

IN THE NEWS

VOLUME 3 ISSUE 12

JUNE 6, 2010

The Shape Of Things To Come

Sometimes actions have consequences well into the future. For a simplistic example, three German explosives experts were killed when a World War II bomb exploded [1]. So what actions are taking place today that will have unexpected consequences in the future?

For the first time, a major investment bank that was well-capitalized and apparently fully liquid experienced a crisis of confidence that denied it not only unsecured financing, but short-term secured financing, even when the collateral consisted of agency securities with a market value in excess of the funds to be borrowed. ~ Christopher Cox testimony regarding the Bear Stearns collapse, April 3, 2008

After a 2-year criminal probe of AIG, the Justice Department is dropping the investigation [2]. Elsewhere, Goldman Sachs is trying to settle with the SEC to avoid a charge of fraud [3]. As we have indicated in past newsletters, we believe technology (read algos) played a role in the financial collapse. If the SEC were to examine what companies made sizable profits during the wild market swings; they

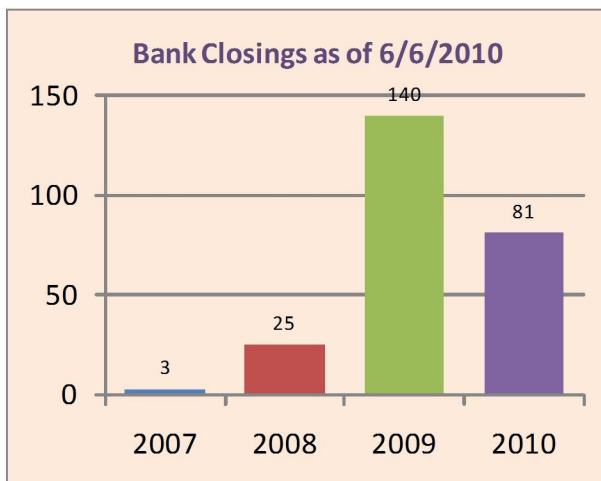
could determine which algos dominate the market. And the weak economy is global with Fitch downgrading Spain's credit rating [4].

Two decades ago, the FDIC insured 16,000 institutions; however, the current number is less than 8,000, the lowest on record [5]. Meanwhile, regulators continued closing financial institutions. For example, on May 28, the following five were closed: 74) Bank of Florida in Fort Lauderdale; 75) Bank of Florida in Naples; 76) Bank of Florida in Tampa; 77) Granite Community Bank in California; and 78) Sun West Bank in

(Continued on page 2)

Inside this issue:

Oil News	3
China Tech	3
Asian News	4
Financial Fraud	4



Security

Readers may have experienced sites that claim to search for viruses and offer a program to clean up alleged viruses found. In many cases, these are a scam and a worthless program is downloaded at a cost. The good news is three people were charged

by the Justice Department [1].

A new malicious software (Malware) attack was recently detected overseas. It locks your PC or keeps an image displayed until you send a \$10 payment from your mobile phone to the attacker [2]. There is also a

new Zero Date attack against Adobe products [3]. Elsewhere, hackers have infected smartphone games that dial premium sites and can run up costly phone bills [4].

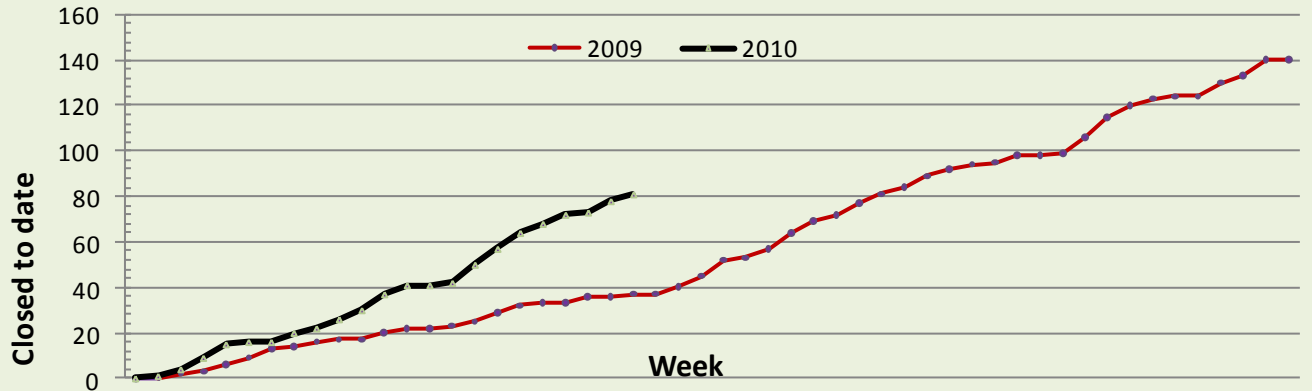
Cyber warfare is getting serious visibility. Case in

