

IN THE NEWS

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The Economy

Illustrating the risk of inflation, the price of oil started the new-year at a 26-month high, briefly rising above \$92 a barrel [1]. What's more, just in time for the cold weather; the price of heating oil increased to a 27-month high [2]. Meanwhile, BP is embarking on a large Russian Arctic oil exploration [3].

First time unemployment claims for the week ending December 31 were 409,000 [4]. For the following week ending January 6, the number of claims increased to 445,000 and the previous week was raised to 410,000

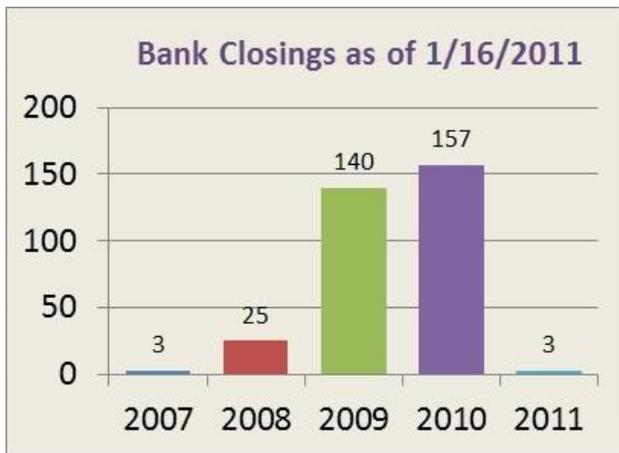
[5]. By constantly adjusting previously reported unemployment numbers upward, people are less likely to trust the initial statistics released by Labor Department information. Perhaps this is why in a recent survey, half of the Americans identified China as the world's leading economic power verses 41% for the US [6]. Furthermore, according to the Labor Department, 103,000 jobs were added in December and the jobless rate was 9.4% [7].

Starting the new year, regulators resumed shuttering financial institutions. On January 7, two banks were closed: 1) First Commercial Bank of Florida and 2) Legacy Bank in Arizona [8]. Then on January 14, one additional bank was shuttered: 3) Oglethorpe Bank in Georgia [9]. Elsewhere, on the housing front, it is estimated that 1 million homes were foreclosed in 2010 [10].

While the U.S. remains stuck in a recession, China continues to enjoy economic prosperity. For example, in 2010 China maintained the largest market for motor vehicles total vehicles with 18.06 million sold [11].

1. Shore, Sandy, AP, Oil prices start the new year at a 26-month high,

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Special points of interest:

- China rebuffs U.S. talks on nuclear weapons
- Three financial institutions shuttered

Security

Back in 1988, security experts considered computer viruses and the types of cyber-attacks common today, as mere curiosities. Fast forward to today and the current solution is a \$1.5 billion cyber-security center in Utah [1]. To see how effective malicious software (Malware) is, consider the cyber-attack on

Iran's nuclear weapons program. By one estimate, the Stuxnet worm destroyed a fifth of Iran's centrifuges thereby setting back that country's nuclear program [2]. Now there is a report of a new, zero-day vulnerability in Microsoft Windows [3]. That is, there is an exploit with no patch available. What's more, the

Microsoft patch Tuesday includes only two updates [4]. While the U.S. continues to deploy security weak products, China uses a hardened operating system running on a hardened central processing unit (the hardware core of computers).

Elsewhere, during the past

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Security

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two years, between 6 and 8 companies supporting a large defense aerospace contractor, were completely compromised (email, networks, everything) [5].

Another aspect of security that often gets overlooked is availability. For instance, Bank of America experienced an on-line access problem, detected at 7 AM on January 14 and restored at 5:15 PM the same day [6]. Without providing an explanation of what the problem

was, the bank was quick to announce the problem was not security related [7].

