

IN THE NEWS

VOLUME 5 ISSUE 15

JULY 15, 2012

World News

One consequence of exporting our wealth to China is the communist nation uses its newfound wealth to expand its military. In turn, China continues to flex its military muscle and this is causing its neighbors to reach out and form coalitions. Case in point, the Philippines may request the US supply spy planes to monitor Chinese activities in the South China Sea [1]. Likewise, Vietnam is having problems with China and has reached out to the Philippines for strategic relations [2]. In a further sign of trouble ahead, Japan offered to buy disputed island from China; but China refused [3]. Meanwhile, Chinese patrol boats entered Senkaku islands (called the Diaoyu Islands by China) waters claimed by Japan, thereby prompting Japan to lodge a complaint [4]. Expectedly, China refused to accept the complaint [5]. Then on July 11, there was a confrontation between Chinese patrol boats and the Japanese coast guard [6]. Furthermore, the Philippines is complaining that a Chinese warship is patrolling in its waters [7].

With China exercising a more militaristic stance the question of nuclear weapons is becoming a more urgent topic. For instance, one estimate of the number of Chinese nuclear weapons is 1,800 to 3,600; with plenty of delivery vehicles [8]. In the past, many countries relied on the US nuclear umbrella to protect them from Chinese and North Korean aggressions. However, the US is planning to unilaterally reduce its nuclear weapons count to 1,000 to 1,100 warheads with a long-term goal of only 300 - 400 warheads [9]. Consequently, the US will no longer be a credible deterrent to China's expanding program. In turn, this will necessitate Asian countries to embark on nuclear weapons development programs to offset the US decline. Case in point, based on the US decline in nuclear power, Japan is reconsidering its position on nuclear weapons [10]. Moreover, Japan's upper house has revised the wording in the nuke power law, to allow development of nuclear weapons [11]. In turn, South Korea, Taiwan, Viet Nam, and the Philippines may be compelled to develop nuclear weapons. Most certainly, the US decision to reduce its nuclear stockpile will result in a destabilized Asia with the potential for nuclear war. What's more, one report indicates the new North Korean leader has ordered expedited work to begin on a uranium nuclear warhead [12].

1. Guinto, Joe, Bloomberg, *Philippines May Ask U.S. to Send Spy Planes to South China Sea*, July 3, 2012. (Continued on page 2)

Security

China continues to dominate cyber-attacks. For example, one recent report indicates Chinese hackers entered Indian Navy computers [1].

Domestically, a University of Texas medical research laptop containing 30,000 unencrypted identities was stolen from a doctor's house [2]. Then Yahoo had 400,000 passwords stolen [3].

One organization reports the number of cyber-security attacks on critical infrastructure increased by over 2,000 percent [4]. Furthermore, the Director of the NSA, Gen. Keith Alexander, asked the private sector to help fight cyber-attacks by providing threat information [5].

Sometimes the threat comes from insiders. Case in point, a fugitive ex-

banker was charged with stealing \$17 million [6]. Obviously dual controls were not in place; else there would be multiple indictments. This illustrates the need for better oversight of IT security controls.

From the time an exploit is known to the vendor fix leaves systems vulnerable. For instance, Microsoft's

(Continued on page 2)

Inside this issue:

Energy	3
Economy	4
Flash-Crash Revisited	4

Special points of interest:

- US manufacturing fell in June
- 33rd financial institution shuttered

Security

(Continued from page 1)

July patch Tuesday update to fix 16 problems included a fix for an XML zero-date exploit (the initial warning was issued on June 12) [7].

1. Wenwen, Wang, Global Times, *India says hackers from China entered navy's computers*, July 2, 2012.
2. Masters, Greg, SC Magazine, *Two-month delay in notifying patients after cancer center breach*, June 28,

2012.

3. Pimentel, Benjamin, Market Watch, *Yahoo says 400,000 passwords stolen*, July 12, 2012.
4. Corrin, Amber, FCW, *Cyber incident reports skyrocket over three-year period*, July 2, 2012.
5. FCW, *NSA director warns of cyber threats*, July 10, 2012.
6. Smythe, Christie, Bloomberg, *Ex-Banker*

Accused of Stealing \$17 Million Is Fugitive, FBI Says, July 9, 2012.

