

IN THE NEWS

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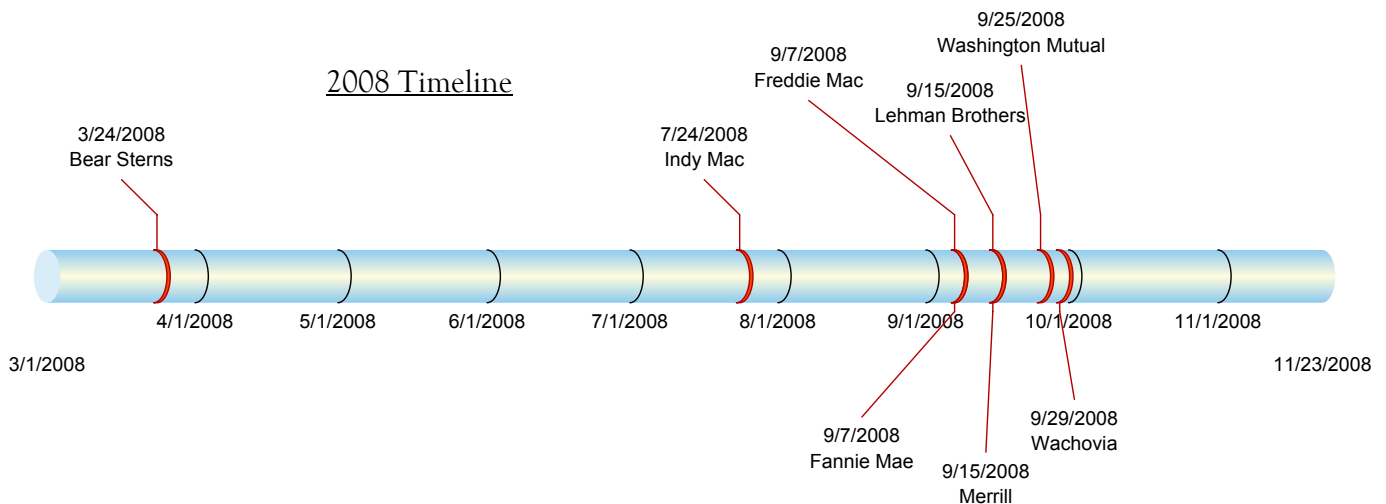
Financials

Last September, Citigroup was about to buy Wachovia in an Government brokered deal [1]. Prior to Bank of America purchasing Merrill Lynch, Citigroup was the largest bank in the US. Clearly Citigroup was considered one of the banking giants. On Thursday (November 20), Citigroup the second largest bank by assets, reached a 13 year low [2]. On Friday, even though the market rallied, Citigroup fell another 20% to \$3,77 per share [3]. Some believe the Government may end up rescuing Citigroup [4]. Elsewhere, the 20th FDIC insured bank closed this year, the Community Bank of Loganville, Georgia, is expected to cost the deposit insurance fund between \$200 million to \$240 million [5]. Regulators also closed two thrifts, Downey Savings and Loan Association and PFF Bank &

Inside this issue:

What Goes Around	3
China News	4
Crime	4

2008 Timeline



Trust of Pomona, expected to cost the insurance fund \$1.4 billion and \$700 million respectively [6]. In other news, the remaining three US auto companies, failed to secure a \$25 billion loan from Congress [7]. Consequently, GM traded at a 70 year low not seen since 1938 [8]. Meanwhile, jobless claims approached highs not seen since 1982 [9]. There is some good news, (Continued on page 2)

IT Security

Microsoft announced it will stop its Windows Live OneCare and instead offer free software to protect PCs from viruses [1]. It is estimated that 50% of home users are not protected against malware [2]. In other malware news, fearing computer viruses, the Pentagon has implemented a policy

banning the use of flash drives [3]. The ban follows an attack that strategically timed to hit between the Nov. 4 presidential election and Inauguration Day, Jan. 20 [4].

In Canada, after discovering a vehicle with an illegal cell phone jammer, police are worried they would be un-

able to call in for help [5]. In Massachusetts, a 16-year-old admitted he hacked into numerous corporate computers, running bot-nets, and placing bogus calls to first responders [6].

One report suggests the US influence will continue to

(Continued on page 2)

Special points of interest:

- GM hits 70 year stock price low
- Community Bank becomes 20th FDIC insured bank closed this year
- Downey Savings and Loan Association and PFF Bank & Trust of Pomona bring the number of FDIC insured closings to 22
- Fear of computer viruses causes Pentagon to ban flash drives

Financials

(Continued from page 1)

the price of oil has fallen to a 22-month low [10]. Moreover, oil fell below \$50 per barrel as recession fears settled in [11].

In Switzerland, the banking giant UBS plans to fight the Swiss Government's decision to allow Washington to peek into Swiss-based accounts [12].

It is difficult to estimate what the total cost of cybercrime is per year. However, \$100 billion is not an unreasonable estimate [13].