1. Fidel, Steve, Deseret News, *Utah's \$1.5 billion cyber-security center under way*, January 6, 2011.
2. Keizer, Gregg, Computer World, *Microsoft confirms new Windows zero-day bug*, January 4, 2011.
3. Leffall, Jabulani, GCN, *The first Patch Tuesday of the year? Surprisingly light*, January 7, 2011
4. Sweetman, Bill, Aviation

Week & Space Technology, *Out of the MIST*, January 3, 2011.

5. AP, *Bank of America restores online banking system*, January 14, 2011.
6. Benoit, David, Dow Jones, *BofA: Banking Website Service Back To Normal*, January 14, 2011.
7. Broad, William, et. al., New York Times, *Israel Tests on Worm Called Crucial in Iran Nuclear Delay*, January 15, 2011.

The Economy

(Continued from page 1)

It is clear our nation is reliant upon big foreign oil. More and more of our imports come from overseas—George W. Bush

January 3, 2011.

2. Powell, Barbara, Bloomberg, *Heating Oil Rises to 27-Month High in New York on U.S. Northeast Snowstorm*, January 12, 2011.
3. Jackson, Roland, AFP, *BP embarks upon Russian Arctic energy exploration deal*, January 15, 2011.
4. Mutikani, Lucia, Reuters, *US jobless claims near 2 1/2 yr low for past month*,

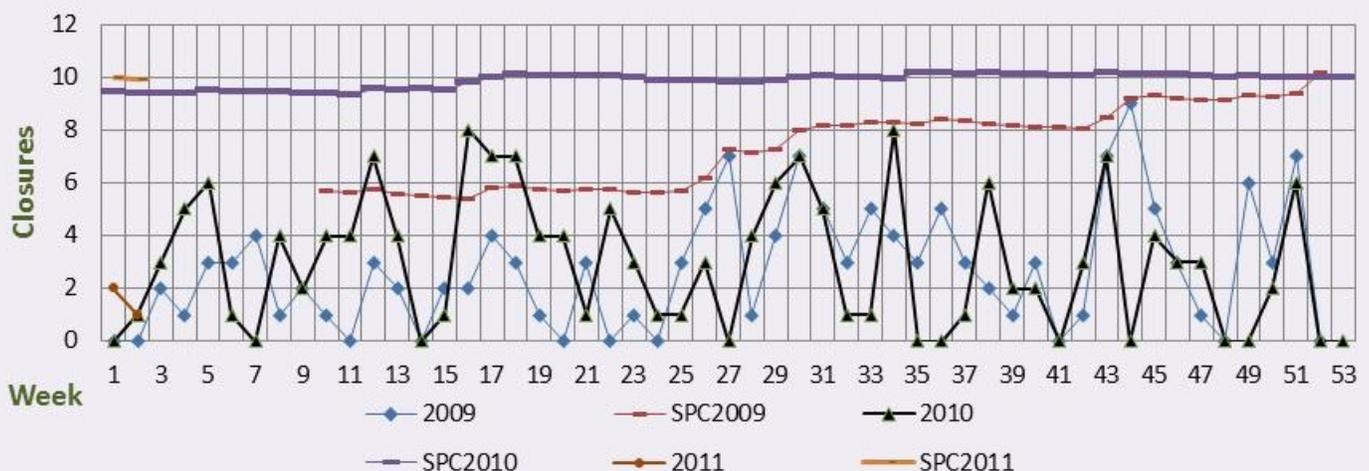
January 6, 2011.

5. Bharatwaj, Shanthi, The Street, *Stocks Finish Modestly Lower on Jobless Claims*, January 13, 2011.
6. Cha, Ariana, Washington Post, *Americans see China as top economic power*, January 14, 2011.
7. Willis, Bob, Bloomberg, *U.S. Adds 103,000 Jobs in December, Unemployment at 9.4%*, January 7, 2011.
8. Solsman, Joan, Wall Street Journal, *Two Banks*

Close in Florida, Arizona, January 7, 2011.

