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SKILLS AND SURVIVAL FOR ALL SITUATIONS

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The lack of light can be a significant complication to your tactics. Skill mastery requires safe and effective practice.

LOW LIGHT PISTOL MOUNTED LIGHTS

There have been many trends in firearms weapon lights in the past decade that have changed things forever.

BY: JAMES WASHINGTON

Some for the better and some for the worse, but no one can argue the fact that weapons-mounted lights have helped save lives both defensively and offensively for military, law enforcement and armed citizens alike. However, like so many other products in the defensive arts field, proper training is necessary and perspectives need to be thoroughly thought through.

There have been many solutions to address problems over time. During my time as a police recruit, I remember saying, "How hard can it be to mount flashlights to these weapon systems (pistol, rifle and shotgun) so that they can be more user friendly?"

I remember the mounted light problem being solved for me in 1993 while training with the F.B.I. in Great Lakes, Illinois when I handled an MP5 with a weapons light built into the handguard. We used the term candle watts and not lumens at the time, which were poor with

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ED. NOTE: THIS ARTICLE IS EXCERPTED (WITH PERMISSION) FROM THE BOOK *WEAPONS OF MASS DESTRUCTION* PRODUCED BY UNIVERSAL STRATEGY GROUP, INC. FOR THE U.S. UNDERSECRETARY OF DEFENSE FOR INTELLIGENCE.

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CURRENT ECONOMIC/FINANCIAL WMD RISK OVERVIEW

FINANCIAL DERIVATIVES AND MANIPULATIVE TRADING TECHNIQUES

In addition to traditional means such as trade embargoes, new approaches to economic warfare have been developed that incorporate the sophistication and intricacy of financial weaponry—derivatives, hidden orders, high frequency trading, anonymity—that capitalize on the interconnectedness of the markets.

BY: KEVIN FREEMAN

These new weapons can be used in combination with cyber attacks, theft of trade secrets, debt and currency manipulations, and control of energy or other material assets. This section will provide an overview of some of these potential economic WMDs and how they might be used. Due to the complexity of these potential weapons, the overview will necessarily be introductory and therefore somewhat limited in scope. It will include a brief description of each weapon, an example or estimate of the risk potential, and a cursory analysis of actors who have the potential to deploy the weapon.

FINANCIAL DERIVATIVES

Warren Buffett once famously described credit derivatives such as credit default swaps (CDS) as "financial weapons of mass destruction."[45] He was making an economic reference, but the application in the context of warfare certainly is justified. While many derivatives can be used as weapons, the focus has been on credit default swaps due to their significant role in the 2008 financial collapse.[46]

Credit default swaps are essentially side bets on the performance of the U.S. mortgage markets and some of the biggest financial institutions in the world—a form of legalized gambling that allows you to wager on financial outcomes without ever having to actually buy the stocks and bonds and mortgages.

It would have been illegal during most of the 20th century under the gaming laws, but in 2000, Congress gave Wall Street an exemption and it has turned out to be a very bad idea. While Congress and the rest of the country scratched their heads trying to figure out how we got into this mess, 60 Minutes decided to go to Frank Partnoy, a law professor at the University of San Diego, who has written a couple of books on the subject. Ask[ed] to explain what a derivative is, Partnoy says, "A derivative is a financial instrument whose value is based on something else. It's basically a side bet."

Think of it for a moment as a football game. Every week, the New York Giants take the field with hopes of getting back to the Super Bowl. If they do, they will get more money and glory for the team and its owners. They have a direct investment in the game. But the people in the stands may also have a financial stake in the outcome, in the form of a bet with a friend or a bookie. "We could call that a derivative. It's a side bet. We don't own the teams. But we have a bet based on the outcome. And a lot of derivatives are bets based on the outcome of games of a sort. Not football games, but games in the markets," Partnoy explains.

Partnoy says the bet was whether interest rates were going to go up or down. "And the new bet that arose over the last several years is a bet based on whether people will default on their mortgages." And that was the bet that blew up Wall Street. The TNT was the collapse of the housing market and the failure of complicated mortgage securities that the big investment houses created and sold around the world. But the rocket fuel was the trillions of dollars in side bets on those mortgage securities, called "credit default swaps." They were essentially private insurance contracts that paid off if the investment went bad, but you didn't have to actually own the investment to collect on the insurance.[47]

There are two important things to recognize about CDS. First, the "bets" can be leveraged to a point where they have the potential to destabilize the economy; they currently represent about $30 trillion of risk, and at one point in 2008 the amount was about $60 trillion.[48]