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2. Stempel, Jonathan, Reuters, *Citigroup stock drops to 13-year low, fear grows*, November 19, 2008.

3. Der Hovanesian, Mara, Business Week, *Citigroup Shares Keep Sinking*, November 21, 2008.
4. Harper, Christine, and Keoun, Bradley, Bloomberg, *Citigroup May End Up With U.S. Government Rescue*, November 22, 2008.
5. Levy, Ari, Bloomberg, *Community Bank of Loganville, Georgia, Is Shuttered*, November 21, 2008.
6. AP/Boston Herald, *Federal regulators shut 2 California thrifts*, November 22, 2008.
7. Puzanghera, Jim, and Simon, Richard, Los Angeles Times, *Big 3 fail to close deal on bailout*, November 20, 2008.
8. Reuters, *GM shares hit 70-year low as bailout hopes dim*, November 20, 2008.
9. Willis, Bob, and Shobhana, Chandra, Bloomberg, *U.S. Economy: Jobless Claims Approach Highest Level Since 1982*, November 20, 2008.
10. Kao, Ikuko, Reuters, *Oil falls to 22-month low as gloom deepens*, November 19, 2008.
11. Musante, Kenneth, CNN Money, *Oil dips below \$50 a barrel*, November 20, 2008.
12. Jucca, Lisa, Reuters, *UBS clients fight Swiss plan to transfer bank data*, November 18, 2008.
13. New Scientist/Reuters, *Cybercrime toll threatens new financial crisis*, November 20, 2008.

Imminent GM bankruptcy was always fiction, created by Wall Street and the media—Robert Lutz

(Continued from page 1)

erode and by 2025 while new threats from hackers and cyber-terrorist will be a dominant concern [7]. It is expected that China and India will increase in power as the US declines [8].

It seems that Verizon employees violated company privacy policy and looked through President-elect Barack Obama's phone records [9]. Verizon has since fired the employees [10]. This is similar case Ohio is investigating involving the privacy breach of Joe the Plumber's records [11].

1. Wingfield, Nick, The Wall Street Journal, *Microsoft Plans Free Software To Shield PCs*, November

IT Security

- 2008.
2. Ricadela, Aaron, Business Week, *Microsoft to Stop Charging For Home PC Security*, November 19, 2008.
3. Baldor, Lolita C., MSNBC, *Pentagon bans computer flash drives*, November 21, 2008.
4. Fox News, *Military Looking Abroad for Source of Cyber Attack on Pentagon*, November 21, 2008.
5. Johnston, Beth, Ottawa Sun, *Police put in tight jam*, November 19, 2008.
6. Kaplan, Dan, SC Magazine, *Teen cybervandal pleads guilty to corporate hacks*, November 19, 2008.
7. CBS/AP, *Report: U.S. Influence Will Fade By 2025*, November 20, 2008.
8. Miller, Greg, The Los Angeles Times, *U.S. influence is on the decline, report says*, November 21, 2008. were examined [10].
9. Claburn, Thomas, Information Week, *Obama's Cell Phone Records Accessed, Verizon Admits*, November 21, 2008.
10. CNN, *Verizon fires workers over Obama cell phone records breach*, November 21, 2008.
11. AP, *Ohio investigates 'Joe the Plumber' info breach*, November 21, 2008.

What Goes Around

On March 24, Bear Sterns collapsed based on silent run fueled by false rumors. An article in Vanity Fair suggests that CNBC's reporting was a contributing factor in the Bear Sterns story [1]. Not surprisingly, CNBC was not happy with the suggestion their reporting suggesting Bear Sterns had liquidity problems (when there were none) was a

For years, the belief that bad news sells has been the news media's driving force [7]. So it should come as no surprise that recent reporting of the economy is focusing on the negative. But trading giants are constantly adjusting their risk models and look for any news that would alter their current assumptions. When news that is considered good

news media giant corporate stocks are falling. For example, CBS and Disney (owns ABC) closed near their yearly lows [10]. Likewise, General Electric (GE owns NBC) hit a 10 year low of \$12.58 per share. Note, CNBC is part of the GE which takes us back to the beginning of this article.

The algos react to good as well as bad news. However, if you look at the news today, bad news dominates.

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2. Whitehouse, Kaja, The New York Post, CNBC's ticked at Vanity Fair, July 11, 2008.
3. CNN Money, *Associated Press Staff To Shrink 10% By 2010*, November 20, 2008.
4. Lamm, Greg, Puget Sound Business Journal, *Seattle Times plans to cut 130-150 in another wave of layoffs*, November 3, 2008.
5. AP, *E.W. Scripps cuts 400 newspaper jobs*, November 7, 2008.
6. The Los Angeles Times, *Geithner, apparent pick for Treasury, isn't a Wall Street man*, November 21, 2008.
7. Jesdanun, Anick, AP, *Newspapers see sharp circulation drop of 4.6 pct*, October 27, 2008.
8. Cavuto, Neil, Fox News, *Bad News Sells, Good News Doesn't*, January 6, 2005
9. The Canadian Press, *TV industry blames slump in ad revenues for cutbacks, layoffs*, November 20, 2008.
10. Reuters, *Market meltdown blasts showbiz stocks*, November 20, 2008.

