

IN THE NEWS

VOLUME 4 ISSUE 1

JANUARY 2, 2011

The Economy

During this newsletter, holidays fell on both Fridays. Consequently, regulators did not shutter any banks for the year-end closeout. In all, 157 financial institutions were closed during 2010. Not since 1992 have so many banks been closed during a single year [1]. However, so far seven of the banks that failed were purported to be healthy and received Federal Troubled Asset Relief Program (TARP) funds [2]. That is, of the 322 financial institutions shuttered in the past 3 years, over 2% received TARP funds. What's more, approximately 20% of banks that received TARP funds are currently failure risks [3]. Meanwhile, the unemployment numbers released are showing reductions in first time claims. For example, the week ending December 18, the number of first time unemployment claims was 420,000 [4]. Furthermore, the first time claims for the week ending December 25, claims were 388,000 [5].



One fear is that the next hit to the economy will be higher inflation. As energy prices continue to rise, other goods are expected to follow. For example, average gasoline prices have reached \$3.00 per gallon [6]. Meanwhile, oil reached a 26-month high nearing \$91 per barrel [7]. Indeed, the final close for 2010 was \$91.38 a barrel after reaching a high of \$92.06 [8]. In a sign of problems ahead, the former president of Shell Oil is predicting \$5.00 a gallon gasoline prices in 2012 [9].

China experienced its fastest inflation increase in two years and increased interest rates for the second time since October [10]. Meanwhile, Japan's exports grew 9.1% from a year earlier with its economy expanding 4.5% between July and September [11]. On the plus side, there are signs of improvement. Case in point, the U.S. rare earth mining company Molycorp, has resumed mining in Colorado [12]. It seems the company had stopped back in 2002 when Chinese rare earth prices were cheap. As further evidence we need to get a serious trade policy; China has announced it cut rare earth element export quotas by 35% for the new-year [13]. There's a risk China will lower the price again and U.S. industry will once again close down. Meanwhile, the defective trade practices are causing U.S. companies to expand overseas. Case in point, U.S. companies are rapidly hiring workers overseas [14]. Highlighting China's strategic trading goals, Zhong Shan, a vice commerce minister stated China must maintain a large trade surplus in order to expand its share of the global market [15]. Until we can secure meaningful trade treaties, the U.S. will continue to be manipulated by foreign powers at increasing risk to national security.

(Continued on page 2)

Security

It was just a matter of time before the Google Android operating system supporting mobile devices became the target of malicious software (malware). Case in point, An android Trojan horse program called Geinimi is circulating in China [1]. Once the

malware is installed, it allows a remote user to control the phone [2].

Hackers continue to exploit unpatched products. Case in point, Microsoft issued an warning that hackers are exploiting a word vulnerability and patches release last November should be

applied [3].

1. Fried, Ina, Cnet, *Mobile security firm warns of new Android Trojan*, December 29, 2010.
2. Apple Insider, *New Android malware could produce Chinese botnet*,

(Continued on page 2)

Inside this issue:

Korea	3
World News	4
Financial Fraud	4

Special points of interest:

- So far 2% of financial institutions receiving TARP funds failed
- American companies are hiring overseas
- China vice commerce minister calls for continued trade surpluses to gain market share

Security

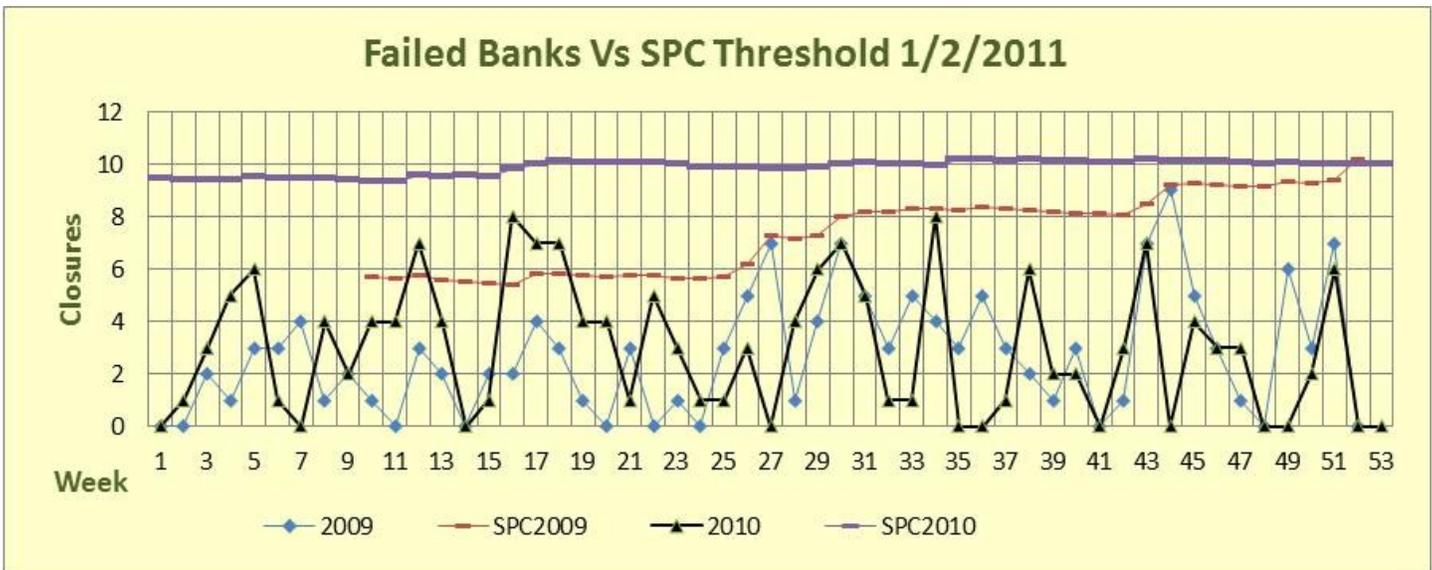
(Continued from page 1)