7. McBaney, Kevin, GCN, *Microsoft issues fix for XML flaw targeted in zero-day attacks*, July 11, 2012.

*Our greatest glory is not in
never falling but in rising
every time we fall—
Confucius*

(Continued from page 1)

2. Tofani, Roberto, Asia Times, *Hardened lines in the South China Sea*, July 4, 2012.
3. Times of India, *China dismisses Japan plan to buy disputed islands*, July 8, 2012.
4. Blanchard, Ben, et. al., Reuters, *Japan protests Chinese ships entry into waters near disputed isles*, July 11, 2012.
5. AP, *China rejects Japan's representation over Diaoyu Islands*, July 11, 2012.
6. Hayashi, Yuka, and Tejada, Carlos, Wall Street Journal, *China, Japan Face Off Near Disputed Islands*,

World News

July 11, 2012.

7. Teves, Oliver, AP, *Philippines Says China Warship Is in Its Territory*, July 14, 2012.
8. Lowther, William, Taipei Times, *China is 'severe' nuclear threat to Taiwan: expert*, June 30, 2012.
9. AP, *US edging toward decision on new nuclear arms cuts*, July 2, 2012.
10. Byong-Chul, Lee, Asia Sentinel, *Japan's Nuclear Ambitions Awaken*, June 28, 2012.
11. Aoki, Mizuho, Japan Times, *'Security' wording in nuke power law change raises arms questions*, June

22, 2012.

12. The Telegraph (UK), *North Korean leader ordered uranium bomb work*, July 2, 2012.

Energy

In Japan, the first nuclear reactor has been restarted [1]. Concurrently, a stinging report indicates the Fukushima nuclear crisis was preventable and was only possible because of collusion amongst Japanese regulators [2].

In the European Organization for Nuclear Research (CERN), evidence of the Higgs Boson subatomic particle was detected [3]. The Large Hadron Collider (LHC) at the CERN made the discovery [4]. The project was started about 20-years ago and included many problems along the way [5]. Yet Europe was able to construct the world's largest particle collider. A question here is why didn't the US discover the Higgs Boson particle?

Back in 1988, the US Department of Energy selected a site south of Dallas for the \$4.4 billion superconducting collider [6]. However, after spending \$ billions on the project, the project was killed by President Clinton in October 1993 [7]. This is similar to the decision to mothball the space shuttle and instead rely on Russia for transporting astro-

nauts to the space station [8]. So like the mothballed space shuttle program, the US appears to back away from large science projects.

In contrast, the type of energy research the US is investing in includes work in biofuels. For example, the Navy will be paying \$26 per gallon for using 900,000 gallons of biofuel [9]. So instead of using the green fuel of the future, natural gas, we are focusing on projects that are too expensive and lack the return on investment of other green technologies. Another consequence of oil dependence is the enrichment of rogue nations. Case in point, Iran announced plans to build a nuclear submarine [10]. Without imported oil wealth, such projects would not be possible.

1. Harlan, Chico, Washington Post, *First nuclear reactor to go back online since Japan disaster met with protests*, July 1, 2012.
2. Maeda, Risa, and Sieg, Linda, Reuters, *Japan's atomic disaster caused by "collusion" - panel report*, July 5, 2012.
3. Potter, Ned, ABC News, *Higgs Boson: Physicists See Best Proof Yet of 'The God Particle'*, July 2, 2012.
4. Vergano, Dav, USA Today, *Physicists break down concept of 'God particle'*, July 6, 2012.
5. Reuters, *Bursting magnets may delay CERN collider project*, April 5, 2007.
6. AP, *Texas wins 'Reagan' super collider*, November 11, 1988.
7. Rosenthal, Harry F., AP, *Super collider another billion-dollar black hole*, October 24, 2003.
8. AP/Washington Post, *Russian Soyuz rocket starts mission to space station with 3-person international crew onboard*, July 14, 2012.
9. Alexander, David, Reuters, *INSIGHT-'Green Fleet' sails, meets stiff headwinds in Congress*, July 2, 2012.
10. Burgess, James, MSNBC, *Iran Says Will Build a Nuclear Submarine-But Can It?*, July 13, 2012.

