

## IN THE NEWS

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### The Economy

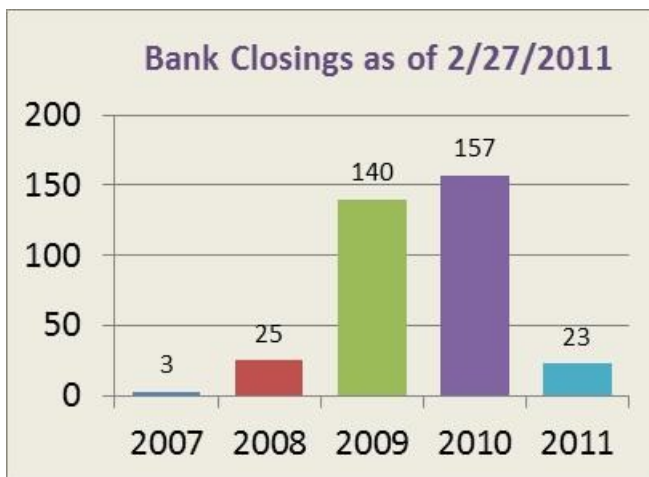
The number of investors fearful of another flash crash continues to rise [1]. This comes as a panel established to look into the flash crash, provided their recommendations; including tightening computerized high-frequency and algorithmic (algo) traders [2]. We first covered the risks of algo's back in 2008 newsletter (vol. 1, no. 26) and further expanded the topic following the flash crash (vol. 3, no. 10). It is good to see the investigations are consistent with our pre and post flash crash assessment. However, we still believe the algo transactions must be mediated in real-time. Until we apply technology to control the technology, we will remain at risk of another flash crash.

Regulators continued closing financial institutions. Case in point, on February 18, the following four were shuttered: 19) Habersham Bank in Georgia; 20) Citizens Bank of Effingham in Georgia; 21) Charter Oak Bank in California; and 22) San Luis Trust Bank in California [3]. Then on February 25, only one was shuttered: 23) Valley Community Bank in Illinois [4]. Meanwhile

the number of troubled banks increased from 860 to 884 [5]. This represents nearly 12% of the insured banks [6].

For the week ending February 12, the number of first time unemployment claims was 410,000 [7]. However, for the week ending February 19, the number of first time claims was only 391,000 [8]. Meanwhile, the second largest bookstore, Borders, filed for Chapter 11 bankruptcy protection [9]. In other bad news; on Thursday, February 24, the price of Brent crude oil reached \$119 per barrel [10]. The higher price for oil could slip us back to a heavier recession. Mean-

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### Security

In Canada, two government departments have remained off the Internet following crippling cyber-attacks originating from China [1]. In contrast, China sentenced a U.S. geologist to 8-years in prison for the sale of a Chinese oil database [2]. Elsewhere, there is yet another phishing attack using bogus

FDIC email messages [3].

The methods used state by governments to contain unrest in the Middle East remain consistent. For example, the Libyan government cut off the Internet similar to the approach taken by Egypt [4].

Oracle's February Critical Patch Update fixed 21 vulnerabilities including 19

that could be exploited remotely [5]. Elsewhere, Iranian hackers took over a Voice of America website and posted their own message; an Iranian flag along with an AK-47 assault rifle [6].

There is yet another on-line banking exploit. The new Trojan horse program,

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#### Special points of interest:

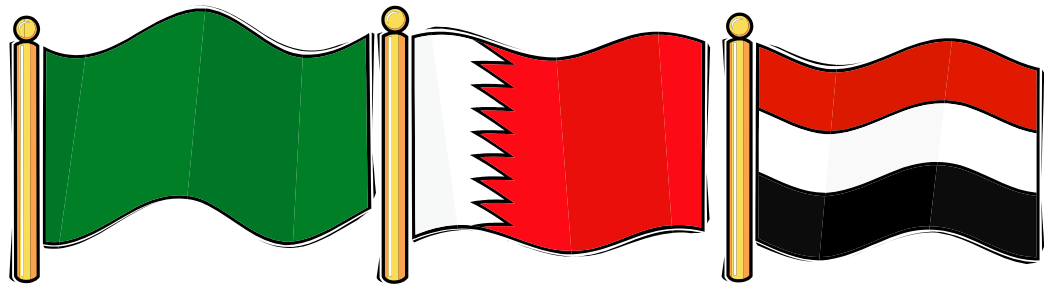
- Somali pirates kill four American captives
- Number of troubled bank increased to 884
- Brent crude oil reached \$119 per barrel
- 23<sup>rd</sup> bank closed

## Security

(Continued from page 1)

dubbed OddJob, keeps customer session alive after they log off; thereby allowing the bad actors to access the account [7].

