

IN THE NEWS

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The Economy

Once again, first time unemployment claims unexpectedly increased; this time by 12,000 to 500,000, the highest since November [1]. What's more, the number for the week ending August 7 was further revised upward from 484,000 to 488,000 [2]. However, first time jobless claims for the week ending August 21 fell 31,000 to 473,000; with claims for the prior week revised upward to 504,000 [3]. Concurrently, the Commerce Department revised their original estimate of second quarter growth downward from 2.4% to 1.6% [4].

Over the past three years, the home ownership and mortgage industry has been decimated. To illustrate this, back in 2008, Congressman Frank argued that Fannie Mae and Freddie Mac remained fundamentally healthy [5]. In 2007, he became chairman of the House Financial Services Committee giving him unprecedented insider information. Now, Congressman Frank now suggests Fannie Mae and Freddie Mac should be abolished [6]. Meanwhile, 30-year fixed-rate mortgages hit a low of 4.42%; the lowest since Freddie Mac began tracking rates in 1971 [7]. In a further sign of housing problems, July sales of existing homes fell unexpectedly by 2% [8]. What's more, new home sales fell to the lowest level on record [9]. This as the number of mortgages at least 30 days late increased from 3.45% to 3.51%; while the foreclosure rate fell from 4.63% to 4.57% [10]. Another problem in convincing people the future looks good; at least one financial analysts is suggesting we are in a depression not an extended recession [11].



(Continued on page 2)

Security

One way to assess to cost of security is to look at the value of companies involved with protecting IT systems. Case in point, Intel bid \$7.68 billion in cash for the security company McAfee Inc [1]. This is a logical extension as most successful products

are later found to have security problems. For example, 11 security problems were patched in Google's Chrome browser [2].

A report suggests one of the most successful foreign intelligence attacks against U.S. military computers occurred in 2008 when

infected flash drives were the portal of entry that resulted in data transfer to foreign sources [3].

1. Kilgore, Tomi, Market Watch, McAfee has what Intel wants: a rising stock, August 20, 2010.
2. Shankland, Stephen,

(Continued on page 2)

Inside this issue:

China's Military	3
World News	4
Financial Fraud	4

Special points of interest:

- 118th Bank Closed
- Japan Will Weaken Its Currency
- China's Military Expands

Security

(Continued from page 1)

cnet, *Google patches 11 Chrome security problems*,

August 20, 2010.

3. Knowlton, Brian, New York Times, *2008 Attack*

on Military Computers Is Confirmed, August 25, 2010

The Economy

(Continued from page 1)

Again, regulators were busy closing troubled financial institutions. On August 20, the following eight were shuttered: 111) Imperial Savings & Loan Association in Virginia; 112) Independent National Bank in Florida; 113) Community National Bank at Bartow in Florida; 114) Shore Bank in Illinois; 115) Pacific State Bank in California; 116) Butte Community Bank; 117) Los Padres Bank; and 118) Sonoma Valley Bank [12]. However, for the following week ending August 27, no bank was shuttered.

1. Willis, Bob, Bloomberg, *Jobless Claims in U.S. Rose to Highest Since November*, August 19, 2010.
2. Robb, Greg, Market Watch, *Jobless claims jump to nine-month high*, August 19, 2010 Wirzbicki, Alan, Boston Globe, *Frank mediates mortgage rescue plan*, July 21, 2008.
3. Peterson, Kristina, Dow

Jones, *US Stocks Climb Cautiously, Jobless Claims Data Help*, August 26, 2010.

4. Goldstein, Steve, Market Watch, *U.S. economic growth slows to 1.6% in second quarter*, August 27, 2010.
5. Allen, JoAnne, Reuters, *Democrat Frank says abolish Freddie and Fannie: report*, August 18, 2010.
6. Zibel, Alan, AP, *Average mortgage rates hit low of 4.42 percent*, August 19, 2010.
7. Gordon, Marcy, AP, *Regulators shut down big Chicago bank, 7 others*, August 19, 2010.
8. Lazo, Alejandro, Los Angeles Times, *Sales of existing U.S. homes fall 27%*, August 24, 2010.
9. ElBoghdady, Dina, Washington Post, *New home sales hit lowest level*, August 25, 2010.
10. Yoon, Al, Reuters, U.S.

foreclosures fall but new delinquencies up-MBA, August 26, 2010.