*Largely an opportunity
lost—John Glenn*

Economy

US manufacturing contracted in June for the first time in nearly three years [1]. Moreover, during June only 80,000 jobs were added, keeping the unemployment rate at 8.2 percent [2]. During the same month, 85,000 more people signed up for disability [3].

For the week ending June 30, the number of first time unemployment claims was 374,000 [4]. Then for the week ending July 7, the number of first time unemployment claims was reported at 350,000 [5].

More economic bad news from California as San Bernardino, a city of 210,000 people, voted to file for bankruptcy [6]. Regulators resumed shuttering financial institutions. On July 6, the following was closed: 32) Montgomery Bank & Trust in Georgia [7]. Then on July 13, another financial institution was shuttered: 33) Glasgow Savings Bank in Missouri [8].

While the US suffers through a weak economy, China's total world trade surplus expanded in June to \$31.7 billion [9]. For May, the US Trade deficit was \$48.7 billion, including an increase to \$26 billion with China [10]. What's more,

China's growth slowed to just 7.6% during the second quarter [11]. Meanwhile, President Obama is challenging China's tariffs on US imported cars [12]. Hopefully, we will be successfully in balancing the current unfair trade practices and thereby improve US jobs creation. Trade compliance is something only the Government can address. Meanwhile, the inflation rate for China fell to 2.2% in June [13].

1. Zhou, Moming, Bloomberg, *Oil Drops as U.S. Manufacturing Shrinks in June*, July 2, 2012.
2. Rugaber, Christopher, AP, *Jobs Data Force Delicate Balancing Act for Obama*, July 6, 2012.
3. Merline, John, *Investor's Business Daily, Disability Ranks Outpace New Jobs In Obama Recovery*, July 6, 2012.
4. Kowalski, Alex, Bloomberg, *Fewer Americans Than Forecast File Unemployment Claims*, July 5, 2012.
5. Censky, Annalyn, CNN, *Jobless claims plunge to 4-year low*, July 12, 2012.
6. Christie, Jim, Reuters, *San Bernardino becomes third California city seeking bankruptcy*, July 11, 2012.

7. Tadena, Nathalie, Wall Street Journal, *Regulators Close Bank in Georgia*, July 6, 2012.
8. AP, *Regulators shutter bank in Missouri; brings to 33 the number of US bank failures this year*, July 13, 2012.
9. Financial Times, *China's trade surplus expands in June as imports weaken: Official data*, July 10, 2012.
10. Crutsinger, Martin, AP, *US trade deficit fell to \$48.7 billion in May*, July 11, 2012.
11. Rabinovitch. Simon, Financial Times, *Chinese economic growth slows to 7.6%*, July 13, 2012.
12. Spangler, Todd, USA Today, *Obama challenges China's U.S. car import tariffs*, July 6, 2012.
13. Censky, Annalyn, CNN Money, *Slower Chinese inflation opens door to more easing*, July 9, 2012.

The problem with intelligent agents and filters is that they can never do anything more than a crude approximation of my desires and wants—Cliff Stoll

Flash-Crash Revisited

Readers may recall our analysis days after the May 6, 2010 flash crash; algorithmic trading systems (algos) were the culprit [1]. We later reported the SEC had likewise determined algos were the root cause [2]. Now research papers are concluding the individual algos are proprie-

tary and the interaction too complex [3].

What's more, algos are finding their way into other disciplines. Case in point, some news media now use algos to write articles [4].

1. In the News, Volume 3, Issue 10, May 9, 2010.
2. In the News, Volume 3,

Issue 23, October 10, 2012.

3. Somerville, Ian, et. al., Communications of the ACM, *Large-Scale Complex IT System*, July, 2012.
4. Lever, Bob, AFP, *New reporter? Call him Al, for algorithm*, July 11, 2012.