(Continued on page 2)

Special points of interest:

- Chinese supercomputer second fastest on record
- 81st bank shuttered this year
- Japan calls on China to stop expanding its nuclear weapons stockpile

Financial Institution Closures as of 6/6/2010



Security

(Continued from page 1)

point, the Pentagon's new cyber-security command chief recommends work toward a cyber warfare treaty [5].

1. Null, Christopher, Yahoo News, *Three men charged in massive malware fraud*

scam, June 1, 2010.

2. Seltzer, Larry, PC Magazine, *SMS Blockers: The Cutting Edge of Asian Malware*, June 3, 2010.
3. Prince, Brian, eWeek, *Adobe Security Vulnerability Under Attack*, June 5, 2010.

4. Finkle, Jim, Reuters, *Hackers plant viruses in Windows smartphone games*, June 4, 2010.
5. Gorman, Siobhan, Wall Street Journal, *U.S. Backs Talks on Cyber Warfare*, June 4, 2010.

The Shape Of Things To Come

(Continued from page 1)

Nevada [6]. Then on June 4, three more were closed: 79) First National Bank in Mississippi; 80) Arcola Homestead Savings Bank in Illinois; and 81) TierOne Bank in Nebraska; [7]

The first time unemployment claims for the week ending May 22 fell to 460,000 [8]. What's more, for the week ending May 29, the number of first time claims fell to 453,000 [9]. Furthermore, Fed chairman Bernanke expressed concern over the unemployment cost and advised field examiners to allow greater credit to small businesses [10]. Elsewhere, we are actually seeing signs that Congress is taking notice of the number of U.S. jobs leaving the country. Case in point, Senator Schumer wants to impose an

excise tax for calls made through overseas call centers [11].

1. BBC News, *World War II bomb kills three in Germany*, June 2, 2010.
2. Plumb, Christian, Reuters, *U.S. drops criminal probe of AIG executives*, May 23, 2010.
3. Gapper, John, and Guertera, Francesco, Financial Times, *Goldman seeks settlement with SEC*, May 28, 2010.
4. Rucinski, Tracy, and Davies, Nigel, Reuters, *Fitch downgrades Spain, ECB warns of contagion*, May 28, 2010.
5. Ellis, David, CNN Money, *Problem bank list hits 775*, May 20, 2010.
6. Smith, Randall, Wall

Street Journal, *Five More Banks in U.S. Are Shut*, May 28, 2010.

7. Abbott, Charles, Reuters, *Regulators seize three banks, year total at 81*, June 4, 2010.
8. Mantell, Ruth, Market Watch, *Weekly first-time jobless claims fall to 460,000, down 14,000*, May 27, 2010.
9. Mutikani, Lucia, Reuters, *U.S. jobless claims fell 10,000 last week*, June 3, 2010.
10. Lanman, Scott, Bloomberg, *Bernanke Says U.S. Unemployment Imposes 'Heavy Costs'*, June 3, 2010.
11. AP, *Schumer wants to slow exodus of US call centers*, May 30, 2010.