The news media are, for the most part, the bringers of bad news... and it's not entirely the media's fault, bad news gets higher ratings and sells more papers than good news—

Peter McWilliams



contributing factor [2]. Computers have become indispensable for the financial markets. When combined with algorithmic trading, investors are able to calculate value-at-risk and other statistical information to help with their investments. The high end algorithmic trading (algos) applications include artificial intelligence and make execute trades. The decision inputs include news articles from various sources. Interestingly, the news media has fallen on hard times, For example, AP will shrink its staff by 10% [3]; the Seattle Times is cutting staff [4]; and E.W. Scripps is cutting back [5]. In general newspaper circulation has declined by 4.6% [6] so advertising loss can be devastating.

is found, the market buying can kick in. For example, when Geithner was reported as the likely pick for heading the Treasury, the market rose 494 points [8]. However, once more bad news is detected the revised risk model will act accordingly. As stock prices fall, the credit ratings for these companies are typically lowered, thereby adding more bad news to the picture. After a while, the process becomes self feeding. The process becomes stuck in an infinite loop with no one to reboot the system. As a company's income dries up, they have less money to spend on advertising. The loss of advertising revenue has a direct impact on the very news outlets that contributed to the negative cycle [9]. Moreover,

China News

One report suggests that China is using Cyberwar to challenge American power [1]. It is alleged that China is stealing vast amounts of sensitive information from U.S. computer networks [2]. The Chinese cyberwarfare capability is considered so advanced, the US may not be able to counteract it [3]. In response to the allegations, China has stated the report presented to Congress is unworthy of rebuttal [4]. Another allegation is that China has used its \$2 trillion in foreign reserves to manipulate currency trading and diplomatic relations with other



*I could as easily bail out
the Potomac River with a
teaspoon as attend to all
the details of the army—*
Abraham Lincoln

nations [5].

In other news, the Bank of America increased its stake in the China Construction Bank to 19.13% [6]. The increase of \$7 billion is controversial because the US Treasury is pumping \$250 billion into the largest banks, including \$15 billion to Bank of America [7].

The world-wide economic down-turn is starting to have an impact on China. The unemployment in China worsened [8]. China manufactured 14 percent of the clothing, toys and footwear imported into the United States last year and now there are fears that Chinese job losses could result in riots [9].

1. Spencer, Richard, The Telegraph (UK), *China 'using cyberwarfare to challenge US power'*, November 21, 2008.
2. Bowley, Graham, The New York Times, *To Work With or Against China?*,

November 20, 2008.

3. Palmer, Doug, Forbes, *US panel urges action on China currency, investing*, November 20, 2008.
4. Yan, China View, *China rejects U.S. congressional panel report*, November 22, 2008.
5. AFP, *US Congress warned of Chinese cyber, space threats*, November 21, 2008.
6. CNN Money, *Bank Of America Upgrades China Construction Bank Stake To 19.13%*, November 19, 2008.
7. Fitzpatrick, Dan, The Wall Street Journal, *BofA, in CCB Play, Stays Course*, November 18, 2008.
8. Batson, Andrew, The Wall street Journal, *Russian, Chinese Workers Feel Pain of Global Crisis*, November 21, 2008.
9. CNN, *China fears job riots*, November 20, 2008.

Crime

A Chinese-borne scientist working in Virginia pleaded guilty to selling US technology and military secrets to China [1]. In Oklahoma, a man was sentenced to 41 months and ordered to pay \$4 million in restitution for defrauding 4 banks [2]. In New York, 16 people were charged in a mortgage fraud scheme that cost lenders \$ 4.9 million [3]. Elsewhere in New York, 9 people were charged in a \$1.4 million mortgage fraud scheme [4]. In Philadelphia, 6 people were charged with fraud in an alleged scheme to steal \$41 million using virtual offices, dummy

corporations, and fake brokerages [5]. In Indiana, racketeering charges were filed against a man following claims by a bank of being swindled out of \$6 million [6].

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2. FBI, *Altus man sentenced 41 months and must pay over \$4 million in restitution for using fake church bond to defraud western Oklahoma banks*, November 19, 2008.
3. AP, *NYC authorities*

charge 16 in mortgage fraud scheme, November 19, 2008.

4. Lanza, Michael, Queens Tribune, *Nine Charged In \$1.4M Mortgage Scheme*, November 20, 2008.
5. Fernandez, Bob, Philadelphia Inquirer, *Six charged with bilking settlement funds*, November 21, 2008.
6. Gillasp, James A., Indianapolis Star, *Carmel man formally charged with swindling bank*, November 18, 2008.