9. Gordon, Marcy, AP, *Regulators Shut Small Georgia Bank; 3rd This Year*, January 14, 2011.
10. Herron, Janna, AP, *Over 1 million Americans seen losing homes in 2011*, January 13, 2011.
11. Ying, Tian, Bloomberg, *China Stays World's Largest Auto Market as 2010 Sales Jump 33% on Stimulus*, January 10, 2011.

Failed Banks Vs SPC Threshold 1/16/2011



Border Security

Before diving into issues specific to the U.S. border with Mexico, it's worth looking at other countries. For example, following entry estimated at 100,000 illegal aliens, Greece is planning to construct a wall along the Turkey boarder [1]. The 12.5km fence is expected to deter illegal immigrants [2].

In Mexico, the violence is troubling. For example, 15 decapitated bodies were found near an Acapulco Mall [3].

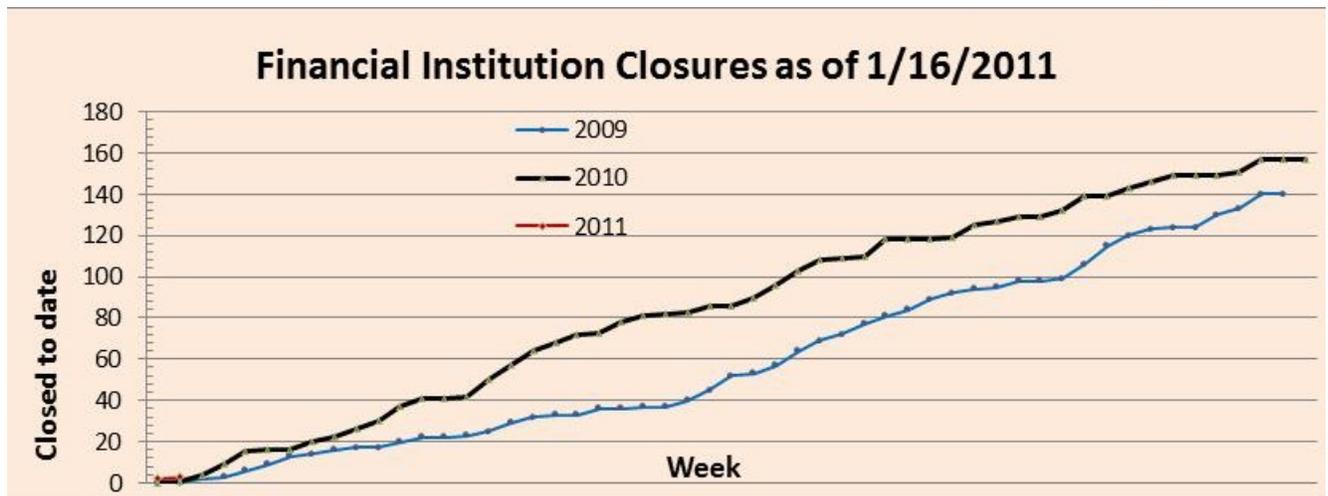
The drug war in Mexico alone has resulting in 15,273 deaths during 2010 [4]. What's more, in Texas, four U.S. road workers were fired on, from the Mexican side of the border, by

a gunman using a high powered rifle [5].

Meanwhile the \$1 billion virtual fence project, between Mexico and the U.S., begun in 2006 was cancelled [6]. Finally, two incomplete tunnels were discovered originating in Mexico and heading toward the U.S. [7].

1. VOA, *Greece Plans to Build Controversial Wall on Border With Turkey*, January 4, 2011.
2. Kontogiannis, Dimitris, and Pigna, Stanley, *Financial Times, Greek plan for border fence attacked*, January 4, 2011.
3. Gould, Jens Erik, *Bloomberg, Headless Bodies of 15 Men Found Near Acapulco Mall, Mexican Police Report*, January 8, 2011.
4. Thomson, Adam, *Financial Times, Mexico drugs violence makes 2010 bloodiest year*, January 13, 2011.
5. Licón, Adriana Gómez, *El Paso Times, Mexican gunman fires across border toward U.S. highway workers*, January 14, 2011.
6. Pelofsky, Jeremy, *Washington Post, Administration giving up on full 'virtual fence' on border*, January 15, 2011.
7. Ronquillo, Karla, *KOLD, Two incomplete tunnels found near Nogales*, January 12, 2011.

