

IN THE NEWS

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The Economy

Turkey's economy grew by 10.3 in the second quarter [1]. If Turkey, China, India, Korea, and others can get out of the recession; why can't the U.S.? Prior to the flash crash, the U.S. was on-track for an economic recovery. So what impact did the flash crash have on the weak U.S. recovery effort? We predict that historians will look back and conclude that the U.S. inability to control algos and cyber-crime delayed the economic recovery.

Other countries are using currency manipulation to help their local industry. For example, after reaching a 15-year high against the U.S. dollar; Japan interjected funds that drove down the value of the Yen (Japan's currency) [2]. Consider that in 2009, the U.S. exported \$51.2 billion worth of goods to Japan and imported \$195.9 billion [3]. Interestingly, Japan's finance minister argued about the damage the strong Yen (Japanese currency) was causing to their weak economy [4]. What's more, Japan has indicated it will continue to drive the value of the Yen lower despite complaints from the U.S. and European politicians [5]. Perhaps the currency uncertainty in the Stock Market is the reason gold hit a new all-time high above \$1300 a troy ounce [6]. Interestingly Japan no longer tries to hide its unfair trading practices.

According to billionaire George Soros, China is now the dominant economic and global influence in the world [7]. Treasury Secretary Geithner indicated china was moving too slow in correcting its undervalued currency; but is reluctant to take any action [8]. Later, President Obama has affirmed China has not done enough in allowing the yuan to rise in value [9]. Not surprisingly, after Secretary Geithner's expressed reluctance to address the undervalued Chinese currency; the Yuan weakened against the dollar [10]. What's more, a Chinese think tank warns that if the U.S. tries to reduce the debt with China, the communist country will sell its \$1.5 trillion holdings thereby driving up inflation [11]. So one way to interpret this is; if we do not continue exporting thousands of jobs due to unfair trade practices, China will destroy our economy.

In the U.S. 43.6 million Americans are now living in poverty; the highest number in 51 years since the government first started tracking the numbers [12]. For August, property repossessions set a new record of 95,364 [13]. What's more, according of the Federal Reserve, American assets fell \$1.5 trillion in the last 3 months [14]. This may be the consequence in part from the *flash crash*.

For the week ending September 11, the number of first time unemployment claims was 450,000 [15]. However, for the week ending September 18, first time unemployment claims increased to 465,000 [16]. Washington is reporting good news; the number of jobs lost due to the Gulf drilling ban is only 12,000 and not the 23,000 expected [17]. Nevertheless, the loss of 12,000 jobs is painful.

Regulators resumed shuttering financial institutions. On September 17, (Continued on page 2)

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Special points of interest:

- Gold reaches a new all-time high
- Stuxnet was a weaponized virus
- Record number of Americans living in poverty
- China uses trade as a weapon against Japan
- 127th bank shuttered

Security

It seems the Stuxnet's supervisory control and data acquisition (SCADA) virus that has infected 45,000 systems so far, was designed to destroy a specific target [1]. Apparently, the SCADA attacking Stuxnet worm used multiple zero day attacks [3]. These included four previ-

ously unknown zero date attacks and may have been designed to attack Iran's Bushehr nuclear reactor [2]. Continuing to fix problems, Microsoft's September patch Tuesday fixes nine problems [4]. Meanwhile, another two security companies were sold. The first, ArcSight went to

HP for \$1.5 billion [5]. The second, a French defense systems company announced its plans to purchase the U.S. biometrics company L-1 for \$1.1 billion [6]. Elsewhere, the VA is nearing completion of a \$50 million real-time monitoring tool to detect all network

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Security

(Continued from page 1)

devices [7].

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The Economy

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the following six banks were closed: 120) ISN Bank in New Jersey; 121) Bank of Elijan in Georgia; 122) First Commerce Community Bank in Georgia; 123) The Peoples Bank in Georgia; 124) Bramble Savings Bank in Ohio; and 125) Maritime Savings Bank in Wisconsin [18]. On September 24, two more were shuttered: 126) Haven Trust Bank in Florida and 127) North Country Bank in Washington [19]. One the same day, the NCUA seized 3 multi-billion dollar credit unions [20].

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*Poverty is the parent of
revolution and crime—
Aristotle*

China's Military

China's trade imbalance is reducing our tax base and thereby driving up our debt. Recognizing the military consequence of a weak economy, Secretary of State Hillary Clinton indicated rising debt poses a national security threat [1].

In the last newsletter, we discussed tension between Japan and China regarding disputed islands rich in fishing and natural gas. This dispute highlights a consequence of China's new military power. For example, Japan's new Foreign Minister Seiji Maehara expressed concern over China's military expansion [2]. Moreover, the new Foreign minister has stated China's claim to disputed islands is illegitimate [3]. What's more, China may be preparing to drill for gas in the area claimed by Japan [4]. Another consequence of Chi-

na's aggressive approach is other Asian countries are getting concerned [5]. China controls 97% of rare earth minerals and curtailed its exports to Japan (the GAO indicates these minerals are critical to national security) [6]. Interestingly, after the alleged embargo of rare earth minerals to Japan; Japan announced it decided to release the Chinese trawler captain [7]. We eventually should address why we are putting our economic future in the hands of those that could blackmail us.

