

IN THE NEWS

VOLUME 4 ISSUE 19

SEPTEMBER 11, 2011

The Economy

Banks continue to try and regain their previous standing. However, in a move that will likely force bank stocks lower, the Federal Housing Finance Agency (FHFA) plans to file suit against over a dozen large banks [1]. For example, the large bank exchange traded fund, symbol KBE opened on 1 September at \$19.90 and closed at \$18.07 on Friday September 9 (see the chart below). After the FHFA news, lender stocks took an immediate hit on Friday September 2 [2]. The FHFA lawsuits seek \$196 billion from 17 banks and will likely delay the bottoming of the housing market [3]. One of the 17, Bank of America, is planning to lay off 40,000 employees [4]. In the meantime, regulators continued shuttering banks, even on the long Labor Day weekend. On September 2, two financial institutions were shuttered: 69) Patriot Bank of Georgia; and 70) CreekSide Bank in Georgia [5]. Then on September 9, one additional bank was shuttered: 71) The First National Bank of Florida [6].

In more troubling news, the number of new jobs added to payrolls ground to a halt in August and the previous two months were revised downward by 58,000 jobs [7]. Given the tendency to plus up news and later downgrade it, we probably lost a number of jobs during August. Meanwhile, some are predicting China's growth will expand in the fourth quarter to a 9.5% rate [8]. Furthermore, the US trade deficit for July was \$44.8 billion, \$27 billion (or 60%) of which went to China [9]. Moreover, the number of billionaires in China increased from 130 in 2009 to 271 last year [10]. Perhaps this explains why one third of those who grew up in the US middle class are below middle class as adults [11].

To illustrate how fragile the economy is, for the week ending August 27, the number of first time unemployment claims was 407,000 while the previous week was revised up 4,000 [12]. For the next week, the number of first time claims rose to 414,000 and the previous week increased to 412,000 [13]. As a result of the weak jobs picture, President Obama directed the EPA not to implement new smog standards [14]. Given the number of jobs going to China where pollution is problematic, we believe the President made the correct decision.

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Security

Following a power outage where millions were left in the dark; leaks suggested the outage was likely caused by one worker [1]. So if one worker can cause this much damage by accident, just imagine how devastating an attack by a sophisticated enemy nation

would be. This indicates there are single point failures that can easily shut down the power grid.

It seems the Nokia developer site was hacked [2]. Moreover, a few weeks ago Government Computing News set up a honey pot network and observed cyber

-attacks originating from China [3]. Additionally, one report suggests for an extended period of time, China was able to hack into a sensitive development program and observe online meetings [4].

Apparently a Dutch firm

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Special points of interest:

- Vulnerable power grid leaves millions in the dark
- FHFA sues 17 large banks for \$196 Billion
- China offered to sell Qaddafi official weapons in violation of UN agreement
- Cybercrime losses estimated at \$114 billion last year

Security

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was hacked into resulting in 531 fraudulently-issued SSL certificates [5]. There is a suggestion the SSL hackers cooperated with the Iranian government in order to spy on dissidents [6].

Finally, we may never know the exact cost of cyber-crime. However, one report estimates cybercrime costs \$114 billion a year and claimed 431 million victims last year [7].

1. Los Angeles Times, *Power company employee caused massive blackout, utility says*, September 8, 2011.
2. McDougall, Paul, *Information Week, Nokia Developer Site Hacked*, August 29, 2011.
3. Breeden II, John, FCW, *China provides smoking gun against itself in cyberattacks*, August 29, 2011.
4. Fulghum, David, and Sweetman, Bill, *Aviation Week & Space Technology*, *China's Offense*, August 29, 2011.
5. Keizer, Gregg, *Computer World, Hackers steal SSL certificates for CIA, MI6, Mossad*, September 4, 2011.
6. AP/New York Times, *Hacking in the Netherlands Broadens in Scope*, September 5, 2011.
7. AFP, *Cybercrime costs \$114 billion a year: report*, September 7, 2011.

The Economy

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Meanwhile, the number of Afro-Americans unemployed reached a 27 year high of 16.7% [15]. As we mentioned in the last newsletter, this comes after news the Martin Luther King Jr statue was made in china [16]. What's more, in the city where the King memorial opened, Washington, DC, the teen unemployment rate is over 50% [17]. Fair trade benefits both parties; however, one sided trade does not.

With the 10th anniversary of the 9/11 terrorist attack on America, it's a good time to reflect on the what we lost. In addition to the long airport security lines and privacy issues, one cost estimate is \$3.3 trillion [18].

