

# IN THE NEWS

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## The Economy

In the U.S., auto sales hit a 28-year low [1]. In contrast, China's car sales increased 13.6% for July [2]. What's more, for the following month (August) Chinese auto year-to-year sales were up 56% for a total of 1.21 million vehicles [3]. In the U.S. the total vehicles sold was under 1 million [4]. To illustrate the Chinese prosperous market; consider last month GM sold 181,625 vehicles in China [5]. Concurrently, GM sold 185,176 vehicles in the U.S. [6]. Meanwhile, Citigroup plans to hire an additional 7,500 people in China [7]. One economist at the University of Maryland suggests a consequence of China's protectionist trade deficit is the U.S. GDP will be reduced in 2010 by \$400 billion and if made fair, unemployment would be falling [8].

For the week ending August 28, the number of first time unemployment claims was 472,000 and the previous week was revised upward to 478,000 [9]. For the week ending September 4 the number of first time unemployment claims was 452,000 [10]. According to the Labor Department, 54,000 non-farm jobs were lost in August pushing the unemployment rate up to 9.6% [11]. Meanwhile, the U.S. trade deficit for October was \$42.8 billion; of which \$25.9 billion was China's contribution [12].

While regulators try to determine the cause of the stock market *flash crash*, investor confidence appears has weakened. For example, since the May 6<sup>th</sup> *flash crash*, every week retail investors have withdrawn money out of stock mutual funds [13]. In past newsletters, we have identified the root cause as Algos operating in real-time. Perhaps the SEC is starting to draw the same conclusion. Case in point, the SEC is considering revising rules to make it tougher controls on high-frequency traders [14]. However, the SEC has yet to determine the cause and is trying to recruit experienced regulators to help the agency [15]. Next week, CNBC plans to begin a 3-day stock market special on man versus machine [16]. Hopefully, this series will provide the SEC with an understanding of Algos and artificial intelligence driven transactions without direct human intervention.

In celebration of the Labor Day holiday, regulators did not shutter any financial institution on September 3. What's more, on September 10, regulators shuttered a single financial institution: 119) Horizon Bank in Florida [17]. Meanwhile, the number of troubled banks on the FDIC's watch list increased from 775 in the first quarter to 829 at the end of June; but the assets of these banks fell [18].

1. Naughton, Keith, and Higgins, Tim, Bloomberg, *U.S. Auto Sales May Hit 28-Year Low as Discounts Flop*, August 31, 2010.

(Continued on page 2)

## Security

Hackers attacked and brought down Philippine government websites [1]. What's more, by one estimate, hackers install malicious software (Malware) in 57,000 websites each week [2]. In some cases, Malware targets the user's security protection.

For example, the "Here you Have" virus tries to delete user security software [3].

Many of the Malware exploits are used in cyber-crime. For example, one study suggests cybercrime is extensive throughout the world [4].

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Philippine government website, August 29, 2010.

2. AFP, *Hackers make 57,000 booby-trapped websites weekly: experts*, September 9, 2010.
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### Special points of interest:

- *flash crash* still a mystery
- FDIC's list of troubled banks grew to 829

## Security

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Your Security Software, September 10, 2010.

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## The Economy

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6. Buch, Jason, San Antonio Express-News, Auto sales droop, September 1, 2010.
7. Aspan, Maria, Reuters, Citigroup to Hire up to 7,500 in China: Report, September 1, 2010.

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11. Yousuf, Hibah, CNN Money, Jobless claims decline, but not enough, September 2, 2010.
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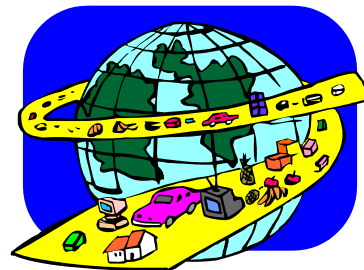
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14. Eaglesham, Jean, Financial Times, SEC signals shake-up of equity market rules, September 7, 2010.
15. Weidner, David, Market Watch, SEC slogs through 'flash' probe, September 8, 2010.
16. Pisani, Bob, CNBC, Flash Crash Revisited: How Computers Changed Trading, September 10, 2010.
17. Campbell, Dakin, Bloomberg, Horizon Bank Closed by Regulators, Is 119th Failure of 2010, September 10, 2010.
18. Drajem, Mark, Bloomberg, Caterpillar Lobbying to Block U.S. Legislation on China Currency's Value, September, 10, 2010.

