

IN THE NEWS

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The Economy

Prosecutors are warning that insider trading has become a common business practice [1]. During the economic meltdown, there were instances of stock manipulation crimes that are now being prosecuted. For example, the FBI raided two Connecticut hedge funds linked to insider-trading [2]. Moreover, the investigations are a catalyst for companies to assess the risk of calling outside experts [3]. The reason being, artificial intelligence programs (AI) can infer company announcements before becoming public. For a simplistic example, if a large company hired experts known for recovering from mortgage losses or bankruptcy, the AI programs could infer the company will announce such a program. In the past, we have discussed the role of *algos* (high speed artificial intelligence trading programs) on the economy. In New York, there is an ongoing trial for a former programmer accused of stealing Goldman Sachs' *algo* [4]. A question here is: if a foreign government gained access to the code, could they use this information to engineer a stock market meltdown?



Unemployment continues to be a negative economic indicator. The number of first time jobless claims for the week ending November 20 fell to 407,000 [5]. However, for the next week, claims increased to 436,000 and the previously reported week were revised upward [6]. More bad news; in the first report since the mid-term elections, the unemployment rate rose to 9.8% [7]. What's more, only a worse-than-expected 39,000 jobs were added in November [8].

Following the Savings and Loan crisis, Congress vowed to strengthen laws to prevent an equivalent problem in the future [9]. Yet we find ourselves in another financial institution meltdown. For example, the number of banks on the FDIC's trouble list rose 3.7 percent to 860, the highest number in 17 years [10]. Interestingly, for the past two weeks, regulators have not shuttered any bank.

1. New York Times, 'Financial Steroids', November 30, 2010.
2. AP/Wall Street Journal, *Feds raid 2 hedge funds linked to trading probe*, November 22, 2010.

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Security

Computer security can be categorized in terms of confidentiality, integrity, and availability. With a focus for the moment on availability; millions of Comcast internet users lost access due to a server glitch [1]. Another Internet problem is on-line

banking. Case in point, a California woman had her account drained by cyber-thieves for the fourth time in two years [2].

Bank accounts are not the only target of cyber-attacks. For instance, one report claims Chinese leaders order the cyber-attack on

Google [3]. Elsewhere, Iran admitted the cyber-attack directed against its nuclear enrichment centrifuges did have an impact [4]. Iran also accused the UN nuclear watchdog agency of sending in spies [5].

Cyber-warfare between

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Special points of interest:

- North Korea shells South Korean island
- Number of troubled banks on FDIC watch list increased to 860
- Japan motions to kill Kyoto Protocol

Security

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India and Pakistan continues in the news. For example, following a cyber-attack, India issued arrest warrants to members of the Pakistan Cyber Army [6].

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2. Lazarus, Davis, Los Angeles Times, *When cyber thieves use PayPal as portal to bank account*, November 30, 2010.
3. Nakashima, Ellen, Washington Post, *Chinese leaders ordered Google hack, U.S. was told*, December 5, 2010.
4. Hafezi, Parisa, Reuters, *Iran admits cyber attack on nuclear plants*, November 29, 2010.
5. BBC News, *Iran accuses UN nuclear watchdog of sending in 'spies'*, December 4, 2010.
6. UPI, *India files charges in hacker attack*, December 4, 2010.