11. Cox, Jeff, CNBC, *Economy Caught in Depression, Not Recession: Rosenberg*, August 24, 2010.
12. Letzing, John, and Gerencher, Kristen, Market Watch, *Eight bank failures bring U.S. total to 118 for the year*, August 21, 2010.

There may be a recession in stock prices, but not anything in the nature of a crash—Irving Fisher, Leading U.S. Economist, New York Times (Sept. 5, 1929)

China's Military

In most of the newsletters, we provide updates of China's economic trade manipulation and technology transfer. In this article, the focus is on the expanding Chinese military as it relates to unfair trade practices. This follows the annual Pentagon report to Congress on Chinese military capabilities [1]. What's more, the Pentagon issued a warning regarding China's use of computer experts to clandestinely attack American companies and government [2]. One hard fact associated with China's military is its dominant economy. A consequence is large banks are moving away from the dollar and looking toward China's currency for exchange [3]. Perhaps the best indicator is China's expanding navy has become belligerent

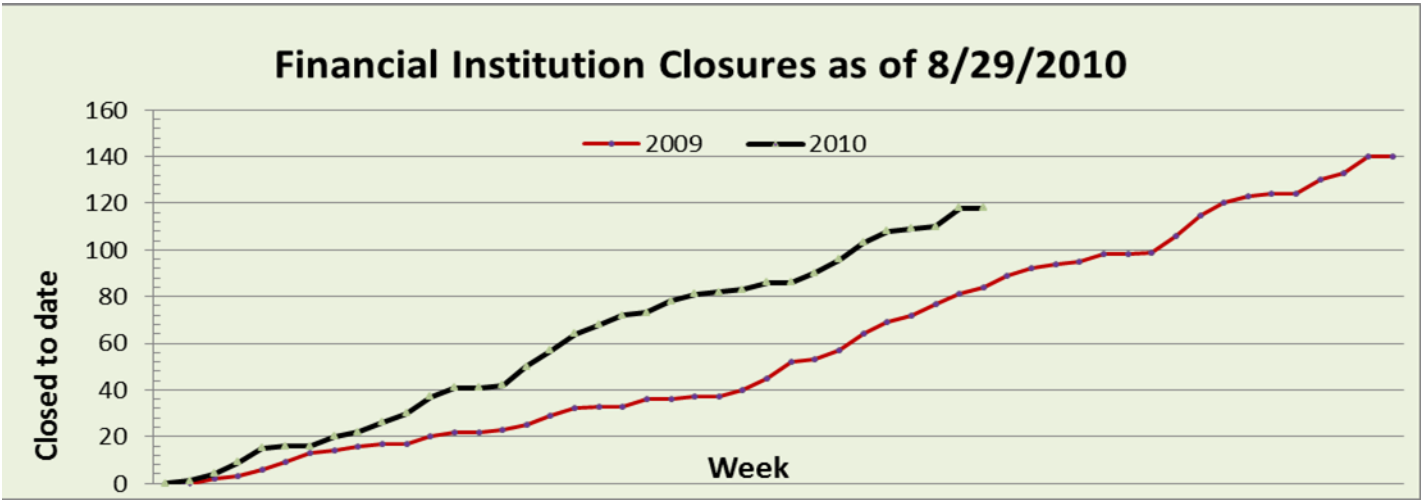
causing regional neighbors worry [4]. As the U.S. economy remains weak, there appear to be plans to start eliminating military commands such as JFCOM [5]. Further suggestions that the Navy Second Fleet could be eliminated [6]. This would indicate that China is winning on the military front by incorporating unfair trade practices. Perhaps this is why Adm. Mike Mullen, chairman of the Joint Chiefs of Staff indicated the national debt is the biggest threat to our national security [7].

