AGORA FINANCIAL

5 MIN. FORECAST

July 9, 2014

00:00 **Imagine logging in to the website of your bank or brokerage.** Once you type in your password and click "enter," you're greeted with the following:

Account balance $0.00

You call the bank, but instead of landing in automated-phone-prompt hell, you get something worse -- a busy signal. It dawns on you that you're not alone. You wonder if something horrible is happening, so you turn on a cable news channel and you learn several major banks are under cyberattack and a full-on financial panic is underway.

The potential for this scenario come to life is all too real: "The systemic consequences could well be devastating for the economy, as the resulting loss of confidence in the security of individual and corporate savings and assets could trigger widespread runs on financial institutions..."

00:15 **Or so Wall Street and former NSA director Keith "collect-it-all" Alexander want you to believe.**

The statement we just quoted comes from Sifma -- Wall Street's biggest trade group. If you're an unusually attentive reader, you'll recall that last month, Gen. Alexander was pitching Sifma on becoming a consultant for $600,000 a month. Or $1 million, depending on whom you believe.

Now comes word from Bloomberg that Sifma has taken up Alexander on his offer: In the above-quoted statement, Sifma says it has retained Alexander's services, along with those of former Homeland Security Secretary Michael Chertoff -- who's already made a killing in *his* post-government career consulting for a maker of airport body scanners.

00:30 **What's more, Sifma has taken Alexander's proposal for a "blue-ribbon panel" made up of government and industry to fend off the cyberthreat...** and made his proposal its own.

The panel it proposes would be led by a "senior White House official" with input from the Treasury, the NSA, Homeland Security and, of course, the banks. "Crony capitalism" doesn't come any better than this, eh?

The need is urgent, says Sifma, in view of attacks "in the near-medium term" that could result in "account balances and books and records being converted to zeros." Recovering the lost data "would be difficult and slow."

"We are concerned," says the document, "that the industry may not have the capabilities that we would like to effectively defend against this newer form of potential attack, the capability that we would like to stop such an attack once commenced from spreading to other financial institutions or the capability we would like of effectively recovering if an initial attack is followed by waves of follow-on attacks."

00:50 **"This seems like tacit admission that the finance industry doesn't create enough backups, but instead of doing that, they apparently prefer setting up this government-finance council,"** writes civil liberties blogger and national treasure Marcy Wheeler.

Ms. Wheeler also notices a curious parallel between Sifma's statement and the recommendation of an already-existing blue-ribbon panel, the "President's Review Group on Intelligence and Communications Technologies."

We raised an eyebrow at one of the panel's recommendations last December, highlighted below...

Recommendation 31

We recommend that the United States should support international norms or international agreements for specific measures that will increase confidence in the security of online communications. Among those measures to be considered are:

(1) Governments should not use surveillance to steal industry secrets to advantage their domestic industry;

(2) Governments should not use their offensive cyber capabilities to change the amounts held in financial accounts or otherwise manipulate the financial systems;

Which begged the question of whether Gen. Alexander's NSA was indeed "changing the amounts held in financial accounts." Maybe even "converting them to zeros."

Now there's the added question of whether Sifma's recommendations are based on information Alexander leaked to them -- a question raised by cybersecurity expert Bruce Schneier. "Think of how much actual security they could buy with that $600K a month," he says. "Unless he's giving them classified information."

Which would be a felony if committed by someone other than a former director of the NSA.

01:25 **Then there's the notion of business getting in bed with government to carry out pre-emptive strikes against alleged cybercriminals.**

"This could in effect make the banks part of what would begin to look like a war council," says Rep. Alan Grayson (D-Fla.) -- one of the few members of Congress who seems like a real person and not the animatronic blow-dried creation of a campaign consultant. He took to Twitter too...

Rep. Alan Grayson
@AlanGrayson

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Ex-NSA chief Keith Alexander wants to form a joint WH-bank war council. So now Wall Street gets to declare war? gray.sn/1nbbf5j

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Grayson might as well be relieving himself in a stiff breeze: Yesterday, the Senate Intelligence Committee passed a bill that would, among other things, protect the banks from liability if they spill your information to, say, the NSA -- as long as doing so can be justified on cybersecurity grounds. The vote was 12-3.

