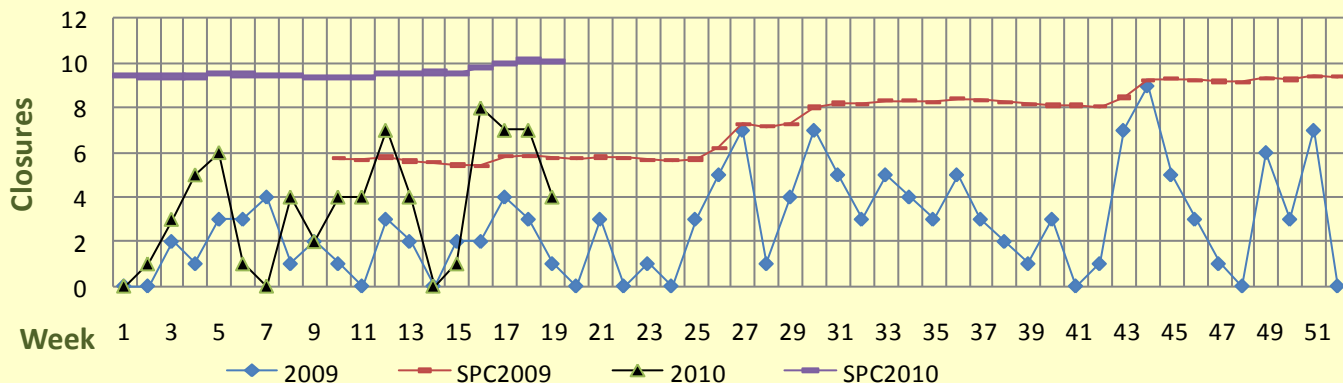
can state run Ixtoc well that released 140 million gallons into the Gulf of Mexico from 1979-1980 [3]. What's more, at the time, Mexico refused to reimburse the US for cleanup costs.

1. Krauss, Clifford, New York Times, *Oil Spill's Blow to BP's Image May Eclipse Costs*, April 29, 2010.

2. BBC News, *BP shares hit seven-month low after oil spill*, May 4, 2010.
3. Biello, David, Scientific American, *Oil spill worsens, offshore drilling plans in dire straits?*, April 29, 2010.

*Even to observe neutrality
you must have a strong
government—Alexander
Hamilton*

Failed Banks Vs SPC Threshold 5/9/2010



World News

To obtain uranium ore for its expanding nuclear program, Iran has secured a deal with Zimbabwe [1]. What's more, Iran defiantly continues to reject UN calls to scale back nuclear processing [2].

The International Monetary Fund (IMF) is predicting that 40% of the world's growth during the next two years will come from China and India [3]. What's more, the largest oil firm in China, PetroChina Co., reported a net quarter profit increase of 71% compared to the same quarter last year [4]. In other energy related news, China agreed to build two nuclear power plants in Pakistan [5].

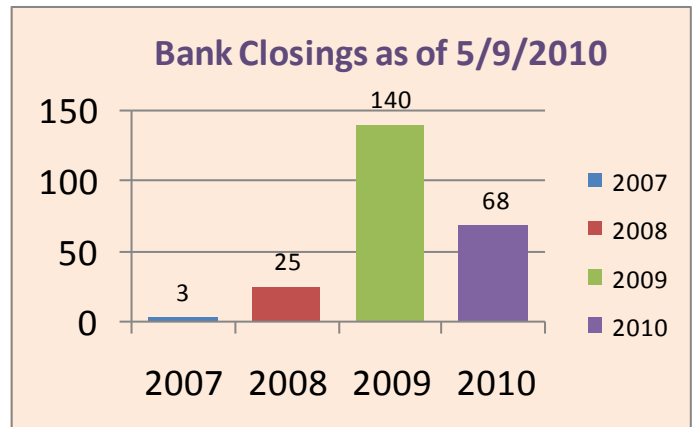
Secretary of State Clinton announced the U.S. currently has 5,113 nuclear warheads; compared to the 31,255 we had in 1967 [6]. Meanwhile, Iran claims to have over flown a U.S. aircraft carrier and took pictures of it [7]. If this is true, Iran could have an unprecedented opportunity for a first nuclear strike against a U.S. carrier task group.

Elsewhere, Pakistan test fired

two ballistic missiles capable of carrying nuclear warheads [8].

1. Mushhekwe, Itai ,and Alexander, Harriet, Telegraph (UK), *Iran strikes secret nuclear mining deal with Zimbabwe's Mugabe regime*, April 24, 2010.
2. Lee, Matthew, AP, *Iran*
3. Colebatch, Tim, Business Day, *China, India to contribute 40% of growth*, April 26, 2010.
4. Lee, Yvonne, Wall Street Journal, *PetroChina 1Q*
5. Dyer, Geoff, et. al., Financial Times, *China to build reactors in Pakistan*, April 28, 2010.
6. Solomon, Jay, Wall Street Journal, *U.S. Declares Size of Nuclear Arsenal*, May 4,

Net Profit Up 71%; Above Forecast, April 27, 2010.



defiant on nukes at UN diplomats' dinner, May 7, 2010.

3. Colebatch, Tim, Business Day, *China, India to contribute 40% of growth*, April 26, 2010.
4. Lee, Yvonne, Wall Street Journal, *PetroChina 1Q*
7. Mostafavi, Ramin, and Hafezi, Parisa, Reuters, *Iran says plans new war games, photographed U.S. ship*, May 4, 2010.
8. Ahmed, Munir, AP, *Pakistan test-fires 2 ballistic missiles*, May 8, 2010.

2010.

7. Mostafavi, Ramin, and Hafezi, Parisa, Reuters, *Iran says plans new war games, photographed U.S. ship*, May 4, 2010.

8. Ahmed, Munir, AP, *Pakistan test-fires 2 ballistic missiles*, May 8, 2010.

Crime

Fraud continues to make news. For example, in Cleveland, 13 people were charged with a \$3 million mortgage fraud [1]. In Florida, seven people were charged in a \$5 million mortgage fraud scheme [2]. In Georgia, two former executives were charged in an alleged \$80

million bank fraud scheme [3].

1. AP, *13 charged in Cleveland mortgage fraud probe*, April 30, 2010.
2. South Florida Business Journal, *Seven South Floridians charged in mortgage fraud scheme*, May 6, 2010.
3. Rankin, Bill, Atlanta Journal-Constitution, *Two former bank execs, businessman indicted for fraud*, May 7, 2010.

*Intellectual property has the
shelf life of a banana—Bill
Gates*
