

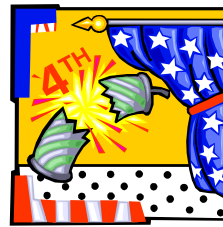
IN THE NEWS

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The Economy

On Monday, June 21, before the latest round of poor economic news, gold started the week hitting a new all-time high of \$1,265.30 an ounce [1]. As long as rich nations, such as China, continue purchasing gold, prices will likely remain high. Last year, the U.S. produced 19.9% of the world's manufacture goods while China came in second at 18.6% [2]. The Chinese market continues to rapidly expand. For example, for the first half year sales, GM sold more vehicles in China than in the U.S. [3]. In the year the U.S. suffered through a punishing recession, China was expanding nicely. Case in point, China revised its 2009 growth upwards from 8.7% to 9.1% [4]. One reason for this growth; Jeffrey Immelt, General Electric's chief executive, warned China is increasingly protectionist [5].



Happy Independence Day

New home sales fell unexpectedly by the highest percentage (32.7%) since data was first compiled back in 1963 [6]. The free fall in home sales extended to old homes, falling by 30% [7]. The large banks are starting to hire more people. However, this is not necessarily good news. For example, Bank of America hired 2,000 people since April to work mortgage defaults [8]. The first time unemployment claims for the week ending June 19 fell to 457,000 [9]. However, in a sign of continued weak economy, first time unemployment claims for the week ending June 26 unexpectedly increased by 13,000 to 472,000 [10]. Adding to the bad news, the Labor Department reported 125,000 jobs were lost in June [11]. According to one report, 55% of Americans were either jobless or underemployed since the start of the 2007 recession [12].

One pattern we continue to see is that the economic figures released gloss over bad news. Case in point, last month the Government claimed the gross domestic product rose by an annual rate 3.0 percent only to revise it downward to 2.7% [13]. In another example, the June unemployment rate was reported at 9.5%, down from 9.7%; however, for the month 652,000 more people were removed from the total labor force (jobs lost) and are no longer calculated [14].

Regulators continued shuttering financial institutions. On June 25, the following three banks were closed: 84) Peninsula Bank in Florida; 85) First National Bank in Georgia; and 86) High Desert State Bank in New Mexico [15]. However, for the week ending July 2, regulators took a break with no announced closings.

1. Larkin, Nicholas, and Kyoungwha, Kim, Bloomberg, Gold Rises to (Continued on page 2)

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Special points of interest:

- White House suggests smart card or digital certificate for all Internet users
- 652,000 left the work force
- 86th Bank Shuttered

Security

Perhaps a good way to determine the true losses within the banking industry is to look at the latest control approaches. For example, the American Bankers Association joined Microsoft and the FBI in an Internet fraud reporting collaboration [1]. Obvious-

ly, if there were no on-line banking losses, this would not be considered.

In a new twist to hacker's extortion; an illegal alien infected a number of computers, remotely operated the computer's camera and sound, searched for compromising information, and

then used this information to shake down victims [2].

On-line transactions have been hampered by the lack of authentication due in part to identity theft. To overcome the security shortcoming, the White House described a goal; every user

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May the sun in his course
 visit no land more free,
 more happy, more lovely,
 than this our own country!
 –Daniel Webster

(Continued from page 1)

would get a smart card and digital certificate [3]. Elsewhere, 470,000 WellPoint customers were informed their personal information, such as medical records and credit card information, may have been compromised [4]. Microsoft has detected 10,000 computers infected with a new zero day attack and patches are not schedule until July 13 [5].

Recently, news of a Russian

Security

spy ring was in the news. It seems authorities discover a 27 character password written on a piece of paper to crack open a treasure trove of spy related information [6].

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5. McMillan, Robert, PC World, *Microsoft: 10,000 PCs Hit With New XP Oday Attack*, June 30, 2010.
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The Economy

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2. Marsh, Peter, Financial Times, *US manufacturing crown slips*, June 20, 2010.
3. Lin, Liza, Bloomberg, *GM's First-Half China Sales Surge Past the U.S.*, July 2, 2010.
4. Ruan, Victoria, Wall street Journal, *China Revises Up 2009 Growth*, July 2, 2010.
5. Dinmore, Guy, and Dyer, Geoff, *Financial Times*, *Immelt hits out at China and Obama*, July 1, 2010.
6. Hauser, Christine, New York Times, *U.S. New*

Home Sales Drop 33% in May, June 23, 2010.

7. Daly, Corbett B., Reuters, *Pending home sales plunge record 30 percent*, July 1, 2010.
8. Mildenberg, David, Bloomberg, *Bank of America Boosts Staff Handling Troubled Loans*, June 23, 2010.
9. Rugaber, Christopher, AP, *Jobless claims drop but remain at elevated levels*, June 24, 2010.
10. Rugaber, Christopher, AP, *New jobless claims rise in sign of weak job market*, July 1, 2010.
11. Powell, Michael, New York Times, *U.S. Economy*

Shed 125,000 Jobs in June; Rate Is 9.5%, July 2, 2010.

12. Hornan, Timothy, Bloomberg, *Majority of U.S. Workers Lost Jobs, Wages or Hours*, Pew Says, June 30, 2010.
13. Rugaber, Christopher S., AP, *Government lowers growth estimate for 1st quarter*, June 25, 2010.
14. Lee, Don, Los Angeles Times, *Unemployment rate dips as more workers leave labor force*, July 2, 2010.
15. Campbell, Dakin, and Frier, Sarah, Bloomberg, *FDIC Awards Third Bank to Bond Street as Failures Climb to 86*, June 26, 2010.