[Totally mercenary investment angle: Revolting, isn't it -- this collusion between government and industry in which your privacy is an afterthought, or even a deterrent to their goals?

But decisions made in Washington can channel vast flows of money where they wouldn't otherwise go. The wise investor looks for these flows, and dips in a hand to reclaim a few of his tax dollars. That's one of the rationales behind a presentation we've had online for some months now -- an expose on the government's "black budget" that points the way to staggering investment gains.

Even if you've seen this presentation before, it's worth another look in light of these latest developments. So check it out. Right now.]

01:55 **Stocks have arrested their two-day tumble.** As we write, the Dow is up fractionally, to 16,934. The other major indexes are also in the green, however slightly.

The few traders not on summer vacation are biding their time until the Federal Reserve releases minutes from its June meeting this afternoon. Then they get to play amateur Kremlinologist for a few minutes and try to divine future Fed policy. Typically, the document elicits a major market reaction only when its creators intend one, for it's not "minutes" as much as a thoroughly massaged summary. Snooze...

02:05 **"Absolutely nothing has changed in the stock market in close**

to two years," says Jonas Elmerraji of our trading desk.

The media is awash with stories anticipating the "next market crash," sometimes supported by one statistic or another that's the "most extreme since 2007."

But a chart of the S&P 500 shows nothing of the sort.

"The S&P is still bouncing its way higher in a well-defined uptrending price channel," says Jonas. "Despite all of the noise, we're still in a 'buy-the-dips' market."

Jonas wants to point out two things about this chart: "The first is that every single test of that bottom trendline over the last year and a half (seven of them over that stretch) has been an extremely low-risk opportunity to buy stocks. And they've paid off incredibly well so far."

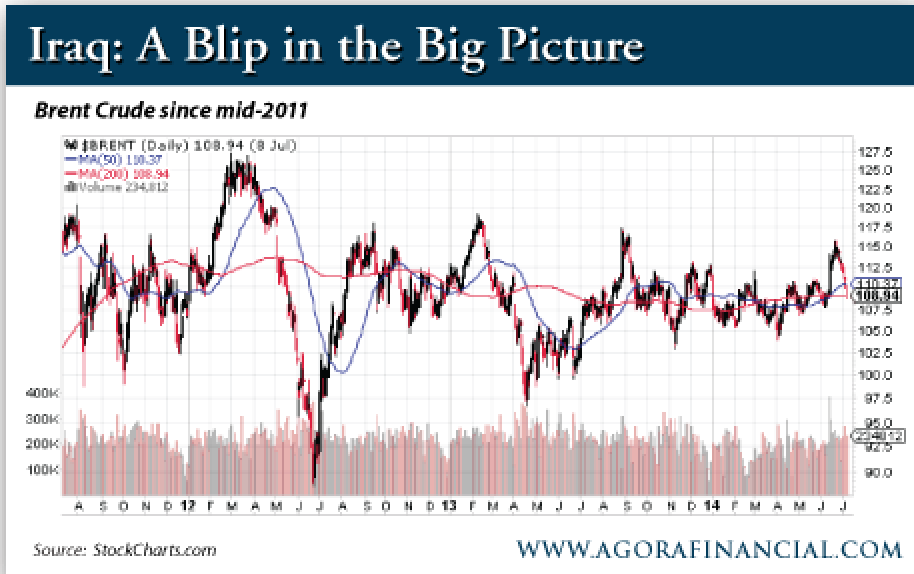
Second, "The S&P is sitting toward the top of its price range -- not near that sweet spot near the bottom of the channel. That means that a correction back down to support looks likely in the short term. There's a lot more risk between here and the bottom of the channel than there is potential reward between here and the top of the channel."

A correction from 1,969 today to 1,875? Definitely in the realm of possibility. A crash? Not now...

02:35 **Crude prices are back where they were a month ago when Iraq burst back into the headlines.**

Brent crude -- the world benchmark -- trades at last check for $108.57. Even with the spike last month after the berserkers from ISIS took over

Iraq's second city Mosul, Brent has remained within the range where it's been for the last 12 months...



Meanwhile, West Texas Intermediate -- the stuff that sits at the big terminal in Cushing, Oklahoma -- trades this morning for $102.17, likewise a one-month low.