A generation which ignores
history has no past and no
future—Robert Heinlein

Oil News

The incorrect news from the gulf was, BP workers successfully stopped the oil leak by pumping enough drilling fluid to block oil and gas spewing from the well [1]. However, the news of success was short lived. On June 3, the steel tubing was cut making way for a renewed attempt at a containment device [2]. Later, BP successfully applied the oil well cap and hopes to recover up to 90% of the oil [3]. One lesson learned from the largest oil spill in the Gulf of Mexico, the 1979 Ixtoc disaster, the warm waters and

sunlight breaks down the oil faster than anticipated [4]. In a sign of things to come, a fisherman filed a restraining order to prevent BP from destroying potential evidence [5]. However, in a move sure to increase imported oil dependency, the U.S. Government halted all new drilling in the Gulf of Mexico [6].

1. Tankersley, Jim, Los Angeles Times, 'Top kill' stops gulf oil leak for now, official says, May 27, 2010.
2. Jervis, Rick, USA Today, BP readies dome to cap leaking well; oil nears Flor-

ida coast, June 3, 2010.

3. Dunham, Will, and Elsn, Alan, Reuters, BP aims to stop 90 pct of oil spill flow with cap, June 4, 2010.
4. Stevenson, Mark, and O'Toole, Molly, AP, '79 Gulf oil spill leaves sobering lessons for BP, June 4, 2010.
5. CNN, Latest oil spill developments, May 31, 2010.
6. Daly, Matthew, AP, Feds halt new drilling in Gulf, June 3, 2010.

China Tech

With the ever increasing export of technology jobs to China recent computing advancements should come as no surprise. Case in point, China developed the second fastest super computer on record, second only to the Cray Jaguar supercomputer used by Oak Ridge for nuclear weapons simulation [1].

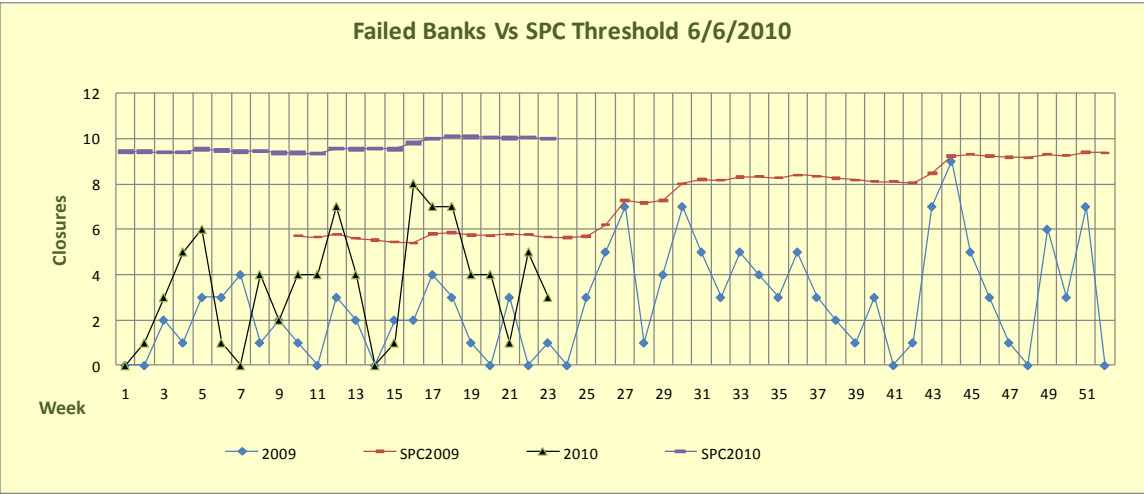
So why should we care about China's supercomputing advances? Consider that in the mid 1990's, China was able to steal our most advanced nuclear simulation software [2]. Just as the U.S. uses super-

computers to simulate nuclear weapons designs, China desires supercomputers for the same reason [3]. So as the U.S. and Russia agree to reduce their nuclear weapons inventory to 1,500 warheads; China is free to produce as many as it likes without any treaty constraints [4]. To the ire of China, Japan has called on China to stop expanding its nuclear weapons stockpile [5].

1. Markoff, John, New York Times, Chinese Edge Toward Supercomputing Record, May 30, 2010.

2. Safire, William, New York Times, The Deadliest Download, April 29, 1999.
3. Time.com, The Cox Report on Chinese Espionage, May 25, 1999.
4. Shear, Michael D, Washington Post, Obama, Medvedev sign treaty to reduce nuclear weapons, April 8, 2010.
5. Dickie, Mure, and Hille, Kathrin, Financial Times, Nuclear row sours Japanese ties with China, May 17, 2010.