To give these numbers some context, the total U.S. federal debt is approximately $15 trillion.[49] The annual U.S. GDP is also in that range.[50] The second thing to understand is that credit default swaps were completely unregulated.[51] The Dodd-Frank financial reform legislation attempted to address some of these concerns, but even before the rules took effect, efforts were being made to roll them back.[52] Moreover, some experts believe the Dodd-Frank approach missed its target, even if it were fully implemented.[53] What this means is that some if not all of the risks remain in place, and that none of the regulation was designed with a national security perspective in mind. Perhaps the most frightening aspect of CDS is that they have the potential to be self-fulfilling, unlike a "football bet," which does not affect the outcome of a game.[54] Mass buying has the potential to drive up CDS rates, which in turn lowers the borrower's credit rating and requires them to pay higher interest rates for any new loans. Any credit dependent entity such as an investment bank or sovereign government in debt therefore has an increased risk of losing with credit default swaps.[55] From an economic standpoint, this aligns with the potential problems described by George Soros in early 2009:

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Manipulative financial market trading can act as a WMD or a potential force multiplier when used in combination with financial derivatives. Many believe that this combination was what destroyed Lehman Brothers in 2008.

CDS came into existence as a way of providing insurance on bonds against default. Since they are tradable instruments, they became bear-market warrants for speculating on deteriorating conditions in a company or country. What makes them toxic is that such speculation can be self-validating.[56]

Regulators assume that buyers of CDS primarily have economic motives—that is, they intend to hedge risks or make a profit.[57] But what would happen if an enemy actor were to purchase credit default swaps with a geopolitical motive? By targeting a systemically important company or country, the buyer could use the CDS as an act of financial terrorism or economic warfare. According to Soros, the rapid increase in CDS rates was a key factor in Lehman Brothers' failure.[58] He also makes clear his view that Lehman's failure led directly to the financial system collapse.[59]

When you couple this with the understanding that even a small purchase of CDS under the right circumstances has the potential to destabilize even a large company, it is easy to understand their attractiveness as potential WMDs. Credit default swaps have a highly leveraged impact, as the premium cost is a fraction of the payout they represent, as little as 1 percent or less. Thus, a fairly small amount of money can have a major impact under the right circumstances:

General Electric CEO Jeff Immelt famously complained that "by spending 25 million bucks in a handful of transactions in an unregulated market" traders in credit default swaps could tank major companies. "I just don't think we should treat credit default swaps as like the Delphic Oracle of any kind," he continued. "It's the most easily manipulated and broadly manipulated market that there is."[60]

In sum, credit default swaps and other financial derivatives have all the hallmarks of an ideal WMD: they are essentially unregulated, affordable, anonymous, and, under the right circumstances, capable of destroying an economy. Potential perpetrators include nearly any enemy of the United States, including relatively small terrorist organizations that could operate through surrogates. There should be no doubt that major nations such as China or Russia—or even rogue elements within those nations—would have the ability to cause massive damage to the U.S. economy using financial derivatives.

MANIPULATIVE TRADING TECHNIQUES

Manipulative financial market trading can act as a WMD or a potential force multiplier when used in combination with financial derivatives. Many believe that this combination was what destroyed Lehman Brothers in 2008, including George Soros, who wrote:

It's clear that AIG, Bear Stearns, Lehman Brothers and others were destroyed by bear raids in which the shorting of stocks and buying CDS mutually amplified and reinforced each other. The unlimited shorting of stocks was made possible by the abolition of the mechanisms of short selling. Source: New York Times 296 Weapons of Mass Destruction: An Evolving Threat the uptick rule, which would have hindered bear raids by allowing short selling only when prices were rising. The unlimited shorting of bonds was facilitated by the CDS market. The two made a lethal combination.[61]

In order to understand this manipulative trading technique, it is essential to understand how legal short selling works. Essentially, short selling involves borrowing shares, selling them on the open market, and hopefully buying them back at a lower price for a profit.[62] Short selling, combined with buying CDS, became the new form of bear raid, as described by Floyd Norris in the *New York Times:*

"That is the new template," one hedge fund manager told me today. "All you have to do is buy credit default swaps and spread rumors. No cost to borrow. No accountability." In fact, if you buy the credit default swaps, and drive up their price, you don't even have to spread rumors. Other investors may conclude that the market knows something, and start selling shares. If you were already short the stock, there is plenty of profit to be made even if you did pay too much for the credit default swaps.[63]