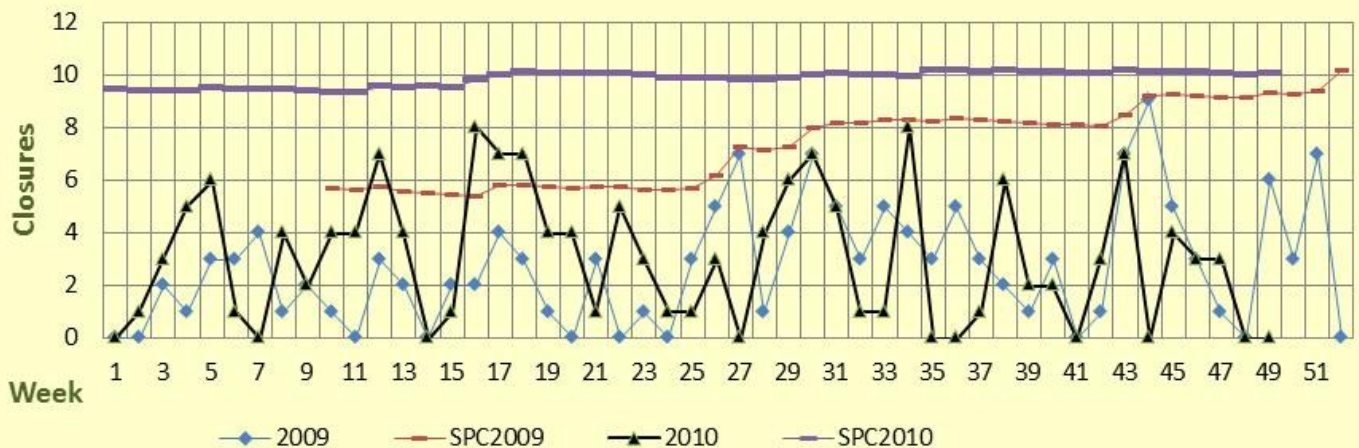
The Economy

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4. Van Voris, Bob, Bloomberg, *Ex-Goldman Programmer Aleynikov Stole Code, Prosecutor Says at Trial Start*, November 30, 2010.
5. AP/Fox News, *Weekly Jobless Claims Drop Sharply to 407,000*, November 24, 2010.
6. AP, *Jobless claims rise, but trend shows improvement*, December 2, 2010.
7. Homan, Timothy R., Bloomberg, *Unemployment Rises to 9.8% as U.S. Adds Just 39,000 Jobs*, December 3, 2010.
8. Rappeport, Alan, Financial Times, *US unemployment rate rises to 9.8%*, December 3, 2010.
9. AP/Kentucky New Area, *Bank closure plan gets OK by committee*, June 20, 1991.
10. Louis, Meera, Bloomberg, *Banks Post \$14.5 Billion Profit, Smallest Since 2009*, November 23, 2010.

*It is easier to rob by setting
up a bank than by holding
up a bank clerk—Bertolt
Brecht*

Failed Banks Vs SPC Threshold 12/5/2010



Environment

The carbon dioxide (CO₂) emissions for last year reflect the changing economies. Case in point, increases were measured in China (8%), India (6.2%), and South Korea (1.4%); while decreases occurred in Japan (11.8%), the U.S. (6.9%), the U.K. (8.6%), and Germany (9%) [1]. Overall, the combined drop was only smaller than expected 1.3% [2].

There is a project in Texas to liquefy U.S. natural gas for overseas export [3]. Let that thought set in; the U.S. has so much natural gas, there are plans to export it. While the U.S. searches for an energy policy, China is securing its future. Case in point, China and Russia signed partnership to boost energy in nuclear, gas, and oil [4].

Following the Gulf spill, it seems U.S. deep sea drilling for oil has stopped. Moreover, Interior Secretary Ken Salazar

rescinded oil policy and will not allow drilling in the Eastern Gulf of Mexico or along the Atlantic coast [5]. However, other countries continue a deep water drilling policy. For instance, deep-water drilling continues at a frenetic pace for Brazil's state run Petrobras [6].

In another blow to supporters of the Kyoto Protocol to reduce carbon emissions, Japan announced it would oppose extension beyond 2012 [7]. Moreover, Russia and Canada also oppose extending the protocol [8].

1. Yin, Sara, PC Magazine, *China, India CO2 Emissions Offset Decreases In US, UK, Japan*, November 21, 2010.
2. AP, *Weak world economy cuts carbon pollution last year*, November 21, 2010.
3. Fowler, Tom, Houston Chronicle, *Project aims to liquefy U.S. natural gas*,

November 22, 2010.