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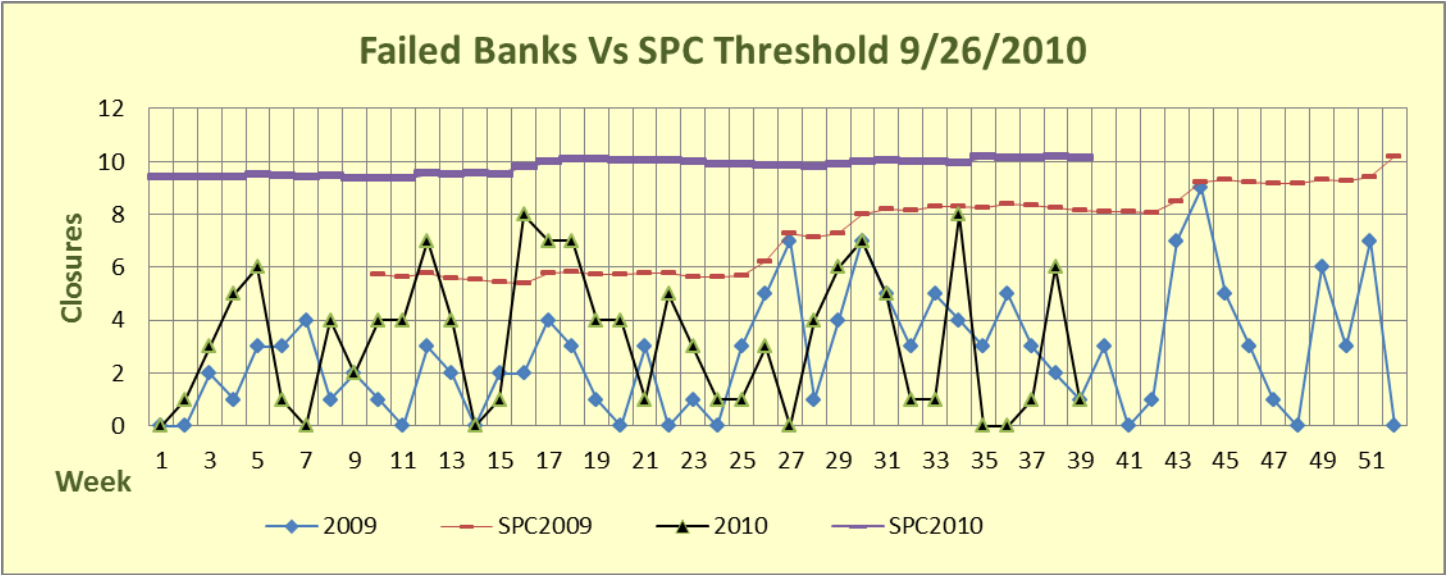
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Poverty makes you sad as
well as wise—Bertolt
Brecht



World News

China's industrial output increased 13.9% in August [1]. The new Chinese industrial might continue to challenge U.S. domestic large projects. For example, governor Arnold Schwarzenegger invited China to bid on a new high speed rail system in California [2]. Elsewhere, Dell is planning to invest \$100 million in its China operations [3].

The consequences of allowing Iran to move unopposed to a nuclear weapons capable power are starting to materialize. For example, Saudi Arabia is planning to purchase \$60 billion in advanced weapons from the U.S. [4]. What's more, Kuwait, Saudi Arabia, and United Arab Emirates are turning to nuclear energy [5].

Elsewhere in Iran, one of three hikers jailed for 14-months was released after \$500,000 was paid [6]. Perhaps this form of ransom is something we can expect from Iran once it successfully tests an atomic bomb.

China considers the trade imbalance a weapon in its arsenal. For example, in a warning to its trading partners, China is banning the exports of rare earth elements

to Japan [7]. Meanwhile, Congress is considering providing additional laws the Administration could use to combat China's currency manipulation; however, to date the Treasury Secretary has not officially designated China as a currency manipulator [8]. Given the reluctance to use the existing laws, it is unclear how additional laws will help. Moreover, China continues to do as it pleases. For example, Congressman Dingell is warning China not to impose a requirement that automakers turn over their electric car proprietary design information as a pre-condition for doing business within China [9]. Interestingly, China is not making a strong effort to cover up its one sided trade practices.

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Financial Fraud

In California, a man was charged with operating a \$25 million Ponzi scheme [1]. In Florida three people were arrested for operating a \$3 million Ponzi scheme that targeted Haitian Americans [2]. A Texas jury indicted a Georgia man for operating a \$15.8 million in a Ponzi scheme [3].

One report suggests a small bank in North Carolina wrote

off \$11 million in bad loans that were tied into a bank fraud scheme [4].

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*Gentleman, you have
come sixty days too late.
The depression is over—
Herbert Hoover (1930)*
