

# IN THE NEWS

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## The Economy

In a rare statement of fact, Federal Reserve Chairman Bernanke warned US unemployment is a national crisis [1]. While there are many reasons for the high unemployment rate, trade is a leading cause. For example, China controls 97% of the rare earth market and is tightening controls; thereby limiting availability for other countries manufacturing products dependent on this resource while driving up cost [2]. Moreover, one study highlighted the China-US trade is costing more than is gained [3]. Overall, the employment picture looks bleak. Case in point, for the week ending September 24, the number of first time unemployment claims was 391,000 and the previous week was increased by 5,000 [4]. The following week saw the number of first time unemployment claims increase to 401,000 [5]. Meanwhile, after adding 103,000 jobs, the unemployment rate remained at 9.1% [6]. Of course, when looking at those no longer in the work place, the unemployment number are far worse.

One area critical to any recovery is the financial industry. It what may prove problematic for the banking industry recovery, a report issued by the Special Inspector General for the Troubled Asset Relief Program (TARP) indicates Bank of America, Wells Fargo, and PNC were allowed to exit the program without a sufficient capital cushion [7]. Meanwhile, on September 30, the following financial institution was shuttered: 74) First International Bank in Texas [8]. Then on October 7, the following were closed: 75) RiverBank in Minnesota; and 76) Sun Security Bank in Missouri [9]. Confidence in Europe could have an impact on financial institutions around the world. Of particular concern, Moody's lowered Italy's credit rating and warned, other European countries may be downgraded as the financial crisis continues [10]. Then on October 7, Fitch lowered the credit ratings for both Spain and Italy [11].

Every six months the Treasury issues a report that indicates China's currency is under-valued; however, to date the Treasury secretary has refused to label China as a currency manipulator [12]. Should a country be labeled as a currency manipulator, the U.S. has many trade leveling actions that would be taken to level the playing field. Until the Treasury Secretary acknowledges the problem, more American jobs will be lost. To make it harder to avoid what needs to be done, the Senate has a bill to make it difficult for avoiding labeling a currency manipulator [13]. Expectedly, China is warning the U.S. of a trade war if the bill passes [14]. However, are we not already in a trade (Continued on page 2)

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### Special points of interest:

- Chinese Communist newspaper calls for war against Vietnam and Philippines
- Algos drive up market 4% in under one hour
- 76<sup>th</sup> financial institution shuttered

## Security

The number of cyber-attacks against U.S. systems continues to rise. Case in point, during 2010 the DHS Control System Security Program, located at the Idaho National Laboratory, responded to 116 requests request for help; however so far this year, there are already 342 requests [1]. Regardless of network isolating security

controls, many of our systems are still susceptible to viruses and zero-day attacks (a zero-day attack is when a exploit exists and there is no vendor fix). For instance, there is a report that a computer virus successfully infected the military drone operation centers [2]. Recognizing the weakest security link and properly applying controls is a solid

risk based approach to vulnerability remediation. Along these lines, the Pentagon is extending a pilot program where Government resources are used to help protect contractor security [3]. Given that most companies lack the tools available to the Government, this is an excellent approach.

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## Security

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The next election may be determined by who best hacks the voting machines. For instance, researchers from the Argonne National Laboratory in Illinois, using \$26 worth of computer parts, demonstrated hacking a commercial voting machine up to distances of ½ a mile away [4].

Banks are losing ground to credit and debit card fraud with total fraud up 10% in 2010 to an estimated \$7.6

billion [5]. On the plus side, 86 out of 111 people indicted for a large identity theft ring were arrested [6].

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*You can't just ask*

*customers what they want and then try to give that to them. By the time you get it built, they'll want something new.—Steve Jobs*

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war that we are losing to China?

Market volatility is still driven by algorithm driven (algos) computer programs. Case in point, on October 4, Program trading and algorithmic trading drove the market up 4% [15].

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# Middle-East

Apparently, some of the 20,000 Libyan surface-to-air missiles that could easily bring down a commercial plane, are missing [1]. Of particular concern are the missing man portable (Manpad) missiles [2]. One source indicates some of the missiles were stolen by Iran’s revolutionary guards and moved to the Sudan [3].

In other news, Libyan rebels have discovered partly refined yellow-cake (uranium ore) amongst 10,000 drums at a location in Southern Libya [4]. With the fall of Gaddafi, some are wondering if the resulting country will become an al-Qaeda stronghold [5]. For example, there are reports the new government fighters are looting and burning civilian homes [6].

From his home in Tripoli, the terrorist convicted of blowing up a Pan Am jet over Lockerbie, Scotland, said the truth about the bombing would soon be known [7]. That the terrorist is allowed to live at home casts suspicion as to the new government’s friendship with the West.