1. Entous, Adam, Wall Street Journal, U.S. Sounds Alarm at China's Military Buildup, August 17, 2010.
2. Baldor, Lolita, AP, Pentagon takes aim at China cyber threat, August 19,

2010.

3. Cookson, Robert, Financial Times, Banks back switch to renminbi for trade, August 26, 2010.
4. Mascarenhas, Alan, Newsweek, China's Navy Is Worrying Its Neighbors, August 1, 2010.
5. Sizemore, Bill, Wilttrout, Kate, Virginian-Pilot, Memo: Obama could OK Joint Forces closure by Sept. 1, August 21, 2010.
6. WVEC (13 News), U.S. Second Fleet in jeopardy as DOD continues to trim budget, August 24, 2010.
7. Gjelten, Tom, NPR, Defense Officials Anticipate Drop In Military Spending, July 6, 2010

Every citizen should be a soldier. This was the case with the Greeks and Romans, and must be that of every free state—Thomas Jefferson



World News

In a further sign of globalization, GM plans to partner with a Chinese company to develop new engines [1]. Elsewhere, China's demand for coal is resulting in ore carrying truck traffic jams lasting as long as 9-days [2].

While the U.S. struggles to recover, Asian countries are growing at record speed. For example, Taiwan's economy grew at a 12.5% for the second quarter when compared to the previous year with exports increasing by 40.2% [3].

After many years, the final combat troops left Iraq [4]. Meanwhile, the U.S. assured Israel that Iran is at least a year away from making an atomic bomb [5]. Moreover, August 21 marked the date Russia began loading nuclear fuel into Iran's Bushehr nuclear plant [6].

Meanwhile, the financial future remains uncertain. For example, Standard & Poor's downgraded Ireland's credit rating a notch to AA- [7]. This means the cost of borrowing money just increased for Ireland.

A weaker currency makes exports cheaper thereby creating more domestic jobs at the expense of those countries importing the goods. It comes as no surprise that after the Japanese Yen reached a 15-year high; Japan's Finance Minister Yoshihiko Noda pledged to take "appropriate action" to arrest the yen's rally [8]. What's more, Japanese Prime Minister Naoto Kan indicated that he was ready to take decisive action to keep the Yen value low compared to foreign currencies (read the U.S. dollar) [9]. This should highlight the importance of a fair trade policy in creating jobs, a stable tax base, and a healthy industrial base.

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3. AP, *Taiwan's economy*

surges 12.5 percent in 2Q, August 19, 2010.

4. Santana, Rebecca, AP, *Goodbye Iraq: Last US combat brigade heads home*, August 19, 2010.
5. Mazzetti, Mark, and Sang-er, David, New York Times, *U.S. Assures Israel That Iran Threat Is Not Imminent*, August 19, 2010.
6. Solovyov, Dmitry, and Cutler, David, Reuters, *Factbox: Iran's Bushehr nuclear plant*, August 20, 2010.
7. Stonestreet, John, Reuters, *Ireland stung by S&P downgrade*, August 25, 2010.
8. Kirkland, Stephen, Bloomberg, *Yen Retreats From 15-Year High; Euro Gains, Irish Bonds Decline*, August 25, 2010.
9. Watts, William, Market Watch, *Kan says Japan to take action when needed: reports*, August 27, 2010.

*Our forces saved the
remnants of the Jewish
people of Europe for a new
life and a new hope in the
reborn land of Israel. Along
with all men of good will, I
salute the young state and
wish it well—Dwight D.*

Eisenhower

Financial Fraud

Ponzi schemes continue to dominate the news. For example, three people were arrested for operating a \$26 million Ponzi scheme [1]. In California, a woman was charged with operating a \$9

million Ponzi scheme [2].

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2. Vaughn, Courtney, Hi-

Desert Star, Woman accused of Ponzi scheme, August 28, 2010.