harvest personal data, De-

ember 30, 2010.

- Keizer, Gregg, Computer World, Microsoft warns of

Word attacks, December 30, 2010.



You cannot keep out of
trouble by spending more
than you earn—Abraham
Lincoln

The Economy

(Continued from page 1)

- Hilzenrath, David, Washington Post, 2010 worst year for bank failures since 1992, December 28, 2010.
- Rapoport, Michael, Wall Street Journal, Bailed-Out Banks Slip Toward Failure, December 26, 2010.
- Bennington, Ash, CNN, Deadbeat Banks: One Out of Five TARP Banks in Trouble, December 28, 2010.
- Chandra, Shobhana, Bloomberg, Jobless Claims in U.S. Fall by 3,000; Benefit Rolls Drop to a Two-Year Low, December 23, 2010.
- Homan, Timothy, and Willis, Bob, Bloomberg, U.S. Economy: Jobless Claims Drop to Lowest Level in Two Years, December 30, 2010.
- DeMorro, Christopher, Reuters, Gasoline Prices Hit \$3 a Gallon Nationwide, December 24, 2010.
- Ramos, Gene, Reuters, Oil hits 2-year high on U.S. stockpile drop, cold, December 2, 2010.
- Kahn, Chris, AP, Oil's surge in 2010 paves the way for \$4 gasoline, December 31, 2010.
- Segall, Laurie, CNN, Ex-Shell president sees \$5 gas in 2012, December 27, 2010.
- Yanping, Yi, Bloomberg, China Increases Interest Rates to Curb Its Fastest Inflation in Two Years, December 25, 2010.
- Regan, James, Reuters, China's rare earths export cut raises trade concerns, December 29, 2010.
- Kan, Michael, IDG News, U.S. Rare Earth Mine Resumes Active Mining, December 27, 2010.
- BBC News, Japan's export growth accelerates, December 22, 2010.
- Gogoi, Pallavi, AP, U.S. companies are hiring - overseas, December 28, 2010.
- Rabinovitch, Simon, Reuters, China Needs to Maintain Trade Surplus: Vice Minister, December 27, 2010.

Korea

Much like a game of poker; the future of the Korean peninsula is back in the news. After receiving a warning of a retaliatory attacks; South Korea dismissed threats from the North and conducted live fire military exercises [1]. Following the exercises, North Korea did nothing to retaliate, thereby calling the North's bluff [2]. Later (after the live fire exercise), the North announced they would not retaliate [3]. So there is an important lesson here, whenever North Korea is rewarded for bad behavior, it escalated further. For example, in the 1990's the U.S. supplied North Korea with oil in exchange for a promise to freeze their nuclear program [4]. In contrast, now there are credible threats of force and the North backs down.

Fresh from its victory over live fire exercises, South Korea announced plans for a large land and air exercise [5]. In response, North Korea prom-

ised a holy way that was widely discounted [6]. Still, North Korea offered more threats of nuclear war but did nothing to test the South's resolve [7].

Since South Korea has taken a firm stand, regional security is taking on a renewed focus. For example, the South and China defense chiefs plan to meet to discuss regional issues [8].

Elsewhere, some are suggesting an expected North Korean nuclear weapon test may actually be an Iranian bomb [9].

1. VOA, *S. Korea Reaffirms Intent to Conduct Live Fire Drill; North Vows Retaliation*, December 19, 2010.
2. Jung-a, Song, and Morris, Harvey, *Financial Times, South Korea on 'high alert' after exercises*, December 20, 2010.
3. BBC, *North Korea 'will not hit back' over Yeonpyeong drills*, December 20, 2010.
4. Lah, Kyung, *CNN, South Korea says it will hold large*

land and air drills Thursday, December 22, 2010.