1. Schwartz, Nelson, New York Times, *U.S. Is Debt to Sue a Dozen Big Banks Over Mortgages*, September 1, 2011.
2. Greber, Jacob, and Marcinek, Laura, Bloomberg, *Bank of America Leads Lenders Lower on Report of a Lawsuit by U.S. Agency*, September 2, 2011.
3. Van Doom, Philip, The Street, *Mortgage Suits May Seal Obama's Election Doom*, September 2, 2011.
4. Hamilton, Walter, and Reckard, E. Scott, Los Angeles Times, *BofA to cut at least 40,000 jobs*, September 10, 2011.
5. Clarke, Dave, Reuters, *U.S. regulators close two Georgia banks*, September 2, 2011.
6. AP, *The F.D.I.C. Closes First National Bank of Florida*, September 9, 2011.
7. CNBC, *Job growth grinds to a halt*, September 12, 2011.
8. CNBC, *China's Growth to Accelerate in the Fourth Quarter: Strategist*, September 1, 2011.
9. Crutsinger, Martin, AP, *US trade deficit narrowed to \$44.8 billion in July*, September 8, 2011.
10. Moore, Malcolm, The Telegraph (UK), *China's billionaires double in number*, September 7, 2011.
11. Fletcher, Michael, Bloomberg/Washington Post, *Many in U.S. slip from middle class, study finds*, September 6, 2011.
12. Reuters, *Instant view: Jobless claims fall 12,000 last week*, September 1, 2011.
13. AP/USA Today, *New claims for unemployment benefits rise in latest week*, September 8, 2011.
14. Capiello, Dina, and Pace, Julie, AP, *Obama halts controversial EPA regulation*, September 2, 2011.
15. Censky, Annalyn, CNN, *Black unemployment Highest in 27 years*, September 2, 2011.
16. Cha, Ariana Eunjung, Washington Post, *A King Statue 'Made in China'?*, August 15, 2011.
17. Lewis, Al, Wall Street Journal, *Abercrombie Economy*, August 21, 2011.
18. Sanger, David, New York Times, *The Price of Lost Chances*, September 8, 2011.

We must start with the reality that corporations cannot guarantee anyone a lifetime job any more than corporations have a guarantee of immortality—

John Snow

China's Industry

A large number of goods sold in the U.S. are manufactured in China. In addition to the unfair trade practices used by China to grow its industry, we should consider the pollution and labor practices used to lower costs. Case in point, one of the Chinese companies making toys for Disney is facing a probe for operating a sweatshop [1]. Back in 1972, it was China that was blasting the U.S. and Russia for polluting other countries [2]. Now there are complaints that U.S. companies, such as Apple, are using suppliers in China that are discharging polluted waste and toxic metals [3]. In turn, Apple rejected the assertion claiming the highest standards for social responsibility [4]. It is good to see those with environmental concerns target the largest polluter on the planet, China. What's more, with the bankruptcies of three U.S. companies making solar power products, China is now in a

dominate position [5]. So China has essentially taken over the solar power industry. In one study by University of Tennessee Professor Cherry, the solar power industry will contribute 2.4 million tons of lead pollution in China and India [6].

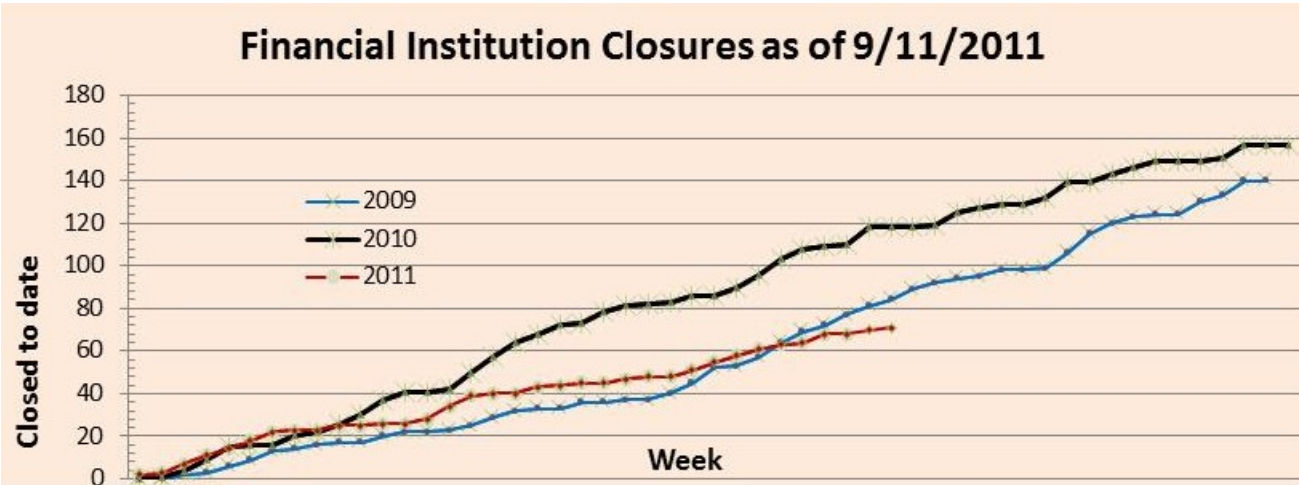
Another issue is getting regulators adequate oversight of Chinese companies doing business in the US. Case in point, while investigating fraud, the SEC requested documents from the Chinese arm of Deloitte only to have the company cite Chinese privacy law in refusing the request [7].