A federal judge struck down the Administration's May 27 6-month deep water oil drilling moratorium [1]. In spite of the Judge's ruling, Interior Secretary Ken Salazar indicated he would issue a new drilling ban [2]. In yet another setback, the cap covering the blown BP oil well was removed; thereby discharging the full leak into the Gulf [3]. Over a day passed before the oil well cap was restored on the run-away well [4].

The oil spill has now reached the Mississippi coast bringing

the number of coastal states soiled to four (including Alabama, Florida, and Louisiana) [5]. It is expected that the BP oils spill will soon become the largest environmental disaster in the Gulf of Mexico; a record currently held by the Mexican Ixtoc I spill in 1979-1980 [6].

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3. Robbins, Liz, New York Times, *Problem With Cap Causes More Oil to Gush in Gulf*, June 23, 2010.
4. Kunzelman, Michael, AP, *Cap back after robot nudge stalls oil collection*, June 24, 2010.
5. AP, *Tar balls, oil patch spotted on Miss. Shoreline*, June 27, 2010.
6. Breen, Tom, and Borenstein, Seth, AP, *BP spill nears a somber record as Gulf's biggest*, July 1, 2010.

Market Volatility

Since the current recession started in December 2007, approximately 3.6 million workers left the work force [1]. During May, a leading economic indicator, the stock market, was recovering nicely. Then on May 6, we experience the flash crash [2]. It is estimated, during the 20 minute May 6 rout erased \$862 billion in value from U.S. equities [3]. Since then, market confidence has not returned and pressure is mounting for the SEC to fix the underlying problem [4].

It has been well over a month since the May 6 market flash crash and still investigators are trying to figure out what caused the maelstrom [5]. In

the end it could very well be that the flash crash extended the recession that would otherwise have ended.

There are attempts to paint a prettier picture of the economy but good news is hard to find. Recall the words of former President Calvin Coolidge, well into the Great Depression (1933): *In other periods of depression, it has always been possible to see some things which were solid and upon which you could base hope, but as I look about, I now see nothing to give ground to hope-nothing of man.*

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5. Simpson, Stephen, Forbes, *What Caused The Flash Crash?*, June 30, 2010.

*Those who deny freedom to
others deserve it not for
themselves—Abraham
Lincoln*

World News

Nine years ago, China was admitted into the World Trade Organization (WTO) with the expectation that product piracy would abate; it has not [1]. Between 2005 and 2008, China allowed its currency to increase in value by 21%; however, since then, there has been little movement in order to ensure Chinese goods remain cheap [2]. What's more, China uses unfair trade practices to grow at others expense. After announcing flexible Chinese currency, China signaled changes would be small and gradual [3]. In an unusual twist, some are warning that China could use the lifting of the dollar peg to further increase the value of the dollar; thereby expanding the trade deficit [4]. To summarize, in an effort to head off global trade retaliation, China increased the value of its currency by 0.42% [5]. As expected, although China let its currency increase slightly, ensuring the rise is too small to be of much consequence [6]. Still, pseudo changes are often enough to placate trading partner Governments that want to appear tough on fair trade. Elsewhere in China, workers at Japanese owned companies continue to strike for higher wages. The latest case is the Mitsumi electronics plant in Northern China [7].

In the beginning of a change, the patriot is a scarce man, brave, hated, and scorned. When his cause succeeds however, the timid join him, for then it costs nothing to be a patriot—Mark Twain

Meanwhile, Iran is having success in bypassing the new UN sanctions. Case in point, Pakistan and Iran are going forward with a natural gas pipeline in spite of protests from the U.S. [8]. What's more, indications are that Iran now has enough uranium for two atomic bombs [9]. Furthermore, Iran is claiming Israel has Saudi Arabian base in preparation for an attack [10]. Could an Israeli strike be far off?

Elsewhere, North Korea has indicated it plans to bolster nuclear weapons capability [11]. In a sign of things to come, the South Korea military wants a sharp increase in its military expenditures for next year [12].

The legacy of Communist China's founder, Mao, lives on. For example, in India, Maoist rebels killed 27 Indian troops in an ambush [13].

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2. BBC News, *China yuan rate pegged at five-year high*, June 28, 2010.
3. Bradsher, Keith, New York Times, *Currency Revaluation to Be Gradual, China Says*, June 20, 2010.
4. Malone, Scott, Reuters,

Analysis: Corporate America has reason to be wary on yuan, June 21, 2010.

5. Wassener, Bettina, New York Times, *China Pegs Renminbi's Value Higher*, June 21, 2010.
6. Wassener, Bettina, New York Times, *Beijing Keeps a Tight Rein on Currency's Rise*, June 23, 2010.
7. Dempster, Tyra, Reuters, *China strike wave persists, hits Japanese firm*, July 1, 2010.
8. Abbot, Sebastian, AP, *Pakistan resolute on Iran gas deal*, June 23, 2010.
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10. MSNBC News Services, *Israel setting up Saudi base for Iran raid?*, June 30, 2010.
11. Kim, Hyung-Jin, AP, *NKorea says it must bolster nuclear capability*, June 28, 2010.
12. Kim, Hyung-Jin, AP, *South Korean military wants sharp budget increase*, June 30, 2010.
13. Singh, Indrajit, AP, *27 Indian troops die in Maoist rebel ambush*, June 29, 2010.

Financial Fraud

The SEC has sued the founder of ICP Asset Management for defrauding clients of \$38 million in over payments [1]. Elsewhere, in an unusual twist, the SEC sued the estate of a dead Florida man claiming he had defrauded investors of \$34 million [2]. The FTC filed a civil lawsuit

in Illinois to disrupt scammers that were using virtual companies and small credit card charges to steal \$millions from U.S. consumers [3].

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