There is an even more insidious version of short selling that involves what is known as naked short selling, which essentially is illegal shorting without borrowing the shares. There are numerous explanations for why this might occur. In small amounts, naked short selling would have a limited impact, but in large amounts, shorting without borrowing can be destabilizing.[64] It becomes the equivalent of counterfeiting shares in such a large quantity that all shares become worthless. While the practice is prohibited, regulations against it have largely not been enforced.[65] What is more, there is reason to believe that naked shorting played a significant role in Lehman Brothers' demise, as Gary Matsumoto explains:

The biggest bankruptcy in history might have been avoided if Wall Street had been prevented from practicing one of its darkest arts. As Lehman Brothers Holdings Inc. struggled to survive last year, as many as 32.8 million shares in the company were sold and not delivered to buyers on time as of Sept. 11, according to data compiled by the Securities and Exchange Commission and Bloomberg. That was a more than 57-fold increase over the prior year's peak of 567,518 failed trades on July 30. The SEC has linked such so-called fails-to-deliver to naked short selling, a strategy that can be used to manipulate markets. A fail-to-deliver is a trade that doesn't settle within three days. "We had another word for this in Brooklyn," said Harvey Pitt, a former SEC chairman. "The word was 'fraud.'" . . . "Abusive short selling amounts to gasoline on the fire for distressed stocks and distressed markets," said U.S. senator Ted Kaufman . . . Failing to deliver is like "issuing new stock in a company without its permission," [Dr. Susan] Trimbath said. "You increase the number of shares circulating in the market, and that devalues a stock. The same thing happens to a currency when a government prints more of it."[66]

Based on the fact that Lehman's failure is thought to have been instrumental in causing the credit crisis, naked shorting can be viewed as a potentially powerful weapon.[67] At the time of Lehman's demise, some feared that the naked shorting directed at Lehman and other firms was an act of financial terrorism.[68] This view is supported by the unusual nature and anonymity of the naked short selling, which used off-Wall Street firms and concealing techniques.[69] Many on Wall Street will deny the fact that naked short selling can be used as a tool of manipulation,[70] but substantive research at Fordham University validates the concern.[71] Furthermore, statistical research by the New England Complex Systems Institute essentially proves that bear raids that took place in 2007-2008 had a significant economic impact.[72]

Of course, naked short selling is not the only or even the primary means of market manipulation. At present, more than two-thirds of all stock market trading is accomplished by computer algorithms.[73] The risk is that rogue employees could steal or alter these trading codes,[74] or that the systems could be hacked and the codes manipulated.[75] The impact could be substantial, as evidenced by the "flash crash" on May 6, 2010, wherein the stock market fell almost 10 percent in just a few minutes.[76] Nearly two years later, there is still no way to prevent another flash crash.[77] Recall the statement in Unrestricted Warfare that a "single man-made stock market crash" could be considered a new-concept weapon.[78] Then consider this report that appeared in *Barron's* after the flash crash:

Witnesses before an informal convocation of the House Committee on Homeland Security on July 20 [2010] were united in their conviction that the nation's 10 or so stock exchanges and 50-plus related trading venues are absolutely vulnerable to attacks from traders overseas.[79]

Another manipulation technique that may have played a role in the flash crash is exchange-traded funds (ETFs).[80] ETFs are very complex to understand but quite simple to use. [81] They were created to make investing in a collection of stocks easier, which they do, but ETFs can also be used to short sell stocks, and ultra-leveraged variants of ETF have been created.[82] What this means is that with the click of a mouse, a trader can short sell five hundred stocks at once in a leveraged fashion. Many believe that these ETFs played a significant role in the mass selling that took place in 2008 and again in 2010. ETFs provide efficiency, speed, leverage, anonymity and can have a significant impact on markets. An estimated $1.5 trillion is invested annually through ETFs.[83]

Like financial derivatives, market manipulation techniques can clearly be used as weapons of mass destruction. Bear raiders that use naked short selling can create market panics capable of hampering an economy. These techniques can be used with relative anonymity through surrogates, and various terrorist groups, international criminal syndicates and certain nations all have the capability and access to do so. Similarly, computer manipulations done internally by employees or externally through hacking also have the potential to cause significant disruptions. There should be little doubt that, in the wrong hands, these capabilities represent potential WMD. ✓

BIO

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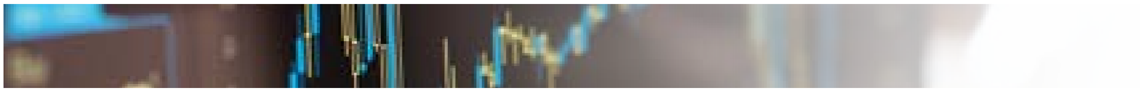

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