

IN THE NEWS

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Economic News

Years ago, one of the early “dot com” companies was Egghead online. In 2000 Egghead had 3.62 million registered users, when it was widely reported that a hacker may have gained access to the credit card database [1]. Customers started to flee almost immediately and during the next year, the company filed for Chapter 11 bankruptcy protection [2]. Later in 2001, the last of Egghead was sold [3]. So by reporting the security breach, Egghead sealed its fate and in less than 1 year was completely dissolved. With that as a backdrop, there are cries demanding to know where the Troubled Asset Relief Program (TARP) funds are going [4]. With few exceptions such as GM and Chrysler, little information was provided indicating what banks are drawing from TARP. A question here is, would depositors flee the bank if they knew it was requesting TARP funds? Consider, on Tuesday (December 23) it was reported that American Express received \$3.39 billion from the TARP fund and the company’s stock fell 2.5% that same day [5].

During the Great Depression, as people’s wealth evaporated, suicide rate jumped from 14 to 17 per 100,000 [6]. Today however, perhaps the most visible suicide this year was Rene-Thierry Magon de la Villehuchet, an investor with Madoff that lost \$1.4 billion to the Ponzi scheme [7]. The Madoff scam has a number of people seeking litigation. In one case, a woman who lost \$2 million in the swindle is trying to hold the SEC accountable for her loss [8]. One reason the SEC was unable to spot the fraud was financial markets have grown increasingly complicated [9]. Although the technology exists to track all financial transaction, successful inter-regulatory applications and commitment are constraints. In the interim, we will need to see how much additional crime is uncovered. A separate Madoff unit was an early adopter of electronic trading, at one point accounting for 5% of the NYSE trades in the 1980’s [10]. So if the process is too complicated, regulators cannot adequately perform their mission. To blame one regulatory agency, such as the SEC, when vital decision making information is collected elsewhere is disingenuous. What is interesting to note is that the man behind the largest Ponzi scheme, Bernie Madoff, is allowed to stay at home instead of jail [11]. There is speculation that some of the money may have gone to off-shore accounts [12]. If true, this would make Madoff a flight risk. It is likely that if convicted, Mr. Madoff will face jail time. For example, in Utah, a 63-year old man convicted and imprisoned for a \$140 million Ponzi scheme was denied parole [13]. In another example, a South Carolina man was jailed for submitting false claims totaling over \$10,000 [14]. So if the alleged crime is \$10K you go to jail; if its \$50 billion you go home. Eight years ago, there were more Federal cases of stock fraud than there are today [15]. Perhaps the

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IT Security

Microsoft blamed lack of training and improper tools for not detecting the critical IE bug earlier [1]. Furthermore, Microsoft confirmed there is an SQL exploit that could allow hackers remote code execution of computers using SQL Databases [2]. However, software vendors are not the only ones

that are ill prepared. For example, a 2 day cyberattack exercise involving government, industry, and civil groups’ illustrated meager preparedness with no one in charge [3]. So far this year, rogue software infecting home computers has burrowed deeper into computers making detection and re-

moval more difficult [4]. The Department of Homeland Security (DHS) predicts cyber terror attacks will increase as hacking tools become more sophisticated [5]. However, the big motivator for cyber crime remains money. For example, Russian hackers rely on computer viruses with keystroke

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- India and Pakistan tensions escalate

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redirecting of law enforcement to anti-terror activities was in part responsible for the decline.

On the automotive front, General Motors stock increased 12.6% following the Fed decision to allow GMAC to become a bank [16]. There are indications that GMAC will seek \$6 billion in loans [17]. At Ford, the 2010 Fusion hybrid, rated at 41 miles per gallon is slated to be the most fuel efficient mid-size on the market [18]. However, the falling price of gasoline and soft economy may work against the vehicle.

Be willing to make decisions.