A good neighbor is a fellow who smiles at you over the back fence, but doesn't climb over it—Arthur Baer



World News

As more jobs are exported to China, it's worth looking at the environmental consequences. Case in point, 200 children in the central Chinese town of Gaohe are suffering from lead poisoning traced to a local battery manufacturing plant [1].

In a leaked Chinese government document, China has changed its policy to first use nuclear of weapons [2]. Expectedly, China is denying a change in its policy for nuclear weapons [3]. What's more, China is not enforcing the UN's Iranian nuclear restrictions [4].

It appears China's military is growing double what they are advertising and growing in offensive capabilities [5]. What's more, some are suggesting China's huge air force and advanced missiles; will necessitate the U.S. development of improved air combat capabilities [6]. China claims to have perfected nuclear fuel reprocessing, giving them a 3,000 year supply of nuclear fuel [7]. Elsewhere, it appears that China has an operational fighter, the J-20 prototype that includes stealth technology [8]. Meanwhile, the F-35 U.S. fighter, with stealth features, is slated for budget cuts [9]. There can be no question, there is a relationship between China's booming economy and its military buildup [10].

In the past, we pointed out the need to include China in nuclear weapons reduction talks. Now that a treaty to reduce the U.S. nuclear capability has been approved by the Senate, the first attempt at talks with China started. However, China rebuffed suggestions of nuclear weapons talks with Secretary of Defense Gates [11]. This is understandable. Why would China want to engage in talks when existing treaties allow them unencumbered growth to world nuclear power dominance? China keeps surprising us with advances in weapons and capabilities. Expect to be shocked when China's nuclear weapons capability comes into focus.

Meanwhile, there are concerns that North Korea could have an ICBM capable of striking the U.S. with nuclear weapons within five years [12].

1. Moore, Malcolm, Telegraph (UK), *200 Chinese children suffer lead poisoning*, January 6, 2011.
2. Daily Times (Pakistan), *China changing nuclear rules of engagement*, January 6, 2011.
3. Ho, Stephanie, VOA, *China: No Changes to 'No First Nuclear Strike Policy'*, January 6, 2011.
4. Lakshmanan, Indira A.R. Bloomberg, *China Failing*

to Enforce Sanctions on Iran's Nuclear Program, Expert Says, January 14, 2011.

5. Dorling, Philip, Sydney Morning Herald, *Chinese expansion fears revealed*, January 7, 2011.
6. Fulghum, David, Aviation Week & Space Technology, *Numbers Matter*, January 3, 2011.
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8. Entous, Adam, Wall Street Journal, *A Chinese Stealth Challenge?*, January 4, 2011.
9. Cox, Bob, Fort Worth Star-Telegram, *F-35 orders likely cut in Gates' Pentagon spending plan*, January 6, 2011.
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11. Gertz, Bill, Washington Times, *China spurns strategic security talks with U.S.*, January 10, 2011.
12. Stewart, Phil, Reuters, *U.S. sees North Korea becoming direct threat, eyes ICBM*, January 11, 2011.

*Because we are now
running out of gas and oil,
we must prepare quickly
for a third change, to strict
conservation and to the
use of coal and permanent
renewable energy sources,
like solar power—Jimmy
Carter*

Financial Fraud

In Michigan, a man was arrested for a \$3.5 million fraud scheme [1]. In Florida, seven bank employees were arrested in a bogus \$10 million loan scam [2]. In Chicago, six people were indicted in a mortgage fraud scheme that cost financial institutions \$4.5

million [3].

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scam, January 12, 2011.

3. Chicago Sun-Times, *6 indicted in \$15M mortgage fraud scheme*, January 12, 2011.