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2. Wee, Sui-Lee, Reuters, *Envoy who may aim for White House presses China on rights*, February 18, 2011.
3. Bradley, Tony, PC World, *Watch Out for FDIC Phishing Scam*, February 18, 2011.
4. McMillian, Robert, Computer World, *As violence escalates, Libya cuts off the Internet*, February 18, 2011.
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6. Gertz, Bill, Washington Times, *Iranians hack into VOA website*, February 21, 2011.
7. Moscartolo, Angela, SC Magazine, *Trojan steals session IDs, bypasses logout requests*, February 22, 2011.



Turmoil in the Middle East: Flags of Libya, Bahrain, & Yemen

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You live in the age of  
interdependence. Borders  
don't count for much or  
stop much, good or bad,  
anymore—Bill Clinton

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## The Economy

(Continued from page 1)

while, the Commerce Department lowered the estimate growth for the last quarter from 3.2% down to 2.8% [11].

1. Melloy, John, CNBC, *Fear of 'Catastrophic' Crash Rising Despite Bull Market*, February 18, 2011.
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3. Mirza-Reid, Sofina, Reuters, *U.S. closes 4 banks, 22 total so far in 2011*, February 18, 2011.
4. Solsman, Joan E., Wall Street Journal, *U.S. Regulators Close Illinois Bank*, February 25, 2011.
5. Van Doorn, Philip, The Street, *Banks Earned \$21.7 Billion in Q4: FDIC*, February 22, 2011.
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7. Censky, Annalyn, CNN Money, *Jobless claims fall to 391,000*, February 24, 2011.
8. Rooney, Ben, CNN Money, *Jobless claims tick back above 400,000*, February 17, 2011.
9. Bloomberg/AP, *Borders files for Chapter 11 bankruptcy protection*, February 16, 2011.
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11. AP, *State spending cuts slow US economic growth in Q4*, February 25, 2011.

# Border Security

When discussing border security; we often consider only the porous boundary with Mexico. For example, the GAO found the US border with Mexico was vulnerable to cross-border illegal activity [1]. However, the border to the North is equally vulnerable. Case in point, Border Patrol agents try to intercept drug traffickers using snow mobiles crossing the frozen St. Lawrence River between New York and Canada [2]. If drug runners can get into the country, what protection do we have against terrorists?

To be sure there is a significant cost associated with a weak border that is played out around the country. For instance, in Manassas, a 37-year-old illegal alien that was ordered deported in 2002 by a federal judge, was arrested and charged with murdering three people [3]. And readers may recall the murder of Chandra Levy by Ingmar Guandique an illegal immigrant from El Salvador [4].

Making matters worse, once illegal aliens get here, there are many people determined to help them evade detection and deportation. Case in point, a doctor pleaded guilty to surgically altering fingerprints of illegal aliens [5]. What's more, estimates indicate over 11 million illegal immigrants are currently living in the U.S. [6].

The U.S. border is not limited to land access but also water. Consider, the Colombian military captured a 100 foot long drug running submarine that contained four tons of drugs [7]. Couldn't terrorists use the same infrastructure? How many shipping containers arrive from China with no inspection? Furthermore, one customs agent has indicated a weapon of mass destruction was already discovered entering the U.S. [8].

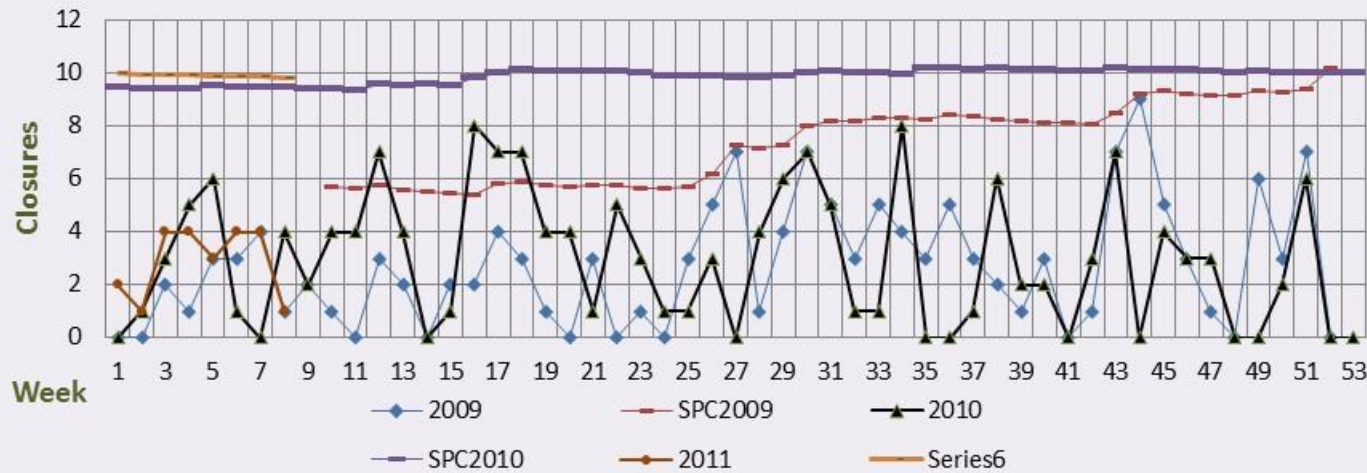
1. GAO, GAO-11-374T, Border Security, February 15, 2011.
2. AP Enterprise, Cat-and-mouse with border smug-