*That's the most important
quality in a good leader.*

*Don't fall victim to what I
call the "ready-aim-aim-aim
syndrome." You must be
willing to fire.—T. Boone*

Pickens

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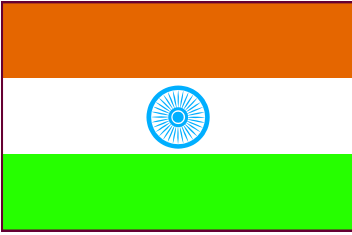
capture to steal bank login information [6]. Given the hacker approach to stealing logon information it is interesting to note the advice provided by banks to protect depositors. For example, in Texas, a bank vice president and electronic services officer advised depositors to frequently check their on-line account rather than wait for a bank statement [7]. So how would that stop a Russian hacker with a keystroke capture virus running on an invested machine? If anything, the advice given is worse than doing nothing (don't login on-

line). Consumers need a path validated smart card or comparable solution. Until the password vulnerability is adequately addressed, the bleeding will continue.

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Internal Policing

Could a cyber-attack launched from one country result in a shooting war? More specifically, if a



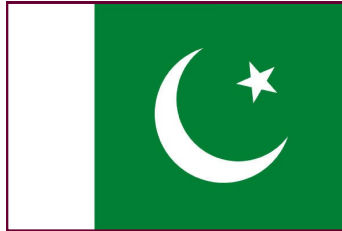
country has domestic terrorists that launch an attack, would the country attacked respond to the host country? If the host country cannot control domestic terrorist, a shooting war just might result. Consider there are terrorists located in the mountainous regions of Pakistan that would love to see a war between India and Pakistan. For example, in 2002, India and Pakistan almost went to war over a terrorist attack on Indian soil and the recent Mumbai attacks are again stoking war fears [1]. India is not satisfied with the response and may yet start a shooting war between the two nuclear powers [2]. Furthermore, Pakistan is now

moving forces away from the Afghanistan border to the Indian border [3]. What do you suppose would happen if right now, cyberattacks originating from within Pakistan resulted in significant loss of life in India?

Without getting into how-to scenarios, if hackers attacked the critical infrastructure of another country causing significant loss of life or financial instability, how would the victim country respond? India is blaming Pakistan for not controlling domestic terrorists. If a country's law enforcement cannot police the nefarious activities of hackers, any nation could be faced with a similar situation. When a country does not have a credible domestic police capability, the country may be held accountable. In the case of India, they appear to be on a hair trigger and indicated that they might respond if sufficient progress against terrorism is not evident [4]. There is another potential wild card and that is a 3rd country launching a cyberattacks that falsely implicates Pakistan.

China and Russia likely have the ability to compromise servers in Pakistan and use these with devastating consequence against India.

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Procrastination is the thief of time—Edward Young

It may be said with a degree of assurance that not everything that meets the eye is as it appears—Rod Serling

Asian News

US Labor and trade groups have labeled China a currency manipulator [1]. Furthermore, in an effort to help its domestic industry, China plans to strengthen inspections of US soybean imports thereby increasing the cost [2]. Meanwhile, China complained to the WTO that US was illegally taxing Chinese steel pipe and off road tires [3]. Domestically, China continues its economic growth but with problems in product quality and air pollution [4].

In China, the milk company at the center of the melamine poisoning, Sanlu, has been declared bankrupt [5]. To further exacerbate the melamine problem, it appears that fish were fed the toxic chemical and are contaminated [6]. Currently, China exports \$2 billion in seafood to the US and fish tissue containing 80 times the safe level of melamine has been found [7].

In Japan, auto production fell 20% from last year levels [8]. Similarly, November was Japan's biggest factory output fall on record [9]. Moreover, the Japanese Yen fell 1.3% against the dollar [10]. This

will drive down the price for imported Japanese goods.

In another sign of China's emergence as a world power, 3 Chinese warships will help the international community patrol the pirate infested waters off of Somalia [11]. In other news, there are suggestions that China is planning to build its first aircraft carrier [12]. China has shown the ability to quickly modernize and industrialize. We hope the fixation with Russia will not result in a blind eye to the new superpower, China.

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*Every rascal is not a thief,
but every thief is a rascal—*
Aristotle

Crime

The IRS has accused a California based Fry Electronics' vice president of embezzling up to \$65 million [1]. Elsewhere in California, a Sacramento man pleaded guilty to mortgage fraud that cost lenders \$2.5 million [2]. In Miami, 8 people were indicted for fraudulently opening two home equity lines of credit valued at \$1 million, and receiving approximately \$800,000 [3].

The Madoff Ponzi scheme has refocused attention on Wall Street. The Feds are predicting

the next 2 years will expose considerably more financial fraud [4].

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