

IN THE NEWS

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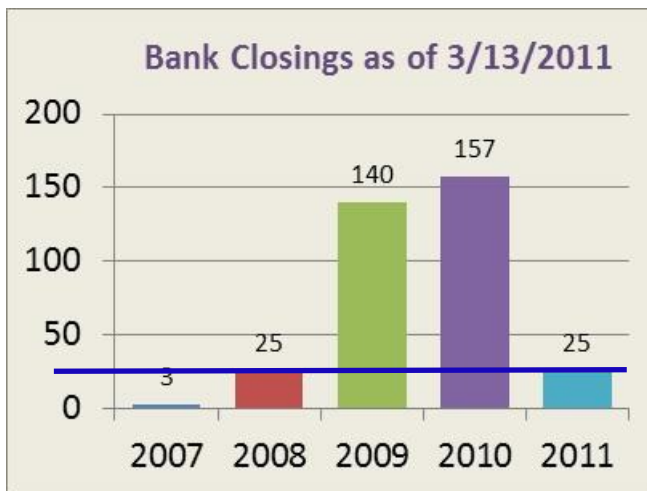
The Economy

After a year of silence, we just learned Chinese hackers broke into Morgan Stanley's network [1]. The Chinese hackers were targeting financial information that would give them a competitive advantage [2]. Apparently, there were also successful attacks against General Electric Co., DuPont, Sony Corp., Walt Disney Co., and Johnson & Johnson [3]. Meanwhile, at the end of December, China held \$1.16 Trillion in U.S. bonds [4]. In further disappointing news, the trade deficit for January widened to \$46.3 billion, a number higher than expected [5]. What's more, the trade deficit with China increased 12.5% to \$23.27 billion [6].

March started with gold hitting a new record high [7]. Furthermore, by March 4, oil had reached a 29 month high [8]. Meanwhile, the largest federal monthly deficit, \$223 billion, was recorded for February [9]. For the week ending February 26, the number of first time unemployment claims was 368,000; the lowest since 2008 [10]. However, for the week ending March 2, the first time claims were 397,000 [11]. On the plus side, the unemployment rate reported by the Labor Department fell to 8.9% [12].

On March 4, regulators took a break and didn't close a single financial institution. However, on March 11, two banks were shuttered: 24) First Bank of Davis in Oklahoma; and 25) Legacy Bank in Wisconsin [13]. This puts the number of failed financial institutions so far this year equal to all of 2008. However, 2011 is slightly behind, by one financial institution, the 2010 rate.

1. Reuters, *Morgan Stanley hit by Chinese hackers: report*, March 1, 2011. (Continued on page 2)



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Special points of interest:

- China holds \$1.16 trillion worth of U.S. treasuries
- Chinese hackers penetrated Morgan Stanley
- Gold hits a new all time high
- 25th Bank Shuttered
- Middle East turmoil continues

Security

The threat to our financial system due to terrorism, weak security controls, and an understanding of the consequences is difficult to convey. However, a recent report suggests the 2008 financial collapse likely included financial terrorism [1]. Another case in point, France's finance ministry was forced to shut

down 10,000 computers following a cyber-attack from addresses located in China [2]. It seems the hackers were trying to harvest information regarding French leadership in the G-20 [3]. The attack was described as espionage starting in December but not detected until January [4].

In Japan, the new Nintendo

3DS was released and hacked within the first 24-hours [5]. Elsewhere, up to 200,000 Android downloads may have included a computer virus [6].

On the prevention front, the race to keep products secure continues. For instance, Microsoft's 'Patch Tuesday' fixed four security

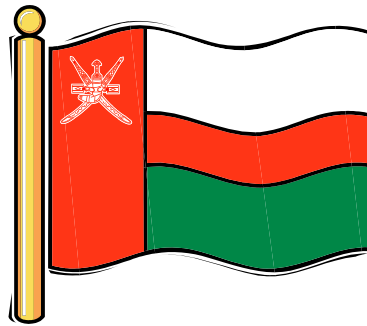
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Security

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vulnerabilities [7].

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3. AP, *Hackers target French Finance Ministry, G-20 plans*, March 7, 2011.
4. Hollinger, Peggy, Financial Times, *Cyber attackers target G20 documents*, March 7, 2011
5. Peckham, Matt, PC World, *Nintendo 3DS Sells 400,000 in Japan, Already R4 Hacked*, February 28, 2011.
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Middle East Rage in Oman

Fear is, I believe, a most effective tool in destroying the soul of an individual - and the soul of a people—

Anwar Sadat

The Economy

(Continued from page 1)

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3. Riley, Michael, and For-den, Sara, Bloomberg, *Hacking of DuPont, J&J, GE Were Google-Type Attacks That Weren't Disclosed*, March 8, 2011.
4. AFP, *China's holdings of US debt larger than reported*, February 28, 2011.
5. Chandra, Shobhana, Bloomberg, *Trade Deficit in U.S. Widened More Than Forecast in January*, March 10, 2011.
6. Barkley, Tom, and Talley, Ian, Wall Street Journal, *Trade Deficit Widens o Higher Oil Bill*, March 10, 2011.
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8. Shenk, Mark, Bloomberg, *U.S. Commodities: Oil Rises to 29-Month High on Mideast Concern*, March 4, 2011.
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10. Rappeport, Alan, Financial Times, *US jobless claims fall to lowest since 2008*, March 3, 2011.
11. AP, *Stocks open lower as unemployment claims rise*, March 10, 2011.
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Oil

The economy seemed to be on the verge of a recovery with job hiring up and unemployment down to 8.9% [1]. However, the price of oil reached levels not seen since 2008 [2]. What’s more, on March 4, Saudi Shi’ites held protests in two towns [3]. A key point, demonstrations are already outlawed in Saudi Arabia [4].