4. Ying, Wang, Bloomberg, *China, Russia Sign Accords to Boost Energy Partnership*, November 23, 2010.
5. Broder, John, New York Times, *Official Says U.S. Won't End Drilling Ban in Eastern Gulf*, December 1, 2010.
6. Gonzales, Angel, Wall Street Journal, *The End of Deep-Water Drilling? Not in Brazil*, November 28, 2010.
7. Feldman, Stacy, Reuters, *Japan's Motion to Kill Kyoto Protocol a 'Slap in the Face,' Advocates Say*, December 2, 2010.
8. Canadian Press, *Canada, Russia, Japan oppose extending Kyoto Protocol*, December 4, 2010.

*Banks are an almost
irresistible attraction for
that element of our society
which seeks unearned
money—J. Edgar Hoover*

World News

In yet another case of toxic made in China products, Glasses with comic book characters purchased at the Warner Brothers Studios store in Burbank were found to have 1,000 times more toxic lead than is allowed [1]. Meanwhile, it appears that China has again started exporting rare earth elements [2].

North Korea allowed a nuclear scientist to see the communist country's revamped nuclear processing capability [3]. The week after advertising its expanded nuclear capabilities; North Korea shelled an island belonging to South Korea [4]. The attack cost South Korean lives and several houses destroyed in the most serious border incidence since the 1953 conclusion of the Korean War in [5]. Furthermore, there are suggestions the North's attack was premeditated. For example, the North Korean leader Kim Jong-il and his son visited the site launching the attack hours before the conflict [6]. In response to the North Korean aggression, China proposed six nation talks with the militant North [7]. The message seems to be aggression gets rewards. Furthermore,

North Korea continues to remind the world it is a nuclear weapon country capable of making more atomic bombs [8].

However, ratcheting up the rhetoric, South Korea indicated it would launch air strikes against its northern neighbor if there are any new acts of aggression [9]. Meanwhile, Japan is reaching out to the U.S. and South Korea over the North's acts of aggressions [10]. In response, North Korea condemned the U.S., South Korea, and Japan for forming a military alliance directed against the North [11].

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2. Hur, Jae, Bloomberg, China Resumes Rare Earth Exports to Japan, METI Says, November 24, 2010.
3. Dahl, Fredrik, Reuters, Analysis - North Korea likely needed outside help for centrifuge, November 22, 2010.
4. Glionna, John, and Kim, Ethan, Los Angeles Times, South Koreans puzzle over motives behind North Korea's attack, November 23, 2010.
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7. CNN, China proposes meeting of 'six-party talks' heads amid Korean tensions, November 28, 2010.
8. Martin, Simon, AFP, N.Korea touts nuclear prowess as China urges talks, November 30, 2010.
9. Oliver, Christian, Financial Times, Seoul threatens air strikes against N Korea, December 3, 2010.
10. Kasolowsky, Raissa, and Maclean, William, Reuters, Japan feels sense of crisis over North Korea, December 4, 2010.
11. VOA News, North Korea Condemns US, Japan, South Korea for Forming 'Alliance', December 4, 2010.

*A turtle travels only when
it sticks its neck out—
Korean Proverb*

Financial Fraud

Fraud continues to exact losses. For example, in New York, a man was charged with an \$8 million fraud [1]. Elsewhere in New York, Columbia University was a victim of a \$4.5 million bank fraud [2].

In California, a woman was arrested for an \$11 million Ponzi scheme [3]. In Florida, a man was arrested for operating a \$110 million Ponzi scheme [4]. Finally, nine people

were indicted in Kansas City for an alleged \$11 million mortgage fraud [5].

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2. El-Ghobashy, Tamer, Wall Street Journal, Columbia Is Hit With \$4.5 Million Bank Fraud, November 30, 2010.
3. Beverly Hills Courier, FBI Arrest Beverly Hills Woman Who Orchestrated \$11 Million Ponzi Scheme, December 3, 2010.
4. AP/Bloomberg, Fla. man charged in \$110 million Ponzi scheme, December 2, 2010.
5. Morris, Mark, Kansas City Star, Nine indicted in \$11 million mortgage fraud scheme, November 22, 2010.