glers, February 14, 2011.

3. Williams, Timothy, New York Times, 3 Shot Dead, 3 Wounded in Virginia; Suspect Is Arrested, February 11, 2011.
4. AP, Man gets 60 years in prison in Levy slaying, February 14, 2011.
5. Krasny, Ros, Reuters, Doctor convicted of surgery to alter immigrant fingerprints, February 10, 2011.
6. Jordan, Miriam, Wall Street Journal, Number of Illegal Immigrants Holding Steady at 11 Million, February 1, 2011.
7. Caulfield, Philip, NY Daily News, Colombian military seizes 100-foot drug sub capable of holding 8 tons of cocaine, February 15, 2011.
8. Fox News, San Diego Official's 'Weapons of Mass Effect' Comment Raises Questions, February 14, 2011.

Information is the oxygen of the modern age. It seeps through the walls topped by barbed wire, it wafts across the electrified borders—Ronald Reagan

Failed Banks Vs SPC Threshold 2/27/2011



The world economic landscape is changing. For example, Japan officially lost its title as the second largest economy in the world; a title it held since 1967 [1].

North America and Europe are not the only areas confronted with another brutal winter; so is Asia. For example, South Korea experienced the heaviest snowfall in more than a century [2]. Elsewhere, North Korea has completed a second strategic missile launch site near the Chinese border [3].

In Egypt, the once outlawed Muslim Brotherhood announced it would like to form a party for inclusion in the new Government [4]. Meanwhile, two Iranian warships passed through the Suez Canal and are now in the Mediterranean Sea [5]. And then, Syria is planning a nuclear power plant by 2020 [6].

With the unrest throughout the Middle East, the price of oil has increased. Now one of the tribes in Libya is threatening to cut off the oil supply from that country if protester oppression does not stop [7]. This is a good example why we need reliable energy from non-

volatile sources. One consequence of a poor energy policy is the unknown price of oil. For example, on just one day (February 22), the price of oil increased 6% due to the unrest in Libya [8]. A question here is; what would the oil price impact be if the unrest spills over into Saudi Arabia? Consider, there is an ongoing Facebook campaign calling for a day of rage next month (March 11) within Saudi Arabia [9].

In the meantime, Libya's ex-justice minister says Libyan leader Moammar Gadhafi ordered the 1988 bombing of the Pan Am jet that crashed in Lockerbie, killing 270 people [10]. Elsewhere off the Somali coast, four Americans held captive by Somali pirates were killed by their captives [11].

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2. AFP, *heaviest snowfall in more than a century*, February 14, 2011.
3. Laurence, Jeremy, Reuters, *North Korea completes second missile site*, February 18, 2011.

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8. Smith, Aaron, CNN Money, *Oil prices surge 6% on Libya unrest*, February 22, 2011.
9. Evans, Dominic, Reuters, *Hundreds back Facebook call for Saudi protest*, February 23, 2011.
10. Mulvihill, Geoff, AP, *Report: Ex-minister says Gadhafi ordered Lockerbie*, February 23, 2011.
11. Stewart, Phillip, et. al., Reuters, *Pirates shoot dead four American hostages: U.S. military*, February 22, 2011.

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*Terrorism has become the systematic weapon of a war that knows no borders or seldom has a face—*  
*Jacques Chirac*

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## Fraud

Ponzi schemes continue to dominate white collar crime news. For example, a New Mexico man was indicted for operating a \$76 million Ponzi scheme [2]. In North Carolina, two men were charged with operating a \$35 million Ponzi Scheme [3]. In New York, CNBC pundit, Brian Kim was indicted in a \$4 million Ponzi scheme [4]. In Alaska, a woman was charged in a \$7 million Ponzi scheme [5]. In non-Ponzi relat-

ed news, 111 people were charged with \$225 million in fraudulent Medicare claims [5].

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3. Jabali-Nash, Naimah,

4. CBS News, CNBC Pundit *Brian Kim Suspected in \$4 Mill Ponzi Scheme*, Says Report, February 16, 2011.
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