Readers will recall the severe economic downturn followed the record breaking rise in oil prices in 2008. As the Middle East turmoil continues, oil prices will continue to rise. This could eventually result in yet another financial collapse when we have not recovered from the current malaise.

What’s more, drilling into the natural U.S. oil reserves has become difficult. Case in point, a U.S. District judge has given the administration 30 days to decide on just seven deep-water drilling permits [5]. The risk is that if environmental regulations cannot be expedited there is a good chance lawmakers will start dismantling these watchdog agencies. For instance, we are

starting to see Congressional bipartisan efforts to stop some of the Environmental Protection Agency (EPA) programs [6]. Perhaps a good business process re-engineering effort could streamline environmental regulations; thereby reducing time and cost while preserving environmental goals.

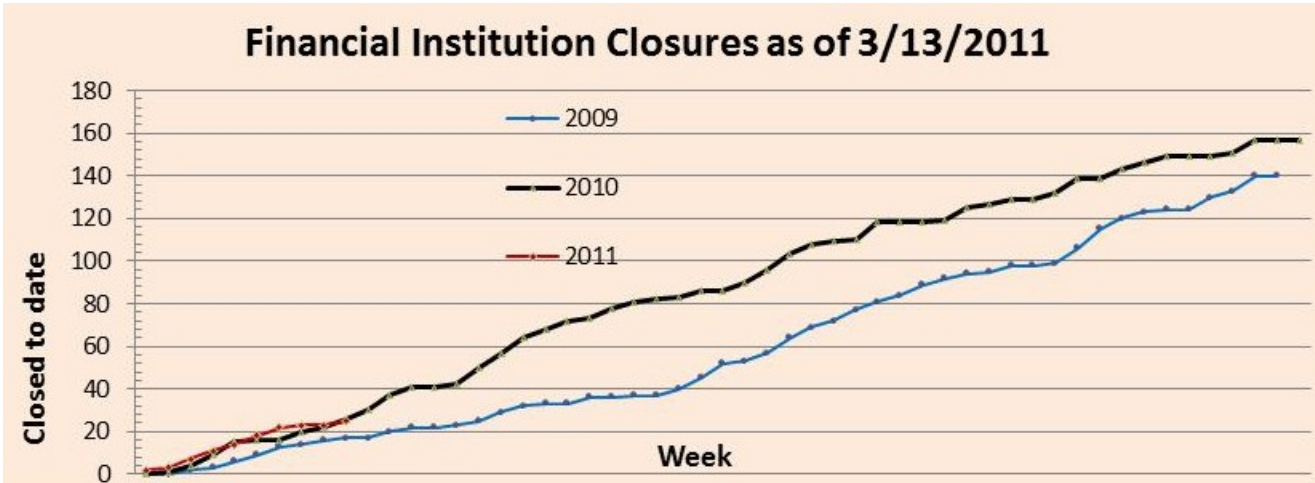
The Government contractor helping investigate the BP Gulf oil spill has refused to conduct testing on the blowout preventer to determine why it failed [7]. The blowout preventer is supposed to be fail-safe and is the last line of defense in preventing an oil spill [8]. In the case of the BP blowout preventer that failed; it was modified in China before the accident [9]. With other Chinese modified blowout preventers in use, there could be other potential disasters waiting to happen if the fail-safe devices are defective. We encourage examining the failed device to determine if other oil well may be at risk.

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percent, March 5, 2011.

2. Kahn, Chris, Philadelphia Enquirer, *China internal security spending jumps past army budget*, March 5, 2011.
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6. Smith, J, Atlanta Post, *House Leaders Attach EPA*, March 3, 2011.
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America will not stop standing guard for peace, or freedom or stability in the Middle East and around the world—Bill Clinton



World News

The big news in Asia was the 8.9 earthquake that has placed at least on nuclear reactor at risk of a meltdown [1]. The quake is expected to rekindle concerns over nuclear safety [2]. In turn, this will likely lead to evermore dependence on imported oil.

The rising price of oil is starting to get the anticipated reactionary changes. For instance, the first deep water drilling permit since the BP oil spill was awarded [3].

Middle East unrest continues. For example, the government of Oman is trying to quell large scale protests [4]. In Yemen, security forces fired into crowds of protesters killing at least one person [5]. What's more, the U.S. Department of State has warned against travel to Yemen citing deteriorating conditions [6].

While the U.S. looks for ways to reduce its military budget, China is boosting military spending by 12.7% [7]. Moreover, a London based think tank is predicting China's military will match the U.S.

within 10 to 15 years; due to the shifting of wealth [8].

What is interesting given the turmoil in the Middle East is China's commitment to control domestic unrest. By one estimate, China is spending more on domestic security than it does on the military [9].

Europe is still struggling with the current economic downturn. For instance, Moody's downgraded Greece's credit rating further into junk status, by three notches [10]. Moreover, Moody's also downgraded Spain's credit rating to a lower investment grade [11].

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*All strange and terrible
events are welcome, but
comforts we despise—
Cleopatra*

Fraud

Financial fraud continues to highlight the scope of losses incurred to date. For example, in Arizona, 12 people were charged with a mortgage fraud scheme that netted the accused \$2.9 million [1]. In California, two were arrested in a \$130 million bank

fraud case [2]. In Minnesota, 12 were indicted for operating a \$10 million bank fraud ring [3].

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