Elsewhere, there was fresh violence in an oil rich Saudi

town [8]. Since the Arab Spring movement, Saudi Arabia finds itself surrounded by destabilizing protests in neighboring countries [9]. Meanwhile, in Syria, 3,000 people were detained during a three day period as protests against the government continued [10]. Nevertheless, our good friends China and Russia vetoed a UN resolution condemning the Syrian violence that has so far left nearly 3,000 dead [11]. On October 7 another eight were killed in Syria as government forces fired on thousands of protesters [12].

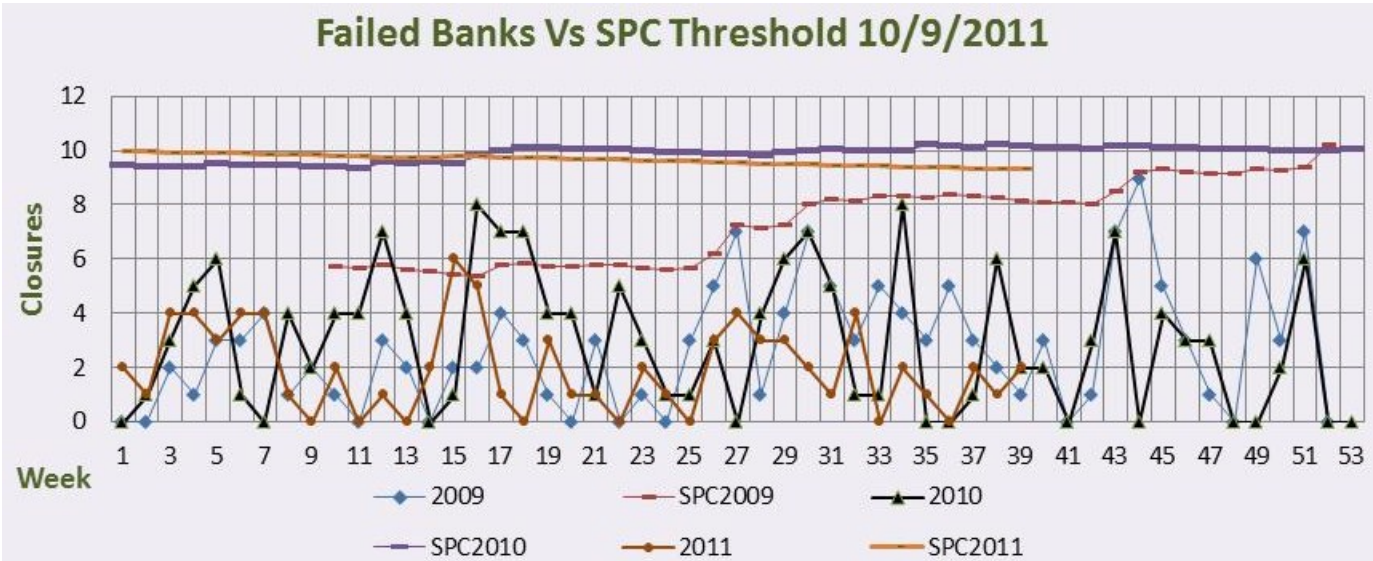
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The cure for Apple is not cost-cutting. The cure for Apple is to innovate its way out of its current predicament.—Steve Jobs

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China continues to dominate much of the world news. For instance, it appears China defied the UN arms embargo on Libya; trying to sell weapons that placed NATO aircraft at risk [1]. Moreover, the U.S. decision not to provide 66 F-16 fighters to Taiwan is considered a major victory for China [2]. Nevertheless, China has voiced its anger over the pared down arms package to Taiwan. For example, the U.S. decision to upgrade older fighters belonging to Taiwan resulted in threats by China to suspend military exchanges [3]. Additionally, China's foreign minister warned the U.S. Secretary of State that the Taiwan decision would harm U.S./China relations [4]. Elsewhere, the Chinese Communist Party newspaper Global Times called for war against Vietnam and the Philippines to enforce control over the South China Sea [5]. This comes as China is seen as the most impressive military force outside of the U.S. [6].

Military advances are not the only technology advancement for China. For instance, China successfully launched a space laboratory into low Earth orbit [7].

One problem that occurs when there is no longer any domestic competition; the foreign companies can charge

higher prices. Case in point, the Japanese auto parts supplier Furukawa Electric Co. Ltd., was fined \$200 million in a price rigging case here in the U.S. [8].

For many years, the U.S. allowed unfair trade agreements with Japan that resulted in Japan's growth. However, with China applying the same one-sided trade techniques pioneered by Japan; Japan can no longer rely on trade barriers. Case in point, the workforce in Japan has shrunk to the same level it was in 1987 [9].

Certain to further strain relations, a local doctor in Pakistan accused of helping the U.S. track down bin Laden may be tried for treason [10]. In contrast, there appears to be a thawing between Pakistan and U.S. in going after other terrorist operatives [11].

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*Blessed are the young for  
they shall inherit the  
national debt—Herbert  
Hoover*

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