A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty—Winston Churchill



As expected, China did not support strong action against North Korea for its sinking of a South Korean warship [1]. What's more, following U.S.-China talks, there was no breakthrough on any key issue [2]. However, Treasury Secretary Geithner expressed confidence that China will allow the Yuan (China's currency) to gain against the dollar [3]. A question here is: given China's opposition to America, why not just add a U.S. inspection fee on all Chinese goods? This would have the desired effect of slowing the trade imbalance and provide a valuable income stream. Elsewhere in China, workers at Honda auto-parts factories have gone on strike, requesting higher wages [4]. In response, Honda agreed to give the workers a 24% pay increase for a new salary of \$280 per month [5].

In order to get China and Russia to agree with UN sanctions against Iran, the severity of the sanctions had to be watered down and there is little confidence they will be

effective [6]. What's more, in one report, Iran is training the Taliban terrorist fighting the U.S. [7]. Furthermore, so far this year, estimates are Iran has produced 12.5 pounds of highly enriched uranium; enough for an atom bomb [8]. In a further complication, a small number Iranian troops may have crossed a mile into Iraq [9].

In India, the Gross Domestic Product for the first quarter grew to 8.6% with exports increasing at their fastest rate in six years [10].

1. Lander, Mark, New York Times, *Little Progress on Korea Dispute as China Talks End*, May 25, 2010.
2. Pomfret, John, Washington Post, *No major breakthroughs as U.S.-China talks wind down*, May 25, 2010.
3. Christie, Rebecca, and Cook, Peter, Bloomberg, *Geithner Is Confident 'as I've Ever Been' on Yuan*, May 25, 2010.
4. Bradsher, Keith, and Barboza, Davis, New York Times, *Honda Strike*

Becomes a Rallying Point in China, May 27, 2010.

5. Kitamura, Makiko, Bloomberg, *Honda to Raise Wages for Striking Workers at Chinese Factory*, May 31, 2010.
6. Thomas, Gary, Voice of America, *Effectiveness of Proposed UN Sanctions on Iran Debatable*, May 24, 2010.
7. Torchia, Christopher, AP, *NATO general in Afghanistan: Taliban train in Iran*, May 30, 2010.
8. Gertz, Bill, Washington Times, *Iran mum, but making nuke material*, May 31, 2010.
9. Juhi, Bushra, AP, *Iraqi official says Iranian troops cross border*, June 5, 2010.
10. Jagota, Mukesh, and Kala, Vijay, Wall Street Journal, *India GDP Expands 8.6%*, May 31, 2010.

*You cannot escape the
responsibility of tomorrow
by evading it today—
Abraham Lincoln*

Financial Fraud

In New York, a financial advisor was charged with operating a \$30 million fraud scheme [1]. In Illinois, 4 people were charged with a \$2.3 million mortgage fraud [2]. Elsewhere in Illinois, a man was charged with operating a \$70 million Ponzi scheme [3]. In Connecticut, a man was arrested for mortgage fraud that cost banks \$2.5 million [4]. In Florida, a man was charged by the SEC with operating a \$40 million Ponzi scheme [5]. In Nashville, the

SEC charged a man with operating a \$5.5 million Ponzi scheme [6].

1. Bray, Chad, Wall Street Journal, *NY Financial Adviser Starr Charged In \$30M Fraud Case*, May 27, 2010.
2. Chicago Sun-Times, *4 indicted in mortgage fraud scheme*, May 27, 2010.
3. Shru, Jim, AP, *Feds: Man's global Ponzi scheme 'massive,' mocking*, May 31, 2010.
4. WTIC, *Another Arrest in Mortgage Fraud Ring*, June 3, 2010.
5. Moskovitz, Diana, Miami Herald, *South Florida man charged with running \$40 million Ponzi scheme*, June 3, 2010.
6. Reisinger, Brian, Nashville Business Journal, *SEC accuses Brentwood adviser Aaron Vallett of \$5.5M Ponzi scheme*, June 3, 2010.