5. New York Times, *World News Briefs; North Korea Diverted Oil To Army, General Says*, February 17, 1995.
6. Lau, Dominic, *Reuters, Markets shrug off North Korea "holy war" threat*, December 23, 2010.
7. Yang, Jun, *Bloomberg, North Korea Says U.S., South Korea Drill 'Inviting Nuclear War'*, December 34, 2010.
8. BBC News, *S Korea and China defence chiefs to meet amid tension*, December 26, 2010.
9. Kahlili, Reza, *Fox News, Is Iran About to Test a Nuclear Bomb In North Korea?*, December 30, 2010.

Words have no wings but
they can fly a thousand
miles—Korean Proverb



World News

As we continue one-sided trade with China, it's worth looking at the military consequences of transferring our wealth and technology. Case in point, sources indicate that China is training Taliban fighters how to use sophisticated shoulder first anti-aircraft missiles [1]. What's more, the Senate approved the treaty limiting U.S. nuclear weapons [2]. As, China is not part of this treaty, it effectively clears the way for China to become the world's single dominate nuclear superpower. With the first treaty secured with Russia, now there is yet another effort; this time to reduce shorter range weapons; and again, China is not invited to the talks [3].

What's more, China is on track to have an aircraft carrier deployed in 2011, a year earlier than predicted [4].

In another twist, many Chinese cities are experiencing power cuts because the demand for coal cannot meet the supply [5]. Since the U.S. has a 400 year supply of coal, why doesn't China import more of our coal? Why is it so important that we condone such a one-sided trade policy with China? Meanwhile, China will no longer allow newspapers, books and websites to use English words [6].

Financial Fraud

In Hawaii, a man was charged with operating a \$23 million Ponzi scheme since 1985 [1]. In New Jersey, an investment firm was sued by the State Attorney General for operating a Ponzi scheme to defraud investors out of \$40 million [2]. In Massachusetts, a man was charged with swindling investors out of \$8 million [3]. In Missouri, a

The war in Afghanistan continues on. Sometimes, the local politics remain unclear. For example, Afghanistan president Karzai, is okay with the Taliban enemy establishing an office in Turkey [7].

As we continue to export more industry where pollution laws are lax, it's worth examining why manufacturing in the U.S. is ecologically better. For example, GE is cleaning up a six-mile stretch of the Hudson River for pollution that ended in 1977 [8]. In contrast, other countries without a clean-up regulatory watchdog have little incentive not to pollute the planet's closed ecosystem. What's more, with more goods manufactured in China, counterfeit goods are harder to identify [9].

Finally, border security along the U.S. border will continue to be problematic. Case in point, in the stop-over city for illegals heading to the U.S., Juarez Mexico (walking distance to El Paso Texas) recorded 3,000 killed during 2010 [10].

1. Fulghum, David, and Wall, Robert, *AW&ST, China's Fingerprints*, December 13, 2010.
2. Parker, Peter, *New York Times, Senate Advances Arms Treaty*, 67-28, De-

ember 21, 2010.

3. Baker, Peter, *New York Times, Arms Talks Now Turn to Short-Range Weapons*, December 24, 2010.
4. Kang Lim, Benjamin, *Reuters, China speeds plans to launch aircraft carrier*, December 23, 2010.
5. Kurtenbach, Elaine, *AP, Chinese endure power shortages as coal runs short*, December 20, 2010.
6. AFP, *China bars English words in all publications*, December 22, 2010.
7. CNN, *Report: Karzai open to Taliban setting up office in Turkey*, December 25, 2010.
8. Navarro, Mireya, *New York Times, G.E. to Continue Hudson Cleanup Under New Rules*, December 23, 2010.
9. Bowling, Brian, *Pittsburgh Tribune-Review, Hundreds of counterfeit Winter Classic sportswear items seized*, December 30, 2010.
10. Weissert, Will, *AP, Ciudad Juarez residents flee Mexico's 'dying city'*, January 2, 2011.

man was charged with bank fraud tied to a \$24.6 million loan [4].

1. Eagar, Harry, *Maui, News, Charges filed against Maui businessman*, December 24, 2010.
2. Voreacos, David, *Bloomberg, Carr Miller Accused of \$40 Million Ponzi Scheme*, December 21, 2010.

3. *Boston Globe, Newton man charged in \$8m scheme*, December 28, 2010.
4. *KSDK, Richard Kalina indicted on bank fraud charges*, December 31, 2010.

*If you do not change
direction, you may end up
where you are heading—
Lao Tzu*