1. Chamberlain, Gethin, The Guardian (UK), *Disney factory faces probe into sweatshop suicide claims*, August 27, 2011.
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as Adding to Pollution in China, September 1, 2011.

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If you deprive yourself of outsourcing and your competitors do not, you're putting yourself out of business—Lee Kuan Yew



World News

Certain to increase the price of Japanese goods, the owner of the nuclear stricken reactors Tepco, plans a 10% price increase for electricity [1].

With Libya now in the hands of the rebels, it is time to start assessing the impact of the change. Case in point, even though the U.K. was a key player in the military change, the new rebel government is refusing to extradite the only terrorist convicted in the Lockerbie plane bombing [2].

As the US backs away from technology solutions before a replacement is in place, there are risks. Case in point, the Space Station, now reliant on Russia for transport, may be forced to evacuate in November if Russia cannot fix their spacecraft problem [3].

We will continue to cite references indicating military capabilities of hostile countries. Thus, when these weapons are used in anger, it should come as no surprise. For instance, the UN received another report detailing evidence Iran is moving to develop a nuclear payload for its missiles [4].

Meanwhile, China continues to expand its military capabilities. For example, China is committed to limit or prevent adversary space based assets

[5]. Additionally, China's expanded navy was able to forcefully annex the Spratly Islands that sit atop the second-largest oil and natural gas deposits in the Western Pacific [6].

It seems China is continuing to assert its naval power in the South China Sea. For example, an Indian warship leaving Vietnamese waters was challenged by a Chinese warship [7]. Moreover, in Libya as the rebel forces were fighting, China was trying to sell weapons to the Gadhafi government [8]. What China tried to do was against UN resolutions and the weapons included QW-18 surface to air missiles capable of destroying military aircraft [9]. In a calculated response, China claims that Qaddafi officials sought arms but denied any arms were transferred [10]. Then China claimed that it did not know of the talks between its arms dealers and the Gaddafi government [11].

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3. Wall, Mile, Space.com, *Astronauts May Evacuate*

Space Station in November, NASA Says, August 29, 2011.

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5. Fulghum, David, Et. Al., *Aviation Week & Space Technology*, Expanded Reach, August 29, 2011.
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7. Bland, Ben, and Shiva-kumar, Girija, *Financial Times*, *China confronts Indian navy vessel*, August 31, 2011.
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9. Norman, Josh, CBS, *Report: China tried to arm Qaddafi near end*, September 4, 2011.
10. Wines, Michael, *New York Times*, *Beijing Says Qaddafi Officials Sought Chinese Arms*, September 5, 2011.
11. Buckley, Chris, *Reuters*, *China says didn't know of arms sales talks with Gaddafi forces*, September 5, 2011.

We contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle—Winston

Churchill

Financial Fraud

In Florida, two people were charged by the SEC with operating a Ponzi scheme that defrauded investors of \$22 million [1]. Elsewhere, the Justice Department charged 91 people with defrauding Medicare out of nearly \$300 million [2]. In California, a

man was charged by the SEC for defrauding deaf investors out of \$3.4 million [3].

1. Fitzgerald, Drew, *Dow Jones*, *SEC Charges 2 With Running Fake Florida Private-Equity Firm*, August 29, 2011.

2. Markon, Jerry, *San Francisco Chronicle*, *91 people charged in crackdown on Medicare fraud*, September 8, 2011.
3. AP, *SEC accuses man of fraud targeting deaf investors*, September 9, 2011.