

## IN THE NEWS

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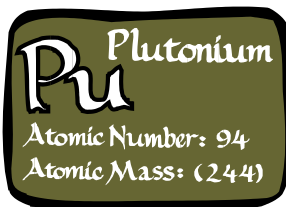
### World News

In India, 360 million people were without electricity following a yet to be determined power outage [1]. Then the next day, India's power grid failed again leaving 600 million without electricity [2]. The second failure occurred without warning and is under investigation [3].

Once again, the President of Iran, called for the annihilation of Israel [4]. What's more, Secretary of Defense Leon Panetta acknowledged that sanctions against Iran have not slowed nuclear development [5]. Indeed, it appears that Iran has accelerated its uranium enrichment program [6]. What's more, one report indicates the Hezbollah MP, Walid Sakariya claims the Iranian nuclear weapons program will annihilate Israel [7]. With such threats from Iran's proxy organization, Israel must make a tough decision; wait and hope or preemptively strike Iran. To

help Israel make a decision, Secretary Panetta asked Israel not to attack Iran but allow more time for Sanctions to work [8]. Meanwhile, the Israel press is talking about the war option. For instance, the former Mossad chief Efraim Halevy suggested Iranians should be worried over the next 12 weeks [9]. It is unclear if Israel will act before the US elections and if it does, what the impact would be.

The latest NASA nuclear powered Mars rover (Curiosity) successfully touched down on the Red Planet [10]. However, Curiosity uses 4.8 kilograms of Plutonium 238 Oxide, leaving less than 30 kilograms for the entire US inventory with no plans for creating more [11]. The limited reduction in available Plutonium is related to the reducing nuclear weapons needs. For instance, under one plan being discussed, the US would limit its entire nuclear force to 10 Trident submarines and 18 B-2 Bombers [12]. Essentially, if an adversary could hit 28 targets, the US would have no nuclear weapons.



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#### Special points of interest:

- Half of India lost electricity
- Unemployment rate increased to 8.3%
- 150,000 left the work force
- 40<sup>th</sup> bank closed

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### Security

The cost of cyber-crime is expensive. Case in point, the Global Payments breach of 1.5 million customers cleanup cost is estimated at \$84.4 million [1]. Elsewhere, hackers penetrated Reuters and posted a fake blog on Syria [2].

Besides industry, the US Government continues to be exploited. For instance, the IRS may have paid \$5 billion to identity thieves

for fraudulent 2011 tax returns [3]. What's more, one report suggests the EPA suffered a security breach due to email malicious software (malware) in the 8,000 user superfund program [4].

Not only is the critical infrastructure vulnerable to computer glitches, sometime the problem impacts leisure time. For example, it appears a computer glitch

may have been responsible for a Six Flags roller coaster failure where the riders were stopped at the top of the ride [5].

In the past, we have stated that identity management must include more than a visual inspection. Consider, three US troops were killed by a terrorist dressed in an Afghan security uniform

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## Security

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[6]. This illustrates the need for strong identification and authentication.

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## World News

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*In peace, sons bury their fathers. In war, fathers bury their sons—Herodotus*

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## China

The growth rate for China fell to 7.6% during the second quarter [1]. With such a growth rate, many nations are bending to appease China. Case in point, the Olympics organizers removed the Taiwan national flag at the request of Red China [2].

Meanwhile, China arrested 2,000 suspects involved with \$180 million worth of counterfeit drugs [3]. Concurrently, while the world is suffering through an economic downturn, China is placing additional restrictions on its rare earth monopoly [4]. Rare earths are also used in the manufacture of new lightweight batteries. Perhaps this is why a Chinese company is planning to purchase a controlling interest in A123 Systems Inc., a US battery manufacturer that was the recipient of a Department of Energy grant [5]. If the deal goes through, Chinese businessmen will have an 80% stake in a company that does business with the Department of Defense [6]. Some are raising concern over Chinese access to sensitive technology [7]. However, until the US Government addresses the unfair trade practices China uses, smaller companies cannot hope to compete and more American jobs will continue to disappear. It is nearly im-

possible to manufacture something when the raw materials are controlled by the China's monopoly. In turn, these practices are enriching China. Case in point, the overall US trade deficit for June was \$42.9 billion with the China imbalance increasing to \$27.4 [8]. What's more, with the expansion of US technology jobs in Asia, job opportunities there are strong [9].

With China's new wealth, it is aggressively expanding its military ambitions. However, China's claim to the entire South China Sea is running into resistance. For instance, India is considering a request from Vietnam to explore for oil in an area claimed by China [10]. Moreover, China's media complained over the US criticism of its new city with military garrison [11].

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*Believe nothing, no matter  
where you read it, or who  
said it, no matter if I have  
said it, unless it agrees  
with your own reason and  
your own common sense—  
Buddha*

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## Economy

For the week ending July 28, the number of first time unemployment claims was 365,000 [1]. Then for the week ending August 4, the number reported by the Labor Department was 361,000 [2]. Meanwhile, the unemployment rate increased to 8.3% and the number of jobs added to the economy was 163,000 [3]. However, the number of jobs created was offset by 150,000 people that left the work force, resulting in the eligible workforce employed falling from 63.8% down to 63.7% [4].

The economic downturn is also impacting smaller com-

munities. Case in point the California city of San Bernardino filed for bankruptcy [5]. Finally, regulators only closed one financial institution. This was on August 3 when the 40<sup>th</sup>, Waukegan Savings Bank in Illinois was shuttered [6].

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## Algo Failure

In the past, we have documented the root cause of flash crashes were the algorithms (algos) used by the trading companies. These artificial intelligence driven machines execute trades faster than people could. Consequently, these systems operate autonomously without human intervention. We also highlighted that the regulatory approaches cannot resolve the issue. Case in point, on Wednesday, August 1, there were technology glitches at Knight Capital Group resulting in a stock 20% fall [1]. Once again, the root cause appears to be the “algo” that caused errant trades [2]. Interesting, the initial estimated loss due to the latest algo glitch is \$440 million [3]. What’s more, Knight Capital lost a number of customers and may have difficulty staying in business [4]. However, Knight Capital did receive a \$400 million infusion from a group of Wall Street firms [5]. What’s more; the SEC plans to require companies to disclose computer

failures [6].

One report suggests the SEC is looking at this latest failure to see what new safeguards may be needed [7]. As we have suggested in the past, the only effective method is to mediate the transactions using a government computing system. However, we do not believe this advice will be acted upon and we expect many more algo related problems to manifest. Finally, stock market glitches are not limited to the US. Case in point, the Madrid and Tokyo were disrupted due to computer glitches [8].

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*No matter how far you  
have gone on the wrong  
road, turn back—Turkish  
Proverb*

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