02:50 **Gold is quietly hanging in there --** up fractionally as we write, to $1,321.

02:55 **God help us, Americans might be getting comfortable pulling out the plastic again.**

The latest consumer credit figures from the Federal Reserve show a $1.8 billion increase in credit card debt during May, on top of an $8.8 billion increase in April. Indeed, revolving debt has registered three straight months of meaningful increases -- the first time that's happened since early 2008.

Still, most of the growth in consumer credit remains the nonrevolving variety. That grew $17.8 billion in May, thanks as usual to student debt and oh-so-generous auto financing.

03:10 **"Wine is just a click away, as wineries, auction houses and e-tailers grab for America's enthusiasm for shopping online,"** reads a chirpy article from this morning's *Daily Herald,* the newspaper for suburban

Chicago.

As it happens -- and your editor knows firsthand from a nomadic existence -- suburban Chicago offers one of your better deals for retail libations anywhere, thanks to a regulatory history too convoluted to recount here.

So writer Mary Ross -- an "Advanced Sommelier and Certified Wine Educator" -- has a bit of an uphill climb explaining the advantages of online wine shopping to this particular audience. "Online wine shopping can be a convenient and fun alternative to brick-and-mortar," she says.

"Winery 'direct to consumer' is big business. Small wineries can rake in two-thirds their annual income from online shopping, wine clubs and tasting room sales, making e-tail as essential as a 'Welcome!' sign."

Ross sings the praises of a wine club membership -- "with tasty benefits like library vintages, private labels and advance invitation to events be they in Chicago or overlooking the vineyard. Visit each winery's website for wine store and wine club options."

03:35 **But wherever you live, don't overpay.**

That's what Laissez Faire Club director Doug Hill has been telling me this week. He points to the example of the Opus One Winery in California's Napa Valley. Its famous cabernet blends fetch $235.

But Doug is acting on a hunch that great-tasting, well-priced wines from less famous wineries can be just as good or better than the popular high-priced stuff. And sure enough, he's found a Napa offering for less than $50 that's just as dark and powerful as that pricey Opus One cabernet.

To get confirmation of his hunch, Doug is seeking volunteers -- discerning wine lovers willing to check out two bottles of outstanding but undiscovered wines... at no charge.

Yes, free.

Doug's accepting a limited -- and we do mean limited -- number of people for his experiment. If you think you'd be interested in taking part, just follow this link. And do so soon -- we're closing off access next Tuesday.

04:05 **"If you check the decline in small businesses,"** a reader writes after yesterday's episode, "it began with the IRS establishing a 'Small Business and Sole Proprietor Task Force' around 2005.

"Its task is to squeeze tax money out of small businesses by denial of business operating expenses, thus upping taxable income, and so taxes. The result is fewer and fewer small businesses able to survive. Remember the unofficial IRS goal: The power to tax is the power to destroy."

The 5: True, that. But the IRS is only one of many factors contributing to a long-term decline. In 1950, the self-employed made up nearly a quarter of all nonfarm employment. By 2005, it was down to 8%, and now it's about 7%.

04:20 **"About the number of businesses less than a year old being at historic lows,"** writes our correspondent in Malaysia, "Does this mean the word 'entrepreneur' is perhaps not an American word... maybe French?

"Does Bush know this?

"Regards and thanks as ALWAYS for a great read with my morning cup of Sumatra coffee on the other side of the world."

The 5: Heh. As we noted a while back, the evidence is murky that Bush actually said, "The problem with the French that is they don't have a word for entrepreneur." But it's got verisimilitude going for it, much like the unsubstantiated claim he once called the Constitution "just a g--d--- piece of paper."

Of course, it's at this moment we recall the quip attributed to Calvin Trillin that each successive president is so awful you eventually become nostalgic for the previous one...

Cheers,

Dave Gonigam
The 5 Min. Forecast

P.S. If you still think an imminent stock market crash -- or worse -- is in the offing, no matter what the charts say, then we kindly direct your attention here.

Thank you for reading *The 5 Min. Forecast!* We greatly value your questions and comments. Please send all feedback to 5minforecast@agorafinancial.com