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*I begin by taking. I shall  
find scholars later to  
demonstrate my perfect  
right—Frederick The Great*

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# China's Military

China tested a space warfare capability; remotely docking two satellites [1]. It now is only the third country to demonstrate a satellite rendezvous [2].

Meanwhile, while the U.S. and Korea conducted naval exercises; the Chinese navy's North Sea Fleet exercised in the Yellow sea [3]. This came after China's army condemned the U.S. and South Korean naval exercises [4]. What's more, China is arguing that it needs an anti-carrier missile, the Dongfeng 21 with a range of 20,000 KM, to counter U.S. Navy carriers [5]. While international law recognizes a country's territorial domain only over seawaters within 12 miles of land, China is claiming 300 miles [6].

One consequence of the lopsided U.S. trade with China is

the ability of the communist country to introduce bogus chips into the U.S. military supply chain. Case in point, 13,000 Chinese counterfeit chips entered into the supply chains of customers, including the U.S. Navy [7].

Although China claims peaceful intentions, it continues military expansion. For example, improving relations with Taiwan has not slowed China's military expansion along the Strait facing Taiwan [8]. Moreover, Japan released a report wary of China's military expansion [9].

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September 3, 2010.

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*We have hit bottom and  
are on the upswing—James  
J. Davis, Secretary of  
Labor (September 12,  
1930)*

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## World News

Russia announced plans to open by 2012 a 1.6 million barrel per day oil pipeline with China [1]. What's more, China is ready to sign an agreement with Iran to build a \$2 billion railway [2]. Furthermore, following disclosure that South Korea plans new sanctions against Iran; China denounced the action [3]. So what exactly are we getting from China in order to support their protectionist trade practices? Consider the Commerce Department announced they will not investigate allegations Chinese currency practices that provide unfair subsidies for coated paper and aluminum products [4].

So far, the BP oil well spill in the Gulf of Mexico has cost \$8 billion [5]. Meanwhile, BP released a 193-page report describing the causes of the Gulf oil disaster [6].

The International Atomic Energy Agency (IAEA) is warning that Iran has more than enough refined uranium to build an atomic bomb [7]. Elsewhere in Iran, dissidents

have identified a secret uranium-enrichment facility west of Tehran (the capitol) that is nearing completion [8]. In response to the allegations, Iran denied a secret site [9].

China and Japan are at odds over an incident in the uninhabited islands, referred to as Senkaku in Japan and Diaoyu in China [10]. The incident began when a Chinese fishing boat hit a Japanese patrol vessel [11].

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Watch, *BP well could be sealed in two weeks as costs hit \$8 bln*, September 3, 2010.

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8. Solomon, Jay, Wall Street Journal, *Iran Dissidents Pinpoint Alleged Nuclear Site*, September 10, 2010.
9. BBC News, *Iran denies 'secret atomic plant'*, September 10, 2010.
10. Chen, Shirong, BBC News, *China postpones talks with Japan after boat collision*, September 10, 2010.
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*I have learned to hold  
popular opinion of no  
value—Alexander  
Hamilton*

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## Financial Fraud

Ponzi schemes and other types of fraud continue to dominate the news. For example, a New Jersey investment advisor was charged by the SEC with operating a \$11 million Ponzi scheme [1]. In Colorado, a man was indicted for operating a \$23 million Ponzi scheme [2].

In Ohio, a couple was charged in a \$25 million stock swindle [3]. In Kentucky, a former police officer was charged with a \$2 million mortgage fraud [4]. In Virginia, seven people

were charged in an alleged \$100 